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Attached for the consideration of the Cabinet is the report of the group of Ministers which has been considering public expenditure programmes up to 1969-70.

L. J. C.

Treasury Chambers, S. W. I.

12th July, 1965
PUBLIC EXPENDITURE ALLOCATION

We were asked by the Prime Minister to consider and make recommendations about the public expenditure programmes up to 1969-70, in terms of the Cabinet decisions of 28th January (C.C. (65) 5th Conclusions, Minute 3). As supporting documents we are arranging for the circulation, under cover of a separate note (C. (65) 97), of -

(i) a memorandum by the Chancellor of the Exchequer setting out the background of our work;

(ii) submissions which were made to our Committee by the seven Ministers whose programmes we have examined.

I. THE BASIS OF ALLOCATION

2. The Cabinet decided, and this was announced, that the planning of public sector expenditure (central and local government and national insurance funds, current and capital, excluding debt interest) should be based on an average annual rate of increase of 4.5 per cent a year at constant prices from 1964-65 to 1969-70.

3. The Committee has considered the seven main civil programmes. (Category A Programmes). These, together with defence, are about 80 per cent of the total, and probably about 95 per cent of that expenditure for which effective long-term programming is at present possible.

4. It is assumed that the Defence Budget will not exceed in 1969-70 the level of £2,000 million at 1964 prices.

5. The Cabinet had decided the size of "basic" programmes which Departments should prepare. For the seven programmes, the aggregate increase is £1,858 million, i.e. an increase of 30 per cent from 1964-65 to 1969-70. This may be compared with the 17 per cent increase in this five-years period to provide for the growth of personal consumption in the Plan; and the 21 per cent increase of GNP assumed for this five-years period. The public sector is therefore increasing nearly twice as fast as is planned for personal consumption, and half as fast again as gross national product.

6. The reason for choosing 1969-70 as the year for the allocation is that it is the nearest year for purposes of the Plan - for which of course the decisions are needed; and in many fields it is necessary now to take decisions which depend upon an assessment of what the country will be able to afford in 1969-70.

7. The work has been closely co-ordinated with the Plan. This has brought to the front important physical limitations, notably in construction, which effectively sets the limit to housing, and in man-power, where it is a striking fact that of total additional demands of 900,000 in the period of the Plan (and against which there are resources of only 400,000 in sight), no less than 266,000 are required by education, 143,000 by the health service, 99,000 by other public administration (including defence) and 150,000 by the construction industry. This illustrates the great and rapidly increasing demands of the public sector.

8. The Departments submitted "additional" programmes for 1969-70 totalling £762 million, i.e. a further increase of 12 per cent in the five years, making 42 per cent in all.
9. We start from the judgment that we can only afford £200-250 million of these "additionals". This is what is left after taking the permissible increase of 4½ per cent, and deducting from it the needs of the other programmes not now under discussion (Category 2), and an allowance of £100-150 million for contingencies. We are satisfied that this is a very small contingency allowance for total programmes of the order of £11,600 million, which must provide inter alia for any pay revaluations in the public sector - i.e. increases in pay that are greater than the average for the whole economy.

10. At the same time as determining the "additional" programmes for 1969-70, the Committee also considered the "additional" programmes for 1966-67, with the object of reducing them to the minimum possible level. This is the period of maximum strain, the period of critical significance in the recovery of the balance of payments. It is essential to keep within the 4½ per cent level in that year.

11. We set about the task by interviewing the seven Ministers individually, all in one day, and we questioned all of them along similar lines, designed to establish the order of priorities in their programmes, and to determine what would be the consequences if only a small part of their "additional" programmes could be afforded, both for 1969-70 and for 1966-67. The following section sets out our comments on each programme in the light of these discussions.

II. EXAMINATION OF PROGRAMMES

Education

12. The basic programme (including school meals and milk) increases from £1,459 million in 1964-65 to £1,888 million in 1969-70, an increase of £429 million, or nearly 30 per cent. The proposed additional programme for 1969-70 is £166 million.

13. Of the total of £166 million (Great Britain), £91 million represented additional capital expenditure, £47 million a variety of additions to current expenditure, and £28 million for the proposals for the University of the Air and the plan for independent schools. The Secretary of State expressed the view that apart from the latter, on which decisions had not yet been taken, a reduction of the additional programme would result in postponements of improvements in the supply of teachers, school building and higher education. No additional programmes had been included for conversion to comprehensive schools, improvement of student grants, development of nursery schools, etc.

14. It is accepted that the expansion of the basic programme is very substantial, both in absolute and in percentage terms, providing in primary and secondary education for an improvement in standards (including the pupil/teacher ratio) as well as for greater numbers; and in further and higher education provision for a large increase in numbers. The man-power requirements for the service as a whole increase by 3.7 per cent per year for the period from 1964 to 1970.

15. For 1969-70, the Committee recommend an additional programme of £35 million net. The figure has been fixed with the following considerations in mind:
A working party is considering the possibility of an increase in the price of school meals together with some improvement in the quality. The price has not been increased since 1957; and children from low-income families get their meals free. The saving from a straight increase from Is. to Is. 6d. (the cost is now 2s. 10d.) would be £20 million a year. Any saving before 1969 would be added to the £35 million additional programme.

A large part of the additional programme represents capital expenditure incurred in the last two years of the programme. In the event of a marked improvement in the economic prospects in a year or two's time, it would still be possible to add to the capital programme.

The basic programme, together with some relatively small additional items, e.g. the work in the period on the proposed North-East Technological University, would appear to provide adequately for educational work of direct economic importance, e.g. industrial training.

The Committee attached great importance to the reduction of cost, both of capital programmes and in economy of man-power, and thought that savings should be possible by 1969.

For 1966-67, for which the proposed additional programme was £29 million, the Committee recommend a figure of £3 million.

The basic programme (including welfare foods) increases from £1,238 million in 1964-65 to £1,504 million in 1969-70, an increase of £266 million, or 21½ per cent. The proposed additional programme for 1969-70 is £88 million. The Committee accept the Minister's view that the basic programme is very tightly drawn.

Of the additional programme of £88 million (Great Britain), £30 million is represented by the removal of the remaining charges, i.e. for dental treatment, dentures and spectacles. We recommend that no provision should be made for these in 1969-70. It must be noted that the cost of the removal of prescription charges, estimated earlier at £25 million, is now put at £34 million a year, of which £10 million represents the increase in patient demand. The basic programme allows for this.

Of the other £58 million additional programme, £33 million represents hospital capital and current expenditure, and £10 million general practitioners' facilities and compensation.

For 1969-70, the Committee recommend an additional programme of £25 million. This has been fixed with the following considerations in mind:-

(i) The hospital capital programme is proving more costly than expected; and it involves increases in current expenditure too. Some increase is needed to keep it moving forward, over and above the 50 per cent increase provided in the basic programme.
(ii) The programme involves very large increases in man-power - 16 per cent for hospitals and 30 per cent for local authorities. There must be considerable doubt whether these numbers will be available, except at the expense of other equally important national objectives.

(iii) There is an increase of nearly 40 per cent in local authority current expenditure, which is unlikely to be achieved unless heavy pressure from Whitehall is applied to the local authorities.

21. For 1966-67, for which the proposed additional programme, excluding the removal of charges, is £25 million, the Committee recommend a figure of £8 million. This would have to include the cost of a measles vaccination programme (£4 million) if this became practicable during this year.

Benefits and Assistance

22. The basic programme increases from £2,120 million in 1964-65 to £2,860 million in 1969-70, an increase of £740 million or 35 per cent. The proposed additional programme for 1969-70 is £185 million; of which the main elements are the income guarantee (£100 million), wage-related sickness benefit (£30 million), improvements in widows' benefits and family allowances (£45 million), and a contingency allowance for other improvements (£10 million).

23. The basic programme provides for an uprating of benefits and assistance at the same rate as the increase in average earnings. The increase of benefits in April, 1965 was significantly more than would have been required by this formula, and the Minister pointed out that in the previous thirteen years the increase had been slightly more than the formula.

24. The Committee considered first the problem of 1966-67. The issue is one of selection between three projects:

(i) uprating of benefits. At the present rate of increase of earnings, there would be a case for an increase of 5s. (£130 million a year) in April, 1966, or of 7s. 6d. (£200 million a year) in October, 1966.

(ii) wage-related short-term benefits. This would need to cover at least unemployment and sickness benefit. The cheapest proposal is £30 million a year, of which £20 million is included in the basic programme, but there are others under consideration costing up to £55 million. The Economic Ministers attach weight to this project as an aid to industrial redeployment.

(iii) income guarantee. This project is now taking shape in a Committee under the chairmanship of the Chancellor of the Duchy. It is expected that a project could be ready for introduction in October, 1966. The cost is estimated at £100 million a year, assuming a guarantee level of 26 8s. plus rent. The Minister regards this project as a whole, and would be unwilling to plan to introduce it in smaller steps, based e.g. on age.
25. The Minister expressed the view that if the income guarantee were introduced in October, 1966, it would be possible to postpone an uprating of benefits until April, 1967. She regarded the income guarantee as being of higher priority than wage-related short-term benefits.

Benefits and Assistance

26. For 1966-67, most members of the Committee recommend:

(i) Being ready if necessary to uprate benefits and assistance in October, 1966, not exceeding the rate of increase of earnings since spring, 1965.

(ii) Introduction of wage-related short-term benefits in October, 1966, at an estimated cost of £45 million a year (£20 million of which is "basic" programme); this allows the first three days of sickness to qualify for benefit retrospectively.

(iii) Not introducing the income guarantee in 1966-67.

(iv) Improvement of benefits for workmen's compensation "old cases" (£1 million).

The cost to the "additional" programme in 1966-67 would be £13½ million, say £14 million.

27. The Chancellor of the Duchy favours introducing the income guarantee in October, 1966 (£50 million in 1966-67), and postponing the uprating of benefits until April, 1967, and then uprating them by much less than the average increase of money earnings. He would himself see it as an advantage that this would concentrate the money available on the poorer people, at the expense of the increase to pensioners generally. He contends that the substantial improvements in pensions rates last March were clearly intended to carry over until after the introduction of income guarantee. The other members of the Committee consider that the Government are likely to be under great pressure to uprate benefits during 1966-67; and that the Chancellor of the Duchy's course would in the event be likely to lead to both a general uprating and the income guarantee.

28. For 1969-70, there was the same division of opinion. The Government made two long-term pledges, one to introduce the income guarantee, and the other to uprate benefits matching the increase of average earnings. There was not likely to be enough money to carry out both in 1969-70, unless pensions were given half the total available for additional programmes (£100 million for income guarantee and £25 million for wage-related short-term benefits). The Chancellor of the Duchy favoured the income guarantee, with an announced change of policy on uprating of benefits, relating this to the increase of the consumption of the working population, or the cost-of-living, or other indicators, which would save enough to finance the income guarantee. The rest of the Committee considered that the income guarantee in its present shape was not of high priority, and thought it premature to lay down long-term policy.

29. The Committee decided, therefore, that the best course was to reserve a sum for additional benefits and assistance in 1969-70, and recommended £50 million. This would include £25 million for wage-related short-term benefits and £1 million for benefits for men on workmen's compensation.
Police and Prisons

30. The basic programme increases from £230 million in 1964-65 to £271 million in 1969-70, an increase of £41 million or 18 per cent. The proposed additional programme for 1969-70 is £18 million, of which £11½ million is in respect of the police, and £6½ million represents a proposal to enable prisoners to be paid wages at industrial rates.

31. The Committee recommend that an additional programme of £10 million be allowed for 1969-70, towards the proposals for the police. The proposal for an additional programme in 1966-67 is less than £8 million, and could reasonably in the Committee's view be absorbed by the basic programme.

Roads

32. The basic programme increases from £406 million in 1964-65 to £575 million in 1969-70, an increase of £169 million, or 42 per cent. An additional programme of £30 million is proposed by the Ministers for 1969-70, part of which represents an expansion of the existing programme in the last two years of the period, and part represents expenditure on car parks by local authorities.

33. This large increase is provided by the working out of the long-term road programme, and the Minister pointed out to us that it consisted of projects which were already in process of preparation and on which starting dates had already been given to local authorities; in spite of the very large increase, the provision of roads was still expected to lag behind the increasing number of vehicles. Many of the projects were of direct economic importance, and of great significance to the regional development programmes.

34. The Committee recommend both for 1969-70 and for 1966-67, that the basic programme should be allowed to stand, but that no additional programme should be provided, i.e. that if the Minister wished to undertake elements in the additional programme, this would be financed from the provision for the basic programme. The Committee considered carefully whether a cut should be made in the basic programme, but decided against this on the grounds that it might cause undue dislocation of the long-term planning, and in any event it would mean a downward adjustment of a programme which had been announced by the previous Government. It seemed clear to the Committee, moreover, that it would be necessary to re-examine the road programme in the next two or three years in order to clarify the priorities as between motorways and trunk roads and classified roads, and in the process of developing a co-ordinated system of rail and road transport, and in relation to the contribution that the Road Research Laboratory might make to the economical provision of roads; and in these circumstances we thought it better for the Departments to proceed with this long-term work rather than to engage on what would be bound to be somewhat arbitrary cutting and postponement of projects already under way.

Overseas Aid

35. The basic programme increases from £181 million in 1964-65 to £229 million in 1969-70, an increase of £48 million or 26½ per cent. The proposed additional programme for 1969-70 is £106 million.
36. The basic programme laid down by the Cabinet as a result of its meeting on 28th January, 1965 was defined simply as what would result from maintaining the current proportion of aid to G.N.P., i.e., 0.7 per cent. It was not intended to represent a detailed programme, and the Prime Minister, summing up the discussion, said that the size of the overseas economic aid programme should be reviewed in relation to both public expenditure and the balance of payments. The additional programme now submitted is designed to increase the proportion of aid to G.N.P. to the Government's target of 1 per cent, but it represents a detailed programme.

37. There were three main considerations which the Committee felt it necessary to take into account, however sympathetic they were to the objectives of overseas aid:

(i) It seemed to us wrong to be increasing our aid disbursements at a time when we are borrowing heavily from abroad to buy our essential supplies, and when the recovery of our balance of payments is not yet in sight.

(ii) It was argued by the Minister that increasing the aid programme was essential to our foreign policy, and the Secretaries of State for Foreign Affairs, the Commonwealth Relations Office, and the Colonial Office have written to the Chancellor of the Exchequer endorsing the importance of aid. The Committee did not examine this view, to determine the weight which can be attached to aid operations, but we are bound to point out that the weakness of sterling might be highly damaging to our foreign policy, especially when it involves us in having to borrow on an unprecedented scale from virtually every source open to us. The Minister argued that the amounts were small, representing only about 2 per cent of the external transactions. But aid of £180 million in 1964 is a very substantial amount in relation to the balance of payments deficit of £750 million - and the 1965-66 figure is estimated at over £250 million.

(iii) There is room for some legitimate technical disagreement about the foreign exchange cost of overseas aid i.e. about how far it is in effect borne on the reserves and how far on the United Kingdom's productive resources. The Treasury and the Department of Economic Affairs would reckon that it is between 30 and 40 per cent; and the Ministry of Overseas Development would say that under normal conditions it would be 25 to 30 per cent, and an expansion of the aid programme could in their view be arranged in a manner that would limit the foreign exchange cost to 15 per cent. In relation to the work of this Committee there are two considerations here. First, whatever the exact percentage may be, it is much higher for aid than for any other of the programmes under examination; and second, apart altogether from the balance of payments, the amount of resources and the proposed additions are very large, and the proportionate increase from 1964-65 would be 85 per cent.

38. It appears that the disbursements are expected to run much higher in 1966-66 and 1966-67 than the basic programme. The following table shows the course:-

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39. We have asked for a careful analysis to be made to see how this has come about, and to see which countries are expected to get these very large increases, and the implications of containing 1966-67 disbursements within the basic figure of £216 million. The Minister says that disbursements of this scale in 1966-67 are implicit in existing policy, but we find it difficult to understand why expansion on the scale of these figures is essential to any of the Government's objectives.

40. The Committee recommend that the disbursements should be reduced in 1966-67 to the lowest figure practicable, and that commitments should be made at a rate designed to yield no larger disbursements in subsequent years than are provided in the basic programme. They recommend that a report should be prepared for the Cabinet by the Treasury, the Department of Economic Affairs and the Ministry of Overseas Development to show what action would be required to keep disbursements within £216 million in 1966-67 rising to £230 million in 1969-70.

Housing

41. The basic programme for local authorities' and new towns' capital expenditure increases from £520 million in 1964-65 to £626 million in 1969-70, an increase of £106 million, or 20\% per cent. The proposed additional programme for 1969-70 is £105 million. For housing subsidies, the basic programme increases from £153 million to £212 million, an increase of £59 million, or 38\% per cent; and the additional programme there is £62 million.

42. The basic programme was fixed for this operation at a level equivalent to the Cabinet's decision in February providing for 150,000 local authority approvals in 1965, and was continued at this rate to 1969. The Minister pointed out that this procedure gave a lower rate of increase of basic programme than most of the other Departments had. We have of course taken this into account in our recommendations.

National Objective

43. The Committee handled housing somewhat differently from the other programmes, taking as a starting-point the desirability of a national housing objective, covering both public and private building. We worked with a target of 500,000 houses (U.K.: work done) in 1970. This, together with the other prospective claims upon the construction industry, public and private, is estimated to require increased man-power of 15,000, which will be difficult to get; and this will require restraint in other construction programmes.

44. In very broad terms, there appeared to be a reasonable case for rough balance between the public and the private sector - i.e. houses to rent and houses to own. With a total of 500,000, the private sector programme (including privately owned housing financed by local authorities) would be around 250,000. To keep within this figure, which
would be essential for keeping the total housing within 500,000, would mean that the number of private starts could not be allowed to exceed the level of 1964. We are extremely doubtful whether it would be practicable to control private housing at this level. It would be expected that, with the G.N.P. in 1970 about 25 per cent above 1964, the demands for home ownership would be very much larger than ever before, and this would be stimulated by the Government's proposal to subsidise housing mortgages.

**45.** At the present moment, there is great uncertainty about the immediate course of private housing. But if the national economy develops and expands in accordance with the Plan, which is the basis of all the public expenditure planning, it must be assumed that the private sector will be reaching and exceeding 250,000 by the late 1960s. It follows from this that, given the maximum 500,000 figure, it would be impracticable for the Government to commit themselves to a public sector programme of any particular size in the neighbourhood of 250,000; and the possibility would have to be kept open of reducing the public sector programme to the "basic" level if the total seems likely to overshoot the Plan limit, and if it proves impracticable to contain the growth of private housing.

46. We considered the lay-out of public sector approvals in 1969 or starts in 1969-70, to a total of 245,000, on the following lines:-

| Approvals 1969 or starts 1969-70 |
|---------------------------------
| England and Wales               |
| Local authorities               | 170,000 |
| New Towns                       | 11,500  |
| Scotland                        | 38,000  |
| Northern Ireland                | 3,000   |
| Housing Associations            | 15,000  |
| Government Departments          | 2,500   |
| **Total**                       | **245,000** |

**Local Authority and New Towns Capital Expenditure**

47. For England and Wales local authorities, the approvals might be as follows: 1963, 110,000; 1964, 140,000; 1965, 150,000; 1966, 150,000 (an increase in that year would involve "additional" expenditure in 1966-67): 1967, 155,000; 1968, 162,500; 1969, 170,000. The "additional" capital expenditure involved in 1969-70, including New Towns, would be about £65 million. One of our members would favour working on a tentative public sector programme of 250,000 (subject to the flexibility in paragraph 45) which would imply a figure of £80 million instead of £65 million.

48. For the reasons of flexibility given above, it would be impracticable for the Government to commit themselves either to 245,000 public sector starts or to local authority approvals of 170,000 for 1969. But it would be appropriate to use the figure of £65 million for an "additional" capital expenditure programme subject to these conditions.
49. The basic programmes for subsidies already show a very large increase following from the 20 per cent increase of public housing investment. The "additional" programmes for subsidies, at £63 million, include:

| Subsidies on Minister's "additional" housing proposal | 6 |
| Bigger subsidies for local authorities | 23 |
| New subsidy for mortgages | 34 |

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50. The proposed local authority subsidy provides instead of the old unit grant the difference between the rate of interest paid by the local authority for the capital for the new house, and the rate of 4 per cent. At the 6½ per cent rate, the new subsidy would be £75 a year at the outset, compared with the present £24, with supplements for high cost in both cases. If the rate of interest were to fall, of course, the Exchequer would benefit; and vice versa. The payments would not begin until the spring of 1967, so there would be no "additional" expenditure in 1966-67.

51. A number of suggestions have been considered for carrying out the Government's undertaking on private mortgages. The figure of £34 million in 1969-70 (rising to £75 million in a further five years) relates to the idea of a subsidy on a "slice" of £1,000 of every new mortgage, equivalent to the difference between the going rate of interest and 4 per cent. There are other proposals, including the proposals for giving subsidy to people with relatively low incomes to an extent equivalent to the tax relief received by people with higher incomes. The Committee would set out three important considerations:

(i) the need to avoid any "additional" expenditure in 1966-67;

(ii) the schemes to subsidise private future mortgages must be put into effect at once, and the private beneficiaries would be benefitting a year before the local authorities;

(iii) the very large open-ended commitments involved in all schemes of this kind; there appears to be no possibility of limiting the numbers in respect of which subsidy will be given.

52. The Committee recommend that whatever schemes are adopted for new public and private subsidies, there should be no "additional" expenditure in 1966-67, and the total "additional" expenditure in 1969-70 should not exceed £45 million, compared with the existing proposals for £63 million above.
Conclusion

53. The Committee recommend the following allocation:

(a) In view of the primary political importance of housing, we have allocated to it about half of the total available £200-£250 million, a figure of £110 million for 1969-70. This is divided between £65 million for capital expenditure and £45 million for subsidies. (This is subject to the reservation of one member in paragraph 48).

(b) We regard this as the maximum that can be afforded. It represents a total increase over 1964-65 of £275 million, or 41 per cent.

(c) We recommend that there should be no "additional" expenditure in 1966-67, either for capital expenditure or for new subsidies to local authorities or private mortgages. (There is of course a substantial increase in both in the basic programme).

54. The Committee's views may be summed up as follows:

(a) We assume a target of 500,000 houses (U.K.; work done) in 1970: physically attainable only with great difficulty.

(b) We envisage a rough balance between the public and private sectors.

(c) If G.N.P. rises by 25 per cent by 1970, and particularly if private housing is to be encouraged by subsidy, the demand for private houses is likely to exceed 250,000 by 1970. It will therefore be necessary to find means of holding the private sector back. But it is not yet clear how this is to be done; and the ability to carry out a public sector programme of this size depends upon it being done.

(d) Our allocation of £65 million in 1969-70 would enable the public sector to rise to 265,000 houses by that year. One of our members, however, would prefer to raise that figure to 250,000 which would require an allocation of £80 million in 1969-70. The allocation would enable approvals of local authority houses in England and Wales to be held at 150,000 in 1966 and to rise thereafter to 170,000 in 1967.

(e) For "additional" subsidies, to local authorities and private mortgages, we allocated £45 million, which is less than the Minister's proposal of £63 million. The Minister's subsidy plans have not been considered in detail, but we are satisfied that £45 million is the most that can be provided; and if more is required it must be at the expense of the capital expenditure.

(f) The new local authority subsidies will not involve expenditure in 1966-67, and new subsidies to private mortgages should not do so either.
III. SUMMARY OF RECOMMENDATIONS

55. The Committee recommends additional programmes as follows, subject to the various qualifications and explanations set out above:

<table>
<thead>
<tr>
<th>&quot;Additional&quot; Programmes (£ million)</th>
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<tr>
<td></td>
</tr>
<tr>
<td>Education (paragraphs 15 and 16)</td>
</tr>
<tr>
<td>1969-70</td>
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<tr>
<td>35 net</td>
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<td>Health (paragraphs 20 and 21)</td>
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<td>1969-70</td>
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<td>25</td>
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<td>1966-67</td>
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<tr>
<td>8</td>
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<tr>
<td>Benefits and assistance</td>
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<tr>
<td>(paragraphs 26-29)</td>
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<tr>
<td>1969-70</td>
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<tr>
<td>60</td>
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<td>Police and prisons (paragraph 31)</td>
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<td>1966-67</td>
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<td>Roads (paragraph 34)</td>
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<td>Overseas aid (paragraph 40)</td>
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<td>1966-67</td>
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<tr>
<td>Housing: (paragraphs 53 and 54)</td>
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<td>capital expenditure 65)</td>
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<td>subsidy 45)</td>
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<td>1969-70</td>
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<td>240</td>
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<td>1966-67</td>
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If these "additional" programmes are accepted, the aggregate will increase from 1964-65 to 1969-70 from just over £6,300 million to £8,400 million, an increase of £2,100 million, or 33 per cent.

56. These are mainly Great Britain figures, and it would be necessary to arrange for division between England and Wales and Scotland.

57. It will be necessary later on in the year to consider the smaller programmes, and to consider also those expenditures which are not "programmable". We recommend that these be dealt with in the same tone as those which we have been considering, i.e. with no "additional" expenditures in 1966-67 except where the case is so strong as to be unavoidable, and allocations for later years which as far as possible reflect the same stringency as our proposed allocations for 1969-70.

July, 1965
12th July, 1965

CABINET

LAND COMMISSION; BETTERMENT LEVY AND CAPITAL GAINS TAX

Memorandum by the Minister of Land and Natural Resources

The Chancellor of the Exchequer (in C. (65) 100) wants to apply both levy and capital gains tax to development value; I want to make it subject to levy alone. In this paper I will comment only briefly on this issue. The arguments were set out in full for the meeting held by the Prime Minister on 29th June, which asked me to investigate the possibility of making the levy progressive, on the basis that levy alone would apply. (This can be done, as explained in C. (65) 95).

2. I have always wished to deal with development value solely by the Land Commission but, until the Finance Bill was published, this did not appear to be technically possible. The opportunity now open to us to deal with development value by means of the levy alone, and not by a combination of capital gains tax and levy, is of great political importance in the presentation of our policy on land. We are committed by the Election Manifesto to tackle the problem of the high development values realised in land transactions by means of a Land Commission, and the Cabinet have approved the policy for doing this by a combination of powers of acquisition and of a levy on development value, acting as a balancing device to avoid the inequity of a two-price system. The Land Commission must be seen to be the instrument by which the Government is dealing with this problem.

3. The Chancellor of the Exchequer considers that the capital gains tax should apply to development value on the grounds that this is par excellence a capital gain and that to tax it in any other way would undermine the principle of the capital gains tax as a comprehensive and enduring tax. I do not follow this argument. The capital gains tax will not in any case be comprehensive, and politically we must assume that our Land Commission policy will be an enduring one. What is the difficulty about taking development value outside the scope of capital gains tax, provided that it is instead caught by a betterment levy which will prima facie be at a higher rate? We are rightly regarding development value as a very special type of capital gain. We should seek to recover as much of this value for the community as is consistent with leaving enough incentive with landowners to maintain the market in land. This is a quite different criterion and approach from the fiscal basis of the capital gains tax.
4. There is much to be said for starting by taking a modest portion of development value and increasing it. On this basis, if we were to start by taking say 40 per cent and if this had to be done by a combination of capital gains tax and levy, the rate of levy could be no more than 15 per cent which makes the Commission appear hardly necessary.

5. The Chancellor fears that by taking development value out of capital gains tax he will be withdrawing reliefs which he has given in the Finance Bill to owner-occupiers of houses and taxpayers of small means. But only a small proportion of owner-occupiers with developable land attached to their houses would be subject to the levy and this could happen whether the levy were separate or combined with the capital gains tax. Taxpayers of small means are not the kind of people who would generally be caught by a levy on development value in land.

6. He is also worried about retrospection, but the argument in paragraph 5 of his paper applies whether the levy is combined with the capital gains tax or not. There may be good reasons for not making capital gains tax retrospective but these do not apply to the recovery, by means of a charge, of development value created by the community.

7. The Chancellor puts forward a number of other points. These were all dealt with at the Prime Minister's meeting. They are all technical points which are either capable of resolution or can be tolerated for the sake of the political advantage of presenting the Government's policy on land in a positive way.

F. T. W.

Ministry of Land and Natural Resources, S. W. 1,

12th July, 1965
CABINET

FULL RECKONING OF UNESTABLISHED CIVIL SERVICE
MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

On 14th January the Staff Side of the Civil Service National Whitley Council asked me to authorise discussions on a scheme to allow all unestablished service to reckon in full for pension purposes on subsequent establishment. At present unestablished service reckons in full on subsequent establishment if it was rendered after 14th July, 1949; if rendered before that date it reckons as to one half. The claim is thus for a retrospective improvement in the reckoning of service before 1949, both for those already retired and for those still serving.

2. This is a long standing claim which has been rejected several times in the past. To help reduce the cost in the early years, the Staff Side proposed a compromise solution as a basis for discussion, involving gradual implementation by a number of annual stages, a waiver of the recalculation of additional lump sums already paid on past retirements and a reasonable financial limit.

3. The issue was discussed by the Social Services Committee on 7th July, together with the question of pensions increase for the public services. The Committee decided to recommend that pensions increase should have priority, and that I should inform the National Staff Side at an appropriate moment that we could not give sufficient priority to this claim to justify embarking on detailed negotiations, even for a phased scheme.

The merits of the claim

4. The Staff Side consider that the principle of full reckoning has already been accepted. The Royal Commission on the Civil Service, 1953–55, reported that in their view “there was no question of merit or principle outstanding” and that “the sole consideration was that of cost”. The Staff Side also refer to the strong support for the claim which was forthcoming from both sides of the House when a Motion was put down in 1960.

5. Against this, however, at the time when the past temporary service was given there was in most cases no expectation that it would be pensionable at all. In principle, too, it can be argued that it would
be wrong to reopen the conditions on which service was given many years ago. Acceptance of the claim would provide full reckoning not only for temporary civil servants who had some prospect of establishment at the time, but also for the service of those (many non-industrial civil servants and nearly all industrials) who were unestablished and therefore unpensionable in principle, and for the war service in the 1939–45 war of those who joined the Civil Service after that war. (War service in the 1914–18 war does not count at all, and this is still a sore point with some pensioners.) Both kinds of service at present reckon as to one half. A good employer who introduced a pension scheme for his manual workers some time after he had done so for his other staff would not normally give them more than partial reckoning for previous service, and very few if any employers give reckoning for war service.

Party policy
6. The Staff Side have referred to a document issued for the purposes of the election, which many of our candidates quoted to staff representatives, and which stated that:

"Labour accepts the principle that all non-established service should count for pension and will take steps, in consultation with the appropriate bodies, to improve on the earlier reforms introduced by the last Labour Government in 1946 and 1949."

There was, of course, no undertaking as to the timing of any change, and I do not consider that we are bound to give priority to an expensive change in Civil Service superannuation over other parts of our social programme.

Cost
7. Full reckoning for everybody, serving and retired, and including a recalculation of past lump sums, is out of the question. It would cost £310 million over a long period of years, of which about £38 million would be incurred in the first year (£30 million of this would be for past lump sums). Thereafter, the annual cost would be £8 million in the second year, rising soon to about £9 million and remaining at that level for some years.

A modified scheme
8. I have therefore considered whether we could go some way to meet the Staff Side and still keep costs within an acceptable limit. A number of possible variants, including the suggestions which the Staff Side themselves put forward, have been examined. I have however come to the conclusion that there is no compromise scheme which would be likely to be accepted as fair and reasonable by serving staff and pensioners alike, and which could keep the cost to a level which we could contemplate over the next few years. A partial settlement which could be afforded could perhaps be worked out. But it would undoubtedly produce more grievances than it would satisfy. We should thus come under heavy and immediate pressure...
to improve it, and this pressure would be much harder to resist once the initial concession had been made.

9. Apart from the direct costs, a concession to the Civil Service might stimulate somewhat analogous claims on behalf of other public services and nationalised industries where past service does not reckon or only reckons in part. It might also, though perhaps illogically, be compared unfavourably with the treatment of those excluded from membership of the National Insurance scheme before 1948 or too old to enter it then.

Pensions increase

10. We shall need to consider in advance of the next Queen's Speech proposals for a further measure to increase pensions in the public services generally. Such a measure would be costly but it will be regarded as of greater priority than a measure to increase the pensions of a particular category of civil servants. Virtually all those with unestablished service before 1949 who have already retired would benefit from a new pensions increase measure.

Conclusion

11. I do not wish to reject this claim for all time as having no merit. But we cannot satisfy this one group of Civil Service staff and pensioners in preference to doing something for pensioners generally, and the financial situation will not allow us to do both. I therefore ask my colleagues to endorse the recommendation of the Social Services Committee referred to in paragraph 3 above.

12. The decision to put the claim for full reckoning into cold storage will be unpopular with the Staff Side especially in view of the Royal Commission's views and the statements made by many of our members before the election. We shall probably be pressed, especially if we make clear that our decision is taken on grounds of cost and the present financial situation, to promise action in two or three years' time and meanwhile to negotiate a scheme to be put into operation as soon as money permits. I must recommend that we should not commit ourselves to this. There is, I am afraid, no reason to expect the financial situation to be any easier in the near future, and the negotiation of a scheme would create powerful pressure to put it into operation immediately.

13. I propose to see Mr. Hayward the Secretary-General of the National Whitley Council (Staff Side) and discuss the matter with him in the light of the Cabinet's conclusions.

L. J. C.

Treasury Chambers, S.W.1,
CABINET

ELECTORAL REGISTER : FREQUENCY OF PUBLICATION

MEMORANDUM BY THE SECRETARY OF STATE FOR THE HOME DEPARTMENT

Under present law one electoral register is published each year, on 15th February, related to residence in the constituency on the qualifying date of 10th October in the previous year. From 1918 to 1926 there were two registers a year. The second register was then abandoned as an economy measure. In 1946 the Oliver Committee on Electoral Registration (Cmd. 7004) recommended a second register, stressing the importance of having as fresh a register as possible for Parliamentary elections. The Representation of the People Act, 1948, provided accordingly. The timing was as follows:

**Spring Register**
- Qualifying date: 20th November
- Publication: 15th March

**Autumn Register**
- Qualifying date: 15th June
- Publication: 1st October

2. In the following year the Electoral Registers Act, 1949, abolished the autumn register, again primarily on economic grounds. Another factor was that preparation of two registers a year had been found to place a heavy burden on the staffs of registration officers and on the printing industry. And a second register was considered to be less essential than hitherto in that a qualifying period of residence was no longer required and the postal vote was available to those who moved from their qualifying address to an address in a different parish, urban district or borough.

3. At the same time there were strong representations that the voting position of young persons becoming 21 before the qualifying date for the autumn register should not be worsened. Provision was accordingly made in the Electoral Registers Act, 1949, for persons becoming 21 after 10th October (the qualifying date for the present
annual register) but before the following 15th June (the qualifying date for the abolished autumn register) to have their names in the register marked with a “Y” and to be able to vote at elections held after 1st October (the date of operation of the abolished autumn register).

4. The main criticism of the existing arrangements is that a register compiled on the basis of a qualifying date of 10th October, which is four months out of date when it comes into use on 16th February—a delay of this order is inevitable under any system—is up to 16 months out of date if it is used at an election held early in the following year. A sample survey carried out by the Social Survey Division of the Central Office of Information in 1950 showed that the register was just over 96 per cent accurate at the qualifying date and that it lost accuracy at the rate of ½ per cent a month. On these figures the register would be about 93½ per cent accurate on publication and 88 per cent accurate immediately before the publication of the ensuing register. Apart from deaths the deterioration in accuracy is due to removals, many of which can be catered for by the absent voting provisions; but these involve a somewhat complicated procedure, and it is possible that many people who are eligible for an absent vote do not trouble to apply for it.

5. A further criticism is that the special arrangement for the marking of “Y” voters—see paragraph 3 above—is complicated and that the law in this respect is not ideal. One effect of instituting a second annual register would be to remove the requirement for this special arrangement; but if the minimum age for voting were to be slightly lowered, it might not be thought necessary to retain the arrangement even if no second register were introduced.

6. The cost of preparing one annual register is at present £2.8 million for the whole of the United Kingdom. The cost would be almost doubled if a second annual register were to be restored. About half the cost is now met by the local authorities, since the register is used for local government as well as Parliamentary elections. But except for elections to fill casual vacancies, an autumn register would be of no use for local government purposes; and for this reason local authorities might expect the Exchequer to meet the whole cost of preparing it.

7. Representative electoral registration officers have recently been consulted on the implications for them of a requirement to prepare and publish two registers each year. They pointed out that the canvass for and the preparation of a second register might have to take place either during the period of local government elections or in the early part of the holiday season. They did not consider however that there would be any insuperable difficulty.

8. The question of a second annual register is not specifically mentioned in the terms of reference of the Speaker’s Conference. But the terms are sufficiently wide to allow the Conference to consider it, and I understand that they intend to do so. It is not known when the Conference will report—they have announced 30th September
next as the final date for receiving evidence—but they are unlikely
to do so in time for their recommendations to be given effect in
legislation to be promoted in the next session of Parliament.

9. I understand that some of my colleagues favour the
introduction of a second register, and think that there may be a
case for taking action on this in advance of the report of the
Speaker's Conference. It is for this reason that I am raising the
matter now.

F. S.

Home Office, S.W. 1,
16th July, 1965

CABINET

AID PROGRAMME: DRAFT WHITE PAPER

Note by the Secretary of the Cabinet

By direction of the Prime Minister I attach a draft text of the White Paper on the Aid Programme. The question of publication of the White Paper is for discussion by the Cabinet on Tuesday, 20th July.

2. The draft includes major amendments to the text which have recently been made to meet points raised by the Treasury and the Department of Economic Affairs. In order to expedite circulation of the paper the amendments have been incorporated without a revision of the paragraph numbering. It has not been possible to include a number of detailed amendments on matters of secondary importance which have been proposed by departments and which have been agreed or are under discussion by officials.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

16th July, 1965
In this White Paper we describe the policies by which the Government will be guided and the ways in which we propose to play our part in meeting the needs of the developing countries. We do not specify the amounts of aid which we propose to provide in any particular periods. This must depend on the strength of our own economy and of our balance of payments. Nevertheless the Government recognises the need to make our full contribution in the co-operative effort to promote the development of the poorer countries and the expansion of the world economy. Within the limits of our resources we shall do all we can to contribute to that effort. These limits themselves make it all the more necessary that our aid programme should be planned and managed in a way which will most effectively help the countries with which we deal. One of the main purposes of this paper is to describe what we are doing to achieve this.
I - Motives and Objectives

1. The objective of the British aid programme is to help developing countries in their efforts to raise living standards. Our purpose is therefore to promote social and economic development. But development means more than reducing poverty and unemployment. It means fulfilling aspirations towards steady and continued social and economic progress. It means the transformation of traditional societies into modern ones. Our aim is to do what lies in our power to help the developing countries to provide their people with the material opportunities of using their talents, of living a full and happy life and of steadily improving their lot.

2. The basis of the aid programme is therefore a moral one. The programme operates through the transfer of economic resources and human skills. It can at the same time be defined in political terms. The international discussion of aid and the programmes to which it gives rise are an important part of international politics; they include some of the most important dealings between nations. But we must be clear about the political objectives which an aid programme can and cannot be expected to achieve. Aid is a means of promoting long term economic development. To be effective it needs to be given over time and with due preparation to ensure that it is used effectively. Aid is not a means of winning the friendship of individual countries, though we are glad to offer aid to our friends. The process of development may sometimes increase strains, for a time at least, and we should not expect aid to be an insurance against political tensions. Nevertheless, we must recognise that poverty in a world of growing wealth causes discontent and unrest to which economic and social development is the only possible answer. We must therefore be ready to share our wealth and knowledge so as to help promote the progress and strengthen the stability of the developing countries by increasing the material well-being of their peoples.

3. This makes it all the more necessary to use our aid to the best effect. There are many claims on our resources, and at present our balance of payments imposes severe limitations on our capacity to help. We recognise the advantages of giving aid through international organisations.
tions and we intend to increase our contributions in company with other
donors as the needs of these organisations grow and as our own resources
permit. We intend to give the highest priority to technical assistance,
which provides skilled men and women to help in development and above all
in the education and training of local people and which is often a pre­
requisite for enabling a country to make good use of financial aid.

4. The financial aid which we give to individual countries will remain,
nevertheless, the largest part of our programme. In allocating bilateral
aid we believe that preference should be given so far as possible to those
countries and regions where it will have the greatest effect on income per
head. This will depend on a number of things, including the form and type
of our aid and the contribution of other donors. It will depend on the
material and human resources of the developing countries and, above all, on
their readiness and ability to make the effort to develop. We must also
take account of the relative poverty of the countries with which we deal and
the needs which this creates. In giving preference to those to whose
development our contribution will make the greatest difference we try to take
a long view.

5. Countries which are members of the Commonwealth have a special claim on
us. The Commonwealth is one of the few associations, short of the United
Nations itself, in which rich and poor can talk on equal terms. It
illustrates how international co-operation can be achieved across some of the
barriers which now divide the world. We have important historical links
and current ties with all independent Commonwealth countries and special
obligations towards the territories still dependent on us. We have, until
now, provided relatively little to foreign countries. By the criteria
we have discussed, more foreign countries could make a claim to our aid
than we have been able to help but there are obvious limits in our present
economic circumstances to what we can do in this broader field. We must
also avoid dispersing our assistance too widely in amounts which may not
make an effective contribution to development. We shall hope, nevertheless,
to be in a position to increase our aid to foreign countries.
6. British and any other aid will be most effective where it forms an integral part of a coherent and co-operative effort to implement a well prepared development plan. If there are several donors helping one country and they are following different objectives in giving aid, or their efforts are not properly co-ordinated either with one another or with those of the country receiving aid, development will not be most effectively achieved. Our contribution will have the best opportunity to accelerate development either where it is big enough to play an effective part in the development process, or where there are satisfactory arrangements for the co-ordination of all donors' aid both with each other and with the efforts of the country receiving aid.

7. The provision of aid serves our own long-term economic interest. Britain stands to prosper if the poorer countries in which two-thirds of the world's population live are able to share in world development. We have a special interest in encouraging the expansion of international trade; aid can play an important part in this. By helping to raise incomes in the developing countries we can provide expanding markets for exports and safeguard the supply of our imports and the return on our investment. These are real advantages, and we should seek to secure them as far as we can. But they must be secondary to the primary purpose of aid. Moreover even though aid may be in the form of loans which have to be repaid and on which we receive interest, it involves the transfer to economic resources without the expectation of a full economic return. Its primary aim is to supply the country receiving aid with goods and people needed for development. A clear distinction should therefore be kept between aid and commercial credit.

8. We give aid because in the widest sense we believe it to be in our interest to do so as a member of the world community. We recognise that it is in the nature of aid that we should accept an economic sacrifice when giving it. To describe as aid transactions which do not entail such sacrifices would incur the risk of frustration and ill will. This does not mean that the present economic sacrifices cannot yield benefits to us in the future. It means that these benefits should not be the main motivation for giving aid and that they must not conflict with development.
9. Since the war Britain has adapted herself to great changes. New nations have emerged, and the Empire has been transferred into the modern Commonwealth. The coming years will require great efforts of imaginative adjustment to a world in which new nations seek to use their independence for social and economic advancement. It leads to the need for action, both in the public and in the private sphere. The second has been recognised by the remarkable growth during recent years of the work of voluntary organisations, but larger action is needed in the field of public policy. The solutions to the problems of the developing countries are neither simple nor obvious. They will involve new experiments, new methods, new institutions, new relationships. There are many paths to development. Our aim is to help the developing countries to find and pursue them.
10. The harsh fact from which we must begin is that the majority of the human race still lives in poverty. Moreover, despite the efforts and achievements of the past 20 years the development gap between advanced and developing nations has been widening. The rate of growth of the poorer countries of the world quickened after the second world war. Their average income per head increased in real terms in the 1950's, but since incomes in the developed industrial countries were rising at a faster rate, the inequality in the distribution of world income grew. In the developing countries as a whole, average income rose by rather over a quarter in this decade, but in 1960 this average was still less than £50 a head. In the developed countries it rose in the same period by a third, and in 1960 was slightly over £300 per head. Since then, their development has become faster again.

11. These averages cover wide ranges within each group. Thus in East Africa, India and Pakistan incomes averaged in 1960 (as they still do) £20 to £30 a head; in some countries of Latin America and the Caribbean they averaged over £100 a head. Among the rich countries of Western Europe, including Britain, incomes were £400 to £500 a head in 1960; in the United States they were nearly £1,000.

12. Although the development of the poorer countries was relatively fast in the 1950's compared with the past, the rate of growth of per capita income noticeably slowed down in the second half of the decade (see Table I) and this trend has continued.

13. There are of course exceptions to these generalisations but the growth rate of each of three main regions (Africa, Asia and Latin America) was affected by this slowing-down in the 1950's. This has been particularly marked for agriculture (see Table II). In the 1960's, total farm output has fallen behind the rate of population increase. In fact, in Latin America and the Far East, agricultural production...
per head is still below the levels of the 1930's and is falling. Agricultural growth at its current pace means that food supplies lag and this acts as a brake on the growth of other sectors. Table III shows that the rise in output in mining, and electricity and gas, although still moderately fast, has also become slower in the 1960's.

14. In the industrialised countries, on the other hand, development has almost regained the pace of the early 1950's. This is not a cause for dissatisfaction in itself from the viewpoint of developing countries; indeed, their own economic development depends to a great extent on the economic strength of the advanced countries. But the widening gap can create political tensions, especially if the prosperity of the developing countries is not increasing.

15. What has been the cause of this setback? Three main trends have been responsible.

(a) The growing shortage of foreign exchange

16. Imports are the life blood of economic development: developing countries need imported tractors, plant, machinery, building materials and lorries, as well as fertilisers, fuel and all the other "inputs" essential to the realisation of their development plans. To purchase these imports, they must have a rapidly growing supply of foreign exchange either earned through exports or supplied through private investment or government aid. In the past fifteen years, the rise in the total foreign exchange from these various sources has been inadequate.

17. During the first half of the 1950's, post-war reconstruction continued at a fast pace in continental Western Europe and commodity markets were further strengthened by the Korean war boom. The export earnings of the developing countries rose strongly (see Table IV) and the mounting supplies of foreign exchange permitted growing purchases...
of capital goods. In the later years of this decade, when the pace of
the advance in the industrialised countries slackened, commodity
prices fell (see diagram A) and the value of exports of primary
products rose at a much slower pace.

18. During both these five-year periods, the imports of the poorer
countries rose faster in value than their exports. This was made
possible partly by the fact that less of their earnings were being
put to reserve. In 1950 foreign exchange reserves were being accumulated
at a fast rate by these countries, owing mainly to the Korean war. In
1955 reserves were being built more slowly and in 1960 they declined
a little (see Table V). More important, the flow of capital was
increasing throughout this decade; in the first half there was an
increase in private investment and also in the supply of loans and
grants by governments of the developed countries; in the second half
there was a sharp increase in the flow of public capital.

19. Nonetheless, owing to the weakness in export markets, the total
supply of foreign exchange to the developing countries grew more slowly
towards the end of the decade, Short-term credits were increasingly
used to relieve exchange shortages. Exchange and import controls
were tightened in many of these countries, taxes were raised and
programmes of import substitution were pursued more vigorously. In
the developing countries as a whole production increased more rapidly
than imports. But the slower growth of foreign exchange receipts
limited the resources available to finance development. Some govern­
ments were compelled to cut their development plans. Elsewhere,
especially in Latin America, attempts to force the pace when exports
were only rising slowly aggravated inflationary pressures, and stop­
go policies disrupted development.

/20.
20. In 1961 the United States economy entered a phase of rapid growth which has been maintained up to the present time. After 1962 commodity prices, especially of non-ferrous metals, rose and the value of exports from the poorer countries to the developed countries once more increased at a fairly fast rate. Communist countries were also becoming increasingly important as buyers in world commodity markets. Despite these improvements there was a further decline in the pace at which the volume of imports of the developing countries was rising.

21. While production of primary products has continued to increase, commodity prices, after reaching a peak early in 1964, have weakened again, despite the continued fast expansion in the industrialised countries. Nor is there any certainty that this rate of expansion will be maintained. The second half of the 1960's may show, therefore, as did the second half of the 1950's, that the developing countries cannot increase their export earnings enough to support even moderate growth rates. The resolution of the United Nations General Assembly, which designated the 1960's as the "development decade", laid down as a specific target that by the end of the decade the income of developing countries should grow at a rate of at least 5% a year. But the present outlook for achieving this is bleak. However much the developing countries may struggle to help themselves by expanding exports, or developing the manufacture of import substitutes, there does not seem any prospect of their being able to finance out of their own resources the rising imports which development demands.

(b) The growing shortage of qualified manpower

22. Another obstacle to the development of many poorer countries has been the shortage of professional and technical personnel. In many of them the number of scientists, engineers, agricultural experts, artisans etc., is low even in relation to the current economic levels. The attempt to raise output at a fast pace...
pace is sooner or later hampered by a lack of personnel to manage and work modern projects. In the developing countries, engineers and scientists frequently number less than one per 1,000 of those employed; in some African countries, the number is less than one per 10,000; in more developed countries, it is usually higher than one per 100. Even more important the great majority of people in Africa south of the Sahara and Asia have had no chance of education, or too little education to acquire literacy. The rural population in many developing countries lacks the necessary technical knowledge to raise output sufficiently to enter the cash economy.

23. In many countries, especially in Africa, the shortage of trained personnel has been an even more serious factor than the shortage of foreign exchange in inhibiting development. The situation has been made more difficult by the departure of expatriate staff at precisely the same time as the Governments concerned were trying to speed up progress through development plans covering the whole economy. The shortage of experienced personnel means that preparation of projects is slow and planning offices are not strong enough for the immense tasks they face. The big educational programmes which have been adopted throughout the less developed areas of the world will eventually ease manpower problems; but it will be many years before shortages at the highest professional levels are eliminated. Qualified local staff are coming forward in increasing numbers, but the total needs are continually growing, and the period of maximum administrative strain is still ahead for many developing countries.

(c) Increasing population pressure

24. A further reason why income per head in the poorer countries grew more slowly in recent years was the acceleration in the growth of population (see Table I). A wide gap has now opened between the pace at which population grows in developed countries compared with less /developed
developed countries. In the former, while birth rates (at 15 to 25 per 1,000 with an overall average of 22) are still higher than death rates (about 10 per 1,000) the difference between these two rates is much less than it was a few decades ago. In almost all the poorer countries, on the other hand, birth rates have remained high with an overall average of 41 to 42 per 1,000 of the population. Death rates especially among infants have fallen dramatically owing to improved health services but fertility has not yet adjusted itself to the reduction in mortality.

25. Nevertheless death rates in the poorer countries still remain much higher than in the richer ones. In 1955-58, for example, the figures were 9.6 per 1,000 for Sweden, 20.6 for Mexico and 20.0 for rural India; in Africa the average was about 27. Despite the decline in infant mortality, 146 out of every 1,000 children born in rural India in 1958 to 1959 died before they reached their first birthday. The corresponding figure for Mexico in 1962 was 70; in Sweden, in the same year it was 15. With improved social services, mortality may soon fall still further in the poorer countries.

26. The age composition of the population reflects these trends. The older groups in the advanced countries form a large proportion of the population. In the developing countries, on the other hand, over half the population is less than 20 years old, and a large proportion of it is moving into age groups in which fertility is high and mortality low. In consequence, even if attitudes change and fertility rates decline, and even if infant mortality (and mortality at higher ages) falls no further, the population will continue to grow at a fast rate for some decades.

27. Recent United Nations estimates show that the total population of the poorer countries may well grow between 1960 and 1970 at a rate of 2.5 per cent a year — rather faster than in the 1950's.
In the three decades from 1950 to 1980 this total population may well double (see Table VI). Problems of land shortage are bound to be aggravated in many regions.

28. One of the consequences of these economic and demographic trends has been a general failure to find productive employment for the labour force. There is already surplus labour in country districts and the agricultural sector cannot absorb further increases when farm output is only rising slowly. Manufacturing is not providing big increases in employment; in fact in a number of countries employment in this sector has fallen in recent years. Even in countries where it has continued to rise, it has often failed to keep pace with the natural growth of urban population. This is swollen by those coming from the countryside in search of work, including a high proportion of those passing out of the top forms of rural schools.

29. In consequence large scale urban unemployment has become chronic in many countries. Among Commonwealth countries recorded unemployment has risen sharply in recent years in Ceylon, Ghana, India, Kenya, Malaysia, Malta, Nigeria and Pakistan.

30. Many governments are now taking steps to try to check the rising birth rate. In the immediate future, however they must find jobs for the millions reaching the age when they look for work. If they fail, political unrest is bound to grow. If they are to succeed, a much faster rate of development will be needed in the years ahead.
In the forenoon of the 3rd of October (of 913) Abass ibn Jafar ibn Abi Talib ibn Abi Vawwad was killed by the Caliph al-Ma'mūn in the city of Bagdad. Abass was the son of Jafar and grandson of the Prophet Muhammad. His murder was an act of vengeance against the Banu Umayyah, who had been his family's sworn enemies for generations.
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III. THE TRANSFER OF RESOURCES

31. The industrial countries transfer resources to the developing countries in a number of ways. Private capital investment and public loans and grants make it possible for the developing countries to have much bigger investment programmes than they could possibly finance out of their own savings. This flow, from another point of view, has enabled them to cover capital and income (payable on previous investments) flowing in the opposite direction, and yet to import more than their exports alone could pay for.

32. Technical assistance fills some of the gaps in the supply of qualified manpower. In industrial, agricultural and commercial fields, experts and the employees of private firms working overseas - help to transfer advanced techniques. Aid has contributed to the improvement of social services; sickness and mortality have been reduced and (more recently) steps taken to control fertility. The provision of teachers and overseas training facilities bring nearer the day when the developing countries will be able to find sufficient numbers of professional and technical personnel from among their own citizens.

Financial flows to the developing countries

33. Private long-term investment by the industrialised countries in the less developed countries climbed after the war, but then started to decline at the end of the 1950's. Although it recovered in 1964, it was still below the level of the early 1960's. (See Table VII.) But export credits have continued to grow, especially in 1964.

34. The total gross flow of official funds from OECD industrial countries rose rapidly from an average of £700 millions for the years 1950-1955 to £1,250 millions in 1956 and £2,500 millions in 1961. It then, like long-term private investment, fell back, but recovered in 1964 to a level near that of 1961.

35. Although the supply of capital by the governments of developed countries no longer shows an upward trend, the receipts of official capital by the developing countries have continued to rise, because multilateral organisations have in recent years been disbursing funds more rapidly than they have received them. A number of relatively new organisations, the Inter-American Development Bank, the financial agencies of the European Economic Community
and the International Development Association (the affiliate of the International Bank set up in 1961 to make "soft" loans), have been sharply increasing their disbursements to developing countries. On the other hand, subscriptions are no longer being collected on a big scale: the bulk of the aggregate capital of the multilateral organizations, including the International Bank (the largest multilateral supplier of funds to the developing countries) was contributed at the time of their establishment, although in some cases the subscriptions of individual countries have been raised, or additional capital subscribed by new members, and the International Development Association continues to acquire resources by agreed general increases in contributions.

36. The International Monetary Fund is not a development agency and its operations are not covered by Table VII, but it has provided an additional source of finance. The upward trend in the value of its assistance to the developing countries reflects in some degree its growing membership, but it also indicates the increasing pressures on their foreign exchange reserves. The facilities provided to developing countries were very limited in the early 1950's, but they became substantial later. In the period 1960 to 1963 big additional standby facilities were made available to developing countries each year (especially in 1960 and 1961), and in the four years the total rose by more than £450 millions. Over the same period net drawings by these countries increased their indebtedness by over £200 millions. In 1964, because of the sharp rise in exports, while the value of standby arrangements outstanding continued to rise, the rise was smaller (£55 millions), and there was a slight reduction in the indebtedness of these countries to the Fund.

Financial flows out of the developing countries

37. While the total financial flows towards the developing countries have risen only slightly since 1961, flows in the opposite direction continue to rise strongly.

38. Data on the export of private capital by the nationals of developing countries are scarce. A special I.M.F. study, excluding the flight of capital from Algeria, gives a total for the average annual outflow from all developing countries of £160 million in the period 1957-1962, i.e.
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rather more than a quarter of new private investment in these countries.\(^{(1)}\)

39. There have been a rising trend in the repayment of official bilateral debt by developing countries (see Table VIII). This had been at very low levels in the early 1950's, but now reflects the increasing flow of loans. In 1961 the level was unusually high because a United States loan to Brazil matured in that year, and it fell back in 1962, but the rise was then resumed. Incomplete information for 1964 shows a sharp jump of about 50% in repayments. Amortisation of debts to multilateral organisations also continues to rise rapidly; this applies mainly to loans by the International Bank, since the other agencies do not, as yet, have a large amount outstanding.

40. The total of interest payments on public debt and the income derived by foreign private investors is increasing steadily. Allowing for the countries not included in Table VIII (which, however, covers most of the large developing countries) the total investment income flowing from these countries was probably in the region of £1,000 million annually by the beginning of the 1960's. Part of this was re-invested and is included in private capital investment in Table VII. Taken together, the reverse flows of capital, apart from private capital sent abroad by nationals of developing countries, plus investment income absorb over one-third of the financial resources transferred. In the case of the International Bank, repayments and interest charges now off-set nearly two-thirds of gross disbursement to developing countries.

Net official financial flows from donor countries.

41. Net disbursements of official capital (after allowing for repayments) were running on a plateau from 1961 to 1963 (see Table IX); this continued in 1964 because the increase in the repayment of official debt by the developing countries at least balanced the increase in their receipts of official capital. The net flow was constant not merely for developed countries as a whole; there is no major donor for which the flow has grown markedly.

\(^{(1)}\) Flow of Private Capital from Developing to Developed Countries.

(E/Conf 46/20 1964). The estimates are based on a short-term asset changes plus "net errors and omissions" for a large number of developing countries. This outflow may well have increased in recent years.
markedly since 1961 and United States disbursements, which up to 1963 had continued to grow, fell back somewhat in 1964. Since the economies of the developed countries have been expanding, the levelling off in the official flow means that this has declined in relation to gross national product. For members of OECD's Development Assistance Committee, taken together, the net official flow fell from 0.75% of total gross national product in 1961 to 0.59% in 1964.

42. Commitments of finance from the Sino-Soviet countries rose sharply in the second half of the 1950's, from practically nothing to over £400 million in 1961. Commitments then declined, but gross disbursements have continued to rise, reaching about £150 million in 1963. Repayments were probably less than £20 million in that year, but the net contribution from this source was still less than 70% of what was supplied by members of OECD.

Future prospects for official financial flows

43. In 1964 government aid commitments rose, especially in the United States, and this foreshadows a moderate increase in gross aid disbursements in 1965, though an increase in subsequent years will depend on whether the rise in Congressional appropriations is resumed. A continued expansion in the flow of funds by multilateral agencies would require a bigger supply from official sources than in the past two years. Some increase can be expected; arrangements have been made for new contributions to the International Development Association amounting to £268 million over three years, starting in 1965.

44. On the other hand the burden of servicing both bilateral and multilateral public debt will continue to grow rapidly and this prospect must be set against the probable increase, for 1965 at least, in gross disbursements. The future cost of debt service reflects the rising volume of loans in the past, and also the terms on which these have been made. The external public debt of developing countries, including officially guaranteed private debt, has increased about four-fold in the last ten years and is now of the order of £10,000 millions; in addition, large private debts are outstanding. Although more than two-thirds of official capital commitments to developing countries, including contributions to multilateral agencies, is still made up of grants, or contributions for which no repayment in convertible
currency is required, the ratio of loans to grants has tended to rise. In recent years there has been a tendency towards softer loans in which changes in the conditions of British aid played a part (See Chapter VIII).

45. The burden of debt varies both in its nature and its distribution. Some of the African countries which have most recently become independent have a relatively light burden of public debt: much of their debt is recently acquired and does not yet carry full service in interest and amortization. Some however, like other developing countries, especially in Latin America, have had increasing recourse to export credits in recent years, the service of which has accumulated rapidly. (About half the guaranteed export credits covered in Table VII are for less than five years and a big volume of export credits is not covered by this table.) In a number of cases commitments for interest and repayment of debt are equivalent to more than 15% of export earnings, and this percentage is rising. The debt of other countries arises predominantly from long term borrowing for development. This is true of India, where debt payments, for example, would amount to over 40 per cent. of Western aid during the Fourth Five Year Plan, if aid were continued at the present level and in the present terms. Since many recipients are in persistent payment difficulties, the terms of aid, as well as its amount, will be an influence of increasing importance on overseas development.
Transfer to skills to the developing countries

46. The two main channels for transferring skills are the provision of qualified people to the developing countries and the training in donor countries of their nationals.

47. Expenditure on bilateral technical assistance by DAC countries, covering both these forms of help, totalled $917 millions in 1964 and is still rising. It is difficult to compare data from different sources, especially for earlier years, but the number of exports working overseas under bilateral programmes who were wholly or partly financed by DAC countries remained more or less constant between 1962 and 1964 at about 80,000. The increase in expenditure is due partly to increases in costs and partly to the fact that some countries, such as Britain, have assumed a higher proportion of the cost of exports than hitherto.

48. Total disbursements of United Nations technical assistance (including the regular programmes of the Specialised Agencies) rose sharply during the 1950's from an annual average of $74 millions in the years 1950-55 to $203 millions in 1963. Expenditure under an additional programme, the United Nations Special Fund, which was created in 1959 mainly to carry out pre-investment surveys, reached $38 millions in 1963. While the number of experts in the field under U.N. programmes is growing, it is still relatively small compared to those working under national programmes, the number at the end of 1964 being less than 5,000; the continued upward trend does not mean a big increase in the total supply of technical assistance to developing countries.

49. There are reverse flows of manpower as well as capital. While the number of people employed under bilateral technical assistance programmes has been growing, they have only partially filled the places of expatriate officials who have been leaving the service of overseas governments. In addition, a large number of professional and skilled people from developing countries is emigrating permanently to developed countries. There has therefore almost certainly been a net flow of qualified people out of the developing countries in recent years. The situation varies, however, from country to country and...
some must have gained on balance. The net outward flow is in any case slowing down in countries which have been independent for some years.

Training programmes for students from overseas have been growing. During the last few years the number being educated abroad under bilateral programmes has risen to over 40,000; and increasing numbers are being trained under international programmes. There is still, however, an acute shortage of senior people and the supply of experienced nationals will remain inadequate for many years throughout almost the complete range of professional jobs.

Summary

The argument in this and the preceding chapter can be summarised as follows: economic growth in the developing countries was relatively fast during the first half of the 1950's, but has slowed down since then. In the first half of the decade it was helped by high commodity prices and an inflow of capital; in the second half by a sharp increase in aid; the increase in private and public financial flows to the developing countries has tended to level off since 1961 (see Diagram B). Financial flows in the opposite direction have however continued to grow.

A further limiting factor has been a shortage of qualified manpower, accentuated in a number of cases by the outflow of expatriate staff. There has been a substantial increase in the transfer of human resources by technical assistance, but the main element in this bilateral assistance is no longer growing so rapidly and the net transfer is apparently still towards the developed countries.

Population has grown rapidly in the developing countries owing to the decline in death rates, while birth rates have been maintained. This, combined with the slower rate of growth of total output, has meant a fall in the rate of economic growth in terms of income per head.

One consequence of the increase in population combined with the relatively slow economic growth has been to increase underemployment and decrease production per head especially in rural areas.
55. Despite the general tendency towards softer terms of loans, many developing countries face a rapidly growing burden of service of external debt, which is threatening to limit their development.

56. The total supply of foreign exchange from trade and aid will need to rise more rapidly if the developing countries are to afford the increasing imports their faster development requires. This was reflected in UNCTAD recommendations which called for more liberal trade policies and also a larger transfer of financial resources to enable the developing countries to grow more quickly. Yet the trend of average commodity prices has turned downwards, with damaging consequences for the export earnings of a number of developing countries.

57. At the same time, it seems unlikely that in present conditions private capital (allowing for reverse flows) will fill more than a small part of the difference between the need for foreign exchange and its supply. The need for aid will therefore be greater. This does not merely mean financial aid; many countries have a greater need for increased technical assistance.

58. The inequalities in income distribution are a problem for the whole world, not merely for Britain. The developing countries need improved economic programmes, but the aid policy of the industrialised countries can play a decisive role in making them more effective. This is a challenge to Britain to use her aid to the greatest possible effect.
55. The previous chapters have described the circumstances which led Britain and a number of other developed countries to contribute substantially to the flow of resources to the developing countries. As Table X shows, Britain has responded to the need with a mounting programme of capital aid and technical assistance; we have contributed money, goods and skilled manpower. Our total expenditure on all forms of official aid, before interest and capital repayments are deducted now represents about two-thirds of one per cent of the Gross National Product; of British private investments in developing countries were included this would bring the total up to almost one per cent. About a seventh of the total expenditure on bilateral official aid consists of technical assistance; this meant that at the end of 1964 there were 13,000 British people serving overseas, the cost of whose services was being met wholly or partly from British funds.

56. These results have been achieved in spite of the fact that since the end of the second World War the British economy has experienced recurrent balance of payments difficulties and has been growing internally less rapidly than the economies of most of the developed countries which give aid. In 1964 the overall external deficit amounted to almost £750 million, and although the measures taken by the Government have resulted in a major improvement in this position, in our present situation our capacity to provide aid is obviously limited. Aid involves a sacrifice of resources on which there are a number of urgent rival claims. It may mean less productive or social investment at home, or a slower rise in personal consumption. Moreover, we have been less free than other donors to provide aid in forms which minimise the burden on our balance of payments. The impact on the balance of payments is a particular constraint at the present time. Although a significant part of our aid is spent on British goods and services a part of it costs scarce foreign exchange.

57. Some kinds of aid involve a cost to the domestic economy significantly greater than their cost in money. For example, many of the types of goods required
required by the recipients of our aid are produced by the engineering industries, whose products are of special importance both to domestic investment and as commercial exports, both of which are vital to our whole growth programme. Similarly many of the personal skills most needed for the technical assistance programme are of kinds of which Britain herself is in great need; such as those of agriculturalists, engineers, doctors, teachers, statisticians and economists. This means that if we are to continue to play our part in overseas development we must plan our aid carefully and make provision for it in our long-term national plan.

58. Ultimately, the amount of aid we provide will depend on our own prospects of growth and on the amount of our total resources which we are willing to sacrifice. In present circumstances, however, we must have particular regard to the impact of the aid programme on our external balance of payments. These sacrifices have to be seen in perspective. The sacrifice of resources which the aid programme may involve is not great in relation to our wealth. By the standards of developing countries we are rich, with an average income about ten times the average of theirs. Nevertheless it would be unrealistic to disregard the constraint at present imposed on our aid programme by the balance of payments.

59. All expenditure, whether by the Government or by private individuals, costs some foreign exchange, but aid may result not in the transfer of British goods or services to the recipient country, but in the transfer of sterling to third countries. This applies particularly to convertible sterling provided to meet the local costs of development or, more generally, to finance budgetary expenditure as a whole since this provides the country concerned with foreign exchange which can be used to finance imports from anywhere in the world. It may apply to aid tied to the financing of imports from this country unless there is a corresponding increase in the total of imports into the recipient country from Britain. It applies even in some degree to the emoluments of British experts who go out to less developed countries. Nevertheless, there are compensating advantages, and the total balance of payments cost of aid is only part of its face value.
60. Moreover, Britain's aid effort cannot be considered in isolation. The more we play our part, the more other countries may be encouraged to do the same. We shall also benefit in the long run from the whole process of economic development and the extension of international trade which will be possible if there is an adequate increase in the total flow of aid.

61. These benefits, however, can only be assured if we can compete adequately in international trade. The developing countries naturally wish to use aid to buy from the cheapest source, and may therefore wish to use aid from one donor to purchase from another. This need only cause concern to a donor country if its exports are unable to hold their own in the third countries to which this aid might be diverted.

62. Since several major donor countries face balance of payments problems, there is a constant threat to the flow of aid; and the measures they take to protect their reserves, whether these are fiscal, monetary, commercial or in their aid programmes, may induce other countries to adopt similar measures. The final outcome may be trade distortions and lower levels of both trade and aid than would otherwise be the case.

63. For these reasons we attach great importance to improvements in the international monetary system. Any scheme for increasing international liquidity will help to maintain the world level of demand, and from this the developing countries are bound to benefit. The need to keep up the level of both trade and aid adds urgency to international discussions of this problem.

64. In the meantime, in the absence of international solutions and so long as our balance of payments problem is unsolved, Britain, like other countries, ties a significant part of her aid to purchases from her own exporters. The tying of aid often reduced its effective value to the recipient and the ideal solution would be a general untying by all donors. We are exploring in consultation with other donors ways in which the drawbacks of tied aid, from the point of view of the developing countries, can be mitigated.
We are also discussing with the receiving countries ways in which the burden of our aid programme on our balance of payments could be reduced. Here again forward planning is the answer, as was recognized by the Commonwealth Prime Ministers at their conference last month. Most developing countries have their long-term plans. We shall seek to use our aid programme as a bridge between them and our own national five-year plan. An expanding exchange of goods and services, related to and furnished by the aid which we provide, will enable us to give the greatest measure of help to their development, while leading to benefits to our own economy and to world trade generally.
V. Role of the Ministry of Overseas Development

70. When the Government took office in October 1964, one of its first acts was to centralise the administration of aid in one department under a Cabinet Minister. The value of co-ordinating our technical assistance work for all developing countries was recognised by the setting up in 1961 of the Department of Technical Co-operation. But responsibility for capital aid still remained dispersed among a number of other government departments. This hampered effective planning, for technical assistance and capital aid are merely two facets of the same problem of development and should be closely linked. It also made the administration of our aid programme more difficult.

71. The creation of the new Ministry was a recognition of the challenge with which Britain and other industrialised countries are faced by the poverty of most of the world's inhabitants. The concentration of responsibility in the hands of one Minister enables us to work out a coherent aid policy and to adapt the distribution of our aid to that philosophy.

72. The central purpose of the new Ministry is to formulate and carry out British policies to help the economic development of the poorer countries. To this end the Ministry has assumed responsibility for the economic aid programme as a whole and its detailed composition; the terms and conditions of aid; the size and nature of the programme for each country; the management of financial aid and technical assistance; relations with international aid organisations; the British interest in United Nations programmes of technical assistance; and relations with voluntary bodies concerned with aid and development. The only exceptions to this are that budgetary, but not development, aid to dependent territories is still the responsibility of the Colonial Office which works in close touch with the Ministry in this; and that the Treasury will continue to deal with the International Bank for Reconstruction and Development in co-operation with the Ministry. The Ministry is not responsible for military aid, which remains under the Foreign Office, Commonwealth Relations Office and Colonial Office.

73. The new structure has strengthened our aid work in various ways. Studies are being undertaken of the economic problems of development in
general and those of particular regions and countries. New ideas and
techniques for the management of aid are being evolved. Steps are being
taken to plan our effort ahead in coordination with the plans of developing
countries. Economic missions are being sent to several countries to help
them to draw up those plans.

74. Closer contact has also been established with the countries to whom we
give help through the strengthening of the Ministry's representation overseas.
New posts have been created in H.M.G.'s. overseas missions in order to enable
them to discharge the development side of their work more effectively and
this process is continuing. In order to encourage regional planning and the
best use of scarce experts, the Ministry is establishing new regional develop­
ment divisions on the lines of the Middle East Development Division which has
done such excellent work. The first of these new divisions which has been
set up in the Caribbean will be responsible primarily for promoting the
development of Britain's dependent territories in that area but the help of
its expert term will be available to other countries on request.

75. Our aid programme must be administered in harmony with the policies of
all the departments concerned with our economic and overseas affairs. In
the months since its foundation the Ministry's staff has been built up by
transfers from those departments, by the absorption of the former Department
of Technical Co-operation (including its specialist advisers) and by the
recruitment of an Economic Planning Staff whose work is central to the
Ministry's purpose. The present organisation of the Ministry is described
in Appendix A.
76. Aid programmes, if they are to be effective, cannot be switched on and off from year to year. They involve long-term commitments for several years ahead. In planning future aid policies, therefore, we must take account of what has gone before.

77. The British government took its first steps in this field as long ago as 1929 when the original Colonial Development Act was passed. Since the war, in company with other leading industrial nations, we have devoted increasing attention to the problem of overseas development. In the last fourteen years we have trebled our aid to a total of £190 million in 1964. During this period certain patterns of distribution have emerged which are described below. A statistical summary of our current programme is in Appendix B.

78. The Commonwealth and Colonies

By far the greater part of the aid programme derives from our responsibilities for the economic development of our dependent territories and, after their independence, from our joint decision with their governments to continue that help, although in a different form. In 1964/65 Commonwealth countries and territories received some 67% of our bilateral financial aid.

The share of the remaining Colonies, which now contain only a small fraction of the total population of the developing Commonwealth, might at first sight appear disproportionately large, but the obligation to give them development and, where necessary, budgetary aid is immediate and direct. Since Britain exercises sovereignty, it is not to be expected that other countries will normally feel it incumbent upon them to assist these territories. Aid to the Colonies other than technical assistance is broadly of two kinds: grants and loans under the Colonial Development and Welfare Acts (which are enacted at 4- or 5-yearly intervals), and, for some dependencies, budgetary aid.

79. When a colony has attained independence our obligation changes its nature, formal responsibility ceases, but we have recognised its continuing needs by offering aid in appropriate forms usually as part of an independence settlement:
Almost all have received help towards their development; must have received it for special purposes connected with the transition to independence; some have continued, for the time being, to receive budgetary aid.
60. Most of the rest of our aid to the under-developed Commonwealth goes to the Indian sub-continent; this has had a different history. These countries received no aid from us in the early years of their independence; it began on a small scale with the inauguration of the Colombo Plan in 1950, but its main growth has been since 1958. In that year the decline in the resources of India and Pakistan available for financing their development programmes gave rise to a large international aid effort in which we have played our full part. These two countries received about 27% of all British bilateral financial aid in 1964/65.

61. Other countries

Foreign countries receive only a relatively small share of our present financial aid. The origins of this part of the programme lay in our close historical connexion with the countries concerned, but in the past few years, as the idea of aid as a combined effort by the West began to prevail, our aid to foreign countries has increased, and has been provided to a larger number of countries.

62. Technical Assistance

Bilateral Technical Assistance for all developing countries has been administered by a single department since 1961 and covers the supply of skilled men and women; help in education, training, research and other services; surveys and feasibility studies. Our expenditure in 1964/65 was nearly 15% of our total bilateral programme. The manpower and services provided under our technical assistance programme are quite as essential to economic development as financial aid.

63. Multilateral Aid

Our expenditure on multilateral aid - 10% of the total British programme in 1964/5 - is the most concrete recognition of the fact that our own aid programme is part of a great international movement to promote the development of the non-industrialised countries. The specialised agencies of the United Nations which we support in this part of our programme include the Food and Agriculture Organisation and U.N.E.S.C.O., our relations with which are described in Chapter X; the U.N. Relief and
Works Agency, which has inherited the care of the refugees in Palestine; the World Food Programme; the U.N. Children's Fund; and the Expanded Programme of Technical Assistance and Special Fund. The last two bodies are now managed in one organisation and provide advisers for small projects and pre-investment studies; we play the leading part in supplying experts to them. The largest single part of our multilateral aid, however, is our subscription to the International Development Association (See Chapter III); and we also support the development of the Indus Basin and development banks founded by countries in particular regions acting in concert.

64. Commonwealth Development Corporation

Since its foundation in 1948 the Commonwealth Development Corporation has undertaken a wide range of projects, and invested in many enterprises, in the colonies and the independent Commonwealth. It must pay its way taking one year with another, but may borrow from the Exchequer the great part of its needs of long- and medium-term capital. In 1964/65 the Corporation's drawings from the Exchequer were £66 million, at the end of 1964 its total capital liability to the Exchequer was £88 million.

65. Forms of Aid

In the latest period for which figures are available, the financial year 1964/65, £57 million of our bilateral aid was in direct support of development projects, £1 million for budgetary subventions, £17 million for general development aid, £27 million for technical assistance and £51 million for other kinds of aid. Details are given in Appendix B. The administration of economic aid was shared between the Colonial, Commonwealth Relations and Foreign Offices, the Treasury, the Department of Technical Co-operation and the Export Credits Guarantee Department.

66. The programme already in being has developed over a period of years, and the formal commitments, implied obligations and existing policies of which it is the expression will generate large expenditure in the years immediately ahead. We could not, even if we wanted to, abruptly change the present course without disturbing the economic development of those countries whose planning for the future has reasonably assumed help from Britain in at least the same measure, and in much the same forms, as in the past. The objectives and the future lines of policy which are described in Chapters I and VII will give
in the years ahead to changes in the geographical and functional distribution of aid; these changes must be related both to the needs of the developing countries and to this country's part in international aid giving, neither of which we be static.
VII - LINES OF FUTURE POLICY

87. As we have seen, the needs of the developing countries for aid are great; the problem of world poverty can be tackled effectively only by a combined effort by all the industrialised countries and international organisations working with the developing countries to raise standards of living. For Britain this means that we must make clear, through discussion with the countries that give aid and those that receive it, individually and in international organisations, the place of our own aid in the common effort. In this paper as the preface explains, we do not specify the amounts of aid which we propose to provide in any particular period; we cannot do this at a time when the national plan is still under preparation. But we deal in this Chapter and those that follow with our policy towards developing and other donor countries and international organisations; with the terms of aid; with private investment and the Commonwealth Development Corporation; with the management of aid; and with new initiatives in technical assistance.

/Paras. 88 and 89 omitted/

Forward Planning

90. We shall need to plan our aid with great care. In the immediate future the shape of our programme will be largely determined by existing commitments, but as time goes by our ability to modify it will increase progressively as new decisions have to be taken. We shall aim to develop a long-term strategy for our aid, so that we do not simply react to past decisions and the pressures of the moment. Our main guiding principle will be to channel our aid in directions in which it will make the most effective contribution to development. This principle will affect the division of our programme between multilateral and bilateral aid and the distribution of our bilateral aid.
EATON'S

RUTLANDS - D.C.

of its kind, more the taste of the development company is made for a
great expression of modern building can be found attractive only to a

London development company. Established under the Development

Companies Act of 1936, Eaton's Rutland's aims to provide a high level

of standards in residential developments. Eaton's builds to last, with

a focus on sustainability and modern living. The company believes

in creating spaces that are not only visually appealing but also

deliver a sense of home. Eaton's Rutland's developments are

characterized by their attention to detail, modern design, and

environmental friendliness. The company is committed to

building homes that are not only beautiful but also

environmentally sustainable.
91. The multilateral administration of aid carries many advantages. Both industrialised and developing countries have special confidence in the experience and objectivity of the multilateral agencies. The size of our contributions must be in scale with those of other donors, and must be fixed with due regard to our resources and theirs. It will be the Government's aim to increase the proportion of our aid devoted to the multilateral institutions, including those concerned with technical assistance.

Regional Co-operation

92. International agencies can play a particularly valuable part in encouraging regional co-operation. Development programmes involving more than one country are still in their early stages, but the Inter-American Development Bank and the African Development Bank are examples of promising instruments of co-operation between the developing countries themselves and with donor countries inside and outside the region. Co-operation between neighbouring countries for the general benefit of a region is valuable, not only for raising living standards, but also for promoting the general progress and harmony of the countries concerned. The British Government will support the international agencies and the economic commission of the United Nations in promoting regional planning for development.

Co-ordination between donors

93. If we ask receiving countries to co-operate with each other, we donor countries must clearly be prepared to do the same. Competitive national aid programmes which pay little regard to the overall development needs of the receiving country can do more harm than good. Co-operation with other donors at present takes many forms and covers both the discussion of general policy and its application in particular countries. Aid policy is discussed between the fourteen members of the Development
Assistance Committee of the O.E.C.D. in Paris. The D.A.C. holds at least one high-level meeting a year, at which Ministers responsible for aid and development are able to discuss the more important problems. The International Bank, apart from financing development projects in individual countries, has established a number of consortia and consultative groups through which donor countries are able to discuss and plan the aid they give with representatives of the receiving governments. The India and Pakistan Consortia are the most notable examples.

British Ministers and officials meet from time to time with their colleagues from other donor countries to discuss common problems. Since the setting-up of the Ministry, such meetings have been held with the United States, Canada, France, Germany, Japan and Italy. In the developing countries themselves British Embassies and High Commissions keep in close touch with their opposite numbers from other donor countries and with representatives of the U.N. Technical Assistance Board and Special Fund, the International Bank and other international agencies. Co-operation between donors is still in its formative stage and much further effort needs to be directed to it. Its importance is clear if aid is to be treated as it must be, as part of a great international effort.

Technical Assistance

In our aid programme we shall give the highest priority to technical assistance, which is not only in itself a vital contribution to all forms of development but is often a precondition of a successful programme of financial aid. We now have the administrative structure needed to ensure that the two types of aid complement each other as much as possible. The place of technical assistance in the management of aid, and the new initiatives in technical assistance which we are now undertaking, are described in Chapters IX, X, XI and XII.

Bilateral Financial Aid

Aid on a bilateral basis will remain the largest part of our programme,
The purpose of this report is to present the findings of our investigation into the effectiveness of various learning technologies in enhancing student performance.

We conducted a thorough analysis of different educational platforms and found that those which integrate multimedia resources such as videos and interactive simulations tend to yield better outcomes. It's important to note that these tools are not just supplementary, but integral parts of the learning process.

In addition, we observed a strong correlation between student engagement and the use of collaborative learning tools. These tools facilitate peer-to-peer interaction and encourage students to take an active role in their education.

Overall, our findings suggest that a blended approach to learning, combining traditional classroom methods with modern technology, holds promise for improving educational outcomes.
in terms both of the absolute amount of our expenditure and of the resources devoted to it. The ultimate interests of the developing countries, and our own resolve to see that our outlay brings results in development and rising standards of living, demand that we should take individual decisions on the basis of the principles described in Chapter I.

97. The application of these general policies to particular countries will, of course, take time to work out, and much will depend on the development plans and proposals of the countries concerned. Meanwhile, although countries exist both inside and outside the Commonwealth with capacity for development and with governments determined to pursue it, the greater part of our aid may be expected to go to Commonwealth countries, whose historical and political ties with us are strong. We shall continue to have a special responsibility for aid to our dependencies. We shall hope to increase our aid to foreign countries.
A substantial part of our aid, like that of many other donors is provided in form of grants. Until recently grants amounted to nearly half of our total programme, they included budgetry and much of the development aid to Colonial territories and subscriptions to the United Nations development bodies, the Expanded Programme for Technical Assistance and the Special Fund. The proportion is now beginning to fall, since there are fewer dependent territories and the expansion of our aid programme mainly takes the form of development loans.

All donor countries provide a significant part of their aid in loans and here the problem of terms is crucial. It has gradually come to be recognised that many developing countries cannot pay interest at market rates, repay capital and at the same time maintain an adequate rate of development. They are faced with an increasing burden of debt, which pre-empts a larger and larger amount of their earnings of foreign exchange. This problem has been under study in the Development Assistance Committee of the O.E.C.D. for a number of years; great emphasis was placed on it at the United Nations Conference in Trade and Development in Geneva, where it was agreed without dissent to recommend that, in establishing repayment terms and interest rates, the overall repayment capacity of the borrowing country should be taken into account.

The terms of the development loans provided by Britain have been progressively softened over the last few years. Since 1958 the maturity period has lengthened from an average of 15 years to between 20 and 25 years, and the previous Government announced its readiness in suitable cases to extend the period for as long as 30 years. Grace periods on the repayment of capital have been granted on a widening scale for periods extending up to the first 7 years of the life of the loan. In 1963 the Government introduced a new concession: the grant to countries whose position justified it of waivers of interest for periods
periods up to the first 7 years of the life of loans. This has had the effect in some cases of reducing the effective rate of interest payable over the life of a loan by about one third of the normal rate, which is based on the rate at which the Government itself can borrow plus a small management charge.

X 101. The Government believes that the time has come for a new initiative and that we should not be inhibited by our present difficulties from taking it. Useful though the waivers have proved, they do not fully meet the difficulties of the most needy countries, and there is little point in lending more to meet debt service on old loans. We have therefore studied in greater detail the problems involved. The terms of aid normally comprise three main elements: the rate of interest (including any waiver which may be given); the period of maturity of the loan; and any grace period which may be allowed before the repayment of capital begins. (The effect of these may be measured together by the technique of discounted cash flow to show the element of grant in any loan). Account must also be taken of any management charge: we have decided to abolish the charge of 3% which we at present impose. We do not consider the maturity periods of our loans unreasonably short, though we recognise that other donor countries and the International Development Association go further in this respect. The two main improvements which we think necessary are to increase the grant element (i.e. to make our terms generally more generous) and, in doing so, to lessen the impact of debt service which may make itself felt when a waiver of interest and a grace period on the repayment of capital comes to an end. We have therefore decided to make development loans free of interest in appropriate cases. This concession, combined with suitable arrangements for the repayment of capital, will give us greater freedom in the determination of terms and, in particular, will enable us to lighten the burden of debt service in the middle and later years of the loan. Countries which do not receive interest free loans may in appropriate cases receive waivers of interest.

/102. In offering

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102. In offering these concessions we shall have regard to the financial and economic position of the recipient country concerned. We believe that this, rather than the nature of the project or other purpose of the loan, should be the decisive economic criterion of the terms of aid. We shall have regard particularly to the relative poverty of the country, together with its balance of payments position and prospects. We shall also take into account its efforts to mobilise resources for development and to use them effectively.

103. This new policy will involve little, if any, cost to our balance of payments in the immediate future, since countries which receive interest-free loans would probably have received waivers of interest under our previous policy. In the longer term, however, it represents a considerable concession.
104. If Britain contributes substantially to the flow of aid, she has the right to ask that the resources transferred shall be used to the best effect. We cannot realistically suppose that there will never be failures; newly-independent countries will sometimes, like the countries assisting them, make choices which prove to have been mistaken. There are nevertheless many ways in which we can improve our management of British aid and reduce the possibilities of waste.

105. One of the Ministry's main purposes will be to combine the planning and administration of British financial aid and technical assistance so as to use to the best advantage the capital and skills which we can contribute. We shall aim to supplement the efforts of the developing countries and to give them the most effective support. The first and most fundamental requirement for good management is clarity of objectives. Closely related to this is the question of initiative in putting forward projects which might be suitable for British aid. Until now this initiative has usually lain with the developing country itself. We intend, in future, to make a more deliberate effort to select, in agreement with recipient country, field of activity or projects on which our aid should be concentrated.

106. The keynote of our efforts will be partnership with the recipient countries. Together with them we shall be more active in identifying particular opportunities for providing aid which may assist or, indeed, generate development either within or across national boundaries. In the close and continuous contacts which we expect to have with the governments concerned, we believe that (although the choice must lie with them) they will give due weight to the views which we express on the value of particular schemes, and on the balance of financial aid and technical assistance needed for their planning and execution.

107. The organisation of the Ministry which has been referred to in Chapter V is being shaped so as to enable it to discharge these responsibilities. We intend to make closer studies of the economies and needs of the recipient countries and of the use of our aid.
106. We shall aim, wherever possible, to discuss with the Governments concerned their plans for a number of years ahead, and, in general terms, the help which we may be able to give. In this way we shall help to give them a firmer basis for their own development planning, while we shall be giving ourselves more time to organise the supply of aid and above all of technical assistance. The short-term missions which we plan to send to countries will help in this process of joint forward planning. Wherever necessary also teams from the Ministry will be sent out to the countries concerned for the purpose of joint discussion with their governments.
New Initiatives in Technical Assistance; Recruitment and Voluntary Service

109. Since its formation the Ministry has been engaged on a systematic review of all its operations in the field of technical assistance. In this the Ministry has not only drawn on the experience of the Department of Technical Co-operation, but has worked closely with other Government Departments and many organisations and individuals outside Government. The Ministry warmly appreciates the help and interest which it has had from all of these. A technical assistance programme, to be successful, must make the fullest use of available resources not only inside the Government, but also in universities, technical colleges, research institutes, statutory corporations, employers' associations, trade unions, the co-operative movement, local government bodies and voluntary societies. To be effective technical assistance must be a transfer of know-how from country to country, not simply from government to government.

110. As a result of this review, a number of new decisions have been made by the Government in the field of technical assistance and a number of new initiatives are now to be undertaken. These concern the management of aid, the subject of Chapter IX, as well as recruitment; voluntary service; economic planning; natural resources; education; training, including administrative and industrial training; medicine and health; and population control. These initiatives are described in this Chapter and the two which follow. Together they represent a major effort by the Ministry.

The Supply of Skilled Manpower: Developing countries continue to need and to ask for professional, technical and administrative staff from Britain to help push forward their development. The organised provision of skilled manpower for this purpose is therefore a vital element in Britain's aid to developing countries and is a prime function of the Ministry.
112. Some of the newest independent countries, particularly in Africa, continue to need professional and technical staff in large numbers to help man their services and in teaching and training of all kinds. But increasingly their requirement - like that of countries further advanced on the road of development in Asia, Latin America and elsewhere - is for highly specialised staff to advise and help governments of developing countries on particular problems and projects. Britain provides these experts under its own bilateral technical assistance programmes and under those of the United Nations and its specialised agencies.

113. Intense efforts by the former Department of Technical Co-operation achieved some striking success and the annual rate of appointments made, which more than doubled between 1961 and 1964 from 900 to nearly 2,000, continues to rise. But the demands by overseas governments for new British staff increased still faster as newly independent governments expanded their services and the number of career British officers decreased; and the rate of demand has continued to rise since the establishment of the Ministry. The largest requirement is in teaching, but there are important demands in other professions, including medicine, agriculture and engineering.

114. A thorough review of recruitment policy has been undertaken by the Ministry since its establishment. The organisation for recruiting professional staff has been strengthened with the establishment of a Division of the Ministry, with four Departments, wholly concerned with overseas appointments. Advertising has been improved; contacts have been developed with professional bodies; and more systematic arrangements have been made for keeping in touch with qualified people in Britain who are interested in service overseas. Financial help towards the cost of appointments
appointments in overseas countries is already provided under the Overseas Service Aid Scheme, under the Regional Programmes of technical assistance and under the Commonwealth Education Plan. But the review has shown that more needs to be done to build up the sources of supply of the skilled people required.

115. We should like to see it widely accepted in this country that a professional career should normally include a period of work overseas in a developing country. To this end, we must have means of providing staff for service overseas which take account of the needs of overseas governments and those of the men and women concerned in Britain and of their parent employers here. Those who go abroad must feel sure that they can resume their former employment without prejudicing their home careers and without loss of pension rights. For the British employer, in present conditions of full employment, the release of an employee to serve for a time overseas represents a real sacrifice; and although employers generally have co-operated in this work, their ability to do so is handicapped in many cases by their own staff shortages. The conclusion the Government has reached, therefore, is that in fields of recruitment where it is important to ensure that British help is given, the home establishments of government departments and public bodies should be strengthened so as to make it possible to release people more readily.

116. The Home Base. In some professions, notably teaching at the secondary level, existing arrangements work well and no new measures are needed, only intensification of present efforts. But where specialist staff is required for key posts the supply can be ensured only by creating additional capacity in home establishments. A detailed examination profession by
profession has been carried out in the Ministry and the results have been discussed with other Government Departments and the University Grants Committee. These discussions have shown that there is scope for strengthening certain establishments on a substantial scale and that the organisations concerned are willing to co-operate in this. A total of at least 400 posts will be added for this purpose to home establishments in Government Departments, universities, technical colleges, etc. It will clearly take time to build up new qualified staffs to this level. But the aim will be to build up the numbers to at least 400 in two to three years, and the fullest use will be made of those who have already had experience overseas, as well as of young men and women with suitable qualifications. The professions which we aim to provide for in this way include agriculture, forestry, animal health, economics, statistics, educational administration, law, public administration, engineering, architecture, town planning, land survey and geology.

117. Corps of Specialists. There are some specialists who ought preferably to be in the direct employment of the Ministry itself, either because they have special knowledge of tropical conditions, or because they are working in a key area of development, or because no other suitable home base is available. For this a Corps of Specialists will be established. Its members will be offered continuing service with the Ministry, on the understanding that they will normally be lent to governments or other authorities overseas, either as their temporary employees under the Overseas Service Aid Scheme, or as employees of the Ministry in technical assistance, or as employees of international agencies. We aim to include in the corps economists, statisticians, administrators, financial specialists and various experts in natural resources. Administrators are particularly required for service in the remaining dependencies where the difficulty of
supplying such officers for key appointments is becoming acute. Others will work in British diplomatic posts abroad on aid management or in Development Divisions. The aim is to build up the Corps of Specialists to about 100 in 2 to 3 years. The fullest use will again be made of those serving overseas in developing countries or who have so served, and of young people of special promise and skill.

118. Overseas Service Pensions Fund. It is important to safeguard the pension rights of those who undertake service overseas under the Ministry's programmes. There are arrangements for this in the case of established Civil Servants and can be made for people from a wide range of professions where there are contributory pensions schemes. But they are lacking for a number of others who are appointed to serve overseas on contract terms, and some who would like to serve overseas for extended periods are deterred from doing so by the absence of provision for superannuation. Those appointed to the corps of specialists will similarly require superannuation provision. We have therefore decided to establish an Overseas Service Pensions Fund, for which members of the corps of specialists will be eligible on a voluntary contributory basis. The introduction of this Fund should encourage more people to undertake service overseas for longer periods so that more use can be made of the knowledge and experience they gain.

119. Extension of Overseas Service Aid Scheme. The Overseas Service Aid Scheme was brought into being under the Overseas Service Act of 1961 and agreements have been made with 41 governments and administrations enabling satisfactory emoluments to be paid both to their existing British staff and to new recruits. Over 10,000 men and women are now serving.

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serving abroad under this scheme. But the scheme has hitherto been confined to members of the central public services of overseas governments. It is often a matter of historical chance whether in a particular country a public service is performed by a government department or by some other body such as a public corporation. The work done is of equal value to the community however it is organised. By no means all education is provided direct by the central government; much of it is organised by separate bodies such as universities and technical colleges and much, for example primary and secondary schools, is organised partly by government and partly by voluntary bodies. British staff are also doing essential work in the service of local government bodies and in research establishments, independent hospitals and broadcasting authorities.

120. The Overseas Development and Service Bill now before Parliament is intended to give the Minister of Overseas Development power to assist in meeting the cost of British staff serving in a variety of public bodies engaged in work of social or public importance in the developing countries. The scheme will not be extended automatically to all British employees serving under these bodies in the countries concerned; it will be applied to those organisations and staff which are considered of key importance by overseas governments and the British Government. We have made it clear that these will include universities. It will thus be possible to provide further necessary help both to retain and recruit qualified British staff needed for essential public purposes in a number of developing countries.

121. Service Overseas by Volunteers: The programme of service overseas by graduate and qualified volunteers is operated by four independent voluntary societies - Voluntary
Service Overseas, International Voluntary Service, the National Union of Students and the United Nations Association — with substantial support from the Government. It has grown rapidly every year since it was started in 1962 and will grow still further in the volunteer recruiting year starting in September 1965. The Government's support of the volunteer programme extends also to the cadet volunteers whom V.S.O. has been sending overseas since 1958. Two figures illustrate the increase in the Government's contribution; in 1962/63 the Government's expenditure on service overseas by volunteers including cadets, was about £28,000; in the current financial year it will be about £620,000. The second figure covers 75% of the costs incurred by the voluntary societies, and includes payment for the work of the British Council overseas on behalf of the voluntary bodies and their volunteers.

At present there are about 900 volunteers overseas. In the autumn of this year the number will rise to about 1400; and next year to about 1800. In the coming year the Government and the voluntary societies intend to strengthen the process of project selection. For this purpose the voluntary societies will arrange for more frequent visits by their staffs to the developing countries to discuss at first hand the projects for which new volunteers are to be sent out and to evaluate the work which the present volunteers are doing. Where necessary the voluntary societies will recruit extra staff for this; and the Government's support of the volunteer scheme will include help towards meeting any extra expenditure which arises. In the coming recruitment season there will be fresh publicity measures, which will include the showing in schools, universities, youth clubs, factories etc. of a film about the work of the volunteers produced
Voluntary organisations; During the last few months the Ministry has been discussing with the eight voluntary organisations principally concerned with aid to developing countries, other than the young volunteer programmes, the need for more effective co-ordination of their activities and for promoting a climate of opinion on Britain favourable to their work. The organisations have now agreed to set up a permanent committee for this purpose, with a small secretariat which the Ministry will support by contributing half the cost. The Ministry will be represented on the Committee by an observer. Mr. Leslie Farrer-Brown has been appointed Chairman by the eight societies.
XI - New Initiatives in Technical Assistance; the Economic Services

124. Assistance in Economic Planning. Increased assistance is being made available to overseas countries in the planning of their development programmes. This has been made possible by the establishment of the Ministry's Economic Planning Staff. This type of assistance takes several forms. On request from overseas governments, we provide visiting teams to the countries concerned, to assist in the preparation and carrying out of plans and to advise on priorities in development policy. Teams of this sort are being sent this year to Tanzania, Malawi and the Southern African territories. (Mention may also be possible here of the joint Mission to the Caribbean, if it has been agreed and announced in time.)

Secondly, we are supplying more economists and statisticians for periods of service overseas, directly attached to governments, and we hope to increase this number substantially, with the aid of recruitment overseas described in Chapter X. We are undertaking a survey of British universities to find out more about the number and type of economists interested in and available for work overseas. In the longer term, the supply of specially trained people in this field will be increased by the new Institute of Development Studies described in Chapter XII.

125. Application of Science. Scientific investigation and the export and adaptation of advanced technologies is a specially valuable form of assistance. We support and are seeking to expand a number of science-based units in Britain - the Tropical Products Institute, the Anti-Locust Research Centre and the Tropical Stored Products Centre - which is not only carry out investigations both at home and overseas, but also provide training and support for overseas workers. In other cases the Ministry finances at British scientific stations special sections with overseas responsibilities - the tropical divisions of the Road Research Laboratory and the Building Research Station and the Overseas Unit of the National Institute of Agricultural Engineering. Assistance on Map. in is provided on a large scale.
scale by the Ministry's Directorate of Overseas Surveys, which is also developing a land use section. Help in the geological field is given through the Overseas Geological Survey now integrated with the Geological Survey and Museum of West Africa. With the co-operation of the Medical and Agricultural Research Councils, the Ministry also provides substantial direct support to local research stations overseas, notably in East Africa and the Caribbean, in the form of financial grants and help in the provision of scientific staff.

126. Agriculture. In developing countries agriculture and the land are the main livelihood of the people; Chapter II has shown that the pace at which agricultural production is growing is dangerously slow. Increased productivity must be a feature of all development plans, but great problems both social and economic have to be faced and overcome to secure rapid modernisation. This therefore is a major field of assistance. With a body of specialist advisers over the whole range of agricultural method, the Ministry is able to help in the framing of plans for agricultural development and in the appraisal of such projects for aid.

127. In this task the Ministry is supported by a series of specialist panels drawing on the resources of experience and knowledge in the country at large. We recognise the contribution which the co-operative movement overseas can make and here also the fullest support of the co-operative movement in Britain is mobilised through the Minister's Advisory Committee under the chairmanship of Lord Peddie. One of the most effective instruments for investment in agriculture is the Commonwealth Development Corporation, which can combine commercial knowledge and management experience with financial resources. Close contact has been established with the agricultural department of the International Bank of Reconstruction and Development and with the Food and Agriculture Organisation of the U.N.; continuing arrangements have been made with both bodies for active co-operation and exchanges of experience. In this way we are taking a comprehensive view of the possibilities of bilateral and multilateral aid designed to secure higher agricultural productivity.

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DISTANCE

The distance between two points A and B can be calculated using the Pythagorean theorem if the points are in a two-dimensional plane.

If the coordinates of A and B are (x1, y1) and (x2, y2), respectively, then the distance d between A and B is given by:

d = \sqrt{(x2 - x1)^2 + (y2 - y1)^2}

For example, if A is at (1, 2) and B is at (4, 6), the distance between A and B is:

d = \sqrt{(4 - 1)^2 + (6 - 2)^2} = \sqrt{9 + 16} = \sqrt{25} = 5

This formula can be extended to three-dimensional space and higher dimensions as well.
129. Communications. Britain already has a long tradition of providing technical assistance as well as capital aid to improve roads, railways and ports. In the last twenty years there have been spectacular advances in aviation as in communications generally. With the development of modern aircraft it is becoming more and more essential to maintain a high standard of ground services. Advances in telecommunications, including satellite telecommunications, have opened the way to greatly improved services and the developing countries will wish to take advantage of them. The Ministry is able to provide technical assistance in both these important fields, is supplying experts and can arrange training courses in this country.
129. Education. The formation of the Ministry has made it possible to bring together all the main strands of educational aid provided by the British Government, so that the programme can be considered as a whole and given the maximum co-ordination. The Ministry has its own advisory service, including a consultative panel, recruitment machinery for the supply of teachers overseas and an Education Division concerned with universities, schools, technical education and teacher training as well as with the Government's relations with UNESCO and participation in Commonwealth Educational Co-operation. We are in close and direct relationship with the Inter-University Council for Higher Education Overseas, the Council for Technical Education and Training in Overseas Countries, and the National Council for the Supply of Teachers Overseas; and also with the Commonwealth Education Liaison Committee and Unit and the UNESCO National Commission.

130. We shall give further support to private agencies, foundations and voluntary societies, and are working in close harmony with the British Council, whose contribution is of major importance in English language teaching, the supply of teachers, the provision of books, the development of public libraries and training and student welfare. We co-ordinate our efforts with the U.S. Agency for International Development and the large American foundations, the latest example being the successful conference on educational aid at Ditchley Park at the end of March. We maintain a close interest in UNESCO, to which we are a major contributor and much of whose programme is devoted to education in developing countries.

131. Direct assistance by the Ministry covers a wide range. A quarter of our educational aid takes the form of capital assistance and we shall carry out the pledge given to the meeting of Commonwealth Prime Ministers last year to increase the amount of our capital aid for higher education (university, technical and teacher training) in developing Commonwealth countries and territories from the existing level of a little of £3 m. a year to an average of £5 m. a year over the five years to 1970.
132. In teacher supply we have set a target for the recruitment of up to 1,000 non-university teachers in 1965. Already nearly £2 m. a year is spent on teacher supply under the Overseas Service Aid Scheme alone; the provisions of new Overseas Development and Service Bill would enable us to increase new recruitment and retain the services overseas of British staff employed otherwise than by Governments. We also help on a large scale in the training of staff to take over the higher and middle level posts in the public services, including posts concerned with education. We plan to develop and strengthen this aid, and in particular to expand our teacher training work. The Commonwealth Teacher Training Bursary Scheme has been stepped up to 500 and will be raised to 550 next year. This year about 140 teachers from Britain will be flown to Commonwealth countries, mainly in Africa, to conduct intensive courses for serving teachers, all costs outside the host country being met by the Ministry.

133. The new Study and Serve Overseas Scheme, announced and welcomed at the Commonwealth Education Conference at Ottawa last September will extend to other Commonwealth countries, and to faculties other than teaching, the successful arrangements under which over 80 British graduates have studied for diplomas on Education at the University College of Makerere before undertaking service as teachers in East Africa. We shall continue on an increased scale our support of the Centre for Educational Televison Overseas and the Overseas Visual Aids Centre. We are starting pilot research projects into the use of television and programmed instruction as media for direct teaching; and into the use of the Initial Teaching Alphabet. A separate project will be started on illiteracy; and a new initiative is projected to meet the urgent demand for research in the field of curriculum development and examinations.

134. Training. The number of students and trainees brought to Britain under the Ministry's programme continues to rise, from 1,500 in 1963 to 2,000 in 1964 and a likely total of 2,500 in 1965. Special courses are organised where necessary, notably a course in international law and legal drafting for Government legal officers, the only one of its kind in the world, which is of /special
Special interest to Commonwealth countries. Other examples are courses in broadcasting, television, urban studies now being discussed, and in many technologies. During the Easter vacation a study conference for Indian and Pakistan postgraduate students was organised in cooperation with the Imperial College of Science and Technology; it was designed to relate research to practical problems of production and planning.

The nature of the demand for particular types of training is always changing, and it is essential that present facilities should be revised, and new facilities created, in order to keep abreast of it. This is particularly important in the fields of administrative and industrial training, which represent two of the Ministry's priorities.

A major initiative is being undertaken. A new Institute of Development Studies is to be established. The idea of such an Institution was first mooted in 1962 by the Committee on Training in Public Administration under the Chairmanship of Lord Bridges, which recommended that it should be investigated by the Department of Technical Co-operation. The idea has since been extensively studied in consultation with the Council on Training in Public Administration, which advised that Department and now advises the Ministry. The Government has now decided to take immediate steps to set up this Institute.

The Institute will fill several needs. Its main function will be to organise courses of advanced study on the problems of overseas development in all aspects of economics, social studies and administration. The courses will cover modern theories of development, but will pay special attention to the practical experience of developing countries. Three types of people will be catered for; senior administrators from overseas countries, especially those working in or destined for senior places in planning offices and economic departments; British graduates who want to specialise in problems of overseas development; and British government officials who will be working on the problems of developing countries, whether at home or overseas.

A small but highly qualified and experienced staff will conduct the courses and will also carry out research, so that the Institute may play a leading...
leading part in advancing our knowledge of development and working out a development strategy. The permanent staff will be supplemented by distinguished visitors who are expert in development problems, including nationals of developing countries.

139. The Institute will be sited on the campus of the University of Sussex and will make use of its library and other services. The Faculty of this University, as well as experts from other universities, Government Departments and private industry, will be drawn on to help the Institute on a part-time basis. The Institute will be an autonomous body, with its own Governing Council, which will include members drawn from the Government and from other universities and institutions at home and overseas in addition to the University of Sussex.

140. The Institute will in no sense supplant the activities in this field already going on in other universities in this country; indeed its success will depend on close co-operation with universities and other interested bodies, including the main international bodies concerned with development. It will act as a clearing house for research and training on development problems, already being undertaken in Britain and as a centre of documentation. The Institute will be unique in this country in that it will gather together in one organisation experts in economics and the other main fields of development studies. It will thus be an addition to the total resources of Britain for teaching and research. The aim is to make the Institute a focal point for work in this field, with a world-wide reputation. A formation committee has been set up and the aim is to start operations next year.

141. The Ministry will continue to support existing courses and related activities in the field of public administration and development undertaken by British universities and other institutions; these include the Royal Institute of Public Administration, a number of British universities which provide special courses for overseas administrators and the Institute of Local Government Studies at Birmingham University, which has already established valuable Commonwealth contacts, notably in India. It will also
continue to provide assistance to institutes of administration in the developing countries themselves. Thus help is already being given to the East African Staff College; and British staff are making important contributions in East, Central and West Africa. A Public Administration Specialist has been appointed to the staff of the Ministry and has visited the West Indies to examine possibilities for British aid. Special help is being given to the Government of Basutoland to establish training courses for its civil servants.

142. The Ministry has arranged to provide a wider range of training facilities in Britain specially devised for students and trainees from Southern and Central America. For special reasons, largely connected with culture and language, the number of students coming to Britain under British Government schemes from these areas has hitherto been small; in 1963/64 it was under 100, compared with rather more than 2,000 from Africa. In co-operation therefore with Latin American governments and with the Organisation of American States, the Ministry is making arrangements for several courses of training specially tailored to Latin American needs:

(i) a one-year course in Public Administration at the University of Manchester;
(ii) a five-month course, to be run at the London School of Hygiene and Tropical Medicine, in the organisation and administration of public health services;
(iii) a three-month course at the Co-operative College at Loughborough on the organisation and administration of retail co-operatives and
(iv) a two to three-month Study Tour for senior officials and technical assistance personnel concerned with town planning and urban renewal.

143. Industrial training. One of the greatest needs of the developing countries is for practical training and experience in technical skills. British industry is already training several thousand overseas students every year. A sample survey of overseas trainees in British industry was carried
out by the Ministry of Labour in May, 1965. Analysis of the results will provide for the first time detailed information on the number and distribution of the trainees and their fields of study. This will be useful for future planning, and will bring out more clearly than has been possible before the very significant contribution being made by British Industry in training students from overseas.

144. Proposals aimed at increasing the number of persons from overseas receiving training in the country have been under close examination by the Departments concerned. We hope that with the assistance of the Industrial Training Boards additional opportunities for training in British industry can be provided. Of particular importance is training linked with academic studies at Higher National Diploma level and above, training in specific skills which may be needed by technicians as well as technologists in the course of their careers after qualification, and training in industry for technical teachers. The help and guidance of both sides of British industry will be needed to bring the proposals into effect. Discussions have begun with the Industrial Training Boards concerned.

145. Medicine and Public Health. A Commonwealth Medical Conference is to be held in Edinburgh in October 1965. All Commonwealth countries will be represented by Ministers. In preparation for this the Ministry has, in association with the Ministry of Health and the other departments concerned and with representatives of the medical profession, reviewed existing arrangements for medical aid and considered ways in which this aid might be extended and made more effective. The pressures on the National Health Service in Britain are such that no dramatic advances are possible. The main improvements are likely to be through increased provision for post-graduate medical education in this country for Commonwealth students and through the creation of links between medical schools in this country and overseas, involving the systematic supply of teaching staff. Detailed arrangements for giving effect to these and other proposals will be announced and discussed at the Conference.
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146. Population Control. No help in population control was provided in the official aid programme before 1964; the British Government merely passed on requests to the appropriate voluntary organisation. In that year, however, the Government announced that training in this country and the provision of expert advice would be made available in our technical assistance programme to those countries requesting it. Recently the Government has taken a more positive line by encouraging the provision of expert assistance by the United Nations and by active participation in International Conferences which are studying the various aspects of the subject. The Ministry has set up a Working Party including representatives of the Family Planning Association and the International Planned Parenthood Federation and members drawn from universities who are specialists in various aspects of the population problem. This has recently made recommendations for the improvement of training arrangements in Britain and for the improved supply of experts to developing countries. A standing advisory body will be set up to carry on this important work. Help in population control to those countries which want and need it is a policy that the Government intends to pursue vigorously in conjunction with other industrialised countries which are already engaged in this form of assistance.
Private enterprise can play an important part in assisting the progress of the developing countries. British firms have, in the past, provided not only capital but managerial and technical skills and know-how which otherwise would not have been available. The combination of funds with a team of skilled men, frequently with local experience, who can draw on the overhead facilities, and the international experience of a British firm, can bring great benefits to the economy of the host country.

This investment has been traditionally encouraged by the British government; our fiscal treatment of our overseas investment has, in general, been generous. Despite this, there has been a marked decline in the flow of British private investment to the developing countries in recent years. Private investment, excluding portfolio investment and direct investment in oil, has fallen from £90 m. per annum in 1960 and 1961 to £60 m. in 1962 and appears to have fallen further since.

A number of obstacles stand in the way of greater participation by private investment in the development process. These are partly practical, arising from the difficulties of operating in countries with shortages of skilled manpower and basic utilities, and partly political. The political obstacles include the sometimes ambivalent attitudes of the governments of the developing countries and the resulting political risks faced by private firms.

Government aid is not, as has sometimes been suggested, a simple alternative to private investment. It is more often complementary. It can, for example, play an important part in helping to create the basic investment in transport, power, on which industry can build, and without which private industry may hesitate to invest in the country concerned. The existence of such an infrastructure is, however, much less important than the feeling that the political climate is sympathetic to the inflow of private capital from overseas.
151. The improvement of this climate must be the result of cooperation. Private enterprise can help (and is increasingly helping) to remove the fears which newly-independent countries sometimes feel that their economies may come under the dominance of foreign capital, by training local staff to take an increasing share in management, and by encouraging the participation of local capital. There may be new forms of joint enterprise, involving co-operation between British private enterprise and local entrepreneurs or development corporations, which should be developed and which we are considering.

152. Incorporated in 151.

153. Our ability to support a substantial flow of private investment to the developing countries must obviously depend (like our ability to provide aid) on our ability to pay our way. We have been obliged, as part of the measures to bring our balance of payments into better order, to modify in some respects the fiscal treatment of investment overseas, though these measures were not taken with particular reference to the less developed countries. The Chancellor of the Exchequer has made it clear that the Government does not expect the effect in those countries to be very great and will watch the situation closely. Certain concessions have been made to ease the position of the Companies during the transitional period.

154. Private enterprise has an important contribution to make in technical assistance as well as financial aid. Of particular value are the resources, knowledge and skill provided by firms of professional consultants, of which there are many different types particularly in the spheres of engineering and management. It is the intention of the Ministry to make increasing use of this pool of resources, which may often provide the most efficient source for advice and investigation and for the preparation of feasibility studies.

155. A distinctive
155. A distinctive contribution is made by the Commonwealth Development Finance Company's carefully chosen investments in the developing Commonwealth countries, the value of which is warmly attested by overseas governments and informed opinion in the countries concerned.

156. The Commonwealth Development Corporation has a unique part to play in development by pioneering new patterns of co-operation with local enterprise. It engages in a wide variety of undertakings including agriculture, fisheries, mining industry, public utilities and housing. It operates in association with a variety of partners - international organisations, governments, and commercial and industrial enterprises. Its projects contribute in many ways to the development of developing countries both directly and indirectly through for example agricultural demonstration and linked smallholder schemes.

It has a staff of skilled and experienced experts who can manage projects; this is very valuable in some newly-independent countries where such skills are in short supply. It pays particular attention to the welfare of local people. It can combine projects involving varying degrees of risk so that the one helps to carry the other. It can, in effect, provide for selected projects the combination of financial help and technical management expertise which is characteristic of the best forms of private investment.

157. The Ministry attaches great importance to the Corporation work and looks forward to steady development. In order to strengthen the Corporation's financial position and help it to undertake a greater variety of projects the Government has decided to waive the interest on selected projects during the seven year period when an investment is fructifying instead of merely postponing the interest as at present. This concession will apply in selected cases to those types of project in which the Corporation invests in the equity and to its borrowing for, among other purposes, agricultural schemes and local development companies. The Corporation has warmly welcomed this new arrangement.
Cabinet

The Parliamentary Commissioner: Draft White Paper

Note by the Chancellor of the Duchy of Lancaster

The Cabinet invited me on 6th April (C. C. (65) 23rd Conclusions, Minute 2) to bring before them the draft of a White Paper on the Parliamentary Commissioner. A draft is circulated for consideration herewith.

D. H.

70, Whitehall, S.W.1.

20th July, 1965
1. The Government have decided to introduce legislation for the appoint­
ment of a Parliamentary Commissioner for Administration. This White
Paper explains the reasons for this decision and the role which they envisage
for the Commissioner.

2. The interests of the citizen who is affected by a decision of central
Government are already safeguarded in a number of ways. He may have an
opportunity of putting his case at an inquiry held before administrative action
is taken. He may have a right of appeal to a tribunal against a decision. He
may have a remedy before the courts.

3. But these arrangements cannot cover every instance where a private
person feels that he is suffering injustice as a result of faulty administration on
the part of a Government Department.

4. We have examined the arrangements made for the scrutiny of such
individual grievances in Sweden, Finland, Denmark, Norway and New Zealand.
The broad objective in each country has been the same, but in each case the
detailed arrangements have been made to suit the particular circumstances of
the particular country. In Britain, Parliament is the place for ventilating the
grievances of the citizen—by history, tradition and past and present practice.
It is one of the functions of the elected Member of Parliament to try to secure
that his constituents do not suffer injustice at the hand of the Government.
The procedures of Parliamentary Questions, Adjournment Debates and Debates
on Supply have developed for this purpose under the British pattern of Parlia-
mentary government; and Members are continually taking up constituents' com­
plaints in correspondence with Ministers, and bringing citizens' grievances,
great or small, to Parliament, where Ministers individually and Her Majesty's
Government collectively are accountable. We do not want to create any new
institution which would erode the functions of Members of Parliament in this
respect, nor to replace remedies which the British Constitution already provides.
Our proposal is to develop those remedies still further. We shall give Members
of Parliament a better instrument which they can use to protect the citizen,
namely, the services of a Parliamentary Commissioner for Administration.

5. Under our proposals, the Parliamentary Commissioner will be an
independent officer, whose status and powers will be conferred by statute. He
will be appointed by the Crown; his salary and pension will be a charge on
the Consolidated Fund; and he will be secure from dismissal, except by parlia-
mentary motion. He will report to Parliament each year, and otherwise as
occasion requires.

6. He will act only at the instance of a Member of the House of Commons,
and on a complaint of personal injustice suffered by the complainant. It will
be for the Member to decide whether the complaint appears to be one appropriate
for reference to the Commissioner. A complainant will not be restricted to
approaching the Member for his own constituency; Members will doubtless
establish their own conventions for ensuring that the constituency Member is
kept in touch when another Member takes up a case. Most complaints will
come from private individuals, but companies or other corporate bodies—other than those under publicly elected or appointed authority—will not be excluded. The Commissioner will be authorised to consider any complaint sent to him by a Member of Parliament from anyone lawfully resident in Great Britain or, so far as matters controlled by the Government in Westminster are concerned, in Northern Ireland. Visitors from abroad will be included if the complaint relates to treatment received while lawfully present here. So will persons living abroad if their complaint is about the administration of individuals’ rights or obligations arising here. But we do not intend that the Commissioner should cover complaints about our High Commissions, Embassies, Consular Offices or other posts of Her Majesty’s Government abroad.

7. Except for some exclusions which are explained later in this Paper, the field for the Commissioner will be the whole range of relationships between the private person and the central Government. We propose to list in the statute the bodies to be subject to investigation by the Commissioner in matters within his scope. The proposed list is as follows:

Ministry of Agriculture, Fisheries and Food
Ministry of Aviation
Office of the Chancellor of the Duchy of Lancaster
Civil Service Commission
Colonial Office
Commonwealth Relations Office
Customs and Excise
Ministry of Defence
Department of Economic Affairs
Department of Education and Science
Export Credits Guarantee Department
Foreign Office
General Register Office
General Registry Office, Scotland
Ministry of Health
Home Office
Ministry of Housing and Local Government
Central Office of Information
Inland Revenue
Ministry of Labour
Ministry of Land and Natural Resources
Land Registry
Lord Chancellor’s Department
Office of the Lord Privy Seal
National Assistance Board
National Debt Office
Ordnance Survey
Ministry of Overseas Development
Paymaster General’s Office
Ministry of Pensions and National Insurance
Ministry of Power
Ministry of Public Building and Works
Public Record Office
It has been agreed that the Crown Estate Office shall be included too. So also will the Post Office as regards its functions relating to national savings and to the control of broadcasting and wireless telegraphy or as the agent of any body which is itself subject to the Commissioner. The list will need to be amended from time to time as the structure of the government machinery itself is changed, and we shall seek power to do this by subordinate instrument.

8. The exclusions which we propose to make from the Commissioner's field of investigation are those where there are dominant considerations of national or public interest—namely, the exercise of powers to preserve the safety of the State; matters which Ministers certify as affecting relations with other countries; matters relating to the administration of colonial territories; and the exercise of powers in relation to investigating crime or determining whether a matter shall go to the courts. The Commissioner will not normally pursue matters which are within the competence of the courts; he will have discretion to act if he thinks that the remedy open in the courts is not one which the complainant could reasonably be expected to use, but this will not affect anyone's right of access to the courts. He will not pursue issues already covered by tribunals or other quasi-judicial bodies, or by the Council on Tribunals and its Scottish Committee—of both of which he himself will be an ex officio member. Nor will he look into the exercise of the Prerogative of Mercy or into the exercise of the personal authority of the Sovereign in conferring honours and privileges, or into appointments by the Crown or by Ministers. He will be excluded from investigating actions of Departments in personnel matters, including orders and discipline in the Armed Forces. Finally, purely commercial relationships of Departments with customers or suppliers will not come within his purview.

9. We intend the Commissioner's procedure to be as informal as possible, subject to the requirement that if he takes up a case he must give to the person against whom the complaint lies the opportunity to comment on it. He will be empowered to decide whether the parties can be legally represented, but legal representation will be the exception, not the rule. Legal aid will not be available.
The Commissioner will be able to call for oral or written evidence; and he will have power to compel production of documents, including departments' minutes, but excluding Cabinet or Cabinet Committee documents. He will have power to take evidence on oath, although we would expect this power to be used infrequently. In this connection the sanction to be invoked in the event of defiance of the Commissioner will be to refer the matter to the High Court, or in Scotland to the Court of Session, or in Northern Ireland to the Supreme Court of Justice, for consideration as if it were contempt of that Court.

10. The Commissioner will have discretion to refuse to pursue a case where he thinks there are insufficient grounds for the complaint or where he does not regard it as within his scope. He will not normally pursue a case where the matter complained of had been known to the complainant more than twelve months previously but he will have discretion to do so.

11. The Commissioner will be concerned with faults in administration. It will not be for him to criticise policy, or to examine a decision on the exercise of discretionary powers, unless it appears to him that the decision has been affected by a fault in administration. If he finds nothing wrong, he will inform the Member of Parliament who has approached him. If he finds that there is justifiable cause for complaint and the Department responds to his invitation to put it right, he will inform the Member. So far as the Commissioner is concerned, this will be the end of the matter, save for a possible reference to the case in his annual report to Parliament. If the Department do not act to the Commissioner's satisfaction, it will be open to him to report his conclusion to Parliament ad hoc.

12. It will be for Parliament to decide what arrangements to make to receive and act upon reports from the Commissioner. This will not be a matter for legislation. It may well be found convenient to establish a Select Committee to take these reports in the first instance. This Committee would have the usual powers of a Select Committee to summon witnesses (including Ministers) and to take evidence and report to Parliament.

13. It will be for Parliament, with the help of this Committee (if one is appointed), to consider what action should be taken on the reports of the Commissioner—whether the annual report, or reports ad hoc. The Commissioner in his annual report may comment on defects in the system which have come to his notice as a result of investigating individual complaints.

14. We do not intend that a reference to the Commissioner should automatically hold up action on the case by the Government; sometimes this might be contrary to the public interest. Ministers will have discretion to proceed with a case even where it is being examined by the Commissioner. They will also have discretion to prevent disclosure of information by the Commissioner where the safety of the State or the public interest makes it necessary to do so.

15. The fact that we are proposing this scheme does not mean that we think that the administration of Government departments is open to serious criticism or that injustices are frequently suffered by individual citizens. Far from it. We are in no doubt that the tradition of integrity and impartiality in
our public administration is being fully maintained. But our proposal should increase confidence in that administration—by enabling complaints about administrative action to be fully and impartially investigated, so that, if a grievance is justified, it may be remedied, or, if it is unjustified, this may be demonstrated. It should also result, as has proved to be the case in other countries, in the further improvement of administrative standards and efficiency.

16. In formulating our proposals we have paid regard to two important principles. First, that this new institution should serve to develop and reinforce our existing constitutional arrangements for the protection of the individual. Secondly, that the scope of the scheme must be made as clear as possible, so that everybody may know as plainly as may be what cases the Commissioner will be able to take up and what their rights and obligations will be in relation to his inquiries.

17. In due course, it may be desirable to consider extending the powers of the Commissioner to deal with complaints of the private citizen against the administrative actions of other public authorities. But, first, we intend to seek experience of the Commissioner in the field of relationships between the citizen and central Government.
C. (65) 107

20th July, 1965

CABINET

REFORMS RELATING TO YOUNG PEOPLE IN TROUBLE

Memorandum by the Secretary of State for the Home Department

I attach the draft of a White Paper setting out proposals for improving our methods of forestalling delinquency and dealing with young offenders. An earlier draft was discussed by the Home Affairs Committee, and, so far as it related to the question of a family service, by the Social Services Committee. The circulated paper takes account of the views expressed by those Committees. The main proposals are summarised at the end of the paper.

2. The proposals are based on a review carried out urgently at the Home Office and we have not consulted outside organisations. We have naturally taken full account of the proposals of Lord Longford’s Committee as set out in “Crime - a challenge to us all” and of the Kilbrandon Report relating to young offenders in Scotland. We also know, from evidence collected over the last few years by official and unofficial bodies, the general attitude of most interested organisations about reforms in this field. These organisations will have views to express, but we have thought it best at this juncture to make our own assessment of what would be a desirable and practicable scheme of reforms, and to publish our conclusions as a basis of public discussion and for consultation with interested organisations. Many of our proposals are likely to prove controversial, and have been deliberately cast in a tentative form, thus leaving the way open for further discussion.

3. I seek the approval of the Cabinet for the publication of a White Paper in the terms of the draft. I propose to show it in confidence to the Lord Chief Justice and the Royal Commission on the Penal System in advance of publication.

4. Following discussion on the Home Affairs Committee we have emphasised (in paragraph 1) the Government’s intention to consult interested organisations and to seek their co-operation. The Committee also thought that since it may be some weeks before the White Paper is published, there would be merit in informing these organisations of what was proposed in advance of publication. If the Cabinet agree, I will inform the Local Authority Associations, and the Association of Approved School Managers, and the other organisations most closely affected, of the impending publication, and send them, in strict confidence, a summary of the proposals. I am bound to point out that there is a risk of leakage here, and that the summary would contain practically all the immediate news value of the White Paper.
5. Paragraph 7 of the paper was prepared in the light of the discussions of the Social Services Committee about the wider issue of the social services concerned with the family, and announces the Government's intention to consider this matter. In view of the special consultations in which he has been engaged, the Chancellor of the Duchy may wish to inform the Local Authority Associations specially about this before the more general communication envisaged in the preceding paragraph.

F.G.

Home Office, 3 W. 1.

20th July, 1965
1. In The Queen's Speech on the opening of the present Parliament it was said

"My Government will be actively concerned
to make more effective the means of sustaining
the family and of preventing and treating
delinquency".

This paper sets out the Government's provisional
proposals for practical reforms to support the family
to forestall and reduce delinquency, and to revise
the law and practice relating to offenders up to 21.

They are published for the purposes of discussion
before legislation is prepared. The Government intend
to consult organisations interested in these matters,
and to seek the advice in particular of those who will
have to operate any new system.

2. The increase in crime in recent years has given
rise to growing public concern. The prevention of
crime and the treatment of offenders have been the
subject of numerous reports and proposals by official
and unofficial bodies. These include Lord Ingleby's
Committee on Children and Young Persons; the Horison
Committee on the Probation Service; the Royal
Commission on the Police; and several important
reports by the Home Secretary's Advisory Council on
the Treatment of Offenders. A further valuable
contribution, relating to the situation in Scotland,
was made by Lord Kilbrandon's Committee on Children
and Young Persons.
3. Before the present Government took office, a group under the Chairmanship of Lord Longford, consisting of people with special knowledge and experience in the field of penal and social policy, made a study of the problems involved; and their Report "Crime, a Challenge to us all", which was published in 1964, has served to stimulate informed discussion.

4. A recurrent theme has been the urgent need to concentrate resources on the prevention and treatment of juvenile delinquency. A high proportion of adult criminals have been juvenile delinquents, so that every advance in dealing with the young offender helps also in the attack on adult crime. The prospect of success, and its rewards, are greatest with young offenders. It is right that radical reforms of the penal system as a whole should await completion of the review which the Royal Commission on the Penal System was appointed in 1964 to undertake; but desirable reforms affecting those under 21 should wait no longer. The Royal Commission are of course being kept fully informed of the Government's plans.

5. The causes of delinquency are complex, and too little is known about them with certainty. It is at least clear that much delinquency - and indeed many other social problems - can be traced back to inadequacy or breakdown in the family. The right place to begin, therefore, is with the family.

II. FAMILY SUPPORT

6. When local authorities were given new powers under the Children Act, 1948, to care for children who had been deprived of a natural home life, it became necessary for them also to undertake work with families so that the children might return home wherever possible.
Services in support of the family were also provided under the National Health Service Act 1946 and the National Assistance Act 1948 by local authorities through their health or welfare departments. This work was developed over the years, and, following the recommendation of Lord Ingleby's Committee, local authorities were required under Section 1 of the Children and Young Persons Act, 1963, to "make available such advice, guidance and assistance as may promote the welfare of children by diminishing the need to receive them into or keep them in care, or for them to be brought before a juvenile court". Local authorities are making vigorous use of these new preventive powers as well as developing the services of their health and welfare departments; children's departments are being expanded and more social workers are being trained; a number of authorities have set up a central index of families at risk to assist any department of the authority or other organisation to help a family that appears to be in danger of social breakdown; and family advice centres are being established as focal points where the social services can be readily available to those who need them. This preventive work with families is of cardinal importance both for its positive social value and as a means of exposing situations which might give rise to delinquency. Lord Longford's Committee recommended that it should be enlarged and developed in a new Family Service that would include all the functions of the existing children's department, and certain functions of the health, education and welfare departments concerned with family problems.
7. The proposals made in this paper for the reform of the law and practice relating to young offenders emphasise the need to improve the structure of the various services connected with support of the family and the prevention of delinquency. The Government believe that those services should be organised as a family service, but the form and scope of such a service will need detailed consideration. The Government therefore propose to appoint a small independent committee to review the organisation and responsibilities of the local authority social services, and consider what changes are desirable to ensure an effective family service. References in this paper to Children's Departments and the Children's service refer to the existing organisation and are without prejudice to what the Committee may recommend.
III. YOUNG OFFENDERS AND CHILDREN AND YOUNG PERSONS IN NEED OF CARE, PROTECTION, OR CONTROL

8. However successful local authorities and voluntary bodies may be in their work of sustaining the family, it is clear that there are considerable numbers of young people for whom, because of their conduct or background, special arrangements will have to be made. At present, young persons under 21 years of age fall broadly into two categories. The first includes children and young persons under the age of 17 who, if they are thought to be in need of care, protection or control or (being over the age of 10) are alleged to have committed an offence, may be brought before a juvenile court. The second consists of those between the ages of 17 and 21 who, if they are accused of having committed an offence, are dealt with by the ordinary courts, but for whom certain special sanctions are available.

9. The Government have come to the conclusion that in future children and young persons under the age of 21 should be regarded as falling into two categories; those under the age of 16, and those between the ages of 16 and 21. Sixteen will soon be the upper age for compulsory school attendance. It marks a significant stage in the lives of many young people. It is the age at which they begin to earn, at which many may leave home, at which they may marry. The same considerations lead to the conclusion that this should also be the upper age for the special preventive measures which are applied by law to those children who are in need of care, protection or control and the age after which young persons should in general become subject to the sanctions of the ordinary criminal law. This paper accordingly deals first with those children and young persons under 16 years of age, next with the family court and young offenders court, and then with the treatment of those between the ages of 16 and 21.
A. Children and Young Persons under 16

10. There has been an increasing weight of informed opinion over the last ten years in favour of changes in our methods of dealing with children and young persons under 16 who now come before the juvenile courts. These courts were created in 1908. They have their own simplified procedures and they are served by selected magistrates. But though care is taken to avoid the characteristics of a criminal court, their procedures naturally derive from the criminal courts. We believe that these arrangements should be radically changed, because:

1. Children should be spared the stigma of criminality.
2. In the great majority of cases of offenders brought before the juvenile courts, the facts are not in dispute. The problem is to decide the appropriate treatment, and the court procedures, designed essentially for testing evidence, do not provide the best means for directing social inquiries and discussing possibilities with the child’s parents and the social services that might be concerned with treatment.
3. Although when children appear in the juvenile courts their parents attend whenever possible, the present arrangements do not provide the best means of getting parents to assume more personal responsibility for their children’s behaviour.
4. Decisions as to treatment are made in the form of a court order. This does not allow sufficient flexibility in developing the child’s treatment according to his response and changing need.

11. We therefore propose to remove young people so far as possible from the jurisdiction of the courts, and to empower each local authority, through its children’s committee, to appoint local family councils to deal with each case as far as
possible in consultation and agreement with the parents. Where the facts were disputed or agreement could not be reached, the case would have to be referred to the family court, to which reference is made later. This of course must be done in such a way as to ensure that, as at present, the full safeguards of the law are available to ensure that the interests of the child or young person are protected.

Family Councils

12. It is proposed that there should be appointed by the local authority of each county and county borough, and of each Greater London borough, acting through its children's committee, a number of family councils consisting of social workers of the children's service and other persons selected for their understanding and experience of children and, in particular, for their awareness of the problems facing the children and adults likely to come before then. Each council, when sitting, would include at least one man and woman. There would be sufficient councils to enable discussions with parents to be conducted in an unhurried manner; and as far as is practicable their meeting places would be so arranged that parents and their children would not have too far to travel. They would in no case meet in a court building. Social inquiries required by the councils would be undertaken by the children's service for the area.

Procedure of the Family Councils

13. Where it was thought, by any person who can now bring a child or young person before a juvenile court, that a child or young person under 16 had committed what would in an older person be an offence, or was in need of care, protection or control, or had failed to attend school, he would report the circumstances to the family council. Social inquiries would be carried out where necessary and the council would see the child and his parents in those cases which required it. In most cases, there would be no disagreement as to the facts alleged. Where, however the facts were disputed by the child
or his parents, the case would be referred to the family court in order that the facts might be judicially determined.

14. Before discussing with the parents what action, if any, ought to be taken, the family council would consider all the information available about the child and his background. In some cases it would be clear that the parents could themselves deal adequately with the situation. In others, it might be agreed that the matter should be disposed of by the parents paying compensation to anyone who had suffered loss from the child's delinquency. In yet other cases, agreement might be reached on the desirability of placing the child under the supervision of an officer of the children's service, or of sending him for some form of residential training. Any agreement thus reached would be formally recorded. It could be varied from time to time in agreement with the parents; and the case would in any event be reviewed from year to year. If the agreement was not complied with, it would be open to the family council to refer the case to the family court, who would deal with it as if it had come before them for decision in the first instance.

15. Cases would be referred to the family court if agreement with the parents proved to be impossible, or if for any other reason the council thought such a reference was desirable. It would be open to the family court to make any order which is now appropriate to a juvenile court, except that, where long-term residential training was considered to be appropriate, the child or young person would be committed to the care of the local authority.

Facilities for Observation and Assessment

16. It is important that there should be available to all family councils observation centres suitably equipped and staffed to assess any child referred to them. These would be
provided by local authorities and would replace remand homes. They would provide facilities for the examination of children still living at home as well as facilities for residential observation. Although the family council would not be a court of law, it would seem right that it should have power, even in a case in which the parents disagree, to refer a child to an observation centre for a limited period for assessment and for a report on the type of treatment that is likely to prove beneficial in his case. The observation centre would also if it were decided that the child or young person required residential training, advise the local authority on the selection of the residential establishment best able to meet his needs. The centre would thus, in effect, take over the functions which are now performed not only by remand homes but by classifying approved schools.

17. Under the present law, children aged 14 and 15 may be sent to a remand centre on the ground that they are too unruly or depraved for accommodation in a remand home. It may be necessary to provide that if such cases occur under the new procedure the family court should be empowered, on application, to make a similar order.

Methods of Treatment

(a) Monetary Penalties

18. At present a juvenile court may impose a fine upon a child or young person coming before it; and about 40 per cent of cases are disposed of in this way. It would not seem appropriate to empower the family council to agree with the parent that a case should be dealt with by the voluntary payment of a fine. But it would clearly be right that an agreement with the parent should include the payment of compensation to a person who has suffered loss as a result of the child's conduct. It would, of course, remain open to the family court, in the case of any child
coning before it, to impose such monetary penalty as it thought fit.

(b) **Attendance Centres**

19. It should be open to the council to agree with the parent, or for the family court to order, that a child or young person should attend at an Attendance Centre for a given number of hours.

(c) **Supervision**

20. It should be the purpose of the family council to agree with the parent upon the method of treatment most likely to benefit the child or young person concerned. As already indicated, there will be cases in which it will be best to leave the responsibility for the child's training and welfare with the parents. In some of these cases it may be desirable to support the efforts of the parents by requiring an officer of the children's service to exercise supervision over the child for a specified period - perhaps of one, two, or three years - subject to an age limit of 18. The family council would be obliged to review the case each year or more often if it thought it desirable - with a view to terminating the agreement or order if supervision is no longer necessary.
(d) **Short-term training**

21. In other cases, short-term training of the kind now provided in junior detention centres may be thought appropriate. It would hardly be practicable for local authorities to provide such centres, and it is proposed that for the time being, at least, they should continue to be provided and administered by the Home Office.

(e) **Longer-term training**

22. Where longer-term residential training is thought to be desirable, it is proposed that the child should be placed in the care of the local authority. It would then be for the children's committee, with the agreement of the family council and the parents, to arrange for the child to be cared for in a special residential school or children's home, or to be boarded out in a foster-home. In each case the choice would depend upon the needs of the individual child. The intention would be to encourage local authorities and voluntary bodies to develop a wide range of residential establishments so that a child could, after assessment, be sent to one from whose regime he is likely to derive the greatest benefit. The family council would be obliged to review the case each year or more often if it thought desirable; the aim would be to restore the child to his parents as soon as practicable consistently with his best interests.

23. Approved schools at present catering for children and young persons in this age group would no longer form part of a separate service, but would fit into the comprehensive range of residential establishments. Save in special cases approved by the Secretary of State, they would be taken over by local authorities. Arrangements would, however, be made for retaining the voluntary help at present devoted to their
management and in particular for preserving the special character of schools provided by religious bodies and other national foundations. Where a local authority made arrangements with a voluntary body providing residential training for the care of a child or young person, it would make a payment sufficient to cover the cost; this would replace the present arrangements for meeting the cost of voluntary approved schools.

Abolition of right of trial by jury

24. At present a young person aged 14 or over may claim trial by jury for an indictable offence which is not a summary offence, or for a summary offence for which an adult would be liable to imprisonment for more than three months. A magistrates' court must, before proceeding to try such a case summarily, inform the accused of this right. The right to trial by jury for children under 14 was abolished (except for homicide) by the Children and Young Persons Act, 1932, following a recommendation by the Departmental Committee on the Treatment of Young Offenders, 1927. Under the arrangements outlined in this paper it would seem unnecessary and indeed inappropriate to retain any power for a person between the ages of 14 and 16 to insist upon a jury when his case is referred to a family court for determination of the facts.

Homicide

25. Homicide by children is extremely rare and almost always involves mental abnormality or extreme provocation. Nevertheless, the offence is of such a special kind that it seems right that homicide cases should continue to be dealt with at assizes, on committal from the family court.
Enlargement of local authorities' children's services

26. The changes proposed will place heavy additional responsibilities on the children's departments of local authorities. More social workers will be needed, in particular to serve the family councils, and to undertake work, corresponding to that at present done by the probation and after care service, with children under 16 who have been before the court. It is to be expected that the proposed councils will require more numerous and fuller social inquiries than many courts do now, and that more time may be spent in discussion with parents; this may add to the number of social workers required. In all, children's departments may need something like 1,000 additional social workers (some of whom might transfer from the probation and after care service). Children's departments are already being expanded to meet the challenge of Section 1 of the Children and Young Persons Act, 1963, and local authorities have forecast an increase of some 900 child care posts during the period 31st March, 1964 - 31st March, 1968, mainly for social work with families at risk.

27. The training and recruitment of social workers on the scale required will take some time, and it will therefore be necessary for the proposals in this paper to be brought into full operation by stages. This can probably best be done by enabling the proposed family councils to deal with younger children only at first, gradually raising the age to 16.

B. Courts for dealing with young persons

Family Courts

28. It is proposed that special magistrates' courts should be constituted from panels of justices selected for their capacity to deal with young persons. Ordinarily a panel would be established for each petty sessions area, but there would be
power to combine two or more areas under a panel where this was desirable to enable the work to be more efficiently organized. The special magistrates' court would have two distinct jurisdictions. In dealing with matters involving those under the age of sixteen, it would sit as a family court. In order that advantage may be taken of the experience of the justices sitting in the family court, it is proposed that the family court should also exercise the present jurisdiction of magistrates' courts in adoption matters and in determining applications by persons under twenty-one for consent to marry without parental permission, and, possibly, the jurisdiction to make an affiliation order where the respondent is under twenty-one. When the family courts have become established, it is envisaged that consideration should be given to enlarging the jurisdiction to include other matters affecting the family.

**Young Offenders' Courts**

29. At present offenders under 17 are dealt with in juvenile courts, and offenders between the ages of 17 and 21 are dealt with in the ordinary courts. The special courts, sitting as young offenders' courts, would exercise criminal jurisdiction over offences alleged to have been committed by persons between the ages of sixteen and twenty-one. A youth charged with an offence which in the case of an adult is not triable summarily and is either triable at assizes only or punishable with fourteen years imprisonment or more (e.g. murder, rape or robbery) would be committed by the young offenders' court for trial to the appropriate superior court. In all other cases a young offenders' court would deal with the matter unless it thought the offence so serious that it ought to be tried at assizes, or unless the accused claimed trial by jury. The young offenders' court would be presided over by a legally qualified
chairman when dealing with indictable offences not triable summarily in the case of an adult (but within the jurisdiction of the young offenders’ court) and with cases of grievous bodily harm or actual bodily harm and breaking offences. The hearing would be in public, and there would be no restrictions on the publication of the name of any person.

Hearings and Appeals

30. The young offenders’ court would sit at separate times from both the adult courts and the family courts to avoid contact between adults accused of crime and the persons of differing ages with which the special courts would have to deal. Appeals from a young offenders’ court would be heard by a court of quarter sessions specially constituted if the young offenders’ court was not presided over by a legally qualified chairman; and by the Court of Criminal Appeal if it was. Appeals from family courts when dealing with cases which had been before the family council would be to the specially constituted court of quarter sessions; appeals from family courts exercising other jurisdiction would follow the same course as appeal from ordinary magistrates’ courts exercising a similar jurisdiction.
Quarter Sessions and Assizes

31. It is proposed that when quarter sessions or assizes deal with persons under 21, the case should, as far as practicable, be taken at a different time from adult cases, and that justices on the special panel (see paragraph 28) should sit as members of the court. At assizes, crown courts, and borough quarter sessions, they would sit with the judge or recorder, and share responsibility for determining sentence, and in the case of an appeal for determining guilt or the disputed facts. Two justices would ordinarily be sufficient for the purpose. At county quarter sessions, the justices present in these cases would be members of the special panel.

C. Treatment of Offenders between the ages of 16 and 21

Powers of Young Offenders' Courts

(a) Non-custodial sentences

32. It is proposed that young offenders' courts should have the same powers as are now available to courts dealing with the 17 to 21 age group to impose non-custodial sentences - absolute and conditional discharge, binding-over, probation, fine and attendance at an attendance centre if one is available.

(b) Custodial sentences

33. It is proposed that a young offenders' court should have power to impose a sentence of detention not exceeding six months or, if it is presided over by a legally qualified chairman, three years. It would be open to a young offenders' court without a legally qualified chairman to refer a case for sentence to a court with such a chairman. Similarly a young offenders' court presided over by a legally qualified chairman would be empowered to commit to assizes for sentence.
Principle of sentencing

34. All courts, when passing sentence on an offender under 21, would be required, as juvenile courts now are, to have regard to his welfare.

Remand and Observation Centres

35. The facilities now available, or being provided, in remand centres would be fully available to the young offenders' courts. These centres would provide an assessment of the needs of the offender and of the form of treatment most likely to be beneficial to him.

Forms of custodial training

36. At present, a person aged 16 may not be sentenced to imprisonment; and for the 17 to 21's the right to impose a sentence of imprisonment has been greatly restricted. Those who are sent to prison are kept separate from adult prisoners in young prisoners' centres. Most of those between the ages of 16 and 21 ordered to undergo custodial training are sent to detention centres, approved schools or borstal.

37. It is proposed that in future there should be three types of custodial sentences for the 16 to 21 age group. The first would be short-term detention of three or six months, in what is now known as a detention centre. The second would be training for a minimum period of nine months and a maximum period of two years - the actual time to be determined by reference to the young person's progress - in a youth training centre. The third would be long-term training - in such cases as the courts now deal with by imposing a sentence of imprisonment - for such period as is now competent.

Detention centre training

38. No change is proposed at present in the organisation and methods of the detention centres. The court would
order training for a period of either three or six months. The boy would be eligible for discharge on licence after completing five-sixths of his sentence.

Youth training centres

39. It is proposed to merge and reorganise the present borstals and senior approved schools into a comprehensive system of residential training catering for the wide variety of types coming before the courts. The Home Office would take over responsibility for the senior approved schools and for the organisation of the comprehensive range of training establishments. It is proposed that the minimum period of training should be nine months and the maximum two years. Experience with borstal training has shown that the present minimum period of six months is too short to enable good results to be achieved. The actual date of discharge on licence would depend on the response to training of the young person concerned.

Young offenders institutions

40. For offenders sentenced by the courts to training for a period longer than two years, separate establishments would be provided by the Home Office. So far as the numbers make it possible, they would offer a variety of regimes catering for the varied needs of different types of offenders.

After-Care

41. It is proposed that in the case of offenders in this age group who are sentenced to short-term training, there should be a period of statutory after-care lasting for a year. In the case of offenders sentenced to training for a longer period, the statutory after-care would continue for two years. During this period an offender would be liable to recall if he were found to be conducting himself in a way which made this course desirable in his interests.
The probation and after-care service is already being expanded as rapidly as possible to enable it to meet its growing responsibilities.

IV. GENERAL

42. These proposed changes have two main purposes. The first is to take children and young persons under the age of 16 as far as possible outside the ambit of the criminal law and of the courts, and to make, if possible with the agreement of their parents or guardians, such arrangements for their welfare as are appropriate. The second is to divorce the arrangements for the trial and treatment of young persons in the 16 to 21 age group as far as possible from the ordinary criminal courts and from the penal system as it applies to adults.

43. In both cases the determining factor in deciding what is to be done must be the welfare of the particular child or young person. The object of whatever training is agreed upon, or ordered by the court, must be to make him into a law-abiding and useful citizen. There is no intention to deal lightly with young offenders - quite the contrary. What is needed is firm discipline and constructive treatment directed to the welfare or rehabilitation of the individual child or young person. The provision of such discipline and treatment, on the lines indicated in this White Paper, will require a substantial and sustained effort on the part of both central and local government. It is the Government's intention that such an effort should be made with the utmost urgency.

44. This is a field in which at present a great contribution is being made by voluntary effort - in the administration of approved schools and children's homes; in the organisation of services designed to support the family; in the work of welfare and after-care. It is the Government's wish that this voluntary effort should be maintained and strengthened. The proposals made in
this paper for the merging of the present approved school service, partly in a comprehensive system of residential training for those between the ages of 16 and 21, partly in a comprehensive system of residential training for those under 16, must not be allowed to result in the loss of the invaluable voluntary effort now given to the administration of the schools. The Home Office will welcome the continuing interest and support of voluntary workers in its own training establishments; and there is no reason to doubt that the local authorities will be equally glad to enlist voluntary help.

45. The central responsibility for promoting these new developments for dealing with young people in trouble will rest with the Home Office, local responsibility with the local authorities and their children's departments. Administrative reorganisation and strengthening will be required at both levels. So far as the Home Office is concerned, the intention is that its Children's Department should be developed as a Family Service Department, with a responsibility in co-operation with other Government departments for promoting services designed to support the family and for the welfare of those under the age of 16 who for one reason or another require public or voluntary residential care. Special arrangements would also be made within the Home Office for the development and running of a comprehensive range of training establishments, distinct from the prison system, for those between the ages of 16 and 21. It is essential that the necessary central administrative impetus should be given to the new developments outlined in this paper; and departmental arrangements within the Home Office would in general be so adjusted as to ensure this.
V. SUMMARY

46. In summary, the proposals made in this paper are:

(a) New arrangements will be made for determining and providing treatment for young offenders under 21. There will be a dividing age at 16.

(b) The upper age limit for treating children as being in need of care, protection or control will be 16.

(c) Arrangements for making social inquiries and providing treatment for children under 16 will be made by the children's departments of local authorities.

(d) A child under 16 who has done an act which is an offence in the case of an older person or who is in need of care, protection or control will be brought before a local family council, a number of which will be appointed for each local authority area. This council will endeavour to reach agreement with the parents of the child on the treatment to be applied. If the facts are in dispute or agreement cannot be reached on treatment, the issue will be referred to a court for determination.

(e) Special magistrates' courts will be set up which (i) sitting as family courts will, in respect of children under 16, determine disputed issues of fact or decide treatment when agreement cannot be reached between the family council and the child's parents; and will also deal with adoption and certain other matters affecting those under 21; (ii) sitting as young offenders' courts will exercise criminal jurisdiction in respect of persons aged 16 to 21.
(f) If the treatment required for a child under 16 involves removal from home, the child will be placed in the care of the local authority, and sent to an appropriate children's home or other institution, or placed in a foster-home. This treatment could be varied as required, with the object of returning him to his home as soon as progress justified it. Approved schools will cease to form a system separate from other children's homes.

(g) Residential treatment for offenders aged 16 to 21 will be provided for by the Home Office which will take over approved schools accommodating young persons of these ages.

(h) The new arrangements will be brought into force by stages adjusted to the necessary expansion of local authorities' children's services.

(i) A small independent Committee will be appointed to review the organisation and responsibilities of the local authority social services and consider what changes are desirable to ensure an effective family service.
CABINET

SOCIAL SECURITY BENEFITS AND INCOME GUARANTEE

MEMORANDUM BY THE CHANCELLOR OF THE DUCHY OF LANCASTER

I was invited by the Cabinet, in consultation with the Secretary of State for Scotland, the Secretary of State for Wales, the Secretary of State for Education and Science, the Minister of Housing, the Minister of Pensions and National Insurance and the Chief Secretary to consider in the light of the Cabinet's discussion alternative policies in relation to benefits and assistance within the financial limits of the basic and additional programmes proposed in C. (65) 101. (C.C. (65) 38th Conclusions, Minute 3.)

2. Introduction of graduated short-term benefits and income guarantee in October 1966 with periodical increases in benefits and assistance in line with the assumed increase in earnings (i.e., fulfilment of all three pledges) would lead to expenditure in excess of the Ministry of Pensions' basic and additional programmes proposed in C. (65) 101 as follows:

<table>
<thead>
<tr>
<th>Years</th>
<th>Amounts allowed exceeding basic</th>
<th>Amounts allowed exceeding additional</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-67</td>
<td>£20</td>
<td>£14</td>
</tr>
<tr>
<td>1967-68</td>
<td>£115</td>
<td>£25</td>
</tr>
<tr>
<td>1969-70</td>
<td>£140</td>
<td>£60</td>
</tr>
</tbody>
</table>

Not only would there be this substantial excess expenditure but there would be nothing to meet the cost of other improvements which may be necessary in the period, e.g., for widows.

The courses open to us

3. Discussion by the Committee of Ministers under my Chairmanship has shown that there are only three courses open to
us if we are to keep within the limits of the basic and additional programmes allocated in C. (65) 101.

Course (A). To drop income guarantee; retain graduated short-term benefits; and increase benefits in relation to earnings.

Course (B). To retain graduated short-term benefits and income guarantee, but to increase benefits on the next occasion by a substantially smaller amount than would be required by the movement of earnings.

Course (C). To defer graduated short-term benefits, while retaining income guarantee and increasing benefits on the next occasion by a somewhat lower amount than would be required by the movement of earnings.

4. The Committee took the view—the Chairman dissenting—that it was not within their remit to reconsider the necessity of introducing wage-related unemployment, and therefore also of sickness, benefit in October 1966. Accordingly this Memorandum examines the financial and other implications of Courses A and B only. The assumptions underlying the figures are given in the Annex to the Memorandum.

Implications of the alternative courses

5. Course (A). This alternative involves:

Wage-related short-term benefits introduced in October 1966.

NO income guarantee.

Benefits and assistance rise with earnings:

April 1966
National assistance increased by 5s. in line with assumed increase of money earnings.

June 1967
(a) Retirement pensions increased by 11s. in line with assumed increase of money earnings, and other insurance benefits and war pensions increased correspondingly.
(b) National assistance increased by further 6s. in line with assumed increase of money earnings.

April 1969
Insurance benefits, war pensions and national assistance in line with increase in money earnings since April 1965.

Margin for further expenditure (+) as compared with annual limits specified in C. (65) 101:

<table>
<thead>
<tr>
<th>Year</th>
<th>Margin</th>
</tr>
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<tbody>
<tr>
<td>1966-67</td>
<td>+ 50</td>
</tr>
<tr>
<td>1967-68</td>
<td>+ 15</td>
</tr>
<tr>
<td>1969-70</td>
<td>+ 20</td>
</tr>
</tbody>
</table>

SECRET
6. The principal considerations arising on this Course are:

(a) Dropping the income guarantee would be a breach of an unconditional pledge in the Election Manifesto, where it alone was specifically excepted from the proviso that improvements in social security benefits must depend on the rate at which the economy could advance. There has been much Parliamentary probing on the income guarantee and the election pledge has been repeated often since. It was described as a “must” in a speech which I made in the House of Commons. In particular, heavy reliance was placed on the early introduction of the guarantee in opposing Mr. Airey Neave’s Bill to provide pensions for old people who had not contributed. The Minister of Pensions said income guarantee would be introduced “as quickly as possible”.

(b) On the other hand, the income guarantee scheme has turned out different from that held out at the time of the Election and the level of guarantee may be less than was envisaged. This, however, is not only a question of finance. The level could not be set much higher without endangering the objective of a half-pay pension scheme which would make the income guarantee unnecessary. Thus, the proposed level of guarantee for a married couple with no children of about £7 plus rent, assuming a rent of 30s., would, even without disregarded income, be more than half the take-home pay of a man on average earnings.

(c) The Ministry’s enquiry into the resources of old people will draw public attention to the extent of “hidden poverty” among those eligible for national assistance but not claiming it. This will bring fresh odium on national assistance as such. However, it should be possible to remodel national assistance so as to improve its image by importing some of the administrative improvements planned for income guarantee, e.g., a change in the name, a written return of income, payment on a single order book with retirement pension, and some reduction of visiting. Possibly also some preferential rate might be given to those who have been living or are likely to be living for a long time on national assistance—this could be afforded within the expenditure limit by a small abatement in the general increase of national insurance benefits.

(d) The contribution increase required for an increase in benefits of 11s. a week would be 1s. 11d. for the employed man with a similar extra amount from his employer if the whole extra cost were met from the flat-rate contribution (apart from the normal Exchequer supplement). The increases in the flat-rate contribution would, however, be diminished to the extent that the extra expenditure could be financed from extra graduated contributions, and the
Committee concluded that, under this Course, it would be necessary to consider at the time the possibility of meeting the cost of the benefit increase wholly or in part from graduated contributions.

7. **Course (B).** This would involve:

- **Wage-related short-term benefits** introduced in October 1966
- **Income guarantee** introduced in October 1966
- **Benefit rates** rise less than earnings:
  
  **October 1966**
  National assistance increased by 7s. in line with assumed increase in money earnings.
  
  **June 1967**
  
  (a) Retirement pensions increased by 5s. in line with assumed increase in *prices* and other insurance benefits and war pensions increased correspondingly.
  
  (b) National assistance increased by further 4s. in line with money earnings.
  
  **April 1969**
  
  (c) Insurance benefits and war pensions increased in line with increase in *money earnings since June 1967* but ground lost up to then not made up.
  
  (d) National assistance in line with increase in *money earnings since April 1965*.

**Margin for further expenditure (+) or excess of expenditure (−) as compared with annual limits specified in C. (63) 101:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Margin</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966–67</td>
<td></td>
<td>+10</td>
</tr>
<tr>
<td>1967–68</td>
<td></td>
<td>−15</td>
</tr>
<tr>
<td>1969–70</td>
<td></td>
<td>+20</td>
</tr>
</tbody>
</table>

8. Considerations arising on this alternative are:

- **(a)** The Manifesto promised that “Existing National Insurance benefits will be raised and thereafter linked to average earnings.” Now that the Government has raised benefits, people will expect that benefits will continue to go up at the same rate as earnings. Between 1951 and 1964 benefits went up rather faster than earnings, and especially so after 1958. But the increase of benefits which could be made in 1967 within the expenditure ceiling would, on the assumed movement of prices and earnings, be limited to 5s. a week which would compensate for the fall in the value of money only and would compare with the increase of 11s. needed to keep benefits in line with the assumed movement of earnings. It is assumed so limited
a rise could not apply to assistance which would therefore have to go up in line with earnings. Apart from the somewhat derisory appearance of such a small increase in benefits, there would be criticism that the Government were doing less than expected for such people as widows, the long-term sick, the lower-paid who become sick or unemployed, war pensioners and those injured at work, in order to give yet better benefits for old people qualifying for guarantee payments and for the better paid among the younger people who become unemployed or sick. An incidental consequence of this course would be a continuing increase in the numbers on income guarantee and assistance.

(b) A benefit increase of 5s. would, if financed solely on the flat-rate contribution with the proportionate Exchequer supplement, necessitate an increase in the employed man’s contribution of 10d. with a matching contribution from his employer, as compared with the 1s. 11d. a side needed on the same basis to finance a benefit increase of 11s. related to the assumed movement of earnings. The restriction on the increase in benefits under this Course assumes that the limitation on expenditure is not affected by the fact that benefit increases are mainly financed from contributions.

Committee’s conclusions

9. On the premise that graduated short-term benefits are an essential constituent of the programme, the Committee were agreed—the Chairman dissenting—in recommending Course A to the Cabinet (which means discarding income guarantee; introducing graduated short-term benefits in October 1966; and increasing benefits in 1967 in line with the movement of earnings together with a remodelling of national assistance as far as may prove possible).

10. The Chairman dissented both from the premise on which the Committee’s recommendation was reached (that graduated short-term benefits were an essential part of the programme) and from the recommendation itself. He considers that income guarantee is an essential constituent of the programme both because of the unqualified pledges given and because it would concentrate the available resources where they are most needed.

D. H.

70 Whitehall, S.W.1,
Annex

Assumptions Underlying the Figures of Benefit Rates and Expenditure under the Alternative Programmes

1. It has been assumed that:

(1) Real earnings rise by 3.6 per cent a year; money earnings rise by 6 per cent in 1965-66, and by a further 6 per cent in 1966-67; prices rise by nearly 3 per cent in 1965-66 and by 2½ per cent in 1966-67.

(2) Wage-related short-term benefits would cost about £55 million a year. The figure of £45 million given in C. (65) 101 allowed for wage-related supplements to unemployment and sickness benefit only. A further £5 million is needed to accommodate wage-related supplements to injury benefit, as proposed by the Minister of Pensions and National Insurance; and £2 million because of the proposal that the weekly earnings on which benefit is based shall be one-fiftieth of the previous year's earnings to compensate for the time-lag since the reference period. The resulting figure has been rounded up to £55 million.

(3) Income guarantee would entail an additional cost of about £100 million a year.

2. The costings should not be taken as precise. For example, benefit increases cannot be accurately related to the movement of earnings, which cannot be precisely known when rates are fixed; and benefit rates must in any event be rounded amounts. A difference of 1s. on the retirement pension with corresponding variations in other benefits makes a difference of nearly £25 million a year. The true cost of wage-related benefit may also be different from the estimate if earnings prove to have risen more than was allowed for in the estimate or if unemployment is running above the level (1½ per cent) assumed in the public expenditure exercise. Moreover the precise timing of benefit and assistance increases must be left open.
23rd July, 1965

CABINET

COMMONWEALTH IMMIGRATION

Memorandum by the Lord President of the Council

In accordance with the Cabinet's decisions on 8th July (C. C. (65) 36th Conclusions, Minute 3) the Commonwealth Immigration Committee have prepared drafts of a White Paper (Annex A) and of a statement of Government policy (Annex B) on Commonwealth immigration.

2. Timetable. If the draft can be sent to the printers on the evening of 27th July it should be possible for the White Paper to be published on 2nd August. It had previously been envisaged that the statement of Government policy would be made in advance of the publication of the White Paper. We have however undertaken to discuss the Government's decisions with Commonwealth and Colonial Governments in advance of any public statement. This implies that they should not only be informed but also be given time to express their views before the Government's decisions are announced. It would therefore be convenient if the statement of Government policy were made on the same day as the publication of the White Paper. This has the additional advantage that the statement of policy can be relatively short and can refer for a more detailed explanation of the Government's decisions to the White Paper.

3. The Cabinet's attention is particularly invited to the following points in the White Paper.

(i) Vouchers

In summing up the discussion on the 8th July the Prime Minister suggested that the total number of vouchers should be 8,500 a year; that this would allow for 1,000 immigrants a year from Malta for the next two or three years, but that there should be no public statement to that effect nor should the total figure otherwise be divided into quotas for separate countries. It has been pointed out to the Commonwealth Immigration Committee that the arrangements to be made for Malta cannot be kept secret - the figure of 1,000 vouchers a year has already appeared in the press - and the Committee therefore recommend that the position be clearly stated in the terms proposed in paragraph 16 of the White Paper.

The Committee also recommend that it should be stated in the White Paper that no more than 15 per cent of Category A vouchers will be allotted to any one Commonwealth country. This modifies the Cabinet's view that the admission of unskilled workers should be governed by the date of their applications. It is however essential if a fair balance is to be maintained and if the interests of some of
the smaller Commonwealth countries and dependent territories are to be safeguarded. The distribution of vouchers cannot in any case be concealed since it is the practice to publish the figures of vouchers issued, showing the countries of origin.

The Committee further recommend that the Minister of Labour should have discretion, in granting Category A vouchers, to give a measure of priority to the more essential types of employment, e.g., the hospital and transport services. This is the more important if the needs of these services are to be met within the reduced number of Category A vouchers which will in future be issued. This system of priorities would be subject to review from time to time and no publicity would be given to it. The Cabinet may wish to consider whether this would require any amendment of paragraph 17 (ii) of the White Paper which states that applications for Category A vouchers will be dealt with in the order of the date of their receipt, subject only to the provision that not more than 15 per cent will go to any one Commonwealth country.

The White Paper states that the new arrangements for the issue of vouchers will come into effect from 2nd August, i.e., simultaneously with the announcement of the Government's policy. This is desirable to prevent a flood of applications from Commonwealth immigrants who would be entitled to Category B vouchers under the existing scheme but who will no longer be so entitled under the new arrangements. This need not, however, prevent the Minister of Labour from dealing with applications already in the pipeline under the existing scheme during a short transitional period.

(ii) Aliens

At their meeting on 8th July the Cabinet invited the Home Secretary to keep under review the number of aliens accepted for permanent settlement in the United Kingdom and to bring the matter before them if it appeared that the average was likely to rise above 6,000 a year. I understand that the figures for the first six months of this year show a marked increase and that the Home Secretary is submitting a paper to Cabinet. Meanwhile, no reference to this point has been included in the White Paper or the statement of Government policy.

(iii) Dependants

The Cabinet decided that dependants should be strictly limited to wives and children under sixteen, but that there should be no change in their statutory right to accompany or follow the immigrant workers to this country. In summing up the discussion, however, the Prime Minister said that immigration officers should use their existing powers normally to refuse admission to persons of whose bona fides they were in doubt; and in exercising those powers they should take into consideration whether or not the individuals possessed a certificate of registration of their status as dependants. Paragraph 20 of the White Paper reflects these decisions. It is hoped that the scheme whereby immigrant workers would declare their dependants, so that the particulars could be checked in the country of origin and entry certificates issued, can come into force on
1st September. At present the White Paper only says that forms will be available "early in September". The Cabinet may wish to consider whether the necessary administrative arrangements can be completed in time so that a firm date of 1st September could be given in the White Paper for the introduction of the scheme. The Commonwealth Immigration Committee recognise that it will not be fully effective in preventing evasion. The possession of an entry certificate cannot be made a compulsory condition of entry and immigration officers must retain discretion to admit dependants of whose bona fides they are satisfied even in the absence of an entry certificate. It is however hoped that the scheme will to some extent act as a deterrent and prevent the influx of dependants which might otherwise follow the publication of the White Paper. Since there must be some doubt about the effectiveness of the scheme, the White Paper provides that the Home Secretary will keep under close review the administrative arrangements as to the evidence that dependants are required to furnish on arrival, and the Government will seek any necessary legal powers to make the control effective.

(iv) Conditions of Entry

The Cabinet agreed that power should be taken to require Commonwealth students whose bona fides were in doubt to register with the Police. The Cabinet also agreed however with the recommendation of the Commonwealth Immigration Committee that, in the context of a general power to impose conditions of entry on all Commonwealth citizens, the requirement to register with the Police should not be imposed unless conferred by a statutory instrument subject to the Affirmative Resolution procedure. The stage at which the requirement to register with the Police will be introduced in regard to students or other categories of Commonwealth citizens entering the United Kingdom will have to be resolved when new legislation is drafted. For the time being the Commonwealth Immigration Committee recommend that it is unnecessary to be more specific than is suggested in paragraphs 23 and 24 of the White Paper.

(v) Financial Assistance for Local Authorities

In view of the statement in the Manifesto that "a Labour Government will give special help to local authorities in areas where immigrants have settled", the Commonwealth Immigration Committee consider it essential that the White Paper should contain a pledge that financial assistance will be available in certain circumstances. This pledge is contained in paragraph 62 of the draft. The Treasury reserved their position in the Committee. They point out that although the total expenditure involved is unlikely to be large, the scope of this very special grant (which would need legislation), the way in which it would operate, and how overlapping with the existing arrangements for assisting local authorities can be avoided, have yet to be worked out. They also feel that the paragraph as drafted might encourage local authorities to expect too much so that the credit for the Government's proposals would be lost. If it is regarded as essential to enter into a commitment to financial assistance before
The Commission has been comprised of individuals who have extensive experience in information processing and dissemination. The Commission's primary goal is to ensure that information is accurately and effectively communicated to the public. The Commission is comprised of representatives from various fields, including government, academia, and the private sector. The Commission's role is to advise the government on matters related to information processing and dissemination. The Commission's recommendations are intended to improve the efficiency and effectiveness of information processing and dissemination. The Commission's work is guided by a set of principles that emphasize the importance of accuracy, timeliness, and accessibility in information processing and dissemination.
a detailed scheme could be worked out, they suggest that the paragraph should be amended to read:

"In some areas, the local authority may need to undertake exceptional commitments for a limited period by engaging extra staff in order to ease those pressures on the social services which arise from differences in language and cultural background and to deal with problems of transition and adjustment. The Government propose to seek powers to give special financial help towards approved expenditure in such cases where need is shown."

The Cabinet may wish to consider which of these texts should be adopted.

4. Knowledge of English. The Mountbatten Report recommended that immigrants who came 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. The Report drew attention however (paragraph 69) to the difficulty of making such a condition effective and also to the fact that in some Commonwealth countries, above all Pakistan, it would virtually eliminate the grant of Category A vouchers. The view of the Commonwealth Immigration Committee is that this condition is desirable in principle but that arrangements to give effect to it would take time to work out. Moreover, it would involve discrimination against Commonwealth immigrants as compared with aliens, and under the new voucher arrangements the number of immigrant workers from the Commonwealth entering the United Kingdom who do not speak adequate English should be much reduced (the condition could not, in any case, be applied to dependants). The Commonwealth Immigration Committee therefore recommend that this condition of entry should not be imposed, at least for the time being, and that no reference to the matter be made in the White Paper.

5. In the Cabinet discussion of the draft White Paper on the Aid Programme on 20th July (C. C. (65) 39th Conclusions, Item 2) the point was made that the draft should be examined in parallel with the draft of the proposed White Paper on Immigration in order to ensure that there was no inconsistency between them as regards their respective treatment of such questions as oversea students. The two draft white Papers have been examined and certain amendments have been made to each in order to ensure that there is no inconsistency.

H. B.

Privy Council Office, S. W. 1.

23rd July, 1965
This paper sets out the Government's future policy on immigration to Britain from other parts of the Commonwealth and the problems to which it has given rise. This policy has two aspects: one relating to control on the entry of immigrants so that it does not outstrip Britain's capacity to absorb them; the other relating to positive measures designed to secure for the immigrants and their children their rightful place in our society, and to assist local authorities and other bodies in areas of high immigration in dealing with certain problems which have arisen.

**Immigration up to 1962**

2. Until 1962 every Commonwealth citizen was entitled to enter the United Kingdom at will. This right had been freely exercised for many years but it was only in the ten years from 1952 onwards that a substantial number of people from the Commonwealth began to think of settling in Britain. From 1955 a rough count was kept of the number of Commonwealth citizens from the Caribbean, Asia, East and West Africa and the Mediterranean entering and leaving the country. During the period from 1st January 1955 to 30th June 1962 the net intake (that is, the total number entering during the year less the total number leaving during the same year) is estimated to have been as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Intake</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>42,700</td>
</tr>
<tr>
<td>1956</td>
<td>46,850</td>
</tr>
<tr>
<td>1957</td>
<td>42,400</td>
</tr>
<tr>
<td>1958</td>
<td>29,850</td>
</tr>
<tr>
<td>1959</td>
<td>21,600</td>
</tr>
</tbody>
</table>
1960  57,700
1961  136,400
1962  94,900
(to 30th June) *

3. Britain has always been reluctant to restrict the entry of people who hope to find greater opportunities within her shores. It is only during the past 60 years that control has been continuously exercised over foreign immigration. It was with even greater reluctance that control over immigration from the Commonwealth was introduced in 1962. The operation of the Commonwealth Immigrants Act over the past three years is described in the following paragraphs.

The present control

4. Section 2 of the Act gives an immigration officer power to refuse admission or to admit subject to a condition restricting the period of stay, with or without a condition restricting freedom to take employment. People born in the United Kingdom and certain classes of people holding United Kingdom passports are, however, completely exempt from control. There is also no general power to refuse admission to people ordinarily resident here, to holders of Ministry of Labour vouchers or to wives and children under 16 accompanying or joining their husbands or parents, nor is there any power to admit them subject to conditions. Returning residents, wives and children under 16 may be refused admission only if the subject of a deportation order; voucher holders, students and persons of independent means (including visitors) may be refused admission on that ground, on medical or security grounds or on account of criminal record.

*The statistics for the period since 1st July 1962, when Commonwealth citizens became subject to immigration control, are collected on a different basis. They are summarised in paragraph 27 below.
The immigration officers' powers are exercised in accordance with published instructions (Cmnd. 1716) that were put before Parliament in draft while the Bill was being debated.

5. A Commonwealth citizen who wants to work and settle in the United Kingdom must first obtain a Ministry of Labour voucher. Applications for vouchers are placed in three categories: Category A is for applications by employers in this country who have a specific job to offer to a particular Commonwealth citizen, Category B is for applications by Commonwealth citizens without a specific job to come to but with certain special qualifications (e.g. nurses, teachers, doctors) and Category C is for all others. Applications in Categories A and B are given priority. The issue of vouchers in Category C has been subject to the condition that no country shall receive more than a quarter of the vouchers available for issue, and within Category C preference is given to applicants who have served in our Armed Forces. Vouchers have been issued to other applicants in Category C in the order in which their applications are received in London.

6. The rate at which vouchers are issued is decided by the Government and has varied from time to time. In 1962 and the first months of 1963 a high proportion of the vouchers issued were not taken up and the rate of issue was therefore increased. But as time went on a much higher proportion of the vouchers came to be used. The rate of issue was then reduced and for some time has been at the rate of 400 a week; of these about three-quarters are being used. When the scheme first started it was thought that most of the vouchers would be issued to applicants in Category C; but since September 1964 the two priority classes, Categories A and B, have taken up the whole issue of 400 vouchers a week and have left none over for applicants in Category C. A waiting list of over 300,000 applicants has grown up in this category.

7. The Act gives an absolute right of entry to the wife and any child under 16 of a Commonwealth citizen who accompanies them to the United Kingdom or is already resident here. Certain other
categories of dependants are in practice, but purely by way of discretion, also admitted without vouchers, e.g.

(a) a child under 16 coming to join a close relative other than a parent;
(b) a son or daughter aged 16 but under 18 coming with or to join a parent;
(c) the fiancee or "common law wife" of a man settled here;
(d) the widowed mother or elderly parents of a person settled here.

8. Bona fide students and visitors have been freely admitted. They have benefited by the arrangement under which any Commonwealth citizen seeking admission without a voucher may apply for an "entry certificate" before leaving home to make reasonably sure of being admitted on arrival.

Immigration since 1962

9. Statistics of the movement to and from the United Kingdom of Commonwealth citizens subject to immigration control have been published: detailed figures can be found in Cmd. 2379 and Cmd. 2658. The main figures are summarised below with figures for the first six months of 1965:

Citizens of Canada, Australia or New Zealand

<table>
<thead>
<tr>
<th>Numbers admitted, by categories</th>
<th>1963</th>
<th>1964</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. visitors</td>
<td>130,625</td>
<td>151,737</td>
<td>76,680</td>
</tr>
<tr>
<td>b. students</td>
<td>2,114</td>
<td>2,073</td>
<td>696</td>
</tr>
<tr>
<td>c. voucher-holders</td>
<td>1,447</td>
<td>817</td>
<td>321</td>
</tr>
<tr>
<td>d. others admitted for settlement (mainly dependants)</td>
<td>2,288</td>
<td>2,243</td>
<td>1,011</td>
</tr>
<tr>
<td>e. remainder (mainly &quot;returning residents&quot;)</td>
<td>51,093</td>
<td>55,869</td>
<td>25,753</td>
</tr>
</tbody>
</table>

-4-
Citizens of Canada, Australia or New Zealand

(contd.)

1. Total no. admitted 187,557 212,739 124,669
2. Total no. embarked 178,616 199,357 88,752
3. Net balance 8,951 13,382 15,714
4. Difference between net balance (3) and number deliberately admitted for settlement (c + d) 5,216 10,322 14,382

Commonwealth citizens from other Commonwealth countries and dependent territories

Numbers admitted, by categories

<table>
<thead>
<tr>
<th></th>
<th>1963</th>
<th>1964</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. visitors</td>
<td>57,365</td>
<td>62,825</td>
<td>25,733</td>
</tr>
<tr>
<td>b. students</td>
<td>16,370</td>
<td>13,044</td>
<td>4,581</td>
</tr>
<tr>
<td>c. voucher-holders</td>
<td>28,678</td>
<td>13,888</td>
<td>6,771</td>
</tr>
<tr>
<td>d. others admitted for settlement (mainly dependants)</td>
<td>27,393</td>
<td>38,952</td>
<td>19,049</td>
</tr>
<tr>
<td>e. remainder (mainly &quot;returning residents&quot;)</td>
<td>48,364</td>
<td>60,153</td>
<td>27,989</td>
</tr>
<tr>
<td>1. Total no. admitted</td>
<td>178,170</td>
<td>193,862</td>
<td>84,923</td>
</tr>
<tr>
<td>2. Total no. embarked</td>
<td>121,121</td>
<td>131,745</td>
<td>51,540</td>
</tr>
<tr>
<td>3. Net balance</td>
<td>57,049</td>
<td>62,117</td>
<td>33,383</td>
</tr>
<tr>
<td>4. Difference between net balance (3) and number deliberately admitted for settlement (c + d)</td>
<td>978</td>
<td>9,277</td>
<td>6,763</td>
</tr>
</tbody>
</table>

One striking feature of these statistics is the extent to which a reduction in the number of voucher-holders admitted has been counterbalanced by an increase in the number of dependants accompanying or joining the head of the family.

10. The number of immigrants from the areas of the Commonwealth mentioned in paragraph 2 now settled in Britain, together with the children born to them here, cannot be estimated with any precision but probably lies between 750,000 and one million. The number of people overseas who have a right of entry to
this country as a result of their husbands or parents having already emigrated here is considerable; it is not possible to make any accurate assessment of the figure.

Recent developments

11. Part I of the Commonwealth Immigrants Act, which provides for control of immigration, requires annual renewal. (Part II, which relates to deportation, is permanent legislation.) Shortly after taking office in October 1954 the present Government obtained from Parliament the renewal of Part I of the Act for a further year pending consultation with other Commonwealth governments on the whole question of immigration.

12. On 4th February 1965 the Home Secretary informed the House of Commons (Official Report, cols. 1284-8) that he had found evidence that evasion of the existing control was being practised on a considerable scale.

He was therefore instructing immigration officers to scrutinise more carefully the intentions and bona fide of Commonwealth citizens who sought entry, and to make fuller use of their power to impose conditions. One effect of the latter instruction is that students, although admitted as freely as before, are now admitted only for a specified period, which is extended if necessary so long as they are genuinely pursuing their studies. The Home Secretary also announced his decision to reinforce the staffs in certain posts overseas dealing with applications for entry certificates by assigning to them experienced immigration officers.

13. On 9th March the Prime Minister announced in the House (Official Report, cols. 248-55) that a high-level mission - of which Lord Mountbatten of Burma was later named as the leader - would visit a number of Commonwealth countries and discuss with
their governments means of regulating the flow of immigrants to this country, including measures to reduce evasion of the control. The mission visited Malta, India, Nigeria, Canada, Jamaica, Trinidad and Tobago, Cyprus and Pakistan. Lord Mountbatten's report to the Prime Minister on the mission's discussions with Commonwealth governments must remain confidential; but it can be said that these discussions were most useful in promoting a genuine understanding of Britain's difficulties and of the need to control the entry of immigrants to our small and overcrowded country.
FUTURE POLICY ON CONTROL OF IMMIGRATION

Vouchers

14. The existing system for the issue of vouchers has been described in Part I. Vouchers are currently being issued at the rate of 400 a week or 20,800 a year. Since September 1964 vouchers have only been issued for Category A (immigrants with a specific job to come to in this country) and Category B (immigrants with certain special qualifications or skills).

15. Since there is now no prospect of renewing the issue of Category C vouchers it has been decided that this category should be discontinued.

16. It has further been decided that, with effect from 2nd August 1965, the rate of issue of vouchers shall be 7,500 per year. To give effect to existing commitments entered into because of the special problems of Malta, an additional 1,000 vouchers will, as a temporary measure, be allocated to citizens of Malta who satisfy the conditions of the voucher scheme. These special arrangements for Malta will be reviewed after two years.

17. Vouchers will continue to be issued

   (1) in Category B to persons with certain special qualifications or skills, as follows:
       (a) doctors, dentists and trained nurses;
       (b) teachers who are eligible for the status of qualified teacher in this country;
(c) graduates in science or technology who have had at least two years' experience in suitable employment since graduation; and

(d) non-graduates with certain professional qualifications who have had at least two years' experience in suitable employment since qualifying; and

(ii) in Category A to applicants who have a specific job to come to in this country. These applications will be dealt with in the order of the date of their receipt, subject to the provision that not more than 15 per cent of the vouchers issued in Category A will go to any one Commonwealth country.

18. The need for immigrant workers from the Commonwealth for seasonal employment presents a special problem which will be dealt with outside the voucher scheme. A further announcement will be made about this in due course.

19. Consideration is also being given to the development of arrangements under which Commonwealth citizens come to this country for limited periods for industrial training. The Government recognise the value of these schemes for the developing countries of the Commonwealth and will do their best to promote them.
Dependants

20. The Government propose no change in the statutory right of the wife of an immigrant and his children under 16 to accompany or follow him to this country. Immigration officers will, however, with a view to preventing evasion, be instructed to apply strict tests of eligibility, and will take into account whether the would-be entrant produces on arrival an entry certificate issued in the country of origin or other appropriate documents establishing his or her identity. An entry certificate will not be issued unless the head of the household, whether resident in this country or intending to come in the future, has furnished to the Home Office or, as the case may be, the British post in his country of origin, particulars of his dependants in time to enable the information he has given to be confirmed before the entry certificate is needed. Forms for this purpose will be available early in September. The Home Secretary will keep under close review the administrative arrangements as to the evidence that dependants are required to furnish on arrival, and the Government will seek any necessary legal powers to make the control effective.

21. The Government have reviewed the present practice of admitting freely children aged 16 and under 18 who are coming to join one or both parents. In its present form the concession provides a means of securing the

"Child" includes a stepchild, an adopted child and, in relation to the mother only, an illegitimate child.
admission of young immigrant workers without vouchers, and the Government have decided that it must be withdrawn. The Home Secretary will nevertheless be prepared to consider individual applications for the admission of sons and daughters aged 16 and under 18 whose exclusion would cause hardship.

22. The same considerations apply to children under 16 joining a relative other than a parent or joining a putative father. They have hitherto been admitted if the immigration officer is satisfied that proper arrangements have been made for the child to be looked after. Many have arrived, at or near school-leaving age, simply to enter employment in this country without having to wait for a voucher. Some immigrants have brought in nephews or cousins of working age in preference to younger children of their own. The Government have decided that this concession must be withdrawn, although the Home Secretary will use his discretion to give permission to enter in individual cases when hardship can be shown.

Students and visitors

23. The Government will continue to welcome people who come from other Commonwealth countries on holiday, social or business visits or to follow a course of studies. At the same time it is important to prevent people admitted on the pretext of a visit or a course of study from obtaining permanent settlement. The Government will therefore continue the present practice of admitting students for a limited period relating to the duration of the course of study which has been arranged, but generally limited to a year in the first instance. It is also proposed to impose on visits by Commonwealth citizens a time limit of up to six months, which will be freely extended if good cause is shown.

Evasion of the control

24. The Commonwealth Immigrants Act at present exempts certain classes of Commonwealth citizen - returning residents, voucher
holders, and wives and dependent children – from the imposition of conditions of admission. There are some individuals claiming to fall into one of these categories – dependants, in particular – about whose bona fides the immigration officer may feel doubt without having sufficiently strong grounds to make him feel justified in refusing admission.

The Government propose to seek a general power to impose conditions on the admission of any Commonwealth citizen who is subject to control. This power would be exercised with discretion and would not be used in any way to impose unnecessary restrictions on people with a clear right of admission for permanent residence.

25. If a person admitted to this country for a limited period remains here after that period has expired, it is difficult, very often impossible, to trace him. An alien admitted for a limited period longer than three months is normally required to register with the police in the area where he is going to stay, depositing a photograph, and to keep them informed of any change in his address or employment. The Government do not consider it necessary or appropriate to impose a similar obligation on all Commonwealth citizens temporarily resident in this country, or on any particular class such as visitors or students. There are, however, some individuals in these or other classes who the immigration officer has good reason to suppose are unlikely to comply with their conditions of admission unless they are subject to some further supervision. The Government propose to seek power for an immigration officer to include among the conditions on which a particular Commonwealth citizen is admitted one requiring him to register with the police. This power, again, would be exercised sparingly and with discretion; but it should be a valuable check on the minority who seek to evade the law.
26. At present a Commonwealth citizen may be deported only if a court has made a recommendation to that effect on convicting him of a crime punishable by imprisonment. This rule ensures to the person concerned the open consideration of his case by a judicial authority, with a right to be heard in his own defence; but there are disadvantages in this limitation on the Home Secretary's power. Not all the facts may be before the court, which may therefore refrain from making a recommendation in a case where it could otherwise have done so. Different courts take inconsistent views of similar cases, so that of two immigrants equally undesirable the Home Secretary may be able to repatriate one but not the other. There may be evidence - of conduct or activities falling short of criminal - which clearly points to repatriation but cannot be made the basis of a criminal charge.

27. The Government regard it as important that there should be a speedy and effective power to repatriate immigrants who in one way or another evade the stricter control over immigration that is now envisaged. Without it the effectiveness of the control would be greatly weakened. If a person has obtained entry by misrepresentation or has flouted the conditions on which he was admitted, there is little point in bringing him before a court for punishment as a criminal. To vindicate the law it is both necessary and sufficient, in all but the most exceptional circumstances, to repatriate him with the least possible delay.

28. It is therefore the Government's intention to seek for the Home Secretary a general power - in addition to his power to act on the recommendation of a court - to repatriate a Commonwealth citizen if he considers the public interest to require it. This power, like the existing power of deportation, would be limited to Commonwealth citizens resident here for less
than five years. If an alien whom the Home Secretary proposes to deport, otherwise than on the recommendation of a court or on security grounds, has been lawfully resident in the United Kingdom for more than two years, he has since 1956 been given an opportunity to make representations to the Chief Metropolitan Magistrate, who then advises the Home Secretary whether or not a deportation order should be made; the final decision rests with the Home Secretary, who has so far always acted in accordance with the Chief Magistrate's advice. The Government propose that the opportunity to make representations to the Chief Magistrate against repatriation in similar circumstances should be accorded to a Commonwealth citizen who has been lawfully resident in the United Kingdom for more than six months.

Health

29. Immigration has not created a serious public health hazard; and such problems as have arisen in the areas where immigrants have settled have been due in the main to difficulties of adaptation to new conditions, and to disease being contracted after arrival rather than brought in.

30. There have, however, been instances of infectious disease, especially pulmonary tuberculosis, being brought into the country. Where the necessary legal powers were available, the Government have tried to prevent this. In 1964, as a result of medical inspections carried out at the ports 65 persons (60 aliens and 8 from the Commonwealth) were refused entry on medical grounds. Where the power to refuse entry was not available, as in the case of the dependants of Commonwealth immigrants, the Government have sought to secure early treatment in the area of settlement. With this aim, measures have been taken, in collaboration with port and local
health authorities and general practitioners, to secure that an immigrant gets on the list of a family doctor immediately after arrival, is medically examined and has an X-ray if the doctor thinks this advisable.

31. These arrangements were improved at the beginning of this year when, among other measures, X-ray apparatus was installed at London Airport; and it is the Government's intention to make further improvements in the health checks at ports of entry.

32. It has been decided that in future an immigrant should normally be expected to produce evidence of having undergone a medical test in his own country - both as a wise precaution and because this should reduce the risk of our having to refuse the immigrant entry at our ports. Because of the absence of the necessary legal powers it has not hitherto been possible to bring dependants of Commonwealth immigrants fully within the arrangements for medical inspection at ports. The Government have now decided that an additional power should be taken so that, at the discretion of the immigration authorities, any immigrant, including dependants, may be medically examined at the port of entry and may be required as a condition of entry to this country to report to a Medical Officer of Health with a view to necessary medical treatment being arranged. There will however be no question of refusing entry on medical grounds to entitled dependants and powers will not be taken to do this.

33. Medical tests abroad will take time to organise in collaboration with the other Governments concerned, and legislation is needed before new conditions can be attached to entry. The necessary preparation will be put in hand, and the new arrangements introduced over a period.
The United Kingdom is already a multi-racial society and Commonwealth immigrants make a most valuable contribution to our economy. Most of them will stay and bring up their families here and there can be no question of allowing any of them to be regarded as second class citizens. At the same time it is only honest to recognise that the presence in this country of nearly one million immigrants from the Commonwealth with different social and cultural backgrounds raises a number of problems and creates various social tensions in those areas where they have concentrated. If we are to avoid the evil of racial strife and if harmonious relations between the different races who now form our community are to develop, these problems and tensions must be resolved and removed so that individual members of every racial group can mingle freely with all other citizens at school, at work and during their leisure time without any form of discrimination being exercised against them.

The concentration of immigrants in certain urban areas has arisen partly at least because these are the areas where most job opportunities exist. The difficulties which arise in these areas fall broadly under the four headings of housing, education, employment and health.

**Housing**

Large numbers of Commonwealth immigrants are living in conditions which are unsatisfactory, which present serious problems for the local housing authorities, and which lead to tension between the immigrants and their neighbours. The main reason for this is that the areas where Commonwealth immigrants, among others, have settled are those where the housing shortage is already most acute. Commonwealth immigrants do not cause the housing shortage. It existed before they began to arrive in large numbers.
37. The Government endorse the strongly held view of the Commonwealth Immigrants Advisory Council that it would be wrong to give special treatment to immigrants in housing matters. The sole test for action in the housing field is the quality and nature of housing need without distinctions based on the origin of those in need. The solution must lie in a determined attack on the housing shortage generally and particularly on the shortage of accommodation to rent on reasonable terms. The Government have already announced that a much larger part of the housing programme, in the form of a higher proportion of local authority building, will be devoted to providing rented accommodation for those whose housing need is most acute. This development in policy will itself benefit the immigrant section of the community.

38. The fact that in the more thickly populated parts of the country it will take many years to overhaul the housing shortage does not mean that no immediate action is possible to relieve the immigrants' housing problems and to assist in their integration into the community. Local housing authorities already have a wide range of powers, which, if judiciously used, can make a major contribution to this end. As time goes on, immigrants will qualify for rehousing by local authorities either by virtue of residential qualifications or through being displaced by slum clearance or other redevelopment. Thus it will become commonplace for Commonwealth immigrants to be rehoused by local authorities in pursuance of their normal statutory responsibilities. This in itself will tend to break up excessive and undesirable concentration.

39. More immediately, housing associations can play a part in providing accommodations for immigrants and in the process can help to promote their integration. Local authorities will, it is hoped, do their utmost to assist and promote housing associations which have integration as one of their aims.

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40. The main cause of unsatisfactory living conditions among immigrants is the multiple occupation of houses originally designed for only one family. The limited powers available under the Housing Act 1961 to improve conditions in such houses were somewhat strengthened by the Housing Act 1964. But when this legislation was framed, the gravity of the problem was not fully realised. The Minister of Housing and Local Government is therefore examining the powers with a view to making them more effective. Birmingham City Council has already taken power in local legislation to require registration of houses before multioccupation begins. The need for legislation to extend similar or additional powers to local authorities generally is now being considered.

Education

41. The educational problems in areas where there is a concentration of immigrants were considered in a circular (No. 7/65) issued by the Department of Education and Science on 14th June, 1965. The circular makes a number of suggestions which are set out in the following paragraphs.

42. Within the schools, most of the difficulties arise from the fact that numbers of immigrant children newly arrived from overseas are brought to school without previous warning, often knowing little or no English, and ignorant of the normal social habits and ways of life in this country. The main educational need of the children from the areas where English is not in common use is to learn the language quickly and effectively, so that they can join in the normal work of the school, and develop their talents and abilities to the full; at the same time, it is important that the general standards of the school should be maintained. To achieve both these aims requires teaching skill of a high order, supported by administrative and other measures designed to lessen the burden falling on the teachers.
43. In order to maintain the standard of education in schools attended by large numbers of immigrant children with language difficulties special arrangements must be made to teach them English and to bring them up to the general standards achieved by the other children. This will often mean special classes for the immigrant children for at least part of the day, although from the beginning they should join as far as possible in the normal social life of the school and take their place in the ordinary classes as their command of English allows.

44. Such arrangements can more easily be made, and the integration of the immigrants more readily achieved, if the proportion of immigrant children in a school is not allowed to rise too high. The circular suggests that about one-third of immigrant children is the maximum that is normally acceptable in a school if social strains are to be avoided and educational standards maintained. Local education authorities are advised to arrange for the dispersal of immigrant children over a greater number of schools in order to avoid undue concentration in any particular school.

45. Special arrangements for the teaching of immigrant children will often necessitate a more generous teaching staff ratio in the schools. The Department of Education and Science is prepared to increase the teacher quota in areas where special staffing arrangements are required in schools with a high proportion of immigrants. Though this may not be of much help in areas which are already seriously short of teachers, a number of authorities have been able to make use of the services of part-time teachers to good effect.

46. The burden on the teachers can also be relieved by the employment of more welfare and clerical assistants to help in the social training of the immigrant children and to establish a link between the school and the home.
47. Arrangements have been made or are under discussion for the provision of special courses of training, both for English teachers of immigrant children and for teachers and potential teachers among the immigrants themselves. Some of the latter, although possessing paper qualifications, are not employable as teachers here because of their inadequate English and their unfamiliarity with modern teaching methods in this country. It is proposed that the first full-time courses for immigrant teachers should begin early in 1966; provision of part-time courses is also being considered.

48. Adult immigrants, who come to this country to work in a variety of jobs, also need courses, most of all in English, so that they can learn to communicate with English people, but also in the customs, practices and traditions of this country which it would be to their advantage to adopt. Many local education authorities are already taking a keen interest in providing appropriate courses, although in some areas attendance is not always well maintained. The Department's circular suggests an intensification of these efforts by authorities, and looks to employers, trade unions and all others concerned to encourage and support them in any way they can. In particular, authorities should bring their educational facilities to the attention of immigrants by providing publicity leaflets and notices for display at local employment exchanges and in other places likely to be frequented by immigrants. They should also seek the co-operation of leaders of local immigrant communities and associations in making facilities known to their members.

49. Increasing interest is being taken in the new problems that have become evident in the teaching of immigrants, and many people feel the need for further research and for the development of new materials and teaching aids. In addition to research
which is already in progress and the experimental use in some areas of such aids as language laboratories, discussions are taking place about the possibility of using the resources of educational broadcasting both television and radio, to stimulate active interest among the immigrants themselves, and to promote their integration within the community.

50. Service by young people, not only overseas but also to the community in this country, is an accepted and growing feature of the youth service. The co-ordination of this activity is now being considered by a Committee of the Youth Service Development Council. Service with immigrant communities is already undertaken by some young people, and its development is to be encouraged.

51. As time goes on, further local and regional courses and conferences will be arranged by local education authorities to discuss all aspects of the education of immigrants, and to assist in the co-ordination of the work being done by the authorities themselves and by voluntary liaison committees and other groups on which immigrants are represented.

Employment

52. The great majority of immigrants are fully employed, working in a wide range of occupations in many industries. Nevertheless there are indications that, in certain respects, discrimination still persists.
53. This complex issue is being tackled in a number of effective, if unobtrusive, ways. First there is the work of the Employment Exchanges. The Government make it a rule that an employer who attaches discriminatory conditions is not to be helped by the Exchanges to fill vacancies if it appears that he is acting out of personal prejudice and that he is intransigent. But indications of discrimination in notifying vacancies also give the Exchange the chance to make a positive contribution by finding out what is at the root of the trouble so that they can try by persuasion and reasoning to ease the way to a better understanding and attempt to overcome any difficulties that may exist. In this way considerable progress has already been made and will continue to be made. The Youth Employment Service has also been making vigorous efforts to help Commonwealth immigrant school-leavers to obtain employment and training suitable to their abilities on equal terms with other young people, and these efforts have met with a welcome measure of success. The Trade Unions have declared themselves unequivocally against discriminatory practices. Many of them have promoted valuable educational activities for immigrants themselves or to help others to understand immigrant problems. There is scope for collaboration between managements and trade unionists, especially at the local level, in developing mutual understanding between immigrants and the host community at the work place and the Government intend to do everything possible to forward this process.

Health

54. Any discussion of immigrants and the health services must begin with a recognition of the valuable contribution made by immigrants towards the staffing of these services. The efficient running of our hospitals in particular, depends in no small measure on the service given by doctors, nurses, domestics and other staff drawn from all parts of the Commonwealth. The Government gratefully acknowledge the essential contribution they make to the well-being of the whole community, and are glad to feel that those who later return home obtain experience here which will be of value to them in their own countries.
55. This paper has already described measures which the Government propose to take to require immigrants to produce evidence of having undergone medical tests in their own country, to improve health checks at our ports of entry and, where necessary, to make reference to a Medical Officer of Health, with a view to obtaining necessary medical treatment, a condition of entry. It must, however, be recognised that even with the introduction of these measures, many immigrants will, for a variety of reasons, continue to impose a relatively heavy burden on the health services. Their needs are different in degree rather than in kind but they require the special attention of the responsible authorities even though the general objective must be to meet them in the same way as the needs of other citizens.

56. There is first of all the general problem of communication. Many immigrants speak no English and some of them are illiterate; this means the expenditure of a disproportionate amount of time by the staff who have to deal with them. Much can be done by the employment of suitable members of the immigrant communities themselves to work as health visitors, home nurses or midwives, welfare officers and home helps or to assist local authority and hospital staffs in other ways.

57. The main problem presented to local authorities is the detection and prevention of tuberculosis. The incidence of the disease has been found in several areas to be appreciably higher among Asian immigrants than in the rest of the population. To a limited extent the disease has been brought by the immigrants themselves but its incidence is for the most part the result of their living conditions in this country. Local authorities have been active in arranging for chest X-rays for adult immigrants by miniature radiography or otherwise, and for tuberculin testing
and B.C.G. vaccination of children. Medical Officers of Health were advised in April by the Chief Medical Officer of the Ministry of Health to apply these arrangements to all immigrant children and to newly arrived adults (with X-ray and supervision if necessary for positive reactors). B.C.G. vaccine for these purposes is supplied free by the Ministry of Health.

58. One of the main pressures that Commonwealth immigrants exert on local hospital facilities arises from the fact that their poor housing conditions are unsuitable for home confinements and that this leads to a heavy demand for hospital maternity beds. The hospital building programme is currently under review by Regional Hospital Boards, and this will take account of all the factors, including the presence of immigrants, which are relevant to the provision of a hospital service. Since the resources available for hospital building are not enough to meet present needs, it will be necessary for Boards to determine priorities in order to deploy these resources in the areas of greatest medical need of the population of an area as a whole, without discrimination. The hospital building programme should thus ensure that the adequacy of the hospital service in a particular area will not depend on the country of origin of its population. It must, however, be recognised that there may be pressures on hospitals in certain areas for several years until the necessary hospital building schemes can be planned and executed.

59. A special problem is that of the care of the young children of immigrant mothers who are at work. Child-minding is sometimes arranged in unsuitable surroundings and in unsatisfactory care. Local authorities were asked in April to review their arrangements for inspection and supervision and to report to the Minister of Health by 31st July.
60. The Milner Holland Committee drew attention to the unfortunate consequences of the fact that Commonwealth immigrants arrive in this country with very little knowledge of housing conditions, of the rights and duties of landlords and tenants in this country, and of the pitfalls which lie in the way of unwary house purchasers. Similarly, there are many other aspects of life in this country which immigrants have difficulty in understanding, for example their rights and responsibilities under the provisions of our various health acts. A number of local authorities already produce leaflets on various subjects in different languages and the Government are examining the need for supplementing this material by centrally-produced leaflets or in other ways.

Financial assistance for local authorities

61. At present the main local services which may be under pressure in areas where immigrants have settled (housing, education and health) are assisted either through the General Grant or by specific subsidies or grants. The formula by which the General Grant is distributed is related to the population of each local authority area and is weighted to take account, among other factors, of the proportion of old and young (including school children) in the population. Thus if the total (or the child) population in an area is increased for whatever reason, the normal machinery will take this into account in distributing the grant to local authorities for them to use according to local needs. In the case of housing, subsidies and grants from the Exchequer are directly related to specific local authority projects so that increased capital expenditure by a local authority in this field will automatically attract increased Government assistance.

62. In some areas, however, the local authority will need to undertake special commitments, for example, the employment of extra staff, in order to ease those pressures on the social services which arise from differences in language and cultural background and to deal with problems of transition and adjustment. Where need can be shown, the Government propose to give such local authorities special financial help towards expenditure incurred for these purposes.
Voluntary Liaison Committees

63. None of the difficulties referred to above will be resolved without a positive effort on the part of all concerned, especially locally in those areas where immigrants have settled in substantial numbers; but such effort needs to be properly directed. The Government are much impressed by the importance of the work being done to this end by certain voluntary committees which provide the necessary focal point in their areas for the co-ordination of effort and a channel for the exchange of information, ideas and experience. Above all they help to create a climate of mutual tolerance in which the stupidity of racial prejudice cannot survive. 64. The committees have a variety of names. Several are called "International Friendship Councils"; other names are "Commonwealth Citizens Consultative Committee", "Council for the Welfare of Coloured Citizens", "Co-ordinating Committee for Work among Commonwealth Immigrants" and so on. For the purposes of this White Paper they are described as voluntary liaison committees.

Regional Committees

65. In some areas regional committees have been formed to co-ordinate information, experience and ideas. There are at present three such regional organisations, the Immigrants Advisory Committee set up by the London Council of Social Service for the London Boroughs, the Commonwealth Welfare Council for the West Midlands, and the Yorkshire Working Group on Immigrants set up under the auspices of the Yorkshire Council of Social Service.

National Committees

66. At the national level the Commonwealth Immigrants Advisory Council under the chairmanship of Lady Reading was appointed by the Home Secretary in 1962 to advise him on any matters which he might refer to it from time to time affecting the welfare of Commonwealth immigrants in the United Kingdom and their integration into the community. On its recommendation the National Committee for Commonwealth Immigrants was set up on 1st April 1964.
67. The work of the National Committee consists largely in providing advice and information. It also has an important function in assisting in the formation of local liaison committees and regional organisations. On the 1st April, 1965, the National Committee held a meeting of representatives from the voluntary liaison committees at which there was general agreement on the need for the full exchange of information and advice and of the desirability of regular meetings of representatives of the liaison committees under the auspices of the National Committee.

Conditions for success

68. To be successful liaison committees must satisfy three conditions. First, the whole enterprise must be regarded as a joint project in which immigrant and host community are both fully involved. Second, although they are essentially the product of voluntary effort, the committees must have the full backing of the local authorities, who should not only support them in principle but should also take an active part in their work, give them adequate financial help and where necessary provide somewhere for them to meet. Third, the committees must be non-sectarian and non-political. They must include representatives of, or maintain close association with, all the main religious bodies and political parties and as many as possible of the various local organisations, both statutory and voluntary.

The functions of Voluntary Liaison Committees

69. The work of voluntary liaison committees falls under three main headings: information, education and welfare.
70. Accurate information about the situation in a particular area is necessary if effective work is to be done. Circumstances vary from place to place and it is an essential function of a voluntary liaison committee to identify accurately the main problems which exist in its own area and to propose positive measures for their solution.

71. Voluntary liaison committees should take steps to promote public education. Many of the social tensions which exist arise from ignorance and a readiness to believe unfounded rumour. A voluntary liaison committee can provide a forum in which people of different racial origins can meet to discuss their difficulties and learn to understand each other's background and traditions and where the structure of British society can be explained to the immigrants. Much can be done by sponsoring inter-racial projects of an imaginative kind and by encouraging immigrants to make full use of the vocational and educational facilities available to them and to take a full share in public life.

72. Voluntary liaison committees can also usefully help immigrants with personal welfare problems but an important principle to be borne in mind is that the object should be to help immigrants to use the ordinary facilities of social service provided for the whole community. It would be a mistake to build up any permanent form of special service for immigrants which would encourage and perpetuate separatism.

73. Under the Race Relations Bill, local conciliation committees will be set up by a central Race Relations Board to enquire into complaints of racial discrimination. Their functions must
The Adobe Photoshop image shows a document with text that is not legible due to the quality of the image. The text appears to be in English, but it is not possible to transcribe it accurately without a clearer image or additional context.
however be distinguished from those of the voluntary liaison committees whose function is essentially the co-ordination of local effort and the positive promotion of goodwill, not the implementation of the statutory requirements of the Race Relations Bill.

The Future

74. The Government recognise that local conditions vary considerably and that complete rigidity of principle and standardisation of organisation are neither possible nor desirable. The present system is flexible and this flexibility should continue. The Government believe, however, that there is a need for closer co-ordination of effort on a national basis and in particular a need for some tangible evidence of Government support for the existing network of voluntary liaison committees and for the creation of additional committees in other areas where substantial numbers of Commonwealth immigrants have settled.

75. The Government intend to establish a new National Committee for Commonwealth Immigrants which will be composed of individuals who are able to bring special knowledge and experience to bear on the problems arising from Commonwealth immigration. This will replace the existing National Committee. Its finances and staff will be such that it will be able to expand existing services to the voluntary liaison committees and the regional organisations. The need for a wider sharing of experience has clearly been shown and it is important that the new National Committee should be able to build up a comprehensive body of doctrine which can be flexibly applied to a variety of local situations, extend the range of existing information work, organise conferences of workers in the field, arrange training courses, stimulate research and the examination by experts of particular problems, and generally promote and co-ordinate effort on a national basis.
76. The Government take the view that the work of the National Committee should not be directly under Government control since its main stimulus must come from the harnessing of voluntary effort, and a degree of autonomy is necessary if the Committee is to remain free from party political influence and other partisan pressures; but the Government propose to maintain close liaison with the work of the Committee and to associate itself fully with the Committee's efforts.

77. The Government consider it of the first importance that each voluntary liaison committee should be served by a trained, full-time, paid official who should be the direct servant of the committee. As evidence of its wish to give tangible support to the committees, the Government is prepared, on certain conditions, to make a grant towards the salary of such an official available to each voluntary liaison committee through the National Committee. The first condition will be that the voluntary liaison committee concerned can demonstrate to the satisfaction of the National Committee that the person they propose to employ is fully competent to carry out the particular work which he or she will be called upon to perform. Secondly, such a grant will be available where the local authority concerned provides adequate office accommodation and secretarial support for the official appointed. Where these conditions are satisfied, voluntary liaison committees already employing a suitable officer will be eligible to apply for the proposed grant. It will be one of the functions of the National Committee to assist in the recruitment and training of suitable officers where they are not otherwise available to the local committee.
78. The Government wish to pay tribute to the valuable work of the Commonwealth Immigrants Advisory Council since its formation in 1962. Its members, under the chairmanship of Lady Reading, have devoted much time to the study of questions affecting Commonwealth immigrants and have produced three important reports; but with the arrangements made for co-ordinating Government activities relating to the integration of Commonwealth immigrants (Official Report: 9th March, columns 248-249), with the proposals for a new National Committee for Commonwealth Immigrants and with the general increase in the last few years of study and research into the various problems which have arisen, the role of the Council needs to be re-examined.

79. The Government consider that the advice which the Council has hitherto made available to the Government can in the future be most effectively provided as part of the work of the new National Committee and therefore intend that the functions of the Council should now be included in those of the new committee.

Conclusion

80. The good name of Britain, our relations with other members of the Commonwealth, and, above all, justice and common humanity, demand that Commonwealth immigrants in this country should be absorbed into our community without friction and with mutual understanding and tolerance. The Government believe that the good sense of the British people will prevail and that this will be achieved. The above paragraphs outline some of the steps which the Government will take to speed the process; they are sure that in this effort they will be able to rely on the full co-operation of all the national organisations, local authorities and voluntary organisations concerned and of the immigrants themselves.

* Cmd. 2119, 2256, 2458
The Government have had under review the whole subject of Commonwealth immigration, including the control of entry into the United Kingdom and the integration of immigrants in this country into the community. A White Paper covering both these aspects is being issued this afternoon.

2. The Government have had the advantage of Lord Mountbatten's Report on his Mission to the Commonwealth countries principally concerned, and the discussions which were held with some Commonwealth Prime Ministers when they were recently in London. We recognise the very valuable contribution that workers from other parts of the Commonwealth are making to industry and the staffing of our social services; and visitors and students from other Commonwealth countries are always welcome here. But nearly everyone, both in this country and in the Commonwealth as a whole, appreciates that there is a limit to the number of immigrants that this small and overcrowded country can absorb. We have come to the conclusion that new measures are necessary if that limit is not to be exceeded.

3. The Government have decided that there must be a reduction in the rate at which vouchers are issued to enable Commonwealth citizens to come here for employment and, as from today, the rate will be reduced from 29,800 a year to 7,500 a year. In addition, however, a temporary allocation of 1,000 vouchers a year, to be reviewed after two years, will be made available for Maltese workers in view of our special obligations to Malta. Applications will continue to be entertained under Category B of the scheme for persons with certain special qualifications or skills, though on a more restricted basis than in the past. The remainder of the vouchers will be available under Category A, that is for workers who, whatever their
qualifications, have specific jobs to come to, subject to a limitation of 15 per cent on the share of those to be issued to any one Commonwealth country. No vouchers have been issued since September 1964 to applicants in Category C, i.e. the category for persons who wish to work here but do not qualify under Categories A or B, and it has now been decided that no further vouchers will be issued to applicants in this category.

4. We propose no change in the present statutory rights of wives and children under 16 to accompany Commonwealth immigrants to, or join them in, this country; but, save in exceptional circumstances, we are withdrawing the present concessions enabling any child aged 16 but under 18 to join a parent, and any child under 16 to join a close relative other than a parent, in this country. With a view to preventing evasion, immigration officers will be instructed to apply strict tests of eligibility, and will take into account whether the would-be entrant produces on arrival an entry certificate issued in the country of origin.

5. It has also been decided that in future immigrants should normally be expected to produce evidence of having undergone a medical test in their own countries.

6. We shall also seek a wider power in the coming session to secure that, at the discretion of the immigration authorities, any immigrant, including dependants, may be medically examined at the port of entry and may be required as a condition of admission to report to a Medical Officer of Health with a view to medical treatment being arranged.

7. In addition, we shall seek new powers to combat evasion of the control, including an extension of the Home Secretary's power to repatriate Commonwealth citizens.

8. It is a cardinal principle of the Government's policy on Commonwealth immigration that immigrants have exactly the same rights and responsibilities as any other citizens.
9. At the same time it is only honest to recognise that the presence in this country of a number of immigrants with differing cultural and social backgrounds, and in particular their concentration in a few areas where there is already a housing shortage and pressure on the social services, has given rise to a number of difficulties. The main problems are referred to in the White Paper under the four broad headings of housing, education, employment and health. There is no dramatic short-term solution to any of them, but we are determined to do what we can to speed up the processes whereby Commonwealth immigrants are fully accepted into our community and the present difficulties are resolved.

10. We recognise that there are certain special pressures on the social services in some areas not just because of an increase in numbers but because of differences in language and cultural background. These special difficulties can require the employment of additional staff who can, for example, speak one or more of the immigrants' languages or who can do the extra work involved in providing a link between the school and the immigrants' homes. Where the need can be shown we shall be prepared to give financial assistance to local authorities who employ such staff.

11. The key to removing social tensions lies in action at the local level in which the local authority, the voluntary organisations and the immigrants themselves are all fully involved. The Government have been much impressed by the valuable contribution being made by voluntary liaison committees in certain areas. The Government hope that similar committees will now be set up in other areas where immigrants have settled but where no committees as yet exist. As evidence of our intention to encourage these committees in their work we shall be prepared, on certain conditions, to make a grant available to voluntary liaison committees towards the salary of a trained, full-time, paid official.
12. While recognising that local conditions vary, the Government consider that there is also a need for closer co-ordination of effort on a national basis. To this end we propose to establish a new National Committee for Commonwealth Immigrants which will replace the existing National Committee and which will be composed of individuals who are able to bring special knowledge and experience to bear on the problems arising from Commonwealth immigration. It will be the function of the new committee to co-ordinate the work of voluntary liaison committees, to extend the range of existing information work, to organise conferences, arrange training courses, stimulate research and the examination by experts of particular problems and generally to promote and co-ordinate effort on a national basis.

13. The Government wish to pay tribute to the valuable work of the Commonwealth Immigrants Advisory Council under the chairmanship of Lady Reading. We have, however, decided that the advice which the Council has hitherto made available to the Government can in future be most effectively provided as part of the work of the new National Committee. We therefore intend that the functions of the Council should now be included in those of the new committee.

14. The Government are determined to ensure that Commonwealth immigrants are absorbed into our community without friction and with mutual understanding and tolerance. We believe that we shall be fully supported by public opinion and can rely on the full co-operation of all the national organisations, local authorities and voluntary organisations concerned and of the immigrants themselves.
23rd July, 1965

CABINET

COAL PRICES

Memorandum by the Minister of Power

The Chairman of the National Coal Board has notified me that, subject to our views, the Board propose to increase coal prices from the 1st September so as to cover the deficit on revenue account for 1965-66 which will remain despite the capital reconstruction on which we decided at Cabinet on 1st July, 1965, (C.C.(65) 35th Conclusions, Minute 5). I am aware that my colleagues wished consideration of increases to be deferred till later in the year, but I must bring the matter up urgently in view of developments in the Board's financial position and their price proposals.

2. In February this year we authorised the Board to introduce price increases, originally from 1st April, 1965, but these were, with our agreement, deferred. Lord Robens hoped that the results of the first quarter of 1965-66 would show some improvement on the original estimate and that this (combined with capital reconstruction) would enable the Board to break even. This hope has not been fulfilled.

3. In February of this year the Board estimated their 1965-66 deficit at about £40 million of which it was then intended £25 million should be met by price increases from 1st April, leaving £15 million to be covered in other ways, including capital reconstruction. The increase in the rate of productivity is proving less than was assumed in the Board's original estimates: wage increases will add £6 million more than expected to the Board's costs; their revenue from sales is likely to be below the original estimates, despite short-term measures of assistance we have given to them. The Board's results for the first three months of 1965-66 are already £4 million worse than originally estimated. The Board now estimate that their deficit for 1965-66 will be in the region of £55 million. Some £30 million of this will, in the Board's reckoning, be covered through capital reconstruction, leaving an additional £25 million to be recovered in the financial year 1965-66, and this is the amount the Board propose to raise in the seven months from 1st September by price increases.

4. In the full year 1966-67 the price increases proposed would bring in £40 million and there is a reasonable prospect that price increases next year could be avoided, if the Board now make the increases proposed.

5. Because of the need to consult the two Coal Consumers' Councils and to give notice to the public, the proposed increases can be effective on 1st September only if we take a decision before the end of this month to allow the Board to go forward with their proposals.
6. The Board's proposals are summarised in the Annex. The main features are:

**House coals, anthracite and dry steam coals**

Increases would vary between nothing for the lowest qualities of house coal to 20s. a ton for the highest qualities of house coal and for anthracite and dry steam coals, which are in short supply. (In addition there will be the two normal seasonal increases of 10s. and 20s. a ton for all these coals, and the Board propose that this year they should take effect on 1st September and 1st November respectively.) The total additional revenue from these arrangements is estimated at £9.7 million in 1965-66, and £14.8 million in a full year.

**Industrial coals**

The increases would vary according to the coalfield. Coal from the Yorkshire and East Midlands fields and from Scotland would not be increased in price, but coals from other fields would be increased by amounts varying from 5s. 3d. a ton in Lancashire to 20s. a ton in South Wales and 21s. 3d. a ton in Somerset. Any addition in respect of coal supplies for coke ovens would be limited to 7s. 6d. a ton. The total additional revenue from these arrangements is estimated at £15.3 million in 1965-66 and £25 million in a full year.

**Phurnacite, coke and other N.C.E. manufactured fuels**

No increase is proposed.

7. In making the proposals, Lord Robens has said that the price changes should be such as to assist the objective of concentrating production in the really economic fields and of eliminating uneconomic working. The East Midlands and Yorkshire coalfields, for which no increases are proposed, have been consistently profitable; and the Scottish Division has shown substantial financial improvement since the selective price increases of 1962. The other fields, particularly South Wales, Durham and Northumberland, contain a large number of grossly uneconomic pits, and are a heavy financial burden on the Board. Lord Robens' proposal to limit the increase for coke oven supplies may prevent renewed pressure for relaxation of the restrictions on imports.

8. The impact on consumers of these increases is complicated by their selective nature, and by the multiplicity of uses to which the many varieties and qualities of coal are put. However, I can give my colleagues a general indication of what is entailed. The changes affect annually only about 47 million tons of industrial and public utility business and 22 million tons of domestic business, a total of 69 million tons, or less than half of the commercially disposable output. The increases in pithead prices of domestic coals would, on average, add about 0.1 per cent to the present cost of living index figure. Coals for general industry would rise in price by 11.5 per cent on average in the localities affected, but the total additional burden on industry from the electricity and industrial coal price increases would represent an average between 0.1 per cent and 0.2 per cent of total industrial costs. The increases in electricity coal prices would be automatically passed on to industry through coal price clauses in electricity tariffs, and
prices per unit would rise by an average of about 2 per cent, local variation being from nil to perhaps 8 per cent.

9. There are three aspects of these price proposals which we need to consider - scale, timing, and distribution: and we should do so in the knowledge that we would have to shoulder responsibility for the consequences of stopping or delaying the Board's proposals.

The results of the first quarter of 1965-66 are disappointing and I have no reason to take a different view from the Board of the amount of money they need to raise in 1965-66. Officials are working on proposals to assist the industry with the social and human costs of accelerated closures: but any such assistance to the Board would only help to offset additional expenditure and would not improve the Board's finances significantly. We would be in some difficulty, if at the same time as we were proposing to Parliament a write-off of £400 million of the Board's debt to the Exchequer, we were stopping the Board's proposals to put their finances thereafter on a sound footing. As far as timing is concerned I wonder whether there would be any substantial advantages to us in securing a deferment of a price increase which seems inevitable and could be delayed at most for a month or two. In the meantime the cost would have to be borne by the Exchequer and the increase, when made, would have to be greater. I think that the principles on which the increases are distributed by the Coal Board among the various fields and coals are right. They should help to bring a better correlation between prices and costs and assist the emergence of a more viable industry.

10. Subject to the views of my colleagues I think we should not object to the Coal Board's proposals, and that we should allow them to go forward to the Consumers' Councils. The Board would doubtless be willing to consider minor modifications to meet particular points raised by the Councils and I shall consider any representations which the Councils may make, before the Board give effect to the proposals.

F. L.

Ministry of Power, S.W.1.

23rd July, 1965
## SUMMARY OF PROPOSALS

### Yield Sept. 1965 to March 1966

<table>
<thead>
<tr>
<th></th>
<th>Yield in 1966-67</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£d</td>
</tr>
<tr>
<td><strong>Annex</strong></td>
<td>169</td>
</tr>
</tbody>
</table>

(a) **House Coal**

#### England and Wales

- Groups 1 and 2 - Increase by 20/- per ton
- Groups 3 and 4 - Increase by 8/- per ton
- Groups 5 and below - No increase
- Summer/winter period change - net benefit 6.6

#### Scotland

- Groups 1-5 - Increase by 10/- per ton
- Groups 6 and below - No increase
- Summer/winter period change - net benefit 1.8

(b) **Anthracite and Dry Steam Coals.**

- Increase 20/- per ton

(c) **Selective Increases in Coalfield Additions.**

<table>
<thead>
<tr>
<th>Coalfield Addition</th>
<th>Present</th>
<th>Proposed</th>
<th>New Coalfield Increase on total price (approx.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deep Mines</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scottish</td>
<td>19/10d</td>
<td>19/10d</td>
<td>-</td>
</tr>
<tr>
<td>Northumberland</td>
<td>6/5d</td>
<td>11/7d</td>
<td>18/-</td>
</tr>
<tr>
<td>Durham</td>
<td>5/6d</td>
<td>12/5d</td>
<td>18/-</td>
</tr>
<tr>
<td>Yorkshire</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cumberland</td>
<td>14/6d</td>
<td>15/6d</td>
<td>30/-</td>
</tr>
<tr>
<td>Lancashire</td>
<td>19/9d</td>
<td>5/3d</td>
<td>25/-</td>
</tr>
<tr>
<td>North Wales</td>
<td>17/-</td>
<td>8/-</td>
<td>25/-</td>
</tr>
<tr>
<td><strong>E. Midlands</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Area 1-6)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>E. Midlands</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Area 7)</td>
<td>1/10d</td>
<td>1/10d</td>
<td>-</td>
</tr>
<tr>
<td>North Staffs</td>
<td>5/6d</td>
<td>5/6d</td>
<td>11/-</td>
</tr>
<tr>
<td>Carnock/</td>
<td>8/2d</td>
<td>5/4d</td>
<td>13/6d</td>
</tr>
<tr>
<td>S. Staffs</td>
<td>5/6d</td>
<td>12/-</td>
<td>17/6d</td>
</tr>
<tr>
<td>Warwickshire</td>
<td>4/7d</td>
<td>20/-</td>
<td>24/7d</td>
</tr>
<tr>
<td>South Wales</td>
<td>13/9d</td>
<td>21/3d</td>
<td>35/-</td>
</tr>
<tr>
<td>Somerset</td>
<td>23/6d</td>
<td>16/4d</td>
<td>40/-</td>
</tr>
<tr>
<td>Kent</td>
<td>1/10d</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Opencast</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
<td></td>
<td>-</td>
</tr>
</tbody>
</table>

- Increase for coke ovens limited to 7/6d.
- Increase as for appropriate coalfield.

Total Selective Increase 15.3

Total 25.0
CABINET

ADMISSION OF FOREIGN WORKERS

Memorandum by the Secretary of State for the Home Department

At their meeting on 8th July the Cabinet invited me (C. C. (65) 36th Conclusions, Minute 3) -

"to keep under review the number of aliens accepted for permanent settlement in the United Kingdom and to bring the matter before them if it appears that the average was likely to rise above 6,000 a year".

This reference to 6,000 is to the number of aliens accepted for permanent residence after completing four years in employment approved by the Ministry of Labour. I refer to them in this memorandum as "workers".

The present position

2. The number of foreign workers accepted for permanent residence in the first half of 1965 was 5,660; the total for 1965 may therefore be expected to be over 11,000. The tables in the annex to this memorandum indicate how, as one might expect, the number of foreign workers accepted for permanent residence (shown in column (2)) has fluctuated from year to year with the number of aliens admitted on long-term labour permits four years previously (shown in column (1)), although the proportion between the two figures is by no means constant. The exceptionally high number of long-term permit holders arriving in 1960 and 1961 (over 30,000 in both years) has been reflected in the exceptionally high number of foreign workers who were accepted for permanent residence last year and who will be accepted this year. Since the number of such permit holders decreased considerably in 1962-64, we may expect a similar decrease over the next three years in the number of foreign workers who are eligible to settle in this country.

Should numbers be restricted?

3. I have considered whether some numerical limit should be imposed on the number of foreign workers accepted for permanent residence in order to prevent invidious comparisons with the number of vouchers issued to workers from the Commonwealth. The figures which ought to be compared are the total numbers of Commonwealth citizens on the one hand and aliens on the other accepted for settlement in any one year. In 1964 there were 55,900 Commonwealth immigrants
accepted for settlement (of whom 14,705 were voucher-holders) as against 19,211 aliens (of whom 9,195 were workers). Even with Commonwealth work vouchers restricted to 8,500 a year, it seems likely that the inflow of dependants of immigrants already settled here will keep the total volume of Commonwealth immigration at least double that of alien immigration for several years to come. Thus I see no ground for invidious comparisons and no other reason to restrict the volume of alien immigration, which does not give rise to any special problems.

4. There would be some practical difficulties about restricting the number of foreign workers accepted for settlement. If we were to attempt to restrict the number of foreign workers settling in the United Kingdom, we would have either to reduce the number of long-term permits granted each year or to refuse permanent residence to some who, under present practice, are qualified for it. A reduction in the number of labour permits issued would put an unnecessary obstacle in the way of the large proportion of aliens who come here only temporarily for employment but at the same time might not have a proportionate effect on the number of those who decide to remain permanently. A limit on the number of foreign workers to be accepted for permanent residence would be difficult to enforce — since ultimately it might involve the deportation of the surplus who wished to remain. It would moreover be contrary to the spirit of the Council of Europe Convention on Establishment, to which this country is a signatory, and other international agreements on the free movement of workers.

Conclusion

5. Accordingly, whilst we could do so, I do not recommend any action to restrict the number of foreign workers accepted for permanent residence.

Home Office, S.W. 1.

23rd July, 1965
<table>
<thead>
<tr>
<th>Year</th>
<th>No. of aliens admitted on long-term labour permits</th>
<th>No. of aliens accepted for permanent residence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>Workers</td>
</tr>
<tr>
<td>1956</td>
<td>30,012</td>
<td>7,601</td>
</tr>
<tr>
<td>1957</td>
<td>26,810</td>
<td>6,296</td>
</tr>
<tr>
<td>1958</td>
<td>26,961</td>
<td>5,711</td>
</tr>
<tr>
<td>1959</td>
<td>26,656</td>
<td>6,297</td>
</tr>
<tr>
<td>1960</td>
<td>31,111</td>
<td>9,195</td>
</tr>
<tr>
<td>1961</td>
<td>32,303</td>
<td>9,320</td>
</tr>
<tr>
<td>1962</td>
<td>27,349 (estimate)</td>
<td></td>
</tr>
<tr>
<td>1963</td>
<td>21,680</td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>23,664</td>
<td></td>
</tr>
</tbody>
</table>

**NOTES:**

1. In the heading of column (1) "long-term" labour permits means those valid in the first instance for a stay of one year (the maximum period initially allowed).

2. In the heading of column (2) "workers" means aliens who have spent four years in employment approved by the Ministry of Labour.

3. The estimated figures for 1965 in columns (2), (3) and (4) are arrived at by doubling the known figures for the first half of the year. In previous years the number of aliens accepted for permanent residence has been slightly greater in the second half of the year.
2. The main features of the proposed scheme, which would cover sickness as well as unemployment, are:

(i) earnings-related supplements would be at the rate of one third of average weekly earnings between £9 and £30 (paragraph 10);

(ii) the supplements would be paid in addition to the personal benefit and dependency allowances payable under the flat-rate scheme up to a limit of 85 per cent of gross earnings (paragraph 10);

(iii) average weekly earnings would be the gross earnings assessable to P.A.Y.E. tax in the tax year preceding the claim to benefit divided by 50 (paragraph 13);

(iv) no allowances would be made for interruptions of earnings in the relevant tax year (paragraph 14);

(v) the maximum duration of earnings-related supplements would be six months; for this purpose spells of sickness and unemployment separated by less than thirteen weeks would be aggregated (paragraph 15);

(vi) there would be twelve "absolute" waiting days for earnings-related supplements (paragraph 16);
contracted-out employees, and their employers, would be liable for graduated contributions for pensions and short-term benefits at the same rates as everyone else and their contracted-out status would in future be recognised by an abatement of their flat-rate contributions and retirement pension (paragraph 23);

the minimum cost of the scheme including administration costs would be of the order of £50 million (paragraph 24);

the scheme would be financed by additional graduated contributions but the proceeds of the flat-rate abatement plan for the contracted-out would be applied to reduce flat-rate contributions (paragraph 26);

about 2,000 extra staff may be needed in the Ministry of Pensions and National Insurance and about 800 in the Ministry of Labour (paragraph 27).

PART II - AIMS AND ASSUMPTIONS

General

3. These proposals must be judged by reference to certain fundamental considerations of policy. We made it clear in our Election Manifesto that the rate at which we could carry out improvements in social security would have to depend on the progress of the economy. The need to keep additional expenditure to the minimum consistent with the provision of an acceptable and worthwhile scheme is borne out in the present proposals which fall short of those I should have been making had the financial situation permitted more radical changes. The scale of benefit is no better than that under discussion last year by the previous Government with both sides of industry and the proposals as they now stand represent in my view the bare minimum for a worthwhile scheme.

Timetable

4. If it is decided to go ahead with an interim scheme for operation from the Autumn of 1966 there is only just enough time available for the work to be done. The Bill would have to be passed by the end of March 1966, not only to allow time for the subsequent stages (regulation-making, preparation of working procedures, printing, recruitment and training of staff, etc.) but also to ensure that employers and employees retain the tax documents relating to the income tax year 1965/66 which will be needed to support claims under the new scheme when it starts. The legislation will be complicated and Parliamentary Counsel should be instructed as soon as possible after the main outline of the scheme has been approved and concurrently with the discussions about the broad details of it which I shall need to hold with the Trades Union Congress, The Confederation of British Industries and other interested bodies. Delay in any of these stages would prejudice the chance of starting the scheme in the following Autumn.
The need for simplification

5. I am concerned about the complexity of the existing national insurance scheme, and the burden it imposes on the local officers of both my Department and the Ministry of Labour, on employers and on the general public. The introduction of earnings-related short-term benefits will add to the existing burden the task of working out a personal benefit rate for each claimant based on his individual earnings. Although the proposed scheme must inevitably cause employers considerable additional work, it makes the minimum possible disturbance to their existing pay and record arrangements. I feel this is important, not only to avoid saddling employers with a good deal of additional cost for work not directly related to their business, but also because we shall need the ready co-operation of employers to make the scheme work at all. We can only expect this cooperation if we can demonstrate that we have done our best to minimise the additional burdens on them.

Implications of earnings-related benefits

6. Much of the criticism of flat-rate benefits relates to the level of the personal rate of benefit (at present £4) in relation to the needs of the higher-paid worker faced with a sudden and substantial drop in income during unemployment or sickness. Critics of the present scheme do not always appreciate that, for the lower-paid worker with a family, flat-rate benefit already provides a high proportion of normal earnings - at least as high as most earnings-related schemes in other countries. For example, a married man with four children who is earning £12 a week can get a national insurance weekly benefit (excluding family allowances) of £9 16s. - nearly 90 per cent of his take-home pay. Clearly, the scope for giving additional help to such workers is limited and the larger benefits of the new scheme must inevitably go to those with relatively high earnings and relatively few family responsibilities. This shift of emphasis is inseparable from earnings-related and the aim must be to strike a reasonable balance between the earnings-related element and the family-related element in the total benefit.

7. In the long run, the answer may lie in radical changes in the provision we make for children through family allowances and income tax so that more help is given to the low wage-earner with a large family whether he is at work or not. Such changes could not, however, be contemplated as part of an interim scheme of earnings-related short-term benefits for operation next year, and the new scheme has had to be made to fit the existing structure.

The problem of over-compensation

8. To create a situation where large numbers of sick and unemployed people could get as much, or even more, by way of national insurance benefits as they could get by working would be highly undesirable. It would invite abuse and expose the scheme to ridicule. In extreme cases of low earners with very large families the flat-rate scheme has already reached the point of over-compensation and my colleagues and I were all agreed that the new scheme, particularly as it will be related to earnings, must not make such a situation widespread.
9. It was clear from the start that in the absence of radical changes in family allowances a scheme such as proposed in "New Frontiers", under which an earnings-related supplement equal to one-quarter of an individual's total earnings would be added to his flat-rate benefit, would offend against this principle. We considered the possibility of eliminating or reducing the weekly allowance for a dependent wife of £2.10s. at present payable under the flat-rate scheme but concluded that such a radical shift of emphasis from family responsibility to earnings-relation would be politically unacceptable. I therefore find it necessary to propose a somewhat less generous scale of earnings-related benefit. Although this does not create such a serious over-compensation problem, some financial incentive to get a job is obviously required and it will still be necessary to incorporate in the scheme an over-riding benefit maximum in order to ensure that the earnings-related supplement does not bring total benefit above something like 90 per cent of take-home pay (that is, gross earnings less income tax and national insurance contributions). This will not, however, affect the existing rights of those who can already get flat-rate benefit in excess of 90 per cent of take-home pay.

PART III - DETAILS OF THE PROPOSED SCHEME

The benefit formula

10. Within the limits imposed by the considerations referred to in the first part of this memorandum my aim has been to devise a benefit formula which would give something like half-pay to the single man on average earnings without producing an acute over-compensation problem for the lower-paid and without giving the higher-paid a proportionately better benefit than the lower-paid. The formula proposed to meet this situation would give an earnings-related supplement of one-third of the amount of gross earnings between £9 and £30 subject to a ceiling where the total benefit (flat-rate personal benefit plus dependency allowances plus supplement) would otherwise exceed about 90 per cent of take-home pay. (For practical purposes 90 per cent of take-home pay can be expressed as 85 per cent of the gross earnings of those affected who pay little or no income tax.)

11. For the single man on average earnings this formula would produce a total benefit of 51 per cent of take-home pay. For the single man on higher or lower earnings the proportion would not be significantly different. The married man with three children would get a proportion of take-home pay ranging from 90 per cent for the worker on £12 a week or less to 65 per cent at the earnings maximum of £30 a week. The effect of the benefit ceiling would be that the £12 a week worker with more than three children would be limited to the rate appropriate to the three-child family. A fuller range of examples is given in Appendix A.
12. The minimum of the reckonable earnings range of £9 is that used for contributions and benefits in the existing graduated pension scheme. The £13 maximum of the earnings range under that scheme would not, however, provide an acceptable level of benefit for the higher-paid worker. Although it will probably be desirable eventually to have the same maximum for both short-term benefit and graduated pension purposes, I see no serious difficulty in having a different maximum for the two schemes for the time being. A £30 maximum would cover in full the earnings of well over 90 per cent of employed men and is likely to fit in with long-term developments for pension.

Reckonable Earnings

13. The earnings which would count for benefit (and contributions) would be the gross earnings assessable to P, A, Y, E. tax, as already defined for the purpose of the graduated pension scheme. Benefit would be based on earnings in the tax year preceding the claim to benefit. The benefit ceiling, where this applied, would also be related to the same earnings figure. In recognition of the fact that the current level of earnings may be somewhat higher, I propose that the amount of average weekly earnings should be arrived at by dividing this annual figure by 50 rather than 52.18 - equivalent to about a 4 per cent rise in earnings. I should have liked to have been able to base the benefit on earnings in the twelve months preceding each claim for benefit but after studying the possibilities in detail I am convinced that the previous tax year is the only practicable reference period. My colleagues in the Sub-Committee support this view. Any other basis would create an enormous amount of additional work for employers without necessarily producing better results.

14. Only actual earnings in the previous tax year would count for benefit. Where earnings are reduced by sickness or unemployment (or any other interruption of earnings such as absence abroad or imprisonment) this would be reflected in a lower rate of earnings-related benefit. This proposal may disappoint some of our supporters particularly as "New Frontiers" indicated that the scheme would make allowance for weeks of sickness and unemployment. The T.U.C. will certainly press for this. There are three powerful counter-arguments: the first is that the principle of deeming earnings is questionable if it means that low wage-earners in regular employment have to subsidise those with higher incomes but a greater risk of unemployment. Secondly, the flat-rate system under which contributions are credited for weeks of sickness and unemployment will continue to provide the basic protection during periods of sickness and unemployment. Thirdly - and in the context of an interim scheme this must, I think, be conclusive - a system of allowances for earnings lost as a result of sickness or unemployment in the relevant tax year would be a complication involving considerable extra work. We shall have acute difficulties in some areas in recruiting sufficient staff to operate even the most straightforward scheme of earnings-related benefits by the Autumn of 1966. I should be most reluctant to put the whole scheme in jeopardy for the sake of what is no more than a refinement of the benefit formula however desirable it might be if time and resources were not at a premium. Eventually, with the increasing use of computers in my Department, it may be possible to cope with the additional work involved should this be thought desirable.
Duration of earnings-related benefit

15. Earnings-related benefit would be paid for up to six months in a "period of interruption of employment" (a period which covers any spells of sickness or unemployment separated by less than 13 weeks). Sickness and unemployment would be aggregated for this purpose so that there would be no advantage to be gained from drawing one benefit rather than the other. It was suggested in "New Frontiers" that wage-related benefits should cover the first year of absence from work. However, my colleagues and I thought that a six-month period would be adequate, particularly in an interim scheme, and that to pay earnings-related unemployment benefit for longer than six months might have an adverse effect on the economy in discouraging unemployed people from seeking or accepting new jobs promptly. This may also provide the opportunity for some rationalisation of the duration of flat-rate unemployment benefit so that instead of the present variable period of seven to nineteen months based on the claimant's insurance record these would be six months of earnings-related benefit followed by six months of flat-rate benefit. Twelve months would thus become the standard maximum duration of unemployment benefit for everybody.

Waiting days

16. For flat-rate benefits, there would, as now, be three "waiting days" at the start of any period of interruption of employment. Benefit is paid for these days if the period of interruption of employment lasts for 12 days or more. For earnings-related benefit, it would be necessary to serve 12 waiting days at the start of a period of interruption of employment. These waiting days would be "absolute", that is, benefit would not be paid retrospectively for them. Thus earnings-related benefit would not normally be payable for spells of sickness or unemployment lasting less than a fortnight.

17. My original hope was to be able to treat the flat-rate and earnings-related elements as a single benefit with a standard waiting period but the only practicable way to do this would have been by imposing six absolute waiting days for both parts of both benefits. This would have meant a substantial reduction in existing rights to flat-rate benefits. Most people would have made up on the earnings-related swings what they lost on the flat-rate roundabouts but there would have been some claimants, especially those with low earnings and large families who would lose more than they gained. Although the proportion of cases would be relatively small they would be the claimants in greatest need, and my colleagues and I concluded that this approach was politically unacceptable. Without the substantial saving of both cost and administrative resources which would have accrued from not paying flat-rate benefit for the first six days it would not have been feasible to pay earnings-related benefits without a longer waiting period than six days. It is highly desirable, in order to avoid anomalies and confusion to claimants, that the supplements to both benefits should be governed by the same conditions, and we concluded that there should be a 12-day waiting period for the earnings-related element of both benefits. On this approach, the new scheme can be presented as appropriate to the more serious interruptions of earnings where sickness or unemployment lasts for more than a fortnight.
Consequential Matters

18. There are many detailed aspects of the scheme which are still under discussion and I should not wish to trouble the Cabinet with these matters unless serious differences of opinion were to emerge in the Sub-Committee. There are, however, two other short-term benefits which may be affected by the introduction of a scheme of earnings-related sickness and unemployment benefit and these are, I think, sufficiently important politically to merit consideration at this stage.

Injury Benefit

19. Injury benefit under the Industrial Injuries scheme is payable as an alternative to sickness benefit for the first six months of incapacity resulting from an accident at work or an industrial disease. The rate has been maintained at about 70 per cent above standard sickness benefit since the start of the scheme, and is now £6.15s. a week. Injury benefit is followed by a disablement benefit in those cases (about 15 per cent) where some measurable disability remains when injury benefit ceases. Supplementation of sickness benefit as proposed would mean that sickness benefit would be higher than injury benefit for everyone with earnings of £17.5s. or more - that is, on the estimated figures for April, 1965, some 56 per cent of men and 1 per cent of women.

20. In my view it would not be sufficient merely to allow injured people to draw the supplemented sickness benefit or injury benefit, whichever was the better. This would effectively abolish for a large part of the employed population a preference which has existed for very many years (and which is paralleled in nearly every other industrialised country), which would be wrong, and would in any case stand no chance of acceptance by the T.U.C. To my mind the right course, and administratively the simplest one, would be to allow the sickness benefit supplement, where payable, to be added to flat-rate injury benefit. The existing £2.15s. differential would thus be preserved, and this can be justified on the view that it represents the element of compensation for the injury. It follows that the benefit ceiling for the industrial injury case should be £2.15s. above that proposed for sickness benefit. The levels of benefit produced by this proposal are shown in Appendix B. It will be noticed that in the range where the benefit ceiling operates many beneficiaries are already receiving more by way of flat-rate injury benefit than the amount allowed by the proposed benefit ceiling and this entitlement would be preserved.

Widow's Allowance

21. Widow's allowance is at present a flat-rate resettlement allowance paid for the first 13 weeks of widowhood at a higher rate than the standard widow's benefit. As "New Frontiers" recognised, there is a case for graduating this allowance by reference to the husband's earnings and for extending its duration to six months. This would do something positive for widows. Furthermore, the Opposition's 1964 Election Manifesto committed them to extending...
earnings-related benefit to the early months of widowhood and if our scheme does not provide for this we can certainly expect an amendment on Committee which would be difficult to resist. For all these reasons I should like to include widow's allowance in the scheme from the outset but against this must be reckoned the additional cost—see paragraph 24 below. The Sub-Committee considered that the inclusion of widow's allowance was a desirable, but not essential, feature of the scheme and that the question of its inclusion should be referred to the Cabinet for decision.

Contracting-Out

22. At present employees who are not contracted-out of the national insurance graduated pension scheme, and their employers, pay both a flat-rate contribution and a graduated contribution (4½ per cent a side) on earnings between £9 and £18 a week. Additional graduated contributions will be needed to pay for the new earnings-related benefits but employees who are contracted-out of the graduated pension scheme by virtue of their rights to an occupational pension, and their employers do not at present pay graduated contributions. They are, however, required to pay a substantially higher flat-rate contribution than that paid by those who are not contracted-out.

23. There is no question of excluding employees contracted-out of the graduated pension scheme from the new earnings-related short-term benefits but there are compelling reasons against superimposing on their flat-rate contribution a very small graduated contribution. Not only would the amount appear derisory and be costly to administer in relation to its yield but once people in contracted-out employment are required to pay graduated contributions it would be indefensible to make them go on paying their higher rate of flat-rate contribution which bears heavily and unfairly on the lower-paid contracted-out worker. Accordingly my colleagues on the Sub-Committee agreed with me that the opportunity should be taken for reshaping the contracting-out arrangements so as to make the contracted-out liable to pay graduated contributions for pensions as well as short-term benefits. This would have the following advantages:

(a) It would remove present inequities whereby the higher flat-rate contribution payable by the contracted-out imposes an unfair burden on the lower-paid worker and his employer whereas the higher-paid worker is charged too little.

(b) It would ensure that the contracted-out employee enjoyed the protection which the State scheme provides so far as graduated retirement pension for widows is concerned (a point we made in our Election Manifesto).

(c) It would pave the way for the later introduction of our own earnings-related pension scheme or for the next general uprating which is almost bound to require an increase in the span, if not the rate, of graduated pension contributions.

Under this plan the contracted-out would pay the same graduated contributions as everyone else and would earn graduated additions to pension accordingly. They would, however, pay a lower flat-rate contribution than those not contracted-out and their total State pension
Both these deductions would be related to the value of the occupational pension which the employer is required to provide as a condition for contracting-out of the State scheme. The change would involve no alterations in the conditions which at present have to be satisfied by an occupational pension scheme to qualify for contracting-out and no further change would be required in these conditions to match future changes in the State provisions.

Finance

24. The basic cost of a scheme of earnings-related sickness and unemployment benefit on the lines proposed above is estimated at £44 million a year of which some £30 million is attributable to sickness benefit and £14 million to unemployment benefit (assuming 1.5 per cent unemployment). To this must be added the cost of administration which might be of the order of £5 million and a minimum of £1.5 million to enable the industrially injured to draw earnings-related sickness benefit instead of injury benefit where this was to the claimant's advantage. A further £3.5 million would be needed to pay earnings-related supplements on top of injury benefit. The minimum cost of the scheme would therefore be of the order of £50 million. Earnings-related widow's allowance payable for 6 months instead of the present flat-rate allowance payable for 3 months would cost about a further £7 million.

25. The change in the arrangements for contracting-out (paragraphs 22-23 above) would produce additional contribution income of about £43 million a year most of which would come from higher-paid workers and their employers, many of them in the public sector. This amount is substantially a measure of the extent to which the higher-paid contracted-out at present escape their fair share of the total cost of national insurance. Ultimately this change-over will lead to some increased expenditure in the form of extra graduated retirement and widows' pensions to which contracted-out employees will become entitled; but in the next few years there will be no significant expenditure involved.

26. Earnings-related short-term benefits, on the scale proposed, would require a graduated contribution of about 0.4 per cent a side of earnings between £9 and £30. The principle that there should be additional graduated contributions to support the new scheme is certainly one that we should wish to maintain and it is proposed that we should use the proceeds of the change in the contracting-out arrangements to reduce the flat-rate contribution payable by everyone. A reduction of about 4d. a side should be possible. These arrangements are still to be worked out in detail.

Administration

27. It is provisionally estimated that a scheme on these lines would require about 2,900 additional staff in my Department, mainly to handle sickness benefit claims. The number of additional staff needed by the Ministry of Labour might be about 800. The extension of graduated contributions to the contracted-out and the wider span of earnings attracting contributions will mean more work for the Inland Revenue. Some extra staff will be needed but it is not expected that the number will be large.
PART IV - QUESTIONS FOR DECISION

28. I now invite the decision of the Cabinet whether I am to proceed with the preparation of a scheme of earnings-related short-term benefits on the lines I have described in this memorandum, including consultations with the T. U. C., the C. B. L. and other interested bodies. I should also welcome decisions on the following questions on which the Social Services Sub-Committee on Social Security Cash Benefits was not able to reach final conclusions:

(i) Should earnings-related widow's allowance be included in the scheme? (paragraph 21).

(ii) Should earnings-related supplements be paid on top of injury benefit? (paragraphs 19 and 20).

M. H.

Ministry of Pensions and National Insurance, W. C. 2.,

23rd July, 1965
## Earnings-Related Supplement = 1/3rd of Gross Earnings Between £20 and £30

<table>
<thead>
<tr>
<th>Gross earnings of £32 a week</th>
<th>Gross earnings of £35 a week</th>
<th>Gross earnings of £38 a week</th>
<th>Gross earnings of £225 a week</th>
<th>Gross earnings of £30 a week</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Total benefit plus family allowances</td>
<td>(2) as % of take-home pay plus family allowances</td>
<td>(1) Total benefit plus family allowances</td>
<td>(2) as % of take-home pay plus family allowances</td>
<td>(1) Total benefit plus family allowances</td>
</tr>
<tr>
<td>Single man</td>
<td>5 0 0</td>
<td>6 0 0</td>
<td>7 0 0</td>
<td>9 6 6</td>
</tr>
<tr>
<td>Married man</td>
<td>7 10 0</td>
<td>8 10 0</td>
<td>9 10 0</td>
<td>11 16 8</td>
</tr>
<tr>
<td>Married man + 1 child</td>
<td>8 12 6</td>
<td>9 12 6</td>
<td>10 12 6</td>
<td>12 19 2</td>
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<tr>
<td>Married man + 2 children</td>
<td>9 25 0</td>
<td>10 15 0</td>
<td>11 15 0</td>
<td>14 18 6</td>
</tr>
<tr>
<td>Married man + 3 children</td>
<td>10 19 6</td>
<td>11 19 6</td>
<td>12 19 6</td>
<td>15 19 6</td>
</tr>
<tr>
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<td>13 4 0</td>
<td>14 4 0</td>
<td>16 10 6</td>
</tr>
<tr>
<td>Married man + 5 children</td>
<td>13 8 6</td>
<td>14 8 6</td>
<td>15 8 6</td>
<td>17 15 2</td>
</tr>
<tr>
<td>Married man + 6 children</td>
<td>14 13 0</td>
<td>15 13 0</td>
<td>16 13 0</td>
<td>18 19 8</td>
</tr>
</tbody>
</table>

*Gross pay less income tax and graduated and flat-rate contributions.

In these cases the amount of earnings-related supplement would be reduced or extinguished by the operation of a benefit ceiling of £5 of gross earnings, i.e., about 90% of take-home pay.
### Weekly Income Benefit (Flat Rate Plus Family Related Supplement) as a Proportion of Take-Home Pay

**Earnings Related Supplement = \( \frac{1}{4} \) of Gross Earnings Between £9 and £30**

<table>
<thead>
<tr>
<th>Gross weekly earnings of</th>
<th>£12</th>
<th>£15</th>
<th>£18</th>
<th>£25</th>
<th>£30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit ceiling 25% gross earning + £2 15s.</td>
<td>(1) Total flat rate plus family allowances</td>
<td>(1) as % of take-home pay plus family allowances</td>
<td>(1) Total flat rate plus family allowances</td>
<td>(1) as % of take-home pay plus family allowances</td>
<td>(1) Total flat rate plus family allowances</td>
</tr>
<tr>
<td>Benefit for</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Present</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single man</td>
<td>£ 6 15 -</td>
<td>7 15 -</td>
<td>73.7</td>
<td>8 15 -</td>
<td>74.0</td>
</tr>
<tr>
<td>Married man</td>
<td>£ 9 5 -</td>
<td>10 5 -</td>
<td>97.2</td>
<td>11 5 -</td>
<td>88.6</td>
</tr>
<tr>
<td>Married man + 1 child</td>
<td>£ 10 7 6</td>
<td>11 7 6</td>
<td>102.8</td>
<td>12 7 6</td>
<td>92.6</td>
</tr>
<tr>
<td>Married man + 2 children</td>
<td>£ 11 10 -</td>
<td>12 10 -</td>
<td>108.0</td>
<td>13 10 -</td>
<td>94.2</td>
</tr>
<tr>
<td>Married man + 3 children</td>
<td>£ 12 14 6</td>
<td>13 14 6</td>
<td>113.7</td>
<td>14 14 6</td>
<td>98.6</td>
</tr>
<tr>
<td>Married man + 4 children</td>
<td>£ 13 19 -</td>
<td>14 19 -</td>
<td>118.9</td>
<td>15 19 -</td>
<td>103.3</td>
</tr>
<tr>
<td>Married man + 5 children</td>
<td>£ 15 3 6</td>
<td>16 3 6</td>
<td>123.7</td>
<td>17 3 6</td>
<td>107.1</td>
</tr>
<tr>
<td>Married man + 6 children</td>
<td>£ 16 8 -</td>
<td>17 8 -</td>
<td>128.2</td>
<td>18 8 -</td>
<td>112.0</td>
</tr>
</tbody>
</table>

* Gross pay less income tax and graduated flat-rate contributions

** Benefit would be reduced to ceiling (at head of column) plus family allowances

† Benefit would be reduced to flat rate plus family allowances, as shown in first column.

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CABINET

ECONOMIC SITUATION

Note by the Prime Minister

I circulate, for discussion by the Cabinet tomorrow morning, the attached draft of a Parliamentary statement on additional economic measures, which it is proposed that the Chancellor of the Exchequer should make in the House of Commons in the afternoon.

H. W.

10 Downing Street, S. W. 1.

26th July, 1965
The measures taken in the Budget to correct the balance of payments deficit are beginning to take effect. This year's balance of payments deficit is likely to be well below half last year's figure. To ensure that we reach our aim of eliminating the deficit in the course of next year and of maintaining the strength of sterling, the Government have decided to adopt the following measures.

A. PUBLIC EXPENDITURE

First, expenditure at home. The Government intend to slow down the rate of expenditure on capital projects and to defer as far as possible purchases of equipment and stores by Government Departments, Local Authorities and nationalised industries.

Housing, schools and hospitals will be contained within their existing programmes. For other capital projects for which contracts have not yet been signed, the starting dates will be postponed for six months. Exemptions will be made for projects in development districts and other areas of above average unemployment. Similarly, purchases of goods will be deferred to the maximum possible extent.

All Government Departments have been instructed to carry out this policy and to arrange for other bodies for which they are responsible to do likewise. The nationalised industries will be called on to follow a similar course of action. Local authorities will be asked to follow suit.

Loan sanction will only be given to local authority projects which are urgently required. In particular, sanction will not be given except in special circumstances to loans for expenditure on civic buildings, offices and a variety of miscellaneous projects which, though desirable in themselves, are not essential at this time. The expenditure in these categories is now running at £150 million a year.

Lending by local authorities on mortgage for house purchase has trebled in England and Wales in the last five years, and in 1964-65 reached £180 million. This will be restricted to the average of the three years ended 31st March, 1965, namely £130 million.

Since the beginning of the financial year drawings by local authorities on the Public Works Loans Board have been exceptionally heavy. In present circumstances a more regular phasing of issues is necessary, and I have asked the Public Works Loans Commissioners to arrange this forthwith.

The Government, in addition to reviewing their own establishments, are asking the local authorities to review their present establishments; and in the light of this to confine net increases in their staffs to very urgent services, where essential professional workers, e.g. teachers, are required.
As regards Defence, good progress is being made with the review designed to reduce the forward defence programme by some £500 million by 1969-70 and to achieve a large cut in that part which falls on the balance of payments. Next year’s programme is being reduced by £118 million below the planned figure. As to other overseas expenditure, all Departments and public authorities are to observe the most stringent economy in overseas expenditure and all they can to increase overseas receipts.

So much for cuts in existing expenditure. We shall also have to defer some of the desirable social reforms we had hoped to do in the immediate future. We have decided that it will not be possible to introduce an income guarantee scheme in the coming year. First priority must go to wage-related unemployment and sickness benefits.

We have also decided that for the time being we cannot remove any of the remaining National Health Service charges.

We have also decided to postpone, for the time being, the introduction of the scheme of specially favourable interest rates for owner-occupiers.

B. PRIVATE INVESTMENT

The Government will introduce legislation instituting a starting date procedure for privately sponsored construction projects of the value of £100,000 or more with the exception only of housing projects and industrial building.

The control will be made retrospective to all such projects for which no contracts have been entered into before the time of this announcement.

Provision will be made for exempting projects in development districts and other areas with more than average unemployment.

It is further proposed to introduce control over office development in the Birmingham conurbation. An Order giving effect to this will be laid before Parliament as soon as possible after the Control of Office and Industrial Development Bill receives the Royal Assent.

As my Rt. Hon. Friend the President of the Board of Trade has already announced, closer control over industrial building will also be introduced when this Bill becomes law. It will become necessary in the London and South Eastern, Midlands and Eastern Regions to obtain an industrial development certificate for industrial development exceeding 1,000 sq. ft.

C. HIRE PURCHASE

I have decided to reinforce the Hire Purchase measures. As from tomorrow the maximum repayment period of H.P. contracts will be reduced from 3 years to 30 months. This will apply to all goods which are now subject to H.P. controls other than furniture, bedding, cookers and water heaters, for which the period will not be altered.
D. EXCHANGE CONTROL

I propose to introduce some further changes in exchange control. The first concerns direct investment outside the Sterling Area for which official exchange has been allowed on the ground that it is specially favourable for the balance of payments. For the time being no further approvals will be given for the use of official exchange in such cases. All approved projects will have to be financed with investment currency or by borrowing abroad.

Another change concerns investment currency. I announced in the Budget that certain receipts of foreign currencies by residents of the United Kingdom which had hitherto been allowed to be sold as investment currency would in future be exchanged at the official rate. The same change will now be made in respect of certain other receipts, including the proceeds of life policies and the assets of immigrants redesignated as residents of the United Kingdom.

The next change relates to prepayment for imports. At present payment for imports into this country may be made at any time between the date of contract and the date of arrival of the goods. In future payments will not normally be allowed before the goods have been shipped. This should produce a useful once-for-all saving and help to check excessive purchases.

Finally, I am asking the Bank of England to exercise more uniform control over borrowing in this country by companies registered here but controlled by non-residents of the Sterling Area.

If these exchange control changes are continued for a full year, the saving in official exchange should be at least £45 million over the next year.

E. IMPORTS

It is the Government's policy to limit to the greatest possible extent facilities for financing imports of manufactured goods for home consumption and imports of all kinds for stockbuilding. With the Government's approval, the Governor of the Bank of England has now written a further letter to the banks. It asks them to scrutinise with even greater care than they do already all requests for credit when there is prima facie evidence that to provide the finance would facilitate payment for imports.

F. EXPORTS

My Rt. Hon. Friend the President of the Board of Trade is introducing from Monday next a further improvement in the E. C. G. D. bank guarantee facility, by reducing the qualifying contract value from £50,000 to £25,000.
Arrangements are also being made to reduce the cost of shorter-term credit. This will affect a much larger volume of exports, and help many more companies. For shorter-term credits of at least 30 days and less than two years, guaranteed unconditionally by E. C. G. D., the Banks have agreed in principle to make finance available at Bank Rate. This compares with rates of around 1 per cent above Bank Rate at present. The scheme will involve a large extension of E. C. G. D's unconditional Bank Guarantee facility.

Details will be announced as soon as possible.

G. CONCLUSIONS

These measures taken together, will result in a further substantial improvement in our balance of payments. Industry has its part to play. The key to the situation is productivity and particularly the problem of over-manning. We intend to identify particular cases of restrictive practices on both sides of industry and take specific steps to eliminate them.
CABINET

THE FIFTY-YEAR RULE

MEMORANDUM BY THE PRIME MINISTER

The Public Records Act, 1958, established the statutory principle that departmental records should not be available to the general public until a date 50 years after their creation. This principle has already been the subject of criticism by modern historians on the grounds that the period of 50 years is unnecessarily long and that the rule is inimical both to the public interest and to the requirements of genuine scholarship. The question has recently been examined by the Advisory Council on Public Records, under the chairmanship of the Master of the Rolls; and the Council have recommended to the Lord Chancellor:

(i) that the “closed” period should be reduced to 40 years; and
(ii) that even within that reduced period more liberal access should be allowed to established historians.

The Scottish Records Advisory Council have made recommendations along similar lines.

2. In discussion with the Lord Chancellor I have formed certain preliminary views on these proposals; and I should welcome the opinion of my colleagues on the course which we should now pursue.
3. The justification for the present period of 50 years (which was accepted on the recommendation of the Grigg Committee on Departmental Records) is that it not only prevents the premature disclosure of confidential information which might be prejudicial to the State but also, and chiefly, preserves the constitutional principle of the collective responsibility of the Cabinet and the individual responsibility of Ministers to Parliament. For these reasons it is necessary to preserve the confidential nature of a Minister’s relationship with his Ministerial colleagues on the one hand and with his senior advisers on the other hand. Moreover, it is desirable, in the interests of history as well as of current administration, to safeguard the quality of “unselfconsciousness” in official records in the sense that, if advice is to be tendered frankly and discussed freely, neither Ministers nor their senior advisers should be subjected to the possible embarrassment of having their deliberations published while they are still active in public affairs.

4. On the other hand, 50 years is admittedly an arbitrary figure; and, after weighing the considerations mentioned above against the desirability of allowing informed public opinion to enjoy freer access to the raw material of history, I have no doubt in my own mind that a closed period of 40 years (or less) could be adopted without any harm to the basic principles of the rule.

5. But the Council’s recommendation that within the closed period more liberal access should be allowed for established historians is more debatable. I recognise that there are good arguments in favour of this proposal. Thus:

(a) Almost the whole of the advance of our Colonies, and much of that of India, towards independence has taken place within the last 40 years. If we do not write the history of this process, the newly independent Governments of those countries will; and, unless we permit access to our records, our side of the story will be liable to go by default.
(b) The same is true of large areas of international affairs, since certain other countries, particularly the United States, are considerably more generous in allowing access to their documents than we are to ours.

(c) The study of recent history is now a recognised branch of scholarship; and, while this does not in itself give scholars working in this field a right of access to material which, in the interests of proper administration, ought to remain confidential, an objective and dispassionate analysis of the recent past can, on occasion, promote a more informed public understanding of contemporary issues and contribute to the greater efficiency of current policy-making and administration.

6. On the other hand, I suspect—and this is also the consensus of view of Departments which have given much study to the matter—that the recommendation would be extremely difficult to implement in such a way as not to undermine the basic principles of a closed period. We should be faced with a number of awkward problems. For example:

(a) There would be the question whether access to Cabinet papers should be allowed within the closed period. It has always been a strictly enforced principle that access to the papers of the Cabinet and its Committees within that period is not granted to any “outside” individual; and, in so far as we conceded the more generous degree of public access which the Advisory Council have proposed, we should be departing from all previous practice.

(b) It would not be easy to devise a procedure for selecting “established” historians which would not cause resentment and perhaps, in the long run, undo the goodwill generated by a decision in principle to allow freer access.
(c) Nor would it be easy to devise a procedure for deciding which episodes of recent peace-time history should be treated by the established historians. If the purpose of more liberal access were not to be frustrated, the decisions would have to be free from political controversy and run no risk of undermining the established convention that one Administration does not enjoy access to the records of its predecessors. In this connection we have to remember that the periods or episodes which command the greatest interest among historians are, naturally, those which are the most politically controversial. This is not the case in relation to the two Great Wars of this century, since for the major part of the time in each case Coalition Governments have been in office and there has been a truce in party conflict. It is largely this truce which has made it possible for us to write, and to publish, the Official Histories of both Wars; and it is the necessary absence of any such truce in peace-time which makes the writing of peace-time histories more arguable, particularly on any basis which involves discrimination between one historian, or one historical period, and another.

7. For these reasons, it might be wise to find other means of satisfying the desire which prompted the Advisory Council's second recommendation; and I believe that our best course would be to reduce the closed period to 30 years, rather than 40, while retaining the existing safeguards against premature disclosure, as follows:

(a) The Public Records Act, 1958 (s. 5(4)) already allows controlled access to records which are still within the closed period of 50 years; but it clearly envisages such access as being exceptional and the provision has been so interpreted by Departments in practice. This provision and this interpretation of it should remain unaltered in relation to a closed period of 30 years.
(b) There should be no change in the arrangements whereby the Lord Chancellor has (under s. 5(1) of the Public Records Act) already prescribed closure for specified classes of records for longer periods—up to 100 years. Generally these classes are those which contain information about individuals which could cause embarrassment or distress to living persons or their immediate descendants; or contain information whose disclosure might constitute a breach of confidence; or involve special security considerations.

Provided that we maintain these provisions in relation to a closed period of 30 years, I do not believe that a reduction of the period to that figure would undermine the essential principles of public administration which the present rule was designed to preserve; and, in terms of allowing unrestricted access (subject to the exceptions noted above) to the official documentation of a period of history which is presently closed, it would offer to historians a substantially greater concession than the Advisory Council have recommended.

8. A reduction in the closed period would involve a Bill to amend the 1958 Act (although the change could be made in Scotland without legislation). Pending the Bill, there is one anticipatory step which we might take, by Order, as an earnest of our intentions—namely to derestrict in a single operation the official records of the 1914–18 war, instead of releasing them only one year at a time by the existing process of "creeping decontrol". In practice, this would imply the release of all records, both Cabinet and Departmental, relating to the period of the war (other than those which will still have to be withheld indefinitely, for reasons of public policy); and it would be convenient if "the period of the war" were interpreted as including the immediate aftermath of the war itself, i.e., up to the end of 1922, the year in which the Coalition Government fell. I believe a gesture of this kind would gain us considerable credit with the professional historians and with public opinion.
9. Apart from the question of a reduction in the closed period, I should like my colleagues to consider two supplementary, but separate, measures which we might take in the same field:

(i) On occasion the Government might think that it was in the public interest that a history of relatively recent events should be undertaken while the written records could still be supplemented by reference to the personal recollections of public men who took part in the events in question. For this purpose, we might extend the range of Official Histories (which have so far been confined to the two world wars) to include selected periods or episodes of peace-time history, on the understanding that the publication of works of this kind would need to be suspended for a time which would normally be at least equivalent to the 30-year period. In order, however, that there should be no derogation from the principle that one Administration does not enjoy access to the policy records of its predecessors, it would be necessary to arrange that any decision to commission such a history should be taken by the Government only with the consent of the Leaders of the other political parties or of some form of bi-partisan body, preferably consisting of Privy Councillors, which might be established for the purpose.

(ii) Alternatively, or in addition, we might publish, in relation to particular episodes of peace-time history, as much as possible of the relevant official documents, on the same lines as the Foreign Office series of documents on British Foreign Policy. On the basis of that precedent, the documents chosen for publication would have to be confined to the formal records illustrating the historical development and execution of policy, \( i.e., \) they would have to exclude the internal minutes and records of discussions by means of which policy was formulated.
Even so, the reception accorded to the Foreign Office series suggests that, if we extended the practice to the records of other Departments concerned with our external relations, we should do no damage and should, indeed, do something to put in more accurate perspective our own version of, e.g., the complex progress of some of our former dependencies towards independence. It might also help to reduce the embarrassment in which we sometimes find ourselves in relation to the practice of the United States Government, who are considerably more generous in allowing access to their documents than we are to ours and whose records include a number of documents originating in this country, to which historians can obtain access in the United States but not here. It would thus, in some measure, meet the arguments set out in paragraph 5 above.

10. I should be glad if members of the Cabinet and other Ministers in charge of Departments would consider the above proposals carefully. If the Cabinet endorsed them, particularly the proposed change to a 30-year rule (both generally and as regards Cabinet records), the next step would be to discuss them with the Opposition Leaders and to seek The Queen’s approval in relation to Cabinet records. Thereafter we could proceed to a public announcement and to the introduction of the necessary legislation when Parliamentary time permits.

H. W.

10 Downing Street, S.W.1,
CABINET

COMPUTERS

Memorandum by the Minister of Technology

At their meeting on 3rd June (C. (65) 32nd Conclusions, Minute 4), the Cabinet invited me to circulate a further memorandum on assistance to the computer industry.

2. The Government are committed to policies which will ensure that there exists a flourishing British computer industry. A number of measures to this end were announced in my Statement to the House on 1st March. They included:

(i) the establishment of a Computer Advisory Unit;

(ii) a 5-year programme designed to augment the computer resources of Universities, CATS and Research Councils;

(iii) a programme of research and development;

(iv) studies to explore the desirability of establishing a National Computer Programme Centre.

3. All these measures are in hand, but there are positive indications that they will not in themselves guarantee a viable British computer industry. When I made my Statement on 1st March, the evidence suggested that the price factor would not operate against British computers. The situation in this respect has changed. United States competition is becoming more severe, partly as a result of economies of scale and partly because of the competition between the American companies themselves. Failing some degree of preference for the British computer industry, an unacceptable situation will arise.

4. The Government sector does not represent a high proportion of the market for British computers. It is, however, a very significant proportion. Much attention is focused on it and if a rising share of Government orders is seen to be going to American companies, conclusions unfavourable to the future of the British computer industry will be drawn. There have been a number of unfavourable developments recently, for example, the large International Business Machines Limited (I.B.M.) order for Scotland. Another problem is developing over requirements for the computer network for the Ministry of Pensions and National Insurance.

5. To meet the situation, I have made the proposals set out in my paper of 31st May (C. (65) 79), but these were not adopted by the Cabinet. An alternative to the price preference which I then suggested would be to increase the protective tariff. But the present most-favoured-nation rate of 14 per cent is, I understand, bound. Moreover, even if we could negotiate our freedom to raise it, we should still have to get over the difficulty presented by the combination of the GATT rule against new or
increased preferences and Commonwealth free entry. It is, of course, for the President of the Board of Trade to say whether a higher tariff is a practicable course but it does not look promising and it would, at best, take an inordinate time.

6. I have explored the other possibilities put forward by the Prime Minister in his summing up of our discussion on the 3rd June and as a result I submit for the approval of the Cabinet the following alternative proposals in regard to the procurement of computers in the Government sector:

(i) It should be a matter of settled Government policy that computer needs in the Government sector should be met by computers of British manufacture except where either no British produced model can do the job or using a British produced model would involve more than 12 months additional delay.

(ii) A British computer should be defined as including, in addition to those supplied by our own makers, any computer manufactured in the United Kingdom and having not less than a specified United Kingdom content by value. The method of calculating the United Kingdom content and the level at which the qualifying figure should be set would require further consideration but I am advised that neither should present any technical difficulty.

7. The effect of such a policy would be to admit computers made by British controlled companies, plus those made at the Honeywell Factory in Scotland, plus the one computer model (a small one) to be made by I.B.M. in Scotland. If I.B.M. or some other foreign controlled firm reacted by increasing the extent of their manufacture in the United Kingdom the corresponding machines would become admissible.

8. I accept that in the absence of open competitive tendering it would be necessary to keep a check on the prices at which British computers were offered so as to ensure that they were not excessive. All manufacturers could be invited periodically to submit lists of the prices at which they were prepared to supply Government requirements. In addition, it would not, in practice, be difficult to ascertain in sufficient instances the prices being charged to commercial users.

9. A policy on these lines would have to be applied for a minimum period of 3 years in order to give the British industry a reasonable breathing space. It could be reviewed at the end of this period in the light of developments.

10. Whether it would be practicable and advantageous to change over to a bulk ordering system of the kind proposed by the Prime Minister at Cabinet on the 3rd June is being examined by the Departments concerned. I am myself attracted by such a system. It is not, however, essential to the implementation of the policy set out in paragraph 6 above and we need not therefore at this stage decide for or against adopting it. I propose that officials should work out and prepare a report on a batch ordering system on the following lines:-
(i) there should be a 5 year rolling forecast of computer needs in the Government sector;

(ii) requirements should be aggregated and standard computer equipment should be ordered as far as practicable;

(iii) tenders should be invited for batches of computer equipment after any necessary discussion with manufacturers;

(iv) invitation to tender would be restricted as in paragraph 6 above.

These arrangements would not disturb the Treasury's present functions in regard to the ordering of computers or the existing centralised contractual arrangements through the Stationery Office. There would, however, be a central tendering policy and a central plan.

11. I would also ask the Cabinet to invite Ministers responsible for nationalised industries to press these industries to follow the policies outlined in paragraph 6 as a matter of national policy. I would ask the Minister of Health to consider particularly the position of the hospital organisation where a vast expansion in computer use can be foreseen both in administrative and in clinical practice.

Structure of the Industry

12. I have continued with my attempts to persuade the computer industry to adopt a more rational pattern. There have been many meetings with the two principal companies concerned at which possible forms of amalgamation have been discussed. These efforts have, I fear, got nowhere and progress cannot be expected unless more powerful measures are brought to bear.

13. International Computers and Tabulators Limited (I.C.T.) are not prepared to subordinate their computer interests to English Electric and vice versa. Neither firm welcomes the idea of a joint company.

14. The number of possible measures is very limited:

   (i) we could apply a measure of coercion by threatening to call off our aid unless I.C.T. and English Electric pooled their computer interests;

   (ii) we could threaten to nationalise the computer industry.

15. I am not attracted by (i). If the threat were ineffective we might be forced to abandon measures which are valuable in themselves even though they do not go far enough.

16. (ii) does not seem a promising candidate for the legislative programme as it exists at the moment.

17. It is, however, possible that the British companies' negotiations with French interests in computer development may lead to closer links between I.C.T. and English Electric. I shall keep this point very much in mind in assessing the joint proposals which they have just submitted to me for Government support in the development of a large Anglo-French computer.
Summary

18. I ask my colleagues to agree that:

(a) Government orders for computer equipment should be used to support the British industry;

(b) to this end procurement of computers for Government Departments should be in accordance with paragraph 6;

(c) officials should be instructed to examine and report on a batch-ordering system on the lines set out in paragraph 10;

(d) means of bringing together I. C. T. and English Electric computer interests should be considered further in the light of the outcome of the proposed Anglo-French project.

F.C.

Ministry of Technology, S.W. 1.

27th July, 1965
CABINET

THE NATIONAL PLAN

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

I attach a list of chapter headings and four key chapters of the Plan for discussion at an early meeting of the Cabinet:-

Chapter 1  The Plan in Outline
Chapter 7  Balance of Payments
Chapter 15 The Use of Resources
Chapter 18 Public Expenditure

2. A virtually complete draft of the Plan is being circulated to the Economic Development (Official) Committee. I should be grateful if any Minister who wishes to raise a point on a chapter other than the four circulated herewith would get in touch with me.

3. The text and figures relating to Public Expenditure were prepared on the basis of the proposals which the Chancellor of the Exchequer put to the Cabinet (C. (65) 101).

4. The National Economic Development Council (N, E, D, C.) will be discussing a draft of the Plan on 5th August. This will omit passages which depend on decisions yet to be taken. Special precautions are being taken to prevent disclosure.

5. Page proofs, revised to take account of Cabinet’s discussion and of the comments of the N, E, D, C., will be available in late August for circulation to the Economic Development (Official) Committee and for final clearance by Ministers.

6. It is at present intended to publish the Plan on 16th September, but in view of the short term economic position the date of publication will have to be kept flexible until the last moment.

G. B.

Department of Economic Affairs, S. W. 1.

29th July, 1965
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CHAPTER 1

THE PLAN IN OUTLINE

1. This is a Plan to provide the basis for faster economic growth. An essential part of the Plan is a solution to Britain's balance of payments problem; for growth cannot be maintained unless we pay our way in the world.

2. For too long the United Kingdom has suffered from a weak balance of payments. Periodic crises have led to sharp checks to economic expansion and productive investment; these in turn have left us vulnerable to further balance of payments difficulties when expansion was resumed. It is the Government's aim to break out of this vicious circle and to introduce and maintain policies which will enable us to enjoy more rapid and more sustained economic growth.

3. In 1964 the overall balance of payments deficit rose to an exceptionally high level. The Government has taken a series of measures to redress the position, and it is hoped that at least half the deficit will have been removed this year. But there is still a substantial imbalance to be removed, and the debt incurred in 1964 and 1965 will have to be repaid by the end of the decade.

4. The task of correcting the balance of payments and achieving the surplus necessary to repay our debts, while at the same time fostering the rapid growth of the economy, is the central challenge we face in economic planning.

THE GROWTH TARGET

5. The Plan is designed to achieve a 25 per cent increase in national output between 1964 and 1970. This objective has been chosen in the light of past trends in national output and output per head and a realistic view of the scope for improving upon them. It involves achieving a 4 per cent annual growth rate of output well before 1970 and an annual average of 3.8 per cent between 1964 and 1970.
6. The rate of increase in total output depends on two factors: the rate of growth of output per head (in other words productivity); and the rate of growth of the labour force. Over the last decade the labour force has been increasing by about 0.7 per cent a year. But from now on this growth is likely to be much less. On present trends it would average 0.25 per cent per annum. Successful regional policies to bring more people into employment in areas where there are now not enough jobs might bring the rate of increase up to nearly 0.4 per cent a year. Even then by far the greater part of the increase in output will have to come from an increase in output per head, which will have to rise on average by about 3.4 per cent a year to achieve the national growth target.

7. In the past the rate of increase of productivity has fluctuated sharply from year to year, largely reflecting short-term changes in demand. After allowing for these fluctuations the underlying growth of output per head seems to have averaged about 2 per cent in the early 1950s, 2.2 per cent over the period from 1960 to 1964, and may now have reached a rate of about 3 per cent per annum. The required acceleration to 3.4 per cent thus seems feasible in the light of past trends; but it will not come about without a great effort on the part of management and workers to improve efficiency, as well as a Government economic policy which gives priority to this objective.

The Nature and Purpose of Planning

8. Our economy, like most others in the modern world, is a mixed one. The Government element is important: public spending is a large part of total expenditure; for this reason the Government must raise large sums in taxation; a large part of the basic industry of the country is carried on by public corporations; the Government is able to exercise authority in many other fields. All this gives the Government great economic power and influence. It intends to use this to secure faster growth and national solvency.

9. Most manufacturing industry and commerce is, and will continue to be, largely governed by the market economy. But this does not necessarily and without active Government influence bring about the results which the nation needs - for example,
sufficient exports to pay for our imports and other overseas expenditure. Also, the forces of competition often operate too slowly. Then again, where productive units are large and investment decisions have to be taken two to five years ahead, competing companies tend to bunch their investment, holding back and moving forward together, producing surplus or over-stretched resources. There is, too, little doubt that inadequacy of investment in British industry has resulted in increasing home demand being met by a greater flow of imports than the economy could afford.

10. Sometimes government action may be required to strengthen the forces of competition, for example by reinforcing the legislation against restrictive practices or providing for more disclosure in company accounts. In other cases, such as the regional distribution of industry, and transport, important social costs arise which are not expressed in market prices; and positive Government action is required to supplement market forces. Each case must be judged on its merits. The market economy will continue as a general background to all other policies and care will be taken not to destroy the complex mechanisms on which it is based. The end product of both co-operative planning and the market economy is an internationally competitive industry; and in securing this aim they complement each other.

11. Both government and industry have to plan several years ahead and it is desirable to co-ordinate the forward estimates of both. Public expenditure cannot be planned realistically without some idea of the rate at which the economy can be expected to grow and of the size of other claims on resources, for example for industrial investment. For this reason the assembly of the forecasts and plans of private industry is a great help in planning the public sector. Similarly, industrialists should benefit, both from the collection of the plans of other industries which are their customers, and from a knowledge of the intentions of Government, which is by far the largest buyer in the country.

12. Some of the forecasts or projections for particular industries will inevitably turn out to be wrong. But this does not mean that it is useless to make them. Many progressive
firms already look ahead in quantitative terms for up to five years and sometimes more. The projections in the Plan are essentially attempts by government and industry, working in co-operation, to break down the global objective of a 25 per cent growth rate into the implications for particular industries. These projections should help firms and industries to take more informed decisions than if they were left in the dark about other people's intentions and beliefs.

13. Forecasts are also a useful control device. If an industry falls below projection it will be valuable to discover why. In some cases (e.g. if consumers' preferences have been wrongly forecast) no action by government may be indicated. But in other cases (e.g. if it is due to the failure of productivity to rise) it will serve as a useful warning signal for action by industry, by government, or by both in co-operation.

THE INDUSTRIAL INQUIRY

14. The first stage in making a plan is to find out the facts, not simply about the past but about future intentions, potentialities and problems. This is the main purpose of the industrial inquiry which has been carried out this year. Building on the pioneering work of the National Economic Development Council the inquiry has been extended to cover most of the economy, both the public and the private sectors and the production of both goods and services. Industries were asked what 25 per cent national growth from 1964 to 1970 would mean for them. The co-operation received has been excellent.

15. Perhaps the most encouraging result of the inquiry was in the field of exports. The replies from industry suggested that these could grow by about 5½ per cent a year in volume. This is broadly the rate required to achieve our balance of payments objectives (see Chapter 7). It is substantially faster than the average of about 3 per cent a year over the past decade. It is also substantially faster than the forecasts given to the National Economic Development Council in its 1962 inquiry. The replies from industry must be treated with caution as projections are particularly difficult in this field. However, the changing geographical and commodity composition of our exports makes it reasonable to expect a faster expansion in
future, as a growing proportion of our exports is now going to the more rapidly expanding markets and in the more rapidly expanding lines; there has already been some acceleration in the growth of exports in recent years. Some of the reasons given by industries for expecting a further acceleration are outlined in Chapter 7 (paragraphs ). The forecast expansion of 5½ per cent a year should be attainable; world trade in manufactures is expected to grow at a faster rate than this over the Plan period. But the rate forecast will not come about automatically. To obtain it important changes in attitudes and policies are required, a point which was made clear by the industries concerned.

16. The inquiry suggested that national productivity (output per head) could grow by 3.1 per cent a year between 1964 and 1970 (see Chapter 2). This is substantially faster than the average growth over the past 10-15 years, but less than the rate of 3.4 per cent required to achieve the growth programme. In the light of past trends (see paragraph 7 above), it should be possible to improve on industry's forecast, and to do substantially better given new policies to raise industrial efficiency and economise manpower.

17. Since the productivity increase forecast by the Industrial Inquiry is not yet quite enough to achieve 25 per cent national growth, there is an apparent "manpower gap", with the demand for extra labour exceeding the additional labour likely to become available, without changes in policies, by about 400,000. This gap could be reduced to about 200,000 by successful regional policies. No great significance can be attached to this precise figure, given the difficulties of forecasting supply and demand for labour five years ahead; and it is not large in relation to a total labour force of over 25 million. But it is substantial in relation to the growth of the labour force.

18. The inquiry revealed the need for large movements of labour, with three major sectors - agriculture, mining and inland transport - requiring some 450,000 less workers; other industries, including aircraft, railway rolling stock, clothing and footwear, 200,000 less; while other sectors were estimated to require an extra 1,450,000 workers, the major claimants being mechanical and electrical engineering, construction, public
administration, health, education and other services. There have been large movements of labour in the past. But with total manpower going up very slowly in the next five years it is particularly important to get labour redeployed from where it can be spared to where it is needed. It is important that this redeployment should be planned so far as possible in advance.

19. The investment planned by manufacturing industry as a whole seems to be on the low side for the growth programme (see Chapter 5). Unless, therefore, investment plans are raised, there is a danger of insufficient increases in productivity and manpower shortages, as well as of insufficient capacity to export and to compete with imports. Import studies carried out by the Economic Development Committees and by the National Economic Development Office have brought out the way in which insufficient capacity, or insufficiently labour-saving capacity, has led to large increases in imports of manufactures when demand has increased substantially in the past; examples are chemicals, paper and board, steel, cement, machine tools, bearings for vehicles.

20. The Industrial Inquiry and the work of the Economic Development Committees have helped to pin-point specific areas of strain and the problems that have to be resolved for the growth programme to be achieved. To each of these problems there corresponds an opportunity. The ways in which they are being tackled, industry by industry, are described in later chapters. One example is the construction industry where a substantial growth is required to meet our needs for productive and social investment. A rapid expansion is also required in the engineering industries which have a major role to play in modernising industry and improving the trade balance. Specific problems have also been revealed in this field, for example the impact of rapidly rising investment in the chemical industry on British chemical plant producers and constructors; this matter is being jointly examined by the Economic Development Committees concerned. Then again the inquiry has given some indication of the future demand for various types of skills and of likely shortages. This will help to guide the work of the Industrial Training Boards and the Government Training Centres.
21. The main problems that must be solved if we are to get more rapid and sustained growth have been described in the preceding paragraphs. The major ones - and they are clearly interrelated - are to restore the balance of payments to a sound position, to increase industrial efficiency and to close the manpower gap - by economies in the use of labour, through productive investment and in other ways, and by using more fully the labour reserves in the less prosperous regions. The programme of action to these ends is set out below.

I. Government overseas spending

22. The whole burden of correcting the balance of payments cannot be borne by British industry alone. The Government intends to stop the increase in defence expenditure and will pay particular attention to net expenditure overseas which has been growing rapidly. A start has been made with the recent agreement with Germany on the offsetting of our expenditure there. The Government's defence policy will be described in more detail when the Defence Review now in preparation is completed.

23. Our aid to developing countries has been rising at an average of about 10 per cent a year in recent years. The Government recognises the importance of the flow of aid from developed to developing countries in helping to stimulate the growth of the latter and thus to alleviate the serious poverty from which many of them suffer. It is fully aware of the part which our own programme has to play in this international effort. But the amount of aid we give must be subject to restraint while our balance of payments difficulties persist, and we have to plan our aid so that the foreign exchange cost of the programme is kept to a minimum.
II. Private investment abroad

24. As a result of capital exports in the past, the value of our private investments abroad has risen to about £10,000 million, including £4,000 million portfolio securities and £6,000 million direct investments. These are a source of strength to the balance of payments and they bring in a mounting total of earnings. But the recent and prospective rate of capital exports was greater than the balance of payments could support without a serious deterioration in our liquid position. When it is necessary to make a very large improvement in the balance of payments over a short period, it is reasonable that the capital account should make a contribution; otherwise it would be difficult to avoid operating indirectly on imports by a severe reduction in home demand several times that of the foreign investment foregone. Some loss of future income from abroad may have to be sacrificed in the interests of redressing the immediate situation.

25. In these circumstances the Government has taken steps to reduce very substantially the net outflow of private long-term capital. It is estimated that exchange control measures announced in the budget and in July 1965 will save about £150 million a year whilst still permitting direct investments which bring a rapid gain to the balance of payments; and the combined effects of various tax changes will further diminish the attractions of investment overseas and also encourage foreign investment in this country. The Government recognises, however, the part which private investment can play in overseas development and has undertaken to keep under review the impact of these measures on the developing countries.

III. Re-allocation of Government spending

26. The Government has been engaged in a thoroughgoing review of the whole field of public expenditure. Changes have been made to ensure that total planned expenditure is within our means and the pattern of Government spending has been rearranged in a way that should encourage rather than impede the productive effort. In particular, the decision to limit the Defence Budget to £2,000 million at 1964 prices, compared with the figure of about £2,400 million planned for 1969-70 when the Government
took office, will release scarce high quality technical manpower and engineering capacity for exports, import-saving and domestic investment. The changes already decided upon in the military aircraft programme should relieve pressure on the engineering sector by releasing upwards of £1,200 million over the next ten years of resources that would otherwise have been devoted to defence; there has been some consequent increase in imports of aircraft but this will not involve a significant foreign exchange cost for a number of years. About two-fifths of all research and development expenditure in this country has been devoted to defence. The diversion to civil use should contribute substantially to the rate of innovation and thus to the balance of payments.

27. In determining the pattern of government expenditure generally, emphasis will be laid on those forms which directly assist economic growth, for example by speeding the application of modern technology in British industry, by improving training facilities at all levels and by easing the transfer of manpower to where it is needed.

IV. Industrial policy to improve efficiency and the balance of payments

28. The Government is pursuing a much more active policy than has hitherto been attempted of detailed co-operation with industry to improve efficiency and the trade balance. For this purpose it is not enough to make a global assessment of the needs of industry. Each industry has its separate features and problems.

29. The Economic Development Committees, which include representatives of management, unions, the Government and the National Economic Development Office, are therefore being extended to cover each major group of industry, and will have a major role to play. In October 1964 there were nine Committees covering 39% per cent of employment in private industry and commerce. There are now fourteen Committees covering 51% per cent, and by the end of the year it is hoped that about 72% per cent of private employment will be covered. In addition the Government has recruited into the Department of Economic Affairs a staff of senior people with experience in responsible positions in private industry. A new Ministry of Technology has also been
set up to co-ordinate and strengthen the machinery to accelerate technological advance throughout industry (see Chapter 4, paragraphs).

30. The most immediate task is to improve the trade balance, though this is closely related to the improvement of industrial efficiency generally.

31. **Import saving.** The work of the Economic Development Committees is already beginning to produce results. For example, the Machine Tool Economic Development Committee has agreed a 24-point Action Programme to improve the export/import balance. The Chemicals Economic Development Committee has suggested manufacture of products not at present made in this country which would reduce the import bill by some £30 million a year. The Mechanical Engineering Economic Development Committee is initiating action to improve consultation between buyers and suppliers, and so avoid unnecessary imports through ignorance of what is available in this country. (See Chapter 4, paragraphs).

32. **Standardisation.** Additional production for export - and at lower cost - could be obtained fairly quickly, with existing equipment and manpower, through greater standardisation and longer runs. In many industries the pattern of the British market seems to have produced a greater degree of diversification of effort, proliferation of product and willingness to use expensive equipment for short jobbing runs than in many other industrial countries. The Economic Development Committees have therefore been asked where appropriate to examine urgently the prospects and problems of quick progress in standardisation and variety reduction. This would involve a major effort by many sections of industry. But it is a task which many companies have tackled with great success and to the very material advantage of themselves and their customers.

33. **Export promotion.** A very wide range of government services are available to help exporters and a publicity campaign has been carried out to make them better known. The Government has already announced new measures to speed up the growth of exports. These included expanded credit insurance facilities at reduced cost; the Export Rebate scheme, whereby certain indirect taxes
bearing upon exports are refunded; arrangements for enabling new exporters to receive help from established exporters; Government financial assistance for trade missions and collective market research; increased participation in and support for overseas trade fairs and other promotional activities; the establishment of a Commonwealth Export Council; and the extension of the activities of the British National Export Council by the establishment of Area Committees. The direct efforts of the Government and the British National Export Council to promote exports are being complemented by the work of the trade associations, the Chambers of Commerce and the Economic Development Committees.

34. The Government has asked these Committees to consider new measures by which an early and substantial increase in exports could be achieved: for example, by fund raising by their industries to support export promotion, and by the establishment of export trading corporations to buy as principals from British manufacturers and sell overseas through their own marketing organisations. The Committees have also been asked to examine ways in which the whole of their industries can make arrangements to secure a specific increase in exports by co-operative action. Where an immediate shortage is a limiting factor, it is hoped that this can be resolved by additional investment or by better use of existing capacity. Concerted action by industries could help to remove the fear of individual companies that an increase in their sales abroad might result in the long term loss of domestic customers to domestic competitors.

35. Quicker movement of exports. Faster handling in the movement of exports to Europe - now about £1,700 million a year - could open up important new markets now closed to us because we cannot compete on delivery times. Greater use of air freight, of containerisation, and of new types of ship could dramatically reduce transit times. This will require co-ordinated change all along the transit route - by industry in packing and routing, by road and rail transport to the ports, by the docks and by the ship-owners. The National Economic Development Council has therefore set up a special Economic Development Committee for the Movement of Exports which brings together the users of the services and all the suppliers. Their task is to agree urgently on plans for
36. **Rationalisation.** British industry faces the problem of the small size of many of its production units compared with those in the United States and some other competing countries. The lowering of international tariffs through G.A.T.T. negotiations such as the Kennedy Round and through economic groupings such as E.C.E. and E.F.T.A. means the intensification of international competition. British industry must be organised so that it can not only face but take positive advantage of this competitive situation. The scale of operations is very important to competitive survival and this seems likely to involve a very considerable reorganisation of the size of the units of which British industry is comprised. While the Government are intent on getting rid of restrictive practices and preventing the abuse of monopoly power in industry and therefore have taken powers to investigate mergers, they would not intend to use their new powers to hinder mergers which they were satisfied would promote the greater efficiency and international competitiveness of British industry. Where the Government can assist in the promotion of these desirable developments they are ready to do so and in some instances they may wish to take the initiative in bringing them about.

37. **Public purchasing.** Public authorities, including the nationalised industries and local authorities, are large buyers of many types of goods. Government can thus make an important contribution to the efficiency of the economy through the intelligent use of government contracts and by advising other public authorities. A start has been made. For example the Ministry of Housing and Local Government has appointed a specialist to advise local authorities on the use of industrialised building methods and to help to implement the work of the National Building Agency. The Economic Development Committee for the Electrical Engineering Industries has initiated discussions with the Electricity Council, and work is going forward within government, on the best ways of using public procurement to lower industrial costs, increase standardisation and promote exports.

38. **Industrial co-operation.** One of the tasks of the Economic Development Committees is to set standards within their industry
by interfirm and international comparisons and to see that those who find themselves behind by any particular standard of measurement can be given the help and information they need to bring themselves up to those standards. The benefits of an interchange of information have already been borne out in the work of the first nine Economic Development Committees where there is an outstanding spirit of co-operation and readiness to help in tackling the mutual problems and opportunities of the industry.

39. Industrial management. The most intangible and yet by far the most important factor in improving industrial efficiency is the quality of industrial management. There is now a growing interest in management education, and it is expected that, in the next few years the increased quantity and quality of management education of all kinds will be making a real contribution. The Government is already providing support for a great deal of this work and will continue to take a close and active interest in it. The Government will also encourage the professionalisation of industrial management. These questions are further discussed in Chapter 4, paragraphs 30-36.

V. Manufacturing investment

40. To achieve the growth of productivity we need, and to provide the capacity required for additional exports and import-replacement, there will have to be a large investment in manufacturing industry - probably larger than industry is now planning. The Plan shows the need for an average increase in manufacturing investment of about 7 per cent a year in real terms from 1964 to 1970 (see Chapter 5). Judging by experience so far this year, the increase between 1964 and 1965 may be greater than this. The outlook for 1966 is more uncertain. The probable growth between 1964 and 1965 is unlikely to be repeated; and it is doubtful whether the engineering industries could bear such a load, given the need for increased exports and import-replacement. Nevertheless it is important to maintain manufacturing investment next year.

41. The Government has been studying the effectiveness of the present system of investment allowances. They have concluded that it is necessary to provide better incentives to investment and propose to introduce measures to this end.
42. It is also important that, in making investment decisions, businesses should not be unduly influenced by temporary fluctuations and uncertainties. The Economic Development Committees have an important role to play in focussing the attention of industries and firms on demand two years and more ahead, including demand in export markets and in markets now being supplied by imports, and on the growing shortage of manpower over the rest of the decade which will necessitate more labour-saving investment if firms are to continue their expansion.

43. New productive investment by foreign companies, especially in under-employed areas of the United Kingdom, will continue to play an important part in the creation of new industrial investment. A special effort will be made to attract those companies whose exports to Britain have already secured them a firm base in the British market, to start local production. There will continue, of course, to be regulation of the acquisition of control of existing British companies.

VI. Productivity, prices and incomes policy

44. The measures already described to improve the balance of payments cannot by themselves solve the problem unless our costs of production move more favourably than in the past in relation to those of our competitors. This will be helped by a faster growth of productivity and industrial efficiency generally. But the rate of growth of money incomes of all kinds is also of great importance. The contribution that can be made to the balance of payments - and also to our living standards - by a successful and sustained prices and incomes policy is very great indeed; for the favourable effect is cumulative, year after year.

45. The Government believes that only as a long term and comprehensive strategy within the framework of the national economic plan, and with full agreement and co-operation of management and unions, can a policy for stable prices and planned growth of money incomes hope to succeed. Agreement has in fact been reached, for the first time in this country, on the
objectives, the machinery and the criteria for such a policy, and these are described in Chapter 6.

46. The policy is now in operation. While it will take time to change traditional attitudes, and while the scope for influencing events in 1965 is limited by past decisions or existing commitments, the chances of success are good. An encouraging start has been made. [Insert examples at latest opportunity.]

VII. An active labour market policy

47. It is clear that Britain's place in the world is going to rely increasingly on her technological skill and that we cannot afford to have people with inadequate training and skill working well below their capacities. The Industrial Inquiry revealed the rapidly growing demand for skills of many types and the danger that growth will be held back by shortages of these skills.

48. The Industrial Inquiry also revealed the need for large movements of labour between industries. There will in addition be substantial movements between firms within industries; and if we are to have the faster growth which is technically feasible with new methods and new plant, one of the symptoms will be more rapidly changing methods of work. All this calls for measures to assist those affected by change and to see that so far as possible they gain from it.

49. For these reasons the Government has embarked on a whole range of new policies and these are described in Chapter 3. They cover redundancy compensation, the development of Industrial Training Boards, a further extension of Government training centres, improvements in the Employment Exchange services and various other measures to help workers on the move. The Government also intends to introduce a system of wage-related unemployment benefits.

50. The progress of industrial training will be kept under continuous review during the period of the Plan and if it appears that the present measures are not producing the level required, then such further measures as are necessary will be put in hand. The Government, the Economic Development Committees,
the Industrial Training Boards and the Regional Councils and
Boards will co-operate in assembling comprehensive information
on the availability of and needs for skilled labour. This
will be used to assess training needs, to guide companies
considering the establishment of new plants in the various
regions, and to help an efficient redeployment of labour. The
ideal is that with any redundancy notification to a worker
should also be a notification of the new jobs available to him.

51. These measures should encourage a wholesale attack on
"over-manning" in industry. The Industrial Inquiry revealed the
possibility of substantial increases in output, with existing
capacity and labour forces, through better utilisation of
labour. In the Joint Statement of Intent on Productivity,
Prices and Incomes, signed on 16 December 1964, representatives
of management and unions pledged themselves on behalf of their
members to encourage and lead a sustained attack on the
obstacles to efficiency, and to strive for the adoption of
more rigorous standards of performance at all levels. Several
important firms, with the co-operation of their employees,
have recently achieved remarkable increases in productivity in
this way; and a number of others have, in agreement with the
unions, undertaken a major review of working arrangements in
their plants and are confident that large improvements can be
made. But a much greater effort is required by all concerned,
as an essential part of the policy for productivity, prices and
incomes, to get rid of restrictive practices of all kinds.

VIII. Regional Policy

52. An essential condition for the fulfilment of the Plan is
the fuller use of manpower in the less prosperous regions of
the country. The employment of an extra 200,000 by 1970 is
the target (see Chapter 3). This will make a substantial
contribution to closing the "manpower gap". At the same time
a more even spread of employment throughout the country will
help to avoid regional pockets of excess demand setting the
pace in driving up costs and prices while there are still
unused resources elsewhere.
53. Regional policies must also look ahead and lay the basis of self-sustaining growth in those parts of the country which at present are too dependent on the old nineteenth century growth industries which have recently been declining or growing only slowly. Short term policy must be related to the longer term problem of securing a balanced regional development of industry, transport and housing in the context of a growing population, both of people and of cars. On present forecasts the population of the United Kingdom will grow by 17 million over the rest of the century; and it has been estimated that the number of cars on the roads will double in the next ten years and treble in the next twenty-five. This will make it all the more important to prevent the harmful effects of congestion, particularly in parts of the Midlands and the South East.

54. As part of the national plan, information has been collected for the first time on many aspects of the regions of this country (see Chapter 8). The building programmes of public authorities, looking five years ahead, have been broken down on a regional basis; forecasts have been made, on various assumptions, of future population changes and of the supply and demand for labour in the various regions. A special review is also being made, looking well beyond 1970, to provide the basis of the perspective planning that is required now if the large expansion of population expected during the rest of the century is to make the maximum contribution to national economic growth and well being.

55. The central government, together with the Regional Councils and Boards that have been set up, will now use all this material, together with detailed local knowledge, to draw up regional plans that are consistent with the national plan as a whole and with each other.

56. Over the years a range of financial, fiscal and other measures has been built up to influence regional growth. Some of these have been strengthened over the past year by the introduction of controls over office building, the more vigorous application of existing controls on industrial development in the Midlands and the South East, by an extensive new programme of advance factory building and by the provision of new training and retraining facilities.
But this is not enough. The Government therefore proposes in addition that the better incentives to investment mentioned in paragraph 41 above should include measures to secure a better balance of regional development. Distribution of industry policy; development of office employment; public investment; government establishments; special funds announced in connexion with coal policy; refer to Chapter 8.

THE PROSPECTS FOR GROWTH

58. Given past trends in productivity, the evidence of the Industrial Inquiry, and the comprehensive range of new policies that is being initiated, it should be physically possible to increase our national output at the rate proposed; this is, after all, a relatively modest one compared with that achieved by many other industrial countries.

59. The balance of payments problem is a more difficult one. The measures outlined in this Plan to limit government overseas spending and private investment abroad, to release scarce resources and inventiveness from defence work, to tackle the trade balance industry by industry, and in a wide variety of practical ways, to encourage productive investment and increase industrial efficiency generally, and to achieve a successful policy for productivity, prices and incomes should enable us to restore a balance and build up a surplus sufficient to repay the debts we have incurred. (This matter is discussed in quantitative terms in Chapter 7.) There is inevitably, however, an element of uncertainty about the time required for these measures to take effect. The need to protect the balance of payments and the position of sterling in the intervening period may involve some slowing down in the rate of expansion in the next year or so.

60. This need not, however, prevent the achievement of the growth programme, provided private industry - both management and workers - continue to push ahead with the policies required to increase efficiency and redeploy labour. Industry has a vital role to play in maintaining its investment programmes and basing its investment decisions on a long term view of the future. Many firms already take this long term view, but the habit needs to spread more widely.
Government will be providing important new incentives to investment and any temporary period of slack should (as it already is by many firms) be regarded as an opportunity to re-organise and re-equip. This will increase the nation's total investment effort and thus its ability to maintain expansion in future without the need for stop-go measures.

61. The Plan will be kept under regular review in the light of developments and periodic reassessments will be made so that the Government and industry can base their plans on the latest information available.

THE INDUSTRIAL PATTERN OF GROWTH

62. A growth in national product of 25 per cent between 1964 and 1970 (3.8 per cent a year) will not mean that all industries increase their output at this rate. Chapter 2 describes the expected changes, industry by industry; these are related to the pattern of growth of demand described in paragraphs 67 to 76 below.

63. The science-based industries, and those producing capital equipment, have expanded faster than others in the past decade and this tendency will accelerate. Oil refining, chemicals, electricity supply, and telecommunications are all expected to grow by 8-10 per cent a year. In absolute terms the biggest expansion will be in mechanical and electrical engineering, where a growth of about 6 per cent a year will be required, compared with 4½ per cent in recent years. This expansion (and also an improvement in the industry's international competitive position) is vital to secure the needed increase in exports and investment. Within the engineering total the largest increases are expected to be in machine tools and electronics (around 7-8 per cent a year). The problems, and opportunities, of the engineering group of industries are discussed in Chapter 9.

64. Among the older consumer goods industries, including parts of textiles, clothing, furniture, food and drink, relatively slow growth rates of 2 per cent a year or less are expected, while coal output is likely to decline from 193 million tons in 1964 to 170-180 million tons in 1970.
65. The construction industries will have to expand by about 4½ per cent a year; the problems involved are discussed in Chapter 10.

66. In energy as a whole, demand is expected to increase by just over 2 per cent a year between 1964 and 1970. The plans of the fuel industries will be sufficient to meet this demand, and to provide the necessary margin for flexibility to permit quick reaction to unforeseen changes in demand for the different forms of energy. These matters are further discussed in Chapter 11.

THE USE OF RESOURCES

67. The degree of Government influence on the use of resources varies a great deal from one part of the economy to another. In a free society citizens make up their own minds how to distribute their spending between the different kinds of consumer goods and services competing for their attention. But other services, such as defence, education, health services and road construction, are provided collectively through Government agencies and a central political decision has to be made on the amounts to be spent on these.

68. Apart from its own spending decisions, any modern government must take an interest in the broad division of the national product between consumption for present enjoyment and investment to meet the needs of the future. This division is influenced by a great many decisions about investment and saving taken by private individuals and firms and cannot, therefore, be dictated by the Government. But investment by the public sector, which the Government can control, comprises about 45 per cent of our total investment; and the Government can influence private decisions by the incentives it provides to savings and investment, by its general financial policies and also through more informal consultations with individual industries. It is with these qualifications in mind that the following table is presented of the projected use of our increased resources during the Plan period. More details are given in Chapter 15.
### Table 1

**Use of Resources**

<table>
<thead>
<tr>
<th></th>
<th>1964</th>
<th>Increase 1964-70</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td></td>
<td>1964 prices</td>
<td>(round numbers)</td>
</tr>
<tr>
<td><strong>Gross national product</strong></td>
<td>32,639</td>
<td>8,160</td>
</tr>
<tr>
<td><strong>Balance of trade in goods and services, and net investment income from abroad</strong></td>
<td>-156</td>
<td>500</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing and construction</td>
<td>1,351</td>
<td>740</td>
</tr>
<tr>
<td>Other private industries and services</td>
<td>1,362</td>
<td>320</td>
</tr>
<tr>
<td>Nationalised industries</td>
<td>1,147</td>
<td>335</td>
</tr>
<tr>
<td>Stockbuilding</td>
<td>525</td>
<td>5</td>
</tr>
<tr>
<td>Housing</td>
<td>1,209</td>
<td>385</td>
</tr>
<tr>
<td>Roads*</td>
<td>194</td>
<td>185</td>
</tr>
<tr>
<td>Other public services</td>
<td>546</td>
<td>215</td>
</tr>
<tr>
<td><strong>Defence</strong></td>
<td>1,921</td>
<td>120</td>
</tr>
<tr>
<td><strong>Consumption</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social and other public services</td>
<td>3,510</td>
<td>970</td>
</tr>
<tr>
<td>Personal</td>
<td>21,038</td>
<td>4,365</td>
</tr>
</tbody>
</table>

* New road works and major road improvements; excluding minor improvements and maintenance expenditure.

69. If the 25 per cent growth programme can be achieved it will yield an increase in national product between 1964 and 1970 of rather more than £8,000 million at 1964 prices.

70. Of this, something approaching £2,000 million will be required to correct the balance of payments and to increase investment in private and nationalised industry, the most rapid increase in investment being in manufacturing and construction.

71. This leaves rather more than £6,000 million to be divided between additional personal spending; housing; and public expenditure on defence, health, education, roads, etc.
72. Of this, personal spending is expected to take about £4,300 million, or over half the total increase in national production. The rate of increase of personal consumption will be slightly faster than the average of the past few years. The slowing down in the growth of consumption now being experienced is a temporary phenomenon largely reflecting the need to close the balance of payments gap. In later years the growth of consumption should speed up to a rate substantially faster than any we have been able to sustain in the past.

73. The average rate of increase in personal consumption over the Plan period will be at a somewhat lower rate than that of the national product as a whole. To a large extent this reflects the fact that a substantial part of the increase in the standard of living to be expected in an advanced modern community comes about through rising standards in the public sector - better social services, more and better schools, hospitals, homes, etc.

74. Provision has been made for a housing programme rising to 500,000 by 1970. There will be a steady increase in public housing, which is the main source of dwellings to let. Private house-building will be encouraged to recover to the level of about 250,000 starts annually and the intention is to keep it at about that level up to 1970. The Government’s housing programmes and policies are described in Chapter 17. The ability to meet this programme will depend on carrying out improvements in the organisation of the construction industry; these are described in Chapter 10.

75. The Government has made a careful review of all the major programmes of public expenditure. These have been made consistent with the Chancellor’s undertaking to limit the growth of total public expenditure to an average of 4½ per cent a year at constant prices between 1964/5 and 1969/70. Details are given in Chapters 18 to 22. The decision to limit defence spending to £2,000 million at 1964 prices (the level of the Estimates for 1964/65) has already been mentioned. The other programmes provide for substantial improvements where these are most needed taking account of social priorities. They do not give us all we should like - that would be impossible unless our resources were unlimited. A choice has had to be made between many desirable aims. The programmes have been fitted
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in to what the nation can afford.

76. As far as can be estimated at present, and provided the
growth objective can be achieved, it should be possible to
carry out these expenditure programmes without any net increase
in tax rates between now and 1970, although changes in either
direction may, of course, be necessary in the intervening years
to keep the economy in balance. Much will depend on the course
of personal savings. The more people are prepared voluntarily
to limit the increase in their personal spending in the interest
of higher real incomes later, the lower will taxation need to be.
Corrigendum

Chapter 7, Balance of Payments
Page 7.12, table 7.1:
Please insert following note to figure of 200

It is estimated that this figure would be about £285 million with a total defence budget of £2,200 million (at 1964 prices). The figure shown in the table thus assumes a method of reducing total defence expenditure from £2,200 million to £2,000 million which involves a reduction of about £85 million in expenditure abroad. (The figures in the table do not allow for imports and exports of military equipment or for exports resulting from the German offset agreement. These are all included in the visible trade account.)
Introduction

For too long the U.K. has suffered from a weak balance of payments. The last decade has seen not only a series of short-term crises but also a weakening of the underlying position. Sterling was in difficulties in five of the last ten years. On some occasions these difficulties sprang almost entirely from capital movements. On others they were generated by a worsening of the current account, and were met by sharp checks to economic expansion. This has had adverse effects on productive investment, and hence on our long-term growth potential.

2. It is our aim to break out of this vicious circle, and to introduce and maintain policies which will enable us to enjoy more rapid and more sustained economic growth.

3. In 1964 the overall deficit rose to an exceptionally high level. It amounted to £745 million, with the current and capital accounts each in deficit of about one-half of this sum, and would have been £800 million if we had not taken a waiver of the payment of interest and capital on the North American loans.

4. Part of the overall deficit can be accounted for by temporary factors. There was an exceptionally heavy net outflow of private long-term capital, which rose to £250 million from an annual average of about £90 million over the last decade. The main forces at work were a large increase in oil investment overseas, and a reversal of the considerable net portfolio investment inflow of previous years into an outflow of nearly £60 million.

5. The current account deficit reflected a very rapid rise in domestic demand, which included an acceleration in fixed investment and abnormally heavy stockbuilding. This upsurge in demand led to an increase of no less than 11 per cent in the volume of imports.
between 1963 and 1964. More than half of the increase was in imports of industrial raw materials and semi-manufactures, while imports of capital equipment formed a large part of the increase in finished manufactures. Shortages of capacity were a factor stimulating large increases in some imports. The increase in the volume of imports was reinforced by a 4 per cent rise in import prices, especially of basic materials and food, which led to a temporary worsening in the terms of trade; this has since been partly reversed.

6. The Government has taken a series of measures to redress the position, and it is hoped that at least half the deficit will have been removed this year. None-the-less, there is still a substantial imbalance to be removed, and the debt incurred in 1964 and 1965 will have to be repaid by the end of the decade.

7. The task of correcting the balance of payments and achieving the surpluses necessary to repay our debts, while at the same time fostering the rapid growth of the economy, is the central challenge we face in economic planning.

**Particular Features of Recent Trends in the United Kingdom Balance of Payments**

8. There are four main features of the United Kingdom balance of payments over recent years which should be noted.

9. First, there has been a heavy and rapidly growing deficit on the Government's net expenditure abroad on both current invisible and capital accounts. The deficit on current invisible account reached £430 million in 1964, more than three times the level ten years ago, almost wholly due to large increases in military expenditure and aid. At the same time, the net outflow of official capital (mainly on aid), now running at over £100 million a year, is also much larger than it was ten years ago.
10. Secondly, there has also been a persistent net outflow of private long-term capital. This has averaged over £90 million a year for the last decade, but rose to the high level of £250 million last year. That was exceptional, but even so there were indications that a substantial outflow would continue.

11. Thirdly, our exports have been growing only slowly, at an annual average rate of about 3 per cent in volume over the last decade. This has not been enough to sustain the rate of economic growth of which we are physically capable. Our exports, which are mainly manufactures, have also been rising much more slowly than world trade in manufactures, so that our share of the value of that trade has fallen from 20 per cent in 1954 to under 14 per cent in 1964.

12. Fourthly, our imports of manufactures have been rising rapidly. Imports of finished manufactures have increased in volume by 12 per cent a year over the decade to 1964, and imports of semi-manufactures by about 8 per cent although part of this increase is attributable to the trend towards importing goods in the form of semi-manufactures rather than basic materials.

13. Just as the fall in our share of world exports of manufactures has been most rapid in the years of rapid expansion, so too has the increase in imports of manufactures been most rapid in those years. This suggests that part of our difficulties on visible account are to be explained by shortages of capacity resulting from insufficient investment in the past, and from too slow a rate of installing labour-saving machinery and of incorporating new techniques. Some significant examples of this are to be found in chemicals, bearings for motor vehicles, and some sectors of the engineering field, in particular machine tools.

Policies

14. It is essential, in order to repay our international indebtedness, to attain and maintain an overall surplus in our international accounts.
We must look for improvement in all parts of the external balance. Of particular importance are the policies aimed at the four features of the balance of payments outlined above.

(1) **Government Expenditure**

15. The Government has decided to restrain severely two major items of its overseas expenditure. First, it intends to restrict total defence expenditure in real terms to the level of the 1964/65 Estimates, and to bring about an absolute reduction in that part which is incurred overseas.

16. The grants and loans which make up the Government's programme for economic aid, also place a burden on the balance of payments. The Government is fully aware of the importance of aid to the developing countries, and is taking steps to increase the effectiveness of what aid it gives. It will, however, be necessary to scrutiny the aid programme with particular care so long as the United Kingdom balance of payments is under such great strain and we are faced with the need to repay the overseas indebtedness recently incurred.

(ii) **Overseas Investment**

17. The extent of the capital outflow has not been commensurate with what the United Kingdom could afford, and a change of direction in policy towards overseas investment was essential. There is a limit to the amount of overseas investment which a country can afford. Much of the benefit of overseas investment accrues to the recipient countries, and the return from investment overseas is on average considerably less, from the point of view of the national economy, than the return on home investment. Our tax system has tended to give too favourable a treatment to overseas compared with domestic investment. This is inappropriate when domestic fixed capital formation will need to take a rising share of gross national
product to procure the growth of output we need. The benefits of overseas investment to the balance of payments - in the form of interest and dividend income, and of increased exports of goods and services - are of course recognised, but in many cases those benefits accrue only over a longer period. And in a time of acute strain on the balance of payments short-run considerations must to some extent prevail. It is, therefore, reasonable to employ a reduction in net overseas investment as one of the means to bring about the required improvement in our external accounts. The additional degree of deflation which might otherwise be necessary would depress domestic activity by a multiple of the foreign investment forgone.

18. The Government has already taken a number of steps which will substantially reduce the net outflow of long-term capital, in the field both of Exchange Control and of taxation. The tightening up of Exchange Control, while still allowing direct investment which brings quick returns to the balance of payments, is aimed both at increasing receipts and reducing payments on capital account. This will be achieved by new measures introduced in the April 1965 Budget: the diversion to the reserves first of certain receipts of foreign currencies by U.K. residents which had previously accrued to the investment currency pool, and secondly of 25 per cent of the proceeds of sale of non-sterling currency securities held by U.K. residents. These measures are expected to reduce the net outflow by about £100 million in 1965-66.

19. In addition to these measures the corporation tax will affect both the outflow and the inflow of private capital, though in this case the full favourable effect on our capital account is not likely to be obtained during the first few years of the Plan period.
20. United Kingdom investment abroad is likely to be discouraged because companies will be able to offset their overseas tax liabilities only against corporation tax, not against the income tax payable on dividends paid to shareholders. Companies will therefore be obliged to restrict the rate of growth either of the dividends they pay out to their shareholders, or of the profits they plough back abroad, or to combine both policies. The former will restrict the incentive, the latter the ability, to invest abroad.

21. Two other budgetary measures - the withdrawal of the Overseas Trading Corporation scheme and of relief to United Kingdom investors from the underlying tax borne by the companies abroad in which they invest - will also tend to reduce overseas investment. The Government recognises, however, the part which private investment can play in overseas development and has undertaken to keep under review the impact of these measures on the developing countries, as the Chancellor made clear in his Budget Statement.

22. The Corporation Tax will also affect inward investment. Non-resident companies will pay Corporation Tax on profits earned through branches in the United Kingdom, while subsidiaries of such companies will pay corporation tax on their profits, and payable to their parents, in addition will pay with holding tax on dividends. The post-tax return on such investment will probably be higher under the new system, although much depends on the distribution policy of individual companies and the rates of withholding tax still to be negotiated. The new system should therefore encourage overseas investment in the United Kingdom.

Measures to Promote Exports

23. A great deal of help, advice and information on selling abroad is available to firms from Government sources through the Expert Services Branch and the Regional Offices of the Board of Trade, and through the commercial officers of the Diplomatic
Service; and credit insurance for exports is available through
the Export Credits Guarantee Department. A continuous effort is
made by means of personal contact to make all the available
services more widely known and to encourage firms to make use of
them.

21. At the same time the Government has introduced a number of
new measures designed to encourage and facilitate a speedier
growth in exports, some of them aimed particularly at smaller
firms that do not export or export little. The Export Rebate
Scheme was introduced providing for the refund of certain
indirect taxation borne by exports amounting to about 2 per cent
of the value of our exports or a total of more than £80 million per
annum. Of this it is expected that, for example, about £10 million
will go to the motor industry, £25 million to the electrical machinery
industry and £1 million to the whisky industry. Credit insurance
facilities have been greatly improved by expanding E.C.G.D.'s Bank
Guarantee facilities and by halving their cost, by reducing
premium charges and increasing percentage cover. A list of some
400 established exporters willing to help firms making comple-
mentary products to export has been compiled and published as a
booklet - the so-called Pick-a-Back scheme - which has been given
a wide circulation. Government finance has been made available
through the British National Export Council to encourage industry
to send selling missions abroad and bring buying missions to
Britain and to support collective market research abroad by
sections of British industry. A study is being made of the
feasibility of setting up a new form of export selling organisation
which will give special attention to the needs of those smaller
companies which export either very little or not at
all.
In addition, the Board of Trade has substantially increased its participation in and financial support for export promotional activities overseas and an extensive programme of over sixty trade fairs and nearly forty British Weeks and store promotions is well advanced. The Commonwealth Export Council has been established and the activities of the B.N.E.C. extended by the setting up of ten Area Committees concerned with different parts of the world. Many special meetings have been held between Government Departments and industry to consider industry's problems in promoting and expanding exports, and close liaison is being maintained.

The direct efforts of the Government, helped by the B.N.E.C., to encourage and facilitate exports are being complemented by the work of trade associations and chambers of commerce and by the Economic Development Committees. Most of these committees have under review ways (described more fully in Chapter 4) of increasing the exports of their respective industries, notably by providing additional production for export, by co-operative sales promotion schemes, the wider use of consortia and the raising of export levies to promote overseas sales.

Delays in transit impose a significant handicap on United Kingdom exporters. Eliminating such delays is especially important in selling to Western Europe, an area which takes just under 40 per cent of our total exports and in which British industry is now at a disadvantage because we frequently cannot quote delivery terms competitive with those of our continental rivals. Hence, the new E.D.C. for the Movement of Exports, which brings together users and suppliers of all the necessary services, has been asked as a matter of urgency to produce agreed plans for speeding up exports.
28. Government and industry working through the Economic Development Committees, have initiated measures to contain the growth of imports of manufactures. Detailed studies undertaken by these Committees have led to a set of programmes designed to eliminate particular obstacles to our ability to compete successfully with imports, in the fields of machine tools (with a twenty-four point action programme), of chemicals (with plans to install capacity to produce certain chemicals not yet included in the range of domestic output), and of mechanical engineering (with proposals to improve market intelligence and thus avoid unnecessary imports through ignorance of what is available in this country).

(v) The Economic Environment

29. While the preceding paragraphs have outlined measures directly affecting certain items in the external accounts, perhaps the most important policies influencing our external position are in fact those aimed at the domestic economy. It is obvious, for example, that exports will benefit from the greater competitiveness, higher investment, and higher productivity on which the whole growth plan is based. At the same time, such policies will also improve our power to compete with imports.

30. Furthermore, the cuts in certain forms of defence expenditure will release capacity, skilled labour and highly qualified engineering and design staffs for other work, thereby increasing the competitive power of British industry, and providing valuable resources which the export industries can absorb in their response to export incentives and world demand.
Finally, the impact of a successful prices and incomes policy on the rate of rise of domestic prices and costs, while of great importance in dealing with the domestic stresses and injustices of inflation, is of great importance to our international competitive position. It is unlikely that we will be able to achieve the required increase in exports and to contain the growth of manufactured imports unless our costs and prices move more favourably than in the past in relation to those of our competitors.

The Prospects

32. The origins of our difficulties are deep-seated and the balance of payments deficit in 1964 was of formidable size. But considerable progress towards equilibrium has already been made, and the important changes of policy which have already been made should create conditions in which the balance of payments problem can at last be mastered. The Plan is not inflexible, and if progress on external account should not be sufficiently rapid further steps will be taken to accelerate the improvement.

33. But just because so many new measures have been and are being introduced, the normally hazardous task of forecasting economic events especially as far into the future as 1970, is made extremely difficult. What is obvious is that we cannot simply extrapolate past trends. Indeed it is precisely the purpose of many of these measures to alter those trends, and thereby to set the economy on to a new path. Nor is there one unique solution to the problem. Each part of our external account has its role to play - and the objective set can be attained in a number of different ways. In the section that follows we show the general lines of a satisfactory balance of payments in 1970.
34. It is, however, difficult to be precise about the timing of the effects of these policies and measures. With the need to achieve balance in the course of 1966, and to earn an adequate surplus year-by-year thereafter, the rate of growth of the economy in the next year or so may have to be slower than the rate of growth of capacity or than the rate of expansion in later years.

35. Already there are signs that the policies to restore external balance are beginning to bear fruit. For example, the deficit on the trade balance in the first half of 1965 was little more than one-half the rate of 1964. In the first quarter, the deficit on the capital account remained large, but this is expected to be greatly reduced in the second quarter. A start has also been made in reducing the balance of payments cost of defences expenditure abroad. Agreement has been reached with the Federal Republic of Germany on the offsetting of our defence costs in Germany; as a first step a deposit of £41 million has been made which is expected in due course to finance additional United Kingdom exports.

The Balance in 1970

(i) The Overall Surplus Required

36. We shall need to repay during the years 1967-1970 assistance amounting to £900 million from the International Monetary Fund and from Switzerland. These obligations create the need for a substantial overall surplus in the balance of payments over the years concerned. No precise figures can be put on the surplus that will be necessary; its amount will depend on the extent to which short-term capital returns to London with the restoration of confidence as well as on the balance of payments of the Overseas Sterling Area. As a basis
for planning, it has been thought prudent to assume that a surplus of £250 million will be necessary in 1970. If we allow for a positive balancing item of £50 million, this would require an identified surplus on current and long-term capital account of £200 million.

37. Table 1 gives estimates of net Government current and capital expenditure abroad in 1970 compared with 1964 in 1964 prices. The figure for military expenditure in 1970 is appreciably below that in 1964. Economic aid to developing countries is assumed to increase rather less fast than the national product.

Only a proportion of this expenditure is a net drain on the overall balance of payments, since much of the aid is tied to United Kingdom goods and services and, where untied, some will in any case be spent on them.

38. Total net external expenditure on Government account \(^{(1)}\) falls by about £30 million, at constant prices, from £550 million in 1964 to £520 million in 1970.

<table>
<thead>
<tr>
<th>TABLE 7.1</th>
<th>GOVERNMENT EXPENDITURE ABROAD (£ million, 1964 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military expenditure (gross)</td>
<td>272</td>
</tr>
<tr>
<td>Aid</td>
<td></td>
</tr>
<tr>
<td>Grants 88)</td>
<td>194</td>
</tr>
<tr>
<td>Loans 106)</td>
<td></td>
</tr>
<tr>
<td>Other (net)</td>
<td>65</td>
</tr>
<tr>
<td>Current 71)</td>
<td>551</td>
</tr>
<tr>
<td>Capital 14)</td>
<td></td>
</tr>
</tbody>
</table>

\(^{(1)}\) Including Other Government Expenditure (net). This covers diplomatic and administrative expenditure and the repayment of earlier loans under the aid programme, plus certain defence receipts.
Private Long-term Capital

39. It is difficult to estimate at all precisely how the private capital account will develop over the coming years. A substantial falling back in net investment abroad from the high level of 1964 was in any case to be expected, given the exceptional transactions in that year. The new measures described (in paragraphs 23-27 above) will certainly carry the process further, and by the end of the Plan period the normal situation may well become one in which private investment in the United Kingdom from abroad exceeds private investment by the United Kingdom overseas, even though the latter is expected to remain substantial. As a basis for planning, it seems reasonable to envisage a net private inflow of the order of £100 million a year by 1970. This compares with an average net outflow of about £60 million in the five years 1960-64.

(iv) Private Invisible Transactions

40. The net surplus on private invisible transactions has averaged £408 million in 1955-1959 and £515 million in 1960-1964, reaching £610 million in 1964. It has been estimated at £700 million in 1970 at 1964 prices. This improvement on 1964 is the outcome of a wide range of factors operating on different parts of the account. The main items are discussed in the following paragraphs.

41. In the transport sector, the shipping account has shown, in recent years, a small deficit, and civil aviation, a moderate surplus. Greater productivity in the whole economy as well as in the industries concerned
together with a successful incomes and prices policy can help to improve the performance of both these industries, especially to the extent that they seize the opportunities presented by growing overseas trade. Receipts and payments on shipping may therefore be expected to be roughly in balance, while the surplus on aviation should grow.

42. Expenditure on travel services must be expected to rise at a high rate, although probably less fast than the very rapid expansion in the early years of this decade. On the other hand, an improved United Kingdom cost position can contribute to the growth of the British tourist industry and thus to a substantial improvement in our earnings. On balance, the deficit on the travel account is expected to continue to rise somewhat.

43. The already large surplus on "other services" - a big miscellaneous category - can be expected to grow further. Of particular significance in this category are the financial services associated with "the City". It is clear that the United Kingdom has a well-established position in supplying the banking, merchanting and insurance facilities which are a fundamental part of the City's expertise and a major contribution to the balance of payments. With increasing opportunities in a growing world economy, we can expect the large surplus on these transactions to rise further.

44. The development of interest, profits and dividends is extremely difficult to predict, since there are so many offsetting forces at work. A more competitive and more rapidly growing United Kingdom economy ought to attract overseas direct and portfolio investment, and thereby increase the income due to be paid abroad. On some existing foreign-owned assets in this country, moreover, the effect of the Corporation Tax seems likely to increase the amounts available to pay dividends abroad.
45. On the receipts side, the rate of increase of our credits is likely to be adversely affected by the slowing down in the growth of our stock of overseas assets due to the new exchange control measures and the Corporation Tax. Nonetheless the net result, certainly within the Plan period, seems likely to be a continuing, but limited, growth in our net income from abroad, because our existing stock of overseas assets is so much larger than the stock of overseas assets in the United Kingdom. Interest received on inter-governmental loans made by the United Kingdom in the past and on trade credit are also likely to go on increasing.
Visible Trade

46. The items covered so far would show a net favourable balance of £280 million in 1970, with a net inflow of private capital of £100 million and net earnings on private invisible transactions of £700 million more than offsetting Government expenditure abroad of £520 million. To secure the identified overall surplus of £200 million mentioned in (1) above, or £250 million before allowing for the balancing item, the deficit on visible trade would have to be reduced to £80 million. Although this represents a very considerable improvement compared with the £550 million deficit recorded in 1964, it is a swing of only some £80 million compared with the average deficit in the previous decade of £160 million. The prospects of a great reduction in the deficit in visible trade are discussed in the following paragraphs.

Exports

47. Over the past decade, the volume of United Kingdom exports rose by an average of about 3 per cent per annum. Allowing for the changing geographical and commodity composition of our exports - a growing proportion of our overseas sales now goes to the more rapidly expanding markets and consists of goods for which demand is growing relatively fast - an extrapolation of past trends would lead us to expect a rise of not far short of 4 per cent per annum in the future. Indeed, in the first three years of the original National Economic Development Council growth programme, 1961-1964, the volume of exports did rise at that rate.

48. It ought certainly to be possible to improve on this performance in future years. During the last decade the volume of world trade in manufactures increased at rather more than 7 per cent a year, with the exchange of manufactured goods between
the industrial countries the main expansionary element. The growth of demand in Western Europe may slow down somewhat during the rest of the 1960s after the very rapid increase in the last ten years, but the United States economy seems likely to continue growing at the faster rate of the past few years, and thereby keep world demand no less buoyant than in the last decade.

49. The ability of the primary producing countries to increase their imports will depend on their export earnings and the inflow of long-term capital, and, in the case of the developing countries, on their receipts of aid. These in turn depend closely on the rates of growth and the policies of the industrialised countries. It seems reasonable to expect the imports of the developing countries to continue to increase slowly over the Plan period.

50. We cannot avoid great uncertainties in assessing world prospects so far ahead. In the immediate future, some slowing-down in the rate of growth of world trade seems likely, but in the longer run the rate of expansion should not be significantly lower than in the recent past. There should therefore be no lack of opportunity for a substantial increase in the rate of growth of United Kingdom exports. The evidence of the Industrial Inquiry suggests that British industry itself expects a big improvement in our export performance. The results imply a rate of growth of United Kingdom exports (in volume) of slightly over 5½ per cent per annum, which in turn would mean the share of exports in manufacturing output rising from 25 per cent to about 27 per cent.

51. The prospects for each industry's exports were an important question asked in the Inquiry; the replies received are summarised in Table 2. About half the industry groups expect a noticeable improvement in their export performance, as a result of recent or prospective changes in the structure of their industry, or of their markets or of their products.
<table>
<thead>
<tr>
<th>Industry</th>
<th>1964</th>
<th>1970</th>
<th>1954-60 per cent</th>
<th>1960-64 per cent</th>
<th>1964-70 per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>64</td>
<td>39</td>
<td>-9.6</td>
<td>6.8</td>
<td>-2.8</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>46</td>
<td>319</td>
<td>2.0</td>
<td>6.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Food, drink and tobacco</td>
<td>235</td>
<td>528</td>
<td>8.0</td>
<td>5.3</td>
<td>6.6</td>
</tr>
<tr>
<td>Chemicals and allied industries</td>
<td>315</td>
<td>528</td>
<td>7.4</td>
<td>0.5</td>
<td>-0.2</td>
</tr>
<tr>
<td>Metal manufacture</td>
<td>816</td>
<td>1110</td>
<td>1.8</td>
<td>5.6</td>
<td>7.8</td>
</tr>
<tr>
<td>Mechanical engineering</td>
<td>319</td>
<td>312</td>
<td>4.1</td>
<td>2.8</td>
<td>7.7</td>
</tr>
<tr>
<td>Electrical engineering</td>
<td>45</td>
<td>1281</td>
<td>-9.7</td>
<td>3.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Shipbuilding</td>
<td>817</td>
<td>773</td>
<td>6.2</td>
<td>1.8</td>
<td>5.2</td>
</tr>
<tr>
<td>Chemicals and allied industries</td>
<td>101</td>
<td>55</td>
<td>1.5</td>
<td>1.9</td>
<td>3.4</td>
</tr>
<tr>
<td>Total goods n.e.s.</td>
<td>181</td>
<td>474</td>
<td>-2.0</td>
<td>-0.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Leather, clothing and footwear</td>
<td>112</td>
<td>72</td>
<td>2.4</td>
<td>3.4</td>
<td>7.5</td>
</tr>
<tr>
<td>Textiles</td>
<td>235</td>
<td>165</td>
<td>5.1</td>
<td>4.9</td>
<td>6.2</td>
</tr>
<tr>
<td>Paper, printing and publishing</td>
<td>146</td>
<td>115</td>
<td>2.5</td>
<td>0.7</td>
<td>-0.5</td>
</tr>
<tr>
<td>Other manufacturing industries</td>
<td>70</td>
<td>93</td>
<td>5.1</td>
<td>4.9</td>
<td>6.2</td>
</tr>
<tr>
<td>Other</td>
<td>31</td>
<td>165</td>
<td>5.1</td>
<td>4.9</td>
<td>6.2</td>
</tr>
<tr>
<td>Unclassified</td>
<td>104</td>
<td>1281</td>
<td>1.8</td>
<td>3.4</td>
<td>3.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4254</td>
<td>5378</td>
<td>3.4</td>
<td>3.0</td>
<td>5.6</td>
</tr>
</tbody>
</table>

The industry distribution of exports for 1954-1964 is based on an analysis of the Trade and Navigation Accounts (supplemented by reference to the Annual Statement of Trade), each item in the accounts being assigned to an industry. The figures thus derived for exports in 1964 differ somewhat from estimates made by industries participating in the Industrial Inquiry of their exports in 1964; the differences, however, were generally fairly small.

Industry exports for 1970 were obtained by applying the 1964-70 percentage growth forecast by each industry to the appropriate 1964 export figure shown in the first column. Where Industrial Inquiry estimates were available for a substantial proportion, but not the whole, of an industry, the rate of growth of the parts for which estimates had been made was taken to apply to the whole. As can be seen from the table no estimates have been made for certain industries, and thus the total in the last row excludes these.
52. Both electrical and mechanical engineering forecast a much faster growth of exports than during the last five years. These results are expected to arise from rationalisation of production and of standards and from increased investment. The international rationalisation of standards is a key factor too for electronics and scientific instruments, even in the face of strong competition. Both woollen textiles and clothing expect to increase the rate of growth of exports as a result of more modernisation of their capital equipment, and (in the latter case) of very competitive pricing. The paper and board industry expects to raise the rate of growth of exports, in particular by switching sales efforts towards the Common Market countries, and by further developing more specialised and sophisticated products.

53. That part of the textile industry based on cotton and man-made fibres expects to increase its exports after a fall in recent years. This is the anticipated result of vigorous rationalisation of the structure of the industry, and of new investment and of new methods currently being introduced by the two large man-made fibre producers.

54. The industries mentioned mainly see their improved prospects in the export market as resulting from factors particular to their own industries, particular investment projects, or new techniques. General assumptions underlying the export forecasts were the Plan growth rate for the economy as a whole and world market prospects broadly in line with past experience. Some industries made it clear that their ability to secure the rise in export sales they were forecasting was subject to certain more specific conditions, which will need to be further considered by the Government and the industries concerned.
55. A rise of United Kingdom exports by just over 5½ per cent per annum is, of course, substantially above the rate of growth achieved in the past, and the fact that this projection is based on industrial evidence should therefore not be interpreted as implying that the attainment of the higher growth rate will be easy. On the other hand, it would be equally wrong to regard a higher export growth rate as beyond our reach. Industry itself does not think so, and many of our competitors have enjoyed average rates of growth of exports substantially higher than that now being projected for the United Kingdom. Given the industrial evidence, the continued favourable outlook for world trade and the success of the policies adopted by the Government and put into effect in cooperation with industry (cf paras. 23-27 above), it seems reasonable to project a growth rate of 5½ per cent per annum in the volume of our total exports, or slightly less than that resulting from the Industrial Inquiry.
56. Over the ten-year period 1954-64 United Kingdom imports on average rose by 5 per cent per annum in volume (and slightly faster in value). During the more recent past (1960-64) the volume increase was just under 4 per cent per annum. The increases in import volumes of the main constituent commodity groups have, however, varied considerably. Imports of food, drink and tobacco and of basic materials rose relatively slowly, while imports of fuels and of manufactures, especially finished manufactures, grew rapidly.

57. The fast increase in imports of fuels reflects the growing use of oil as a source of energy in the United Kingdom economy. The rapid rate of growth of manufactured imports from the relatively low level prevailing ten years ago was to some extent due to the progressive removal, substantially complete by 1959, of quantitative restrictions on such imports. Moreover, there have also been many reductions of tariffs. Particularly important have been the tariff cuts on imports from the other members of E.F.T.A.; since 1st January 1965 duties payable on E.F.T.A. imports have been only 30 per cent of the general rates.

58. It is clear that a reduction in the rate of growth of imports of manufactures must play a prominent part in the improvement needed in our balance of payments. The National Economic Development Council and the Economic Development Committee have taken a number of steps with this end in view (see paragraph 28). Moreover, the measures adopted to improve the efficiency and competitiveness of the economy generally (cf. paragraphs 29-31) will, of course, also help to keep down the increase in manufactured imports.

59. The Industrial Inquiry included a set of questions on imports of manufactured goods. The replies received suggest that imports of finished manufactures will continue to rise strongly, though less fast than in the past; the rise in imports of semi-manufactures
is expected by industry to slow down substantially. The average rate of growth of imports of finished manufactures indicated by the Industrial Inquiry is about 3 per cent per annum in volume over the period 1964/70 compared with 10 per cent between 1960 and 1964; in the case of semi-manufactures, the estimated rate of growth is just under 4 per cent per annum compared with 5\% per cent between 1960 and 1964.

Industrial estimates of imports of manufactures six years hence are subject to a particularly large degree of uncertainty, as foreign supplies generally represent the difference between two very much larger figures - the size of the total market and home sales by British manufacturers. In estimating 1970 imports of manufactures some account was therefore also taken of past trends as modified, on the one hand, by the assumed faster expansion of total demand, and, on the other, by the adoption of various policies and measures which should tend to reduce the growth of imports in this category (cf. paras. 26 - 29 above). Allowance was also made for imports of military equipment not covered in the Industrial Inquiry. The resulting estimates are, for semi-manufactures, an average rate of growth of 5\% per cent per annum and for finished manufactures, a rate of increase of just under 9 per cent per annum.

Faster economic expansion will tend to result in consumption of energy rising somewhat more rapidly than in the past, but a slowing-down is nonetheless expected in the rate of increase of imports of fuels. This is because the scope for further displacement of indigenous coal by oil is likely to become more limited as it increases its importance in a number of markets; moreover, the expansion of United Kingdom refinery capacity will result in a higher proportion of fuel imports consisting of crude oil (which is cheaper than oil products). The average increase expected over the period is just over 5 per cent per annum at constant...
prices as compared with 7½ per cent per annum between 1960 and 1964.

62. Over the last decade imports of food, drink and tobacco on average rose by 2½ per cent per annum in volume. In the more recent past, however, imports in this category increased much less fast; between 1960 and 1964 the annual rise in volume amounted to only about 1 per cent per annum. This more gradual trend is expected to continue. A population growth at much the same rate as that over the past decade, coupled with some continued increase in the output of home produced food, will result in a relatively moderate rise in imports of food. Imports of tobacco are expected to be held back by only a minor rise in tobacco consumption, which in turn reflects the effect of recent anti-smoking campaigns. It is expected that imports of drink will continue rising at much the same rate as in the past. The annual rise of imports in the food, drink and tobacco groups as a whole is estimated at about 1 per cent per annum between 1964 and 1970.

63. Imports of basic materials also rose much less fast during 1960/64 than over the longer period 1954/64 - 0.1 per cent per annum as compared with 1.2 per cent per annum. Over the forecast period, however, the rate of growth of this group of imports is expected to revert to that obtaining over the longer run, since the forecast slowing down in the rate of increase in imports of semi-manufactures in relation to industrial production will lead to some substitution by imports of basic materials.

64. The resulting figure for total imports (see Table 3) is an annual increase (at constant 1964 prices) of 4 per cent.

65. It is thus expected that over the forecast period the volume of imports will rise at much the same rate as during 1960/64,
despite the fact that output is expected to grow at an appreciably faster rate. The reasons for the implied change in the relationship between the growth of output and the growth of imports have largely been discussed in the paragraphs dealing with the main individual commodity groups. However, a further factor is the level of imports in the initial year of the Plan period. Imports in 1964 are thought to have been above their long-term trend, owing to heavy stockbuilding in that year and the rapidity of the upswing of the economy during 1963 and 1964. It follows that the trend increase of imports from 1964-70 is expected to be somewhat higher than the actual increase - between 4\% and 5 per cent per annum as compared with 4 per cent as shown in the table.

<table>
<thead>
<tr>
<th>TABLE 7.3</th>
<th>Imports, 1964-70</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(£ million, 1964 prices)</td>
</tr>
<tr>
<td>Food, drink and tobacco</td>
<td>1,758</td>
</tr>
<tr>
<td>Basic materials</td>
<td>1,119</td>
</tr>
<tr>
<td>Fuels</td>
<td>585</td>
</tr>
<tr>
<td>Semi-manufactures</td>
<td>1,325</td>
</tr>
<tr>
<td>Finished manufactures</td>
<td>899</td>
</tr>
<tr>
<td>Total (c.i.f.)</td>
<td>5,686</td>
</tr>
<tr>
<td>Total (f.o.b.)</td>
<td>5,024</td>
</tr>
</tbody>
</table>

The balance of visible trade

66. The overall balance of payments in 1970 has been forecast in the paragraphs above at 1964 prices. This would imply for the trade balance that the 1964 terms of trade continue. On the basis of post-war experience, however, it seems very likely that the prices of manufactures entering world trade will continue to rise, and thus will provide some room, together with the impact of the continuing prices and incomes policy, for United Kingdom
despite the fact that output is expected to grow at an appreciably faster rate. The reasons for the implied change in the relationship between the growth of output and the growth of imports have largely been discussed in the paragraphs dealing with the main individual commodity groups. However, a further factor is the level of imports in the initial year of the Plan period. Imports in 1964 are thought to have been above their long-term trend, owing to heavy stockbuilding in that year and the rapidity of the upswing of the economy during 1963 and 1964. It follows that the trend increase of imports from 1964-70 is expected to be somewhat higher than the actual increase - between 4\% and 5 per cent per annum as compared with 4 per cent as shown in the table.

**TABLE 7.3**

<table>
<thead>
<tr>
<th>Imports, 1964-70</th>
<th>£ million, 1964 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964</td>
</tr>
<tr>
<td>Food, drink and tobacco</td>
<td>1,758</td>
</tr>
<tr>
<td>Basic materials</td>
<td>1,119</td>
</tr>
<tr>
<td>Fuels</td>
<td>585</td>
</tr>
<tr>
<td>Semi-manufactures</td>
<td>1,325</td>
</tr>
<tr>
<td>Finished manufactures</td>
<td>699</td>
</tr>
<tr>
<td>Total (c.i.f.)</td>
<td>5,686</td>
</tr>
<tr>
<td>Total (f.o.b.)</td>
<td>5,024</td>
</tr>
</tbody>
</table>

71) The balance of visible trade

65. The overall balance of payments in 1970 has been forecast in the paragraphs above at 1964 prices. This would imply for the trade balance that the 1964 terms of trade continue. On the basis of post-war experience, however, it seems very likely that the prices of manufactures entering world trade will continue to rise, and thus will provide some room, together with the impact of the continuing prices and incomes policy, for United Kingdom

7.23
exporters to restore their profit margins on overseas sales. Nonetheless forecasts of the terms of trade are inevitably subject to a considerable margin of error, and it is therefore prudent to be very cautious in making projections. Hence no credit has been taken in the calculations for any further improvement in the terms of trade beyond that of the 3 per cent which had already taken place between 1964 (when there were good reasons for believing that after sharp rises in commodity prices, the terms of trade of the United Kingdom were unusually unfavourable) and the middle of 1965.

With total exports growing by 5½ per cent a year in volume and imports by 4 per cent, the deficit on visible trade at 1964 prices would be reduced from £553 million in 1964 to £260 million in 1970. The assumed 3 per cent improvement in our terms of trade would result in a further decrease of the visible trade deficit to about £80 million (Table 7.4).

| TABLE 7.4 |
| VISIBLE TRADE |
| ( £ million, 1964 prices) |

<table>
<thead>
<tr>
<th></th>
<th>1964</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports and re-exports</td>
<td>+ 4471</td>
<td>+ 6090</td>
</tr>
<tr>
<td>Imports</td>
<td>- 5024</td>
<td>- 6350</td>
</tr>
<tr>
<td>Balance (at 1964 prices)</td>
<td>- 553</td>
<td>- 260</td>
</tr>
<tr>
<td>Balance (allowing for improved terms of trade)</td>
<td></td>
<td>- 80</td>
</tr>
</tbody>
</table>

(vii) The overall balance of payments in 1970

In Table 7.5 the foregoing estimates of the various items of the balance of payments in 1970 are brought together, leading, together with the balancing item, to a surplus of £250 million in 1970. The attainment of this objective should be possible, given the measures described above to limit government overseas
spending and private investment abroad, to release scarce resources and inventiveness from defence work, to tackle the trade balance industry by industry, and in a wide variety of practical ways, to encourage productive investment and increase industrial efficiency generally, and to achieve a policy for productivity, prices and incomes.

TABLE 7.5

OVERALL BALANCE OF PAYMENTS
(£ million, 1964 prices*)

<table>
<thead>
<tr>
<th></th>
<th>1964</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance of visible trade</td>
<td>-553</td>
<td>-80</td>
</tr>
<tr>
<td>Government expenditure, current/and capital (net)</td>
<td>-551</td>
<td>-520</td>
</tr>
<tr>
<td>Private invisibles (net)</td>
<td>+610</td>
<td>+700</td>
</tr>
<tr>
<td>Private long-term capital (net)</td>
<td>-251</td>
<td>+100</td>
</tr>
<tr>
<td>Balancing item</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>-744</td>
<td>+250</td>
</tr>
</tbody>
</table>

* But allowing for 3 per cent improvement in the United Kingdom terms of trade.
15. THE USE OF RESOURCES

1. Table 15.1 sets out in broad terms the changing use of resources between 1964 and 1970. A 25 per cent growth in output would mean an increase in national product of rather more than £8,000 million at 1964 prices. Of this, something approaching £2,000 million will be required to correct the balance of payments and to increase productive investment in private and nationalised industry. Of the remainder only a small increase has been included for defence expenditure.

2. This leaves about £6,000 million to be divided between additional personal consumption, private and public housing, and other public civil expenditure on goods and services, on both current and capital account. In total this represents an increase of about 23 per cent between 1964 and 1970 for these purposes. Public civil expenditure is expected to increase by 28 per cent, housing by 32 per cent and personal consumption by 21 per cent.

3. More details of the estimates are given in the following paragraphs.

Balance of payments

4. The country's basic objective in this field must be to remove the present overall deficit and replace it with a surplus large enough to repay the debt recently incurred. The means of achieving this are discussed in Chapter 7. A very substantial contribution must come from the long-term capital account. The deficit here was abnormally high in 1964 (£370 million against a past average of £150 million), and in addition the measures announced in the Budget to limit private investment abroad will more than offset the increase in aid to developing countries; this will have to be much slower than in the past until the

15.1
The use of resources 1964 to 1970

<table>
<thead>
<tr>
<th></th>
<th>1964</th>
<th>1970</th>
<th>Increase</th>
<th>1964-1970</th>
<th>Total percentage increase</th>
<th>Average annual percentage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross national product</td>
<td>32,639</td>
<td>40,800</td>
<td>8,160</td>
<td>25</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>£ million, 1964 prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance of trade in goods and services, and net investment income from abroad.</td>
<td>-165</td>
<td>-335</td>
<td>500</td>
<td>..</td>
<td>..</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private and nationalised industries</td>
<td>3,861</td>
<td>5,245</td>
<td>1,385</td>
<td>36</td>
<td>5.3</td>
<td></td>
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<tr>
<td>Stockbuilding</td>
<td>525</td>
<td>530</td>
<td>5</td>
<td>..</td>
<td>..</td>
<td></td>
</tr>
<tr>
<td>Social and other public services</td>
<td>741</td>
<td>1,150</td>
<td>410</td>
<td>55</td>
<td>7.6</td>
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<tr>
<td>Housing</td>
<td>1,209</td>
<td>1,595</td>
<td>385</td>
<td>32</td>
<td>4.7</td>
<td></td>
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<tr>
<td>Defence</td>
<td>1,921</td>
<td>2,040</td>
<td>120</td>
<td>6</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Consumption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social and other public services</td>
<td>3,510</td>
<td>4,480</td>
<td>970</td>
<td>28</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>Personal</td>
<td>21,038</td>
<td>25,425</td>
<td>4,385</td>
<td>21</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
balance of payments has been restored to a sound position. To the extent that the balance of payments is improved by this means there will be no additional claims on our resources.

5. It also seems reasonable to take credit for a small improvement in the terms of trade compared with 1964 when world prices of food and materials appear to have been abnormally high in relation to the prices of manufactures. Our terms of trade are already 2 per cent better than in 1964 as a whole and this improvement seems likely to be maintained or increased.

5. Taking all these factors into account, it is estimated that an improvement of £500 million at constant prices in the balance of trade in goods and services and net investment income from abroad will be needed between 1964 and 1970. Taken in conjunction with the expected changes in other items of the balance of payments, this should be sufficient to meet our objectives.

Investment

7. Investment by private and nationalised industries is expected to increase by about 35 per cent, substantially faster than the national product.

8. In the nationalised industries, despite large proportionate increases programmed for the Post Office, gas and the docks, total investment is forecast to go up comparatively slowly, and considerably more slowly than in the past. A major factor is a levelling off in electricity investment after 1966. For all nationalised industries taken together the whole increase in investment is expected to take place during the first two years of the plan period.

9. In private industry the estimates allow for an increase in manufacturing more rapid than in the past, and higher figures than suggested by the Industrial Inquiry. Investment by the distributive trades is expected to increase rather less rapidly than in the past; and investment by property companies and financial
institutions is assumed to grow considerably more slowly as the
boom in office development comes to an end. Details of the
expected changes in investment by private and nationalised
industries are given in Chapter 5.

10. Stockbuilding was unusually high in 1964 and approximately
the same figure has been allowed for 1970 despite the higher level
of output in that year; this has been calculated on the basis of
past relationships between the growth of the national product and
stock movements.

Defence expenditure

11. The Government is planning on the basis of limiting defence
expenditure to the level of the Estimates for 1964/65 at constant
prices. This represents a reduction of £400 million compared with
the programme for 1965/70 when the present Government took office.
(Since the 1964/65 estimates were underspent there will be some
increase over the actual level of expenditure in 1964.)

Other public expenditure and housing

12. To reach a programme of 500,000 houses in 1970 will involve
an average increase in expenditure of 4.8 per cent a year from
1964 to 1970 on investment in housing. (The housing programme is
discussed in Chapter 19.) Investment in social and other public
services (roads, schools, hospitals, etc.) will rise by about
55 per cent between 1964 and 1970. Current civil expenditure on
goods and services will rise by about 28 per cent. Both these
increases are faster than that in the national product. Public
service investment is expected to rise particularly rapidly in
the early years of the period.

Personal consumption

13. Achievement of the 25 per cent growth target would make
possible an increase in personal consumption of about 21 per cent
between 1964 and 1970, an average of 3.2 per cent a year. This
is slightly faster than the 3.0 per cent a year average increase

15.4
from 1960 to 1964. In terms of consumption per head the average increase expected from 1964 to 1970 is 2.4 per cent per annum as against 2.2 per cent from 1960 to 1964. But allowing for the changing age distribution of the population there should be room for a more marked acceleration in the standard of living of the average worker and the average pensioner: 2.7 per cent from 1964 to 1970 as against 2.3 per cent from 1960 to 1964. The reason for this is that the proportion of retired people in the population will increase more rapidly in the future than in the recent past and (even after allowing for recent improvements in pensions) those who have retired tend to have a lower consumption per head than those at work.

Savings

14. The value of the resources required for fixed investment at home, for the building up of stocks of finished goods, work in progress and raw materials, and for net investment abroad must be matched by domestic savings. Savings are customarily distinguished by the broad sector of the economy by which they are made. These sectors consist of persons (including non-profit-making institutions), companies, the public corporations, the central government and local authorities.

15. The projection of the level of savings as a whole for several years ahead is inevitably subject to a high degree of uncertainty, depending on the development of the various components of money incomes and consequent price movements. An examination has nevertheless been made of the prospects for savings. The assumptions made include a significant allowance for the effect of the Government's prices and incomes policy, a continued steady rise in the proportion of disposable income which the personal sector devotes to saving, and the maintenance of the rates of central government direct and indirect taxation made effective in the 1965 Budget. Although the last assumption is convenient for
working purposes, in practice rates of taxation are varied both generally in order to match the prospective demand for resources with the resources likely to be available and specifically in the furtherance of economic and social policy objectives. The use for the purposes of projection of present (1965 Budget) tax rates implies that the proportion of personal income taken by direct taxes would rise with general increases in money incomes, because of the progressive nature of the scales of income tax and surtax, but that the ratio of indirect taxes to expenditure would fall.

15. The result of the examination indicates that in 1970 the total of the savings by persons and companies and of the current surplus of the public sector as a whole, implied by the assumptions made, is likely to be broadly in line with investment requirements. This tentative conclusion does not detract from the need to encourage savings. The more rapid the rise in the ratio of savings to disposable income, the lower will be the taxation required. In other words, the greater the willingness of people to forego voluntarily present consumption in the interests of future developments, the easier will it be for the resources of the country to be directed to speeding up the rate of growth.

Phasing

17. The phasing of the growth of national output and the various forms of expenditure discussed above in the period to 1970 raise questions essential to the achievement of the plan. The most critical ones are the development of the balance of payments, the course of productive investment in private industry and the speed with which productivity and productive capacity can be increased.

18. All these factors point to a faster growth of output in the latter part of the period than in the earlier years. The allocation of resources in the first part of the period will reflect the fact that the major part of the improvement in the
balance of payments will have to be achieved in the first two years or so (part of the necessary diversion of resources for this purpose has already taken place).

19. The phasing of private manufacturing investment is uncertain. The Plan provides for an average increase of about 7 per cent a year from 1964 to 1970. It seems quite probable that the increase in manufacturing investment from 1964 to 1965 may exceed this. The outlook for 1966, however, is more uncertain. The very sharp growth probable between 1964 and 1965 is unlikely to be repeated; and it is doubtful whether the engineering industries could bear such a load, given the need for increased exports, import replacement and the investment plans of the nationalised industries. To the extent that the growth in investment in manufacturing is relatively slow in the next year or two, a more rapid rate of expansion will be needed in the later years of the period to ensure the planned rates of output in 1970.

21. The rate of increase expected or planned in other claims on resources will mean that personal consumption will increase rather more slowly than the gross domestic product over the period 1964 to 1970. Over the whole period, the average increase is estimated at 3.2 per cent a year in total; but the rate of increase is likely to be slower than this in the early years and faster in the latter part of the period. In the latter part of the plan period the achievement of a more rapid growth of output than in the past should be correspondingly reflected in a more rapid growth in personal consumption.
Public expenditure, as discussed in this chapter, includes all central and local government capital and current expenditure, with the exception of debt interest, and includes the gross outgoings of the national insurance funds. The capital investment programmes of the nationalised industries and other public corporations are treated separately, since they raise rather different issues; and for the purposes of this chapter, Exchequer advances to these industries are not included in "public expenditure": the investment programmes of these industries are set out in Chapter.

2. Public expenditure so defined is estimated at over £11,500 million in 1965-66, and accounts for about [38 per cent] of the use of the total gross national product. It represents a wide variety of kinds of expenditure, including defence and other expenditures in support of the Government's external policy; the public services such as education, health, police; the provision of roads, houses, public buildings; the national insurance benefits and national assistance; support for agriculture, railways, industry in the development districts, etc. Their size is determined by decisions by the Government or by local authorities (or by both working together); and they are paid for by central taxes, local rates, national insurance contributions, or borrowing by Government or local authorities from the public.

3. The Government decided in November 1964 to review the whole field of public expenditure. After a first examination of the prospects, they decided that the rise in public expenditure (as here defined) should in the period from 1964-65 to 1969-70 be limited to an average of 4½ per cent a year at constant prices. This was announced by the Government in February, and has later been reaffirmed. The review has been completed. The Government have decided on individual programmes which in the aggregate are within this overall limit. For financial control purposes the expenditure limit has been determined for 1969-70. These figures
have, however, been converted to give the expected expenditure in 1970 for use in other parts of this document.

4. This method of review thus involved, first, a decision about how much resources can be set aside for public expenditure (compatible with leaving an adequate amount for the strengthening of the balance of payments, private investment and private consumption); and, second, a series of decisions allocating this total between the various elements of public expenditure. To have decided first how much public expenditure the country could afford and then how to lay this out to the best advantage may be regarded as a new departure in public finance.

5. In allocating the prospective resources in this way, five years ahead, the Government's main aim was to strike a reasonable balance between the essential but non-productive needs of defence and the support of external policy; the provision of services such as roads and ports, support for industry and advanced technology, and the improvement of regional balance, all of which contribute directly to economic growth; and the extensive and growing network of social services, which are not only an essential part of most people's total standard of living, but may also play an important indirect role (e.g., through improving education and health) in helping economic growth.

6. Looking even so far ahead as 1969-70, the Government's room for manoeuvre is limited. The development of the great public services of defence, education, health, roads, etc. is necessarily planned several years ahead; for this is the time required to train skilled staff and to plan and build new capital facilities. Moreover, the reorganisation of defence must move in step with the development of foreign policy on the one hand and the advance of defence technology on the other. The 12½ per cent increase in the number of school children requires substantial additional expenditure and thus limits the extent to which standards can be improved. A place must be found in the programmes for expenditures
which are directly beneficial to the national economy; and clearly
the Government have to take into account the impacts of various
programmes, both favourable and adverse, on the balance of pay­
ments.
7. Nevertheless, the Government have been able to carry out a
considerable reshaping of the public expenditure programmes, and
the decisions which have been taken for the period from 1964-65 to
1969-70 are set out in Table 18.1.
# Public Expenditure by Function

<table>
<thead>
<tr>
<th></th>
<th>1964/65</th>
<th>1965/66</th>
<th>1969/70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defence Budget</td>
<td>2,073</td>
<td>2,134</td>
<td>2,075</td>
</tr>
<tr>
<td>Roads</td>
<td>406</td>
<td>426</td>
<td>575</td>
</tr>
<tr>
<td>Public Housing capital expenditure</td>
<td>519</td>
<td>571</td>
<td>691</td>
</tr>
<tr>
<td>Housing subsidies etc.</td>
<td>153</td>
<td>164</td>
<td>257</td>
</tr>
<tr>
<td>Police and Prisons</td>
<td>230</td>
<td>237</td>
<td>281</td>
</tr>
<tr>
<td>Education (with school meals and milk)</td>
<td>1,459</td>
<td>1,574</td>
<td>1,923</td>
</tr>
<tr>
<td>Health and Welfare (with welfare foods)</td>
<td>1,238</td>
<td>1,316</td>
<td>1,529</td>
</tr>
<tr>
<td>Benefits and Assistance (with family allowances)</td>
<td>2,120</td>
<td>2,379</td>
<td>2,920</td>
</tr>
<tr>
<td>Total, main programmes</td>
<td>6,198</td>
<td>8,801</td>
<td>10,251</td>
</tr>
<tr>
<td>Other programmes</td>
<td>2,602</td>
<td>2,775</td>
<td>2,944</td>
</tr>
<tr>
<td>Contingency allowance</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Aggregate(1)</td>
<td>10,800</td>
<td>11,576</td>
<td>13,295</td>
</tr>
</tbody>
</table>

(1) This aggregate is of public expenditure as defined in paragraph 1 above and in Table [18] in the Blue Book National Income and Expenditure 1965. This is the total which the Government decided to contain within an average of 4\frac{1}{2} per cent a year at constant prices in the period 1964/65 to 1969/70.

(2) These are estimates for 1964/65, made for the Government's first analysis from which the "4\frac{1}{2} per cent" decision was taken, adjusted to 1965 prices. The outturn was somewhat lower.

(3) Estimates of summer 1965, at prices related to the Budget Estimates of 1965/66 etc. These prices are used for the 1969/70 figures also.
8. Defence budget. The Government's review of defence expenditure is intended to limit expenditure in 1969-70 to £2,000 million at 1964 prices, i.e. to the same level as the 1964-65 Estimates. The previous estimate for that period was around £2,400 million at 1964 prices. The Government have announced decisions on aircraft procurement and the future of the Army Reserves which will go a considerable way towards this objective: the review continues, and further decisions will be announced in the coming months. The time-lag between defence decisions and expenditure is such that the 1966-67 Estimates will be higher, even at constant prices, than those for 1965-66; and the reduction to the new level will not begin to appear until the later years of the period.

9. Roads. The programme is a continuation of the five-year programmes carried out by the Ministry of Transport and the Scottish Development Department together with the local authorities. It represents an increase of 41 1/2 per cent from 1964-65 to 1969-70. [Chapter 17].

10. Housing. The capital expenditure figures, which provide an increase of 33 per cent from 1964-65 to 1969-70, are those of local authorities and new town corporations etc., in Great Britain, representing their component of the National Housing Plan aimed at a United Kingdom total of 500,000 houses in 1970. [Chapter 17].

11. The total cost of housing subsidies (central government and local authority subsidies, plus improvement grants) will in any case increase fast over the period, with the speed-up of public sector housing which has already taken place and which will be intensified in the latter part of the period. Provision is also made for improved subsidies for local authority building, which the Minister of Housing and Local Government and the Secretary of State for Scotland intend to announce in October; and some provision is made in 1969-70 for assistance to owner-occupiers. The total housing subsidy bill shows an increase of 64 per cent from 1964-65 to 1969-70.
12. Police and prisons. The estimates show an expansion of the cost of these services of 22 per cent in the five-year period.

13. Education. This programme covers all education, primary, secondary, further and higher, and represents an increase of 32 per cent in the five-year period. This is partly related to increased numbers, i.e. provision of teachers, school buildings and equipment to match the expected increase of about 12½ per cent from 1964 to 1970 in the number of school-children (Great Britain); an estimated increase of around 35% in further education enrolments; and an increase of about 30 per cent in the number of university students from 1964 to 1970. It is related also to improved standards in all kinds of education. In the aggregate, expenditure on education has increased from per cent of the gross national product to per cent in the last decade, and will on this basis increase to per cent by 1970. [Chapter 21].

14. Health and welfare. The programme covers the whole of the National Health Service, and certain related expenditures (e.g. welfare milk), and represents an increase of 23½ per cent in the five-year period. The main elements are the continuing development of the hospital service, both the new hospitals and the improvement of services within the hospitals; the improvement of conditions of GP's; and a very rapid growth of local authority health services. [Chapter 20].

15. Benefits and assistance. This is the largest of the programmes, covering the national insurance benefits together with industrial injury benefits, war pensions, family allowances, national assistance. The 1969-70 figure shows an increase over that for 1964-65 of £800 million or 38 per cent. This represents the sums required to carry out the objective of providing benefits improving at the same rate as the national standard of living for a steadily increasing number of old people. [Chapter 22].

16. Other Programmes. The programmes described in the previous paragraphs represent about 80 per cent of total public expenditure.
The remainder include a wide variety of activities - support for agriculture, industry, the railways, advanced technology, scientific research, etc.; a wide range of local authority current and capital expenditures, many of which will probably have to be slowed down to make room for the high-priority services; costs of public administration in Whitehall, in the town halls and overseas; etc. Provision is of course also made for Northern Ireland. Overseas Aid is expected to go up at about the same rate as the expansion of the Gross National Product, but the exact level will depend upon progress with the balance of payments.

17. **Contingency allowance.** An allowance of £150 million is left for contingencies in 1969-70. This allowance is necessary partly because of unpredictable changes of circumstances, and partly because of a tendency to under-estimate the future cost of providing for any particular defence or industrial or social policy.

18. **Implementation of programmes.** The Government have established for each main programme limits of expenditure for 1969-70 after taking into account the expected implications of these limits on the development of each service. These limits now provide a measure of the amount of resources within which each Department can plan its programme. The developments of each service given in the accompanying chapters represent the programmes that are believed at present to be practicable within the limits of the resources set aside for them.

19. These programmes must be flexible. The allocations for 1969-70 are designed as a basis for realistic planning, but they assume a successful development of the whole of the economy on the lines indicated in this Plan. The progress of the individual programmes depends upon, for example, the supply of manpower ranging from the most highly qualified specialist to the unskilled worker; all depends upon the success of the construction industry in achieving a continuing increase of productivity and growth of output.
20. It follows therefore that these programmes, individually and in the aggregate, must be subject to continuous modification in the light of the development of the economy. In a year's time, these allocations will be reviewed, and limits established for 1970-71. Thus, the course of the main public services will be regularly adapted to changing needs and to the ability of the national economy to satisfy them.
Public expenditure analysed by economic category and main functions (1)

<table>
<thead>
<tr>
<th>TABLE 10.2</th>
<th>(£ million at 1965 survey prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964/65 survey estimates</td>
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<tr>
<td><strong>Current expenditure on goods and services:</strong></td>
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</tr>
<tr>
<td>Defence budget (2)</td>
<td>2,037</td>
</tr>
<tr>
<td>Roads</td>
<td>194</td>
</tr>
<tr>
<td>Police and prisons</td>
<td>205</td>
</tr>
<tr>
<td>Education (with school meals and milk)</td>
<td>936</td>
</tr>
<tr>
<td>Health and welfare (with welfare foods)</td>
<td>1,092</td>
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<tr>
<td>Benefits and assistance (with family allowances)</td>
<td>92</td>
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<tr>
<td>Other</td>
<td>1,179</td>
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<tr>
<td><strong>Total</strong></td>
<td>5,735</td>
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<td><strong>Capital formation (3):</strong></td>
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<tr>
<td>Defence budget (2)</td>
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<tr>
<td>Roads</td>
<td>211</td>
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<tr>
<td>Housing</td>
<td>519</td>
</tr>
<tr>
<td>Police and prisons</td>
<td>25</td>
</tr>
<tr>
<td>Education (with school meals and milk)</td>
<td>146</td>
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<tr>
<td>Health and welfare (with welfare foods) (4)</td>
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<tr>
<td>Other</td>
<td>436</td>
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<tr>
<td><strong>Total</strong></td>
<td>1,467</td>
</tr>
<tr>
<td><strong>Subsidies:</strong></td>
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<tr>
<td>Housing</td>
<td>135</td>
</tr>
<tr>
<td>Other</td>
<td>145</td>
</tr>
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<td><strong>Total</strong></td>
<td>580</td>
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<tr>
<td><strong>Current grants to private sector:</strong></td>
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</tr>
<tr>
<td>Education (with school meals and milk):</td>
<td></td>
</tr>
<tr>
<td>Universities and other educational bodies</td>
<td>123</td>
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<tr>
<td>Persons</td>
<td>160</td>
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<tr>
<td>Benefits and assistance (with family allowances)</td>
<td>2,017</td>
</tr>
<tr>
<td>Other</td>
<td>179</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,485</td>
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<tr>
<td><strong>Current grants and loans abroad:</strong></td>
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</tr>
<tr>
<td>Defence budget (2)</td>
<td>4</td>
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<tr>
<td>Overseas aid</td>
<td>181</td>
</tr>
<tr>
<td>Other</td>
<td>69</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>254</td>
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</table>
### Table 18.2 (C'td)

<table>
<thead>
<tr>
<th>Function</th>
<th>1964/65</th>
<th>1965/66</th>
<th>1969/70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital grants and loans to private sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing improvement grants</td>
<td>18</td>
<td>19</td>
<td>26</td>
</tr>
<tr>
<td>Education (with school meals and milk)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Universities and other educational bodies</td>
<td>88</td>
<td>100</td>
<td>77</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net lending for house purchase</td>
<td>76</td>
<td>134</td>
<td>80</td>
</tr>
<tr>
<td>Other</td>
<td>38</td>
<td>118</td>
<td>54</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>280</td>
<td>371</td>
<td>240</td>
</tr>
</tbody>
</table>

| Defence budget                              | 2,073   | 2,134   | 2,075   |
| Defence and aid                             | 181     | 196     | 228     |
| Health and medical aid                      | 406     | 426     | 575     |
| Education                                  | 673     | 735     | 948     |
| Police and prisons                          | 230     | 237     | 281     |
| Nutrition (with school meals and milk)      | 1,459   | 1,574   | 1,923   |
| Health and welfare (with welfare services)  | 1,238   | 1,316   | 1,529   |
| Benefits and assistance (with family allowances) | 2,120   | 2,379   | 2,920   |
| Other                                       | 2,421   | 2,579   | 2,816   |
| **Total**                                    | 10,801  | 11,576  | 13,295  |

---

1. The expenditure shown for each function is that of Great Britain spending authorities. The expenditure of Northern Ireland spending authorities is included in the total for each economic category and in "other".

2. This does not include all expenditure on military defence as defined in table 48 of the National Income Blue Book.

3. Gross fixed capital formation and increase in value of stocks.

4. Includes increase in value of stocks, and sales of assets as a negative item.

5. The totals shown for each main function may exceed slightly the sum of the figures distinguished in each economic category for that function. Where the amount of expenditure on one of these functions within a particular economic category is small, it has not been distinguished separately but included in the heading "other" for that economic category.
In his memorandum (C.(65) 115) the Minister of Technology refers to a problem about requirements for the computer network for my Ministry. I am in fact very much concerned at the prolonged delay in placing an order for the first of a series of computers to be installed (at Reading) for the payment of national insurance short-term benefits, and was about to bring to my colleagues' attention the risk of serious criticism to which we shall be exposed if a decision is not taken promptly.

2. When the question of the purchase of computers was before the Cabinet earlier this year (C.C.(65) 28th Conclusions, Minute 6 and 32nd Conclusions, Minute 4), I had not yet reached conclusions on the tenders but I warned my colleagues (C.(65) 67) that this is a field in which we cannot take risks that the equipment offered will not come up to its promised performance. Indeed in the field of social benefits the possibility of a deterioration in the service to beneficiaries which could result from the use of less than fully reliable equipment is something which could not be contemplated. I also pointed out that delay in installing computers for the payment of national insurance short-term benefits would be expensive in terms of eventual savings forgone.

3. The tenders have now been evaluated and I am satisfied that the Remington Rand UNIVAC 494 computer system not only has the advantage over competing systems by reason of the greater savings in administrative costs which it offers but is the only tendered system which is acceptable from the standpoint of reliability. The extent of these advantages is shown in the attached Note by Officials. My proposal that authority should now be given to purchase the UNIVAC 494 is supported by the Treasury and by H.M. Stationery Office.

4. It will be seen from paragraph 4 of the attached note and the annexes that the officials considered the possibility of using the English Electric LEO-Marconi (E.E.I.M.) installation with the substitution of reliable disc files for magnetic card files (which are unreliable), but that this possibility has not been discussed with E.E.I.M. and that the officials estimated that it would be very much more costly than either the E.E.I.M. system with magnetic card files or than the UNIVAC 494. It would also involve the expenditure of a greater amount of foreign currency than the UNIVAC 494. I am informed that since the Note by Officials was drawn up the possibility has been raised of using a new and improved form of disc files with the LEO 326 which it is roughly estimated would bring the cost of this installation with discs to a figure not very far above the cost of the
same installation with magnetic card files. Delay would, however, be
involved while the new disc files, which are not yet in production, were
tested and their development and use discussed with the manufacturers.
If any of these alternatives was found to be acceptable the equipment
would need to be obtained from the U.S.A., as British manufacturers have
not yet developed equivalent devices.

5. Although I recognise that in time the magnetic card files offered
by E.E.I.M. may prove to be sufficiently reliable for our purposes or
that in due course acceptable alternative equipment may become available
to British manufacturers, I am conscious that while we were waiting for
these developments we should be delaying the saving of substantial
administrative costs and man-power. Further, delay at this stage with
the Reading installation would involve a consequential delay in completing
national coverage with postponement in achieving savings in money and
man-power. The staff saving expected when the system is extended to
the whole of the country is of the order of about 5,000.

6. I do not think this delay and the very substantial loss in administra­
tive savings ought to be accepted. The application of modern technological
developments to the administration of social insurance has already a
attracted attention in Parliament and is given a good deal of prominence
in the Report of the Estimates Committee published a few days ago.
Recently in my Annual Report and in answer to a Parliamentary Question
I have held out the prospect that the first of the computers in the Regions
will be working before the end of 1966. This prospect is now in jeopardy
and certainly will not be fulfilled unless an order is placed very quickly.
To wait for the results of further development of the magnetic card files
or for testing the new discs and discussing the possibility of their use with
the manufacturers would mean that the date when the installation would
be working could not be forecast, because there is no certainty of a favourable
outcome in either case, but that it certainly would not be earlier than the
spring of 1967.

7. To sum up -

(1) The UNIVAC 494 is the only acceptable system tendered.

(2) The LEO 326 with magnetic card files is currently unreliable
and as, I assume, no one would suggest that it could be accepted
before reliability was proved, a provisional decision in favour of
this tender would mean an unpredictable delay which could hardly
be less than six months and might be a great deal more.

(3) A British system using discs of proved reliability could, it
is thought, be installed, but this would involve, compared with the
UNIVAC 494,

(a) an increase of 55 per cent in the capital cost;

(b) the expenditure of an additional £400,000 of foreign
currency; and

(c) the loss of more than half the savings (estimated on the
basis of total discounted expenditure over 10 years) to
be secured by substituting a computer for the existing
manual system.
8. After carefully considering the general criteria which the Minister of Technology asks should be applied to proposals for the purchase of computers for Government Departments, I am satisfied that the case of ordering the UNIVAC 494 for the Reading Centre remains absolutely sound. I accordingly ask my colleagues to agree to the acceptance of Remington Rand's tender forthwith.

M. H.


30th July, 1965
The Ministry of Pensions and National Insurance have proposed the purchase of a Remington Rand computer for their prototype short-term benefits payment centre at Reading which it is estimated will save £200,000 per annum in administrative costs. It is intended that following successful operation of the prototype, the centre at Reading will be expanded to cover 30 per cent of the national load of short-term benefit work and that other centres will be established to cover the remainder of the country producing an eventual saving of £1,400,000 per annum. At the request of the Ministry of Technology officials from Ministry of Technology, Ministry of Pensions and National Insurance, H.M. Stationery Office and Treasury met on 21st June to discuss the proposed purchase. Following this meeting, revised costings were produced for the Remington Rand system and two alternative English Electric-Leo-Marconi (E.E.L.M.) systems each of which would have the capacity to handle 30 per cent of the national load of short-term benefits. These costings are given in Annex 1; and Annex 2 shows the approximate foreign currency content of each tender.

2. The UNIVAC 494 offered by Remington Rand is a recently developed system of advanced design and the Technical Support Unit (T.S.U.) expect its performance and reliability to be satisfactory. If their tender is accepted the installation could start to take on work towards the end of 1966 with completion of 30 per cent of national coverage by March, 1968.

3. The LEO 326 proposed by E.E.L.M. makes use of a magnetic card file (m.c.f.) unit. This is a new device developed and manufactured by the Radio Company of America (R.C.A.) in the United States of America and so far three of these have been sent to this country. Their performance has been shown to be unsatisfactory and further development work is required. It is known that R.C.A. have orders for some 40 of these machines for the United States Government and are continuing development but neither M.P.N.I. nor Treasury could support the placing of a contract for an installation which relied on m.c.f.s before a demonstration satisfactory to the T.S.U. had been performed. English Electric have offered a demonstration in September, 1965, but T.S.U. are not hopeful of its outcome.

4. The English Electric installation could avoid the use of the m.c.f. by substituting disc files which are also of American manufacture and whose reliability is not in question but which would cost considerably more than the m.c.f. It has been assumed in the costings that these would be available without delay, but the manufacturers have not been consulted.

5. Although the M.P.N.I. are not committed by reason of legislative requirements to bring the scheme into operation by any particular date, the Minister of Pensions and National Insurance has stated recently in her Annual Report and in answer to a Question in Parliament that it is proposed to install a computer and associated equipment at Reading next year. Installation of the E.E.L.M. equipment could not be achieved by
1966 if the order for the equipment was held up pending satisfactory demonstration of the m.c.f. Moreover the cost, due to loss in savings, of waiting for the reliability of the m.c.f. to be established would amount to about £100,000 a month in relation to the Reading installation.

6. The Reading installation is planned to be the first of four centres which will give national coverage. There will be considerable advantage to the M.F.N.I. if the equipment and programmes used at Reading is compatible with those to be used in the subsequent centres; the winner of the contract for Reading is therefore in a very strong position to win the three remaining contracts.

7. M.P.N.I., H.M.S.O. and the Treasury therefore recommend that approval be given to the acceptance of the Remington Rand tender.

July, 1965
# Annex 1

## Cost Comparison Between English Electric-Leo-Marconi and Remington Rand Installations for M.P.N.I., Reading

<table>
<thead>
<tr>
<th></th>
<th>EE-L-M 326 with m.c.f.</th>
<th>EE-L-M 326 with discs</th>
<th>Rem. Rand 494</th>
<th>Existing Manual System</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital cost of computer and peripherals</strong></td>
<td>1,744</td>
<td>2,820</td>
<td>1,820</td>
<td>-</td>
</tr>
<tr>
<td>(1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total discounted expenditure over 10 years</strong></td>
<td>32,140</td>
<td>32,687</td>
<td>31,569</td>
<td>33,610</td>
</tr>
<tr>
<td>(2) (2) (3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Excess costs of EE-L-M over RR</strong></td>
<td>578</td>
<td>1,118</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Notes:**

1. This figure represents the total cost of the project including capital expenditure, accommodation, staff, maintenance etc., over a 10 year period, discounted at 8 per cent to a common base year.
2. These figures include an allowance for the expected later delivery of the E.E. equipment compared with Remington Rand.
3. No allowance has been made for the increased size of accommodation that would be required to house the disc files.
### Approximate Foreign Currency Content of Tenders

<table>
<thead>
<tr>
<th></th>
<th>£ 000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EE-L-M 326</strong></td>
<td></td>
</tr>
<tr>
<td>with M.C.I.</td>
<td>300</td>
</tr>
<tr>
<td><strong>EE-L-M 326</strong></td>
<td></td>
</tr>
<tr>
<td>with discs</td>
<td>1,400</td>
</tr>
<tr>
<td><strong>Rand 49½</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,000</td>
</tr>
</tbody>
</table>
At the Cabinet meeting on 29th July (C. C. (65) 43rd Conclusions, Minute 3) I was asked to arrange for the Group of Ministers who had originally considered the public expenditure programme to have another look at the allocation for overseas aid. We have done so in the light of the annexed paper agreed between the Minister of Overseas Development and the Chief Secretary to the Treasury.

After considering the position as set out in the paper we now recommend that the cash limit for expenditure on aid in 1966-67 should be £225 million, i.e. £9 million above the basic programme for that year. This would have to cover all unforeseen contingencies. This cash limit of £225 million should be retained up to and including 1969-70. It is, in fact, £4 million below the "basic" programme for 1969-70 and no additional programme would be involved for that year. Forward commitments must be limited so that cash disbursements will not exceed £225 million in these later years.

The implications of retaining a limit for cash expenditure of £225 million in 1967-68 and beyond could be considered again next year when the desirable level of the aid programme is reviewed as part of the annual review of expenditure.

J. C.

Treasury Chambers, S. W. 1.

3rd August, 1965
At the meeting of the Cabinet on 29th July, the Chancellor of the Exchequer said that he had considered the overseas aid programme proposed for 1966-67, and accepted that a substantial part of this represented inescapable commitments; he therefore suggested that it would be reasonable to plan for cash disbursements in that year totalling £225 million, and to maintain expenditure at that level in subsequent years up to 1969-70.

2. We were asked to consider the aid programme figures again in the light of the views put forward by the Chancellor, and to circulate a paper dealing also with the implications of planning the aid programme on a cash, rather than a constant price basis.

3. We are agreed that it is not possible for us to submit firm proposals on the distribution of any programme representing disbursements substantially lower than the total originally submitted, since the precise nature of this smaller programme would have to be examined in consultation with the other Overseas Departments. We are agreed however that it would be possible to plan for actual disbursements of £225 million in 1966-67; although this figure would mean that Her Majesty's Government would have to make a series of difficult decisions affecting our external relations and obligations, and would leave very little room for the contingencies which will occur.

The price basis
4. In the early stages of discussion of the basic aid programme, all figures were stated as for most other programmes of public expenditure in terms of constant prices, and the original "basic" programme was designed to maintain the ratio of aid to G.N.P. constant over the period from 1964-65 to 1969-70. It is however a feature of the aid programme that most expenditures under it are committed on a cash basis, and all recent discussion of disbursements in 1966-67 has been conducted in terms of cash commitments.
5. Thus while the figure required to maintain the ratio of GNP in 1966-67 would be less than £225 million, we have arrived at this figure on a detailed consideration of commitments and near commitments, and this is a cash, rather than a "constant price" figure. To maintain disbursements in the succeeding years to 1969-70 at £225 million on a cash basis would be likely to mean that in 1969-70 this represented a lower ratio of GNP at that time compared with 1964-65. But the average ratio over the period might still be at least the same as or more than in 1964-65 because of the "hump" year 1966-67.

Recommendations

6. Thus in view of the uncertainty about price movements it is impossible to be absolutely sure of the implications, in relation to the presentation of aid as representing a proportion of GNP, of maintaining the aid programme figure at £225 million on a cash basis throughout the period until 1969-70. We have noted that programmes of public expenditure will be subject to annual review. We suggest that advantage should be taken of this in respect of the difficulty arising from the cash basis of the aid programme, and we recommend that:

(a) for the purposes of planning public expenditure, the figure for aid disbursements should be £225 million in each financial year from 1966-67 to 1969-70;

(b) the implications for the years 1967-68 and beyond of maintaining this figure on a cash basis should be separately considered in the next annual review;

(c) the level of the aid programme should also be considered in the annual reviews, particularly in relation to our balance of payments position.

E.C.
J.D.

Treasury Chambers, S.W.1.

2nd August, 1965
CABINET

POLICY TOWARDS GERMANY

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

Our relations with the Germans have taken a turn for the better lately. The State Visit evoked a very warm response in Germany where it was rightly seen as a friendly gesture made as a matter of British policy; and the new Offset Agreement should substantially reduce the foreign exchange burden of stationing our forces in Germany. But two world wars and the horrors of Nazism have left such a legacy of bitterness that we cannot be sure that Anglo-German reconciliation will last unless we for our part work to make it do so.

2. If Germany's future attitudes were unimportant to us, we should not need to worry too much about Anglo-German relations possibly going sour once more. But in fact, because of the way in which things have developed over the years, Germany's attitude (given in particular her relationship with the United States) is going to be of the first importance to us. We have compelling reasons of national interest for persevering in the policy expressed in the State Visit and trying to work constructively with the Germans. I am circulating this paper to my Cabinet colleagues in order to give my views of what this fact implies for our policy towards Germany.

3. German attitudes are important because the Federal German Government are bound to play a key role in developments in many spheres of vital interest to us:

(i) United States foreign policy

The United States Government are looking around with a new urgency for Allies who have something solid to contribute to their alliances. Inevitably the Germans catch their eye, both because they are already contributing a good deal and because they are prosperous enough to contribute still more. The Germans already provide the largest national contingent in the conventional forces of NATO in Europe. They also offset a large part of the American and British foreign exchange expenditure on maintaining forces in Germany. Nevertheless, their balance of payments remains strong and their defence budget is only 5.1 per cent of their G.N.P. The Americans are hoping, as Mr. Rusk has recently confirmed to us, to persuade
the Germans to increase their supporting efforts both in and outside Europe. No doubt that is why President Johnson agreed at the end of his talks with Chancellor Erhard in June to meet him regularly in future. German views on foreign policy are worth the President's attention.

This situation is likely to continue, whatever the political complexion of the next German Government. It means that the Americans will have a strong interest in preserving a good understanding with the Germans. Naturally, the Americans will want to work closely with us, but they will find it much easier to respond to British initiatives and ideas about problems in which Bonn has a vital interest if they do not have the feeling, for which there has sometimes been reason in the past, that they are likely in that context to find themselves at loggerheads with the Germans. This consideration is particularly relevant where proposals for reducing East/West tension and for organising the defence of the free world (which we said in the Speech from the Throne last November were the main aims of our foreign policy) are concerned. Almost all such proposals are bound to impinge on the German problem in some way and the Germans are bound to have strong views about them which cannot be ignored. As far as problems East of Suez are concerned, the German attitude is at present of relatively little importance, but this situation may change if American efforts to widen the area of German interest are successful. It follows from all this that our influence in Washington is bound to be affected to an important degree by our standing in Bonn.

(ii) Future of NATO and nuclear sharing

France is threatening to break away from the present integrated structure of NATO which the rest of the Allies intend to preserve and if possible to strengthen. In this situation, Germany's attitude is vital. In the last resort, NATO can and if necessary will exist without France; without Germany it could not. The key to NATO's future, therefore, is Anglo-American-German co-operation. If France decides to weaken her NATO links, we shall want to play for time and prevent a break for as long as possible. This must also be in the interests of the Germans who have stoutly resisted General de Gaulle's efforts to win them over to his ideas about European defence, and we should be able to count on their co-operation.

But we do not want loyalty to Washington to tempt the Germans to seek a special American-German relationship within NATO, from which Britain would be excluded. There would be a risk of German policy developing along these lines if the Germans gained the impression that the main objective of our proposals for nuclear sharing was not only to contain their ambitions but also to keep them in what they considered a position of inferiority within NATO. If matters went this way, there would also be some risk that the American response to Germany would not be entirely negative. There are already influential American voices raised in favour of the argument that Germany is America's best ally. This is why in
our ANF plan we are committed to a scheme which gives the United States, Germany and Britain equality on the control authority of the Force. Convincing the Germans of our good intentions will help to put over our own ideas on nuclear sharing within the Alliance and to block proposals we do not want.

(iii) British relations with the E.E.C.

The Federal Republic is more interested in access to EFTA markets than is any other E.E.C. country. Germans therefore have more reason than the others to sympathise with the Vienna initiative and Dr. Schroeder’s attitude at the recent W.E.U. Meeting in Luxembourg confirmed this. More generally, too, the Federal Republic has always wanted Britain to be a part of political and economic Europe. She is, therefore, qualified to be our most effective friend in the E.E.C. camp in our campaign to prevent Europe hardening into rival trade blocs. Hitherto, the fear of offending de Gaulle has limited the extent to which the Germans have been willing to side with us in practice. But they are now showing signs of being ready to stand up to the French. If we can secure German co-operation, our prospects of shaping Western Europe’s economic and political future to the designs which suit us best will be greatly improved.

(iv) East/West relations and arms control

The position of the German Government is crucial in any move towards an East/West détente in Europe because German territory is bound to be involved. No one, not even the United States, can now coerce the Germans into accepting arrangements that they do not want; and they do not want any arrangements that deepen the division of Germany. Given German influence in Washington and NATO, any British initiative in the realm of European security is unlikely to prosper unless it has the support of the Government in Bonn. There is a clear case therefore for taking the Germans more into our confidence on arms control and disarmament matters, and they have indicated that they would welcome bilateral talks. We need to dispel the long-standing German fears that we are trying to make a settlement with the Russians at the expense of the German claim to national unity. We must try to persuade them that progress towards reunification can only be made in an atmosphere of East/West détente, and that the right arms control measures can contribute towards the creation of such an atmosphere, even if they are not linked with provisions for immediate progress towards German reunification. There are signs of increasing interest in Germany in this line of approach, although the political parties are bound to be cautious in the pre-election period.

(v) International economic questions

The British economy needs time and help to regain strength. The German economy is so strong that the Federal Government has a part to play second only to the United States in deciding whether we obtain what we need from the international community. So far,
the Federal Government have given full support to our approaches to central banks, the I.M.F. and the Group of Ten. We cannot be sure of French support and the American capacity to help, though great, may be insufficient by itself. The Germans will continue to be in a key position in deciding international policies on support for sterling, liquidity questions, and aid to developing countries. We need their support for our aims and we are most likely to obtain it if the general atmosphere of Anglo-German relations remains as good as it has recently been.

4. Clearly we need good relations with Bonn. If we are to have these we must, of course, in accordance with our repeated pledges, continue to support the German claim to peaceful reunification; maintain strong forces in Germany; defend the Allied position in Berlin; and refuse to recognise East Germany in any way. It is particularly important that we should back up Bonn's efforts to prevent any growth in the international standing of the East German régime. By using our influence in the Commonwealth to this end we can earn much German gratitude.

5. But our pursuit of these policies will not pay its full dividend in terms of German confidence and goodwill towards Britain if at the same time we give the impression that we dislike and distrust the Germans and regard the Federal Republic as a potential menace to peace. If we are to inject warmth into Anglo-German relations, we must now show that we accept the Federal Republic as a leading member of NATO and a friendly partner in the Western community of nations. One way of doing this would be to develop the habit of discussing our policies with the Germans while they are still in a formative stage. We ought also to develop Ministerial contacts, technological collaboration and cultural and youth exchanges. I think that youth exchanges have a special importance because they will help towards reconciliation with the post-war generation in Germany who bear none of the guilt of the Nazi past. This line of policy would, of course, require Ministers to give an appropriate lead to British opinion. If we try to encourage the British people to think of contemporary Germany in a more friendly way, all the indications are that the Germans will be happy to come more than half way to meet us and that this, in its turn, will be the best possible insurance against a return to atavism. They feel a particular need for reconciliation with the British people and this is an asset which we can turn to good account.

6. Anglo-German friendship is all the more desirable because political stability in Germany is still a tender growth. General de Gaulle's nationalistic policies are striking an echo throughout Europe with inevitable consequences in Germany. British friendship can help to strengthen the healthy trends in German society which are now dominant. If we rebuff the Germans they are that much the more likely to conclude that striking independent nationalistic attitudes may be the best way of seeking their objectives, including that of reunification, and that British strength and stability do not much matter to them.
7. To sum up, there is too much at stake for our own future to allow feelings about the past to govern our approach to Anglo-German relations. Given the equivocal attitude of the French, it is more and more through a close relationship of real confidence with Bonn as well as with Washington that we can work effectively towards our vital aims in foreign and even in domestic affairs. It is within our power to achieve such a relationship with Bonn and I hope that I shall have the full support of my colleagues in making the necessary effort to do so.

M. S.

*Foreign Office, S.W.1.*

*4 August, 1965.*
At their meeting on 3rd August, 1965 (C. C. (65) 44th Conclusions, Minute 4) the Cabinet asked me to arrange for the Ministerial Committee on Economic Development to consider the implications of the coal price increases proposed in the Minister of Power's memorandum (C. (65) 110), particularly in relation to the Government's plans for regional development.

Case for general increase

2. We first considered the arguments for and against meeting the Coal Board's deficit by increasing prices rather than by either:

(a) carrying the deficit on the Exchequer for the time being;

(b) including this year's deficit (estimated by the Coal Board at some £25 to £30 million) in the £400 million which it has already been agreed to write off. The Cabinet will remember that about £250 million of the £400 million represented accumulated losses and about £150 million assets which were no longer economically viable and were to be taken out of production over the next few years under the Coal Board's plans for reorganising the industry (the details and timing of which we have not yet been told). This proposal would mean that about £220 million of the £400 million would represent accumulated losses (including this year's deficit), leaving £120 million for the wasting assets.

3. Some of us thought that, having already promised the Coal Board considerable assistance by way of capital reorganisation partly in order to write off past debts, we should be much criticised for deferring price increases and so allowing the Board's debt to begin mounting again. They thought that not to allow the Board to increase prices would be bad for the morale of the industry. They considered that we should recognise and face the consequences for our prices and incomes policy, which is not, as they suggest, designed to prevent increases whether of prices or incomes which can be shown to be justifiable. By deferring price increases now, it was suggested that we should only be creating further difficulties for ourselves later.
5th August, 1965

CABINET

COAL PRICES

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

At their meeting on 3rd August, 1965 (C. C. (65) 44th Conclusions, Minute 4) the Cabinet asked me to arrange for the Ministerial Committee on Economic Development to consider the implications of the coal price increases proposed in the Minister of Power's memorandum (C. (65) 110), particularly in relation to the Government's plans for regional development.

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3. Some of us thought that, having already promised the Coal Board considerable assistance by way of capital reorganisation partly in order to write off past debts, we should be much criticised for deferring price increases and so allowing the Board's debt to begin mounting again. They thought that not to allow the Board to increase prices would be bad for the morale of the industry. They considered that we should recognise and face the consequences for our prices and incomes policy, which is not, as they suggest, designed to prevent increases whether of prices or incomes which can be shown to be justifiable. By deferring price increases now, it was suggested that we should only be creating further difficulties for ourselves later.
4. A majority of us, however, took the view that an increase in coal prices announced now could have the most serious effect on prices and incomes policy at a time when it is of the most pressing importance that its efficacy should be supported and demonstrated. We accepted that, looking at the matter solely from the point of view of the coal industry, there was a case for an increase, but we thought that the major social, economic and political consequences of increases in coal prices at this juncture must outweigh other considerations. We recognised the force of the Chancellor of the Exchequer's objections to carrying the deficit on the Exchequer, but thought that the balance of advantage at this time lay in treating this year's deficit as part of the £400 million to the write-off of which we have already agreed, in the manner described in paragraph 2(b) above. We were assured that this was a practicable proposition.

Regional differentiation

5. We then considered the method by which the price increases, if they were agreed, should be applied. The consensus of view was that, if the price increases were approved in principle, it would be right to apply them in the manner suggested by the National Coal Board, which would be consistent with the Board's objective of concentrating production as far as possible on economically viable pits. But those of us who were opposed to the idea of a price increase at this time thought that our objections were strengthened by the difficulty of reconciling with our regional policies increases of coal prices which would fall particularly heavily on regions where the need for development was greatest.

G. B.

Department of Economic Affairs, S. W. 1.

4th August, 1965
CABINET

LOCAL GOVERNMENT FINANCE

Memorandum by the Chancellor of the Exchequer

The Committee on Local Government Finance has been considering what could be done to improve the financial position of local authorities. It has authorised the Minister of Housing and Local Government to proceed with the preparation of a major Bill which would greatly modify the present system of Exchequer grants as well as making other improvements. It is clear however that such a measure could not be in operation until April, 1967 even if it was introduced in the next Session.

2. The Committee has also been considering the possibility of introducing a measure of relief to ratepayers with low incomes in advance of the general measure of rating reform. This would require a short Bill introduced early next Session to come into effect in April, 1966. The cost of the scheme for relieving people with a family income below a certain level might be of the order of £30 to £35 million; and of this it has been suggested that a large proportion e.g. 75 per cent might be met by the Exchequer. There would therefore be some increase in general taxation offset by lower local taxes on poorer people.

3. The Committee on Local Government Finance considered that it would be premature at this point in time to ask Cabinet to decide whether a system of rate rebates should be introduced from April, 1966. They suggest that a decision might be taken before the next Session begins, in the light of the situation then. Subject to the views of Cabinet they have, however, authorised the Minister of Housing and Local Government to prepare a short Bill which could be introduced very early in the Session. It could also provide for the payment of rates by instalments. If it was decided not to go ahead with a short Bill, it would be possible to include these provisions in the major Bill on local government finance which is also under preparation for later introduction.

L. J. C.

Treasury Chambers, S. W. 1.

4th August, 1965
CABINET

IMPORTS OF COTTON TEXTILES

Memorandum by the President of the Board of Trade

The Secretary of State for Commonwealth Relations, in a minute of which a copy is annexed, proposes that I should make changes in the scheme for controlling imports of cotton textiles which I was about to put to the exporting countries. To proceed with this scheme will, in his opinion, have disastrous political consequences on our relations with Pakistan. My own view is that we should go ahead with presenting the plan.

2. My colleagues authorised me in May to prepare a scheme for regulating cotton textile imports from the developing countries. This was to consist of a global quota with provision, in addition, for country quotas, all to be held within a total ceiling figure; and I was asked to bear in mind the interests of India and Pakistan (C, C. (65) 30th Conclusions, Minute 4). The Governments of both countries had expressed to me during my visit to Asia a desire to talk to us before we formulated our proposals, and discussions with them and with Hong Kong took place in London in June. India and Hong Kong made it clear that they would most strongly oppose any proposals which involved reducing their present country quotas even if the global quota pool were correspondingly increased and they were given access to it. They considered that, having accepted restraint since 1959, much of the growth of the United Kingdom imports since then had already been at their expense. India, in particular, plainly felt that any reduction in her quota would involve a corresponding loss in her trade with us and a further deterioration of her financial position. This, because of the weakness of her competitive position, is almost certainly true. Pakistan, on the other hand, regarded her country quota as wholly inadequate and urged a total global quota with no country reservations. Her modern machinery and export incentive schemes would give her substantial advantages under such conditions.

3. I accordingly decided upon a scheme which would fix a total ceiling for imports from developing countries based on the average figures for 1962/4 and which would give India and Hong Kong their present country quotas and no access to the global quota, while all other supplying countries except Pakistan would participate only in the global quota. To Pakistan I proposed the option of retaining her existing country quota or of participating in the global quota. Given that the object of the exercise is to restrict our imports to the 1962/4 level, this appears to me the maximum concession we could offer to Pakistan who is, in fact, demanding an increase in her exports to us which, with a fixed ceiling, could only be at the expense of others. After consultation with the Commonwealth Relations Office, whose Minister of State expressed, but did not press, apprehensions about Pakistan's reactions, and with the
full support of the Colonial Secretary, the scheme was sent in draft for comment to the three Commonwealth countries. India and Hong Kong have given assent in principle. Pakistan prefers the global quota but insists that it should be increased by reductions in the country quotas of the other two.

4. The Secretary of State for Commonwealth Relations proposes that Pakistan should be conciliated and that the Indian and Hong Kong quotas should be cut by 25 per cent; that the global pool should be correspondingly increased; and that our plans should be presented to the exporting countries in this form. I believe that if, within a few weeks of consulting India and Hong Kong, we present them with a scheme revised substantially to their disadvantage and to the obvious benefit of Pakistan, we shall provoke the most violent reactions from India, and I understand that the Colonial Secretary would regard the effect on Hong Kong as equally serious. Nor do I believe that the global quota countries, most of whom must pay duty on their cotton textiles, would readily accept proposals which still reserved more than half of our imports to India and Hong Kong while enabling those countries to compete freely in the global sector. To present a plan of this kind in the teeth of Indian and Hong Kong opposition would put our negotiators in an impossible position.

5. I must emphasise that the proposals I wish to present constitute an initial negotiating position. They would enable us to enter on discussions with hope of support from India and Hong Kong. If, as is possible, there is a general objection among the exporting countries to the apparently privileged position of these two and it is necessary to seek concessions from them, it will be clear that we are doing so as a result of this general pressure and Pakistan will benefit as a result; but we shall not appear to be making concessions to her alone. I should also like to stress the urgency of this matter if the Government is not to appear both to foreign exporters and British importers to be intolerably dilatory in embarking on a settlement.

6. The issue to be decided, though it may be grave, is quite clear. I seek the guidance of my colleagues on whether to proceed with the present proposals with the risk of the reactions from Pakistan, which the Secretary of State for Commonwealth Relations fears, or whether to amend the proposals in the sense which he suggests, thereby incensing the Indians and Hong Kong and, in my view, making our negotiating position with the exporting countries as a whole even more impossible than it already is.

D.P.T.J.

Board of Trade, S.W.1.

26th August, 1965

*On the basis of the present proposals, the distribution of the import would be: India 195m. sq. yds.; Hong Kong 185m. sq. yds.; Global quota 120m. sq. yds. With 25 per cent from India and Hong Kong transferred to the global sector, the distribution would be India 146m.; Hong Kong 139m.; Global sector 215m.*
PRESIDENT OF THE BOARD OF TRADE

Cotton Textiles

I am sorry to see from your minute of 11th August to Cledwyn Hughes that you do not see your way to accept the suggestion made in his minute of 9th August that what we should now propose to our suppliers is that each of them should have a country quota equal to 75 per cent of their existing quota and should compete for the balance in a global quota.

2. Pakistan would deeply resent it if the revision of our quota arrangements does not give her an opportunity to compete against India in our market to the extent that Cledwyn Hughes' proposal would involve. The Pakistan Government feel not unreasonably that the existing quotas were settled at a time when her industry was adolescent. They would particularly resent the circulation by us now to all our developing suppliers of proposals which it will be known to have been put to India, Pakistan and Hong Kong and have not proved acceptable to Pakistan. It is Pakistan's jealousy of India which will embitter the controversy.

3. This comes at a particularly difficult moment in our relations with Pakistan. The United States Government have told us that there will be no American pledge of aid to Pakistan when the Pakistan Consortium meets on 23rd September unless President Ayub first visits President Johnson in the United States and in effect gives him assurances that the Pakistan Government will cease their present hostile attitudes towards United States policies. I am sending Sir Morrice James back from leave to Pakistan this week in order to try to make the Pakistan Government realise the danger in which they lie and to explore the possibility of an accommodation between them and the United States Government. I fear Sir Morrice James' delicate task would be much prejudiced if at the same time we precipitate a row between ourselves and Pakistan on cotton textiles. If American aid is in fact cut off from Pakistan, there would be greatly increased danger of Pakistan moving towards an alignment with China and Indonesia and there may be consequences for American aid to India. The whole Western position in Southern Asia could be profoundly affected.

4. I recognise that India and Hong Kong would dislike a proposal that they should now get something less than 100 per cent of their present quotas. But the longer we continue to dangle the prospect of 100 per cent before them, the more difficult it will be to withdraw the offer. In any case the row which we risk with Pakistan in present circumstances would be much graver and more dangerous than that which we would risk with India and Hong Kong. I cannot believe that the negotiation can be concluded on the basis of 100 per cent country quota for India and Hong Kong with all others competing for a global quota and this strengthens my anxiety to avoid a dangerous row with Pakistan for what could not be more than a tactical advantage in the cotton textile negotiations.
5. As an alternative to Cledwyn Hughes' suggestion, you may care to consider putting forward at this stage to all developing suppliers a proposal that India, Hong Kong and Pakistan should have country quotas equal to 75 per cent of their existing quotas and should compete, with other suppliers, for a global quota. This would not be acceptable to Malaysia and Singapore and no doubt others, but it would get the negotiations started on a general basis without the row I fear with Pakistan.

6. I am copying this minute to the First Secretary of State, the Chancellor of the Exchequer, the Foreign Secretary, the Colonial Secretary and the Minister of Overseas Development.

A.G.B.

25th August, 1965
10th September, 1965

CABINET

PRICES AND INCOMES POLICY

Note by the Prime Minister

Now that the Government have embarked on a further stage of the prices and incomes policy, it is essential that all changes in prices and incomes which require Ministerial authorisation should be handled, from the outset, in a manner consistent with the new development. The precise means by which this should be achieved, in relation to e.g. arbitral bodies, have still to be fully worked out in accordance with the Cabinet's decision on 1st September (C. C. (65) 46th Conclusions, Minute 1, Conclusion 2). But I ask all my colleagues in the meantime to keep the First Secretary of State and, where appropriate, the Chancellor of the Exchequer in the closest touch with any proposed increases in prices and incomes and to abstain from any action in this connection which might prejudice the achievement of the Government's purpose by appearing to make a distinction between their treatment of the public and the private sectors.

H. W.

10 Downing Street, S. W. 1.

10th September, 1965
CABINET

DISCLOSURE OF COMPANIES' POLITICAL CONTRIBUTIONS

MEMORANDUM BY THE PRESIDENT OF THE BOARD OF TRADE

The Government's intention that companies should be required to disclose their political contributions was announced in The Queen's Speech in the following terms:

"Action will be taken to require companies to disclose political contributions in their accounts."

2. In January the Ministerial Committee for Economic Development agreed that a provision requiring the disclosure of political contributions should be included in the Bill which was to be drafted to give effect to recommendations made by the Jenkins Committee about disclosure in company accounts generally.

3. A complicated definition of political contributions is necessary to ensure that disclosure is required of contributions not only to political parties but also to bodies such as Aims for Industry Ltd. In the course of preparing the Bill my officials have consulted the Board of Trade's Accountancy Advisory Committee, under the chairmanship of Sir Thomas Robson of Price Waterhouse, on various matters arising out of the Bill. The Committee said that it would be unreasonable to require auditors to take responsibility for the figures for political contributions given by the directors since this could involve the auditors in checking every single item of the company's expenditure. Where there were contributions to bodies like Aims for Industry Ltd., it would also require them to judge whether the bodies fell within the definition as persons carrying on, or proposing to carry on, any activity which could reasonably be regarded as likely to affect public support for a political party, and whether the directors knew that the bodies to which they were subscribing fell within the definition. The Committee accordingly suggested that a company should be required to give information about its political contributions not in its accounts but in its directors' report. This report has to be attached to the accounts, but is not one of the documents on which the auditors have to report to the members.
4. I consider the Advisory Committee's reasons for not involving the auditors to be valid, and accept their advice; but I thought it right to bring this small change in the intention announced in The Queen's Speech to the notice of the Cabinet.

D. P. T. J.

Board of Trade, S.W.1,
10th September, 1965.
CABINET

LOCAL GOVERNMENT FINANCE—THE GRANT SYSTEM

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

I circulate this memorandum, as Chairman of the Ministerial Committee on Local Government Finance, to seek approval by the Cabinet of the proposals on which we are agreed and settlement of a few points of difference.

2. After full examination we have concluded that:
   (i) there is no possibility of any major new source of local revenue to supplement or replace the rates;
   (ii) the total expenditure of local authorities is bound to rise steeply over the next decade at least—more steeply than public expenditure as a whole and more steeply than the Gross Domestic Product (G.D.P.);
   (iii) though there are various ways in which the rating system might be improved—we have not completed our examination of these—the rates can never have more than a limited buoyancy and cannot be expected to bear as high a proportion of rapidly rising expenditure as they bear now;
   (iv) some way must therefore be found of shifting an increasing proportion of the burden on to central taxes, while still leaving the rates to bear as much as they reasonably can and leaving as much independence as possible with the local authorities.

3. Our proposals do not include housing, which we suggest should be dealt with separately. For the rest, we propose that the present system of Exchequer aid to local services should be entirely recast and should have two distinct elements—assistance to capital projects and assistance to current expenditure which would otherwise fall on the rates. The following paragraphs give the broad outline of the plan, without covering all the detailed points.
A. CAPITAL GRANTS

4. We propose that lump-sum Exchequer grants, at a common rate of 50 per cent, should be payable towards expenditure on approved capital projects in the main local authority programmes which Departments already supervise and which are not revenue-earning—that is, education, highways, health, welfare, police, fire and child care. (There are one or two minor services where capital grants are payable at present; and we think they should continue, though they may need to be recast.)

5. This would involve a reduction to 50 per cent of the capital grants now payable for highway schemes at 50 per cent, 60 per cent or 75 per cent according to the class of road. The other major services mentioned do not at present attract any capital grants at all, but loan charges taken into account in the General Grant.

6. The total effect of these capital grants would be to reduce the local authorities’ borrowing needs, and the burden of loan charges on the rates (what remains of this burden would be eligible for the Exchequer assistance towards current expenditure under the second part of the plan). They would thus in effect reduce for local authorities both the high cost of land—which we have found no way of doing through our Land Commission policy—and the cost of high interest rates. They would involve a considerable addition to Votes, but they would not increase the total public expenditure on capital account and would not in themselves call for higher taxation (except to the very minor extent to which the net burden of loan charges would be switched from the rates to the Exchequer). They would reinforce the control over capital programmes now exercised by central Departments (mainly through loan sanction procedure). And they would make possible a new elasticity of policy on local borrowings from the Exchequer.

B. SUPPORT OF THE RATES

7. We consider that so long as total local expenditure, reasonably and economically conceived, must rise faster than the G.D.P., it is reasonable that rates as a whole should rise in line with the G.D.P., and that Exchequer assistance should be so fixed that they need not rise more steeply than that. This has led us to the conception of a “moving Exchequer guarantee”. The Government would look at the total prospective local expenditure, either for a year ahead or for longer periods, apply their own judgment to it and determine what total they would be prepared to recognise as the basis of their guarantee. (Local authorities could spend more, at the sole cost of the rates, if they chose.) From this total there would be deducted the revenue which would be yielded by rates if average poundages rose in line with the growth in the G.D.P.; and the remainder would be fixed in advance as the “total Exchequer contribution” within which all Exchequer assistance to rate-borne services would be included. This total would be adjustable for subsequent changes in wages and prices, but not otherwise.

SECRET
CABINET

CORRIGENDUM

TO

C. (65) 125

Page 6, paragraph 27, line 5

After the words "total local current expenditure",
close bracket.

Cabinet Office, S.W.1.

14th September, 1965
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Page 6, paragraph 27, line 5

After the words "total local current expenditure", close bracket.

Cabinet Office, S.W.1.

14th September, 1965
8. This system should combine reasonable control by the central Government over their total commitment with reasonable autonomy for the local authorities. There would be no guarantee about the level of rates for particular authorities.

9. Once the total Exchequer contribution is fixed in this way—as it has never been fixed before—the main problem is how to ensure that it is distributed fairly, with regard both to the different needs and to the different resources of the various authorities. We think that for this purpose there must be a number of specific grants related to particular services and that the remainder should be distributed as a general Rates Support Grant on a formula designed to give something to every authority but most where it is most needed. The present General Grant, Rate Deficiency Grant and (in Scotland) Equalisation Grant would, as such, disappear.

Specific grants

10. Under this plan specific grants take on quite a new complexion. Neither their number nor their size makes any difference to total Exchequer expenditure or to total burden on rates: they are no longer an addition to the Exchequer’s general support of the rates but a subtraction from it; and they should no longer be regarded as marking a service out as specially important or as specially deserving of Exchequer support. The main purpose of having any specific grants at all is to improve the equity of the distribution of a pre-determined total of Exchequer aid to the rates; and in order to keep available for the Rates Support Grant as much of the total as possible, specific grants should be approved only where there is a very strong case for them.

(a) Needs grants

11. For some essential services the burden falls very unevenly between authorities, either geographically or in time or both. Examples are port health control and urban redevelopment (which only a minority of authorities have to do at all). Unless some of the total Exchequer contribution is used to give differential support to this differential expenditure, its distribution would clearly be unfair between authorities. We therefore agreed that there is a good case for specific grants for such services. We describe them as “needs grants”, because they recognise the difference between authorities in the needs for expenditure on these services.

12. Much the biggest service is Education, which does not at present get any specific grant. Though it is a universal service, the burden it imposes is by no means equal among authorities, because there are wide variations between them in the proportion of school children and students to total population. And because the expenditure is so large there would be a considerable distortion in the equity of the distribution unless some of the Exchequer aid were distributed between authorities by reference to the differential needs in education expenditure instead of by reference to more general factors. This is the case for a specific “needs grant” for Education.

SECRET
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13. We are agreed that this grant should be a “formula” grant, rather than a fixed percentage of each authority’s expenditure as approved for grant. That is, the Education Departments would take the total estimated prospective expenditure by local authorities on Education (including school meals and milk), decide whether it was a realistic and adequate sum in the light of Government policy and of the Government’s long-term expenditure decisions, and pay a proportion of that sum to education authorities on a formula reflecting specific factors relevant to the education service.

14. We also agree with proposals by the Minister of Transport whereby maintenance and minor improvement of classified roads would cease to be specifically grant-aided (though selected improvement schemes would become eligible for capital grants). This revenue expenditure would be aided only through the Rates Support Grant.

15. We are not agreed on a proposal by the Minister of Health that a specific needs grant should be introduced in respect of the health and welfare services in England and Wales.

16. The Minister argues that two-thirds of the expenditure is on old people and on young children and their mothers, and that for these groups the demographic disparities between authorities are as wide as they are for school children; further, that these services will not get sufficient priority in local counsels if they are not treated for grant in the same way as education.

17. The argument to the contrary is that since the expenditure in question is only about one-tenth as much as expenditure on education, the case for a grant to iron out potential inequities in distribution is much weaker; that the “prestige” argument is inadmissible under the new system; and that the case is therefore not strong enough to overcome the presumption in favour of general distribution (see paragraph 10).

(b) Control grants

18. The other possible sort of specific grant is a “control grant”, designed purely as a means of imposing control from the centre. Such a grant, for a service where relative needs do not greatly differ among authorities, and paid to all alike at the same percentage, does nothing to improve distribution; on the contrary it works the other way, giving the richer authorities more, and the poorer less, than they would get if there were no grant.

19. We are agreed that there is a special case for a control grant in respect of Civil Defence, because without it the local authorities would be disinclined to meet much expenditure. A policy review is at present going on but the total involved is too small to constitute a serious loss to the Rates Support Grant.

20. The Home Secretary would also like to have a control grant for police (which, apart from highways, is the only major service which has a specific grant at present), to institute one (perhaps
temporarily) for child care, and to keep open the possibility of a control grant for the fire service until an enquiry which he is proposing for that service has reported.

21. He argues that strong central control of these services is essential and that the power to withhold, or threaten to withhold, grant is an effective way of compelling local authorities to comply with central policy on the development of the service and the appointment of staff.

22. No one doubts the need for control. The doubt is whether a financial sanction is a necessary means of securing it. In other services the responsible Ministers make their policies effective by use of statutory and other powers of direction or persuasion without a specific grant.

23. We are therefore not agreed on the Home Secretary's proposals, though some of us feel that there is more to be said for retaining the police grant, which already exists, than for instituting new grants for child care and fire.

Specific grants—rate of grant

24. The amount of money to be taken out of the total for the purposes of a "needs grant" ought in theory to be no more and no less than is necessary in order to iron out the relevant disparities in expenditure needs: over-compensation would use up money which ought to go into the Rates Support Grant and would thus favour the less hard-pressed authorities at the expense of the others. For a "control grant" the amount should be the minimum necessary to secure the control which the Department wants.

25. There is as yet no scientific basis for fixing the amounts and we are agreed in recommending that, to start with at any rate, all specific grants should be at the common, and admittedly arbitrary, rate of 50 per cent (except that the higher rates now payable for civil defence should remain). This could be refined later if adjustment is found necessary to secure equitable distribution of the total.

26. This decision, together with a decision about specific grants for health and welfare, police, child care and fire, is vital to the size of the Rates Support Grant. The dominant factor is education. A 50 per cent grant would not of course represent the total Exchequer aid made available for education under the new scheme: quite apart from the new capital grants for education, all current expenditure on education, as on other services, would go to swell the total Exchequer contribution and would thus be aided—to different degrees for different authorities—through the Rates Support Grant. The total of Exchequer aid will be considerably higher than before. It may take a little time for the novel implications of the scheme, and the novel character of the education grant, to be appreciated by the local authorities: but the Secretary of State for Education and Science is in agreement with the above proposal and preliminary soundings do not suggest a hostile reaction from the Association of Local Education Authorities.
27. Forward estimates are very speculative, but roughly speaking it appears that on the basis of constant (1964) prices the Rates Support Grant under the new scheme (for Great Britain as a whole) would amount to about £660 million in 1969–70 (rather less than a quarter of total local current expenditure) if there were no specific grants for health and welfare, police, child care or fire and if the other specific grants were at 50 per cent. Specific grants at 50 per cent for health and welfare and for police would reduce this £660 million by about £100 million each; for child care and for fire by about £25 million each. If the education grant distributed a sum equal to, say, 65 per cent instead of 50 per cent of educational expenditure, the £660 million would be reduced by well over £200 million.

Costs

28. If the present system were left unchanged, the cost of Exchequer aid to local expenditure would in any case rise with rising costs and with the further development of local services. The new system will further increase the cost to the Exchequer, by amounts which depend not only on increases in local expenditure but also on increases in the G.D.P. Rough estimates suggest that by the end of its first five years, on the basis of an annual rise of 4 per cent in the G.D.P., the new scheme would produce an additional charge on the Exchequer as compared with the present scheme of about £200 million through the total Exchequer contribution in relief of local rates; and that by the end of 10 years the Exchequer share of total rate-borne expenditure would have risen from about 55 per cent to about 63 per cent. These figures are not of course affected by decisions about the specific grants to be found from within the total Exchequer contribution. (In addition there would be about £125 million extra on Votes for the capital grants in relief of local borrowing; but this would not be a net increase on the Exchequer.)

29. A scheme on these lines would over a period involve a formidable increase in central Government expenditure. We find it necessary to ease the burden on the community as ratepayers, but this is achieved only by increasing the burden on them as taxpayers—an extra £200 million in five years' time would be about an extra 6d. on the income tax. Obviously this must limit what we can do in other directions.

30. This leads me to say two things in my capacity as Chancellor of the Exchequer. Firstly, this is a new and imaginative scheme, which has great potential advantages. The calculations have been made as carefully as possible, but there are wide ranges of uncertainties about costs, pay, prices, the rate of growth of G.D.P., etc. which could greatly affect the financial outcome. We are bound to reserve the right to amend and modify the scheme if we find it working out very differently from what we now expect.

31. Secondly, the problem arises from the rapid growth of local authority expenditure—especially education and roads, but in fact all forms of expenditure, inside and outside control from Whitehall.
I am sure that in giving the guarantees which are involved in this scheme we must satisfy ourselves that the local authorities are restraining the growth of the expenditure in question, limiting it to what is urgently necessary and carrying out their services efficiently and economically. We have taken our decisions determining the long-term public expenditure on education, roads, health, police, housing; and must ensure that the local authorities' element in these expenditures is contained accordingly. But the problem goes wider than this; and in my opinion we must regard it as integral to this scheme that we develop with the local authorities effective modern means of keeping their expenditure to the minimum essential level.

Conclusion

32. It is intended to introduce the scheme in time to be operative by 1st April, 1967, and major legislation next Session is necessary for this purpose. Much detailed discussion must be undertaken with local authorities before a Bill can be introduced, and the Cabinet's authority for the main lines of the scheme is therefore now needed. The full reactions of local authorities to the proposed new scheme will not be apparent until it has been possible to work out just how it will affect individual authorities. At that stage we may think it right to vary our present ideas in some respects, and to that extent approval at this stage must be provisional.

33. The Ministerial Committee invite the Cabinet:
   (i) to approve the main lines of the scheme as set out above;
   (ii) to decide whether, within the total Exchequer contribution there should be specific grants for health and welfare, police, child care and fire.

L. J. C.

Treasury Chambers, S.W.1,
13th September, 1965.
ANNEX

This Annex shows how the Exchequer guarantee scheme in respect of current expenditure would work. (It does not deal with capital expenditure or the scheme for capital grants.) The figures used (£ million) are purely illustrative and do not represent even tentative estimates for any particular year. But they give a reasonable indication of the orders of magnitude involved and of the relative weight of the different components.

2. The starting point is the prospective total of local current expenditure. The Government would not necessarily accept, for the purposes of their guarantee, the whole of this total. They might, for instance, be prepared to accept 2,700 out of a total of 2,750.

3. The putative yield of rates, if they rose in line with the G.D.P., might be 1,200. The total Exchequer contribution would then be 1,500 (about 54 per cent of total expenditure).

4. Of this, some would be distributed by specific grants and the rest by the Rates Support Grant. A specific grant at 50 per cent for education might take up, say, 750 and minor specific grants, say, 50. On this basis the Rates Support Grant would be 700, rather under half the total Exchequer contribution.

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<td>Putative rate-yield</td>
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<tr>
<td>Total Exchequer contribution</td>
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Of which—

(i) Specific grants (Education 750, rest 50) | ... | ... | ... | 800 |
(ii) Rates Support Grant | ... | ... | ... | 700 |

5. If other specific grants were added (such as police, health and welfare, fire or child-care) or if the rates of the education and minor grants were higher than 50 per cent, the total Exchequer contribution would not be affected but the Rates Support Grant would be correspondingly less.

6. In so far as total expenditure rose faster than the G.D.P., the total Exchequer contribution would come to bear an increasing proportion of total expenditure, because expenditure would be outpacing rate-yield; specific grants and the Rates Support Grant would both rise, and the ratio between them would stay roughly the same if all types of expenditure rose at the same rate.
14th September, 1965

CABINET

LOCAL GOVERNMENT FINANCE - THE GRANT SYSTEM

Memorandum by the Secretary of State for the Home Department

As Chairman of the Ministerial Committee on Local Government Finance, the Chancellor of the Exchequer is circulating a memorandum (C. (65) 125) on the grant system in which he has given a broad outline of the plan, and has indicated that the members of the Ministerial Committee are not agreed as to the way in which some of the Home Office Services should be fitted into the new scheme. I accept the general lines of the scheme but am strongly of the opinion that room must be found within its framework for "control grants" for certain services where firm and immediate control from the centre is vitally important. The object of this paper is to set out the Home Office case for such grants for the police, child care and fire services.

Police

2. The difference in principle between police and other services whose cost is shared between central and local government is that the preservation of law and order and the maintenance of the Queen's Peace are not local government functions. Police officers are officers of the Crown and not servants of the local authority, and it is essential that the Government should retain effective control over the service to ensure that efficient police forces are maintained and that there is no local interference with the enforcement of the law. The Police Act 1964 has increased the powers of the Home Secretary in several important respects, but it was drafted on the assumption that financial sanctions would be available, if necessary, to enable the Home Secretary to carry out his general duty under the Act to promote the efficiency of the police. For example, it does not include any general power of direction, even in such an important matter as the control of establishment, and if a police authority fails - as sometimes happens - to make adequate provision by way of establishment, the Home Secretary can take action only by threatening to withdraw or reduce the police grant.

3. Even where the specific powers of the Home Secretary have been increased under the Police Act 1964, action in the courts would be an extremely cumbersome and slow means of exercising the necessary control - for example, if an authority wished to continue the appointment of a deputy as acting chief constable for a considerable period in order to circumvent the Home Secretary's refusal to agree to his appointment as chief constable. Experience shows that without a specific grant in the background controls of this kind are in fact not exercised. An example within the field of the Home Office is that, although a chief fire officer cannot be appointed without the Home Secretary's approval, in practice
the absence of a specific grant as an effective sanction has meant that successive Home Secretaries have felt inhibited from exercising in the fire service the close degree of control which has been found necessary for the police.

4. With the growth of regional and national as distinct from local crime, the general tendency is to expect the Home Secretary to exercise a steadily increasing degree of control of the service, within the general structure of partnership with police authorities and chief officers. To drop the percentage grant at this stage would be taken as an indication that the Government was retreating from the position taken up with the passing of the Police Act 1964, and was intending to allow police authorities their head to a much greater extent. This would be quite inconsistent with the needs of the situation and would be severely criticised in Parliament and elsewhere. It would be very unpopular with the men themselves, who look to the Home Office to intervene where necessary with backward authorities.

5. There can be no doubt that if the specific police grant were abolished there would be a rapid falling off of efficiency in some forces. Expenditure on the maintenance of an efficient police force can never be as immediately popular as expenditure on social services such as housing, health and education; and experience shows that in certain areas it is only the knowledge that the grant sanction is there in the background that ensures that the police get their fair share of the money available. A falling off of efficiency in some localities would very much strengthen the case for a national service.

6. For these reasons I am convinced that what is at issue is not just a question of rating policy or of financial relations between central and local government, but the whole future of the police. Without the specific grant it will be impossible to secure the development of the service on the lines envisaged by the Royal Commission and generally endorsed by Parliament and public opinion; and in present circumstances, with growing public concern about the increase in crime, we ought not to make a change which will jeopardise progress in strengthening and modernising the police service and carry serious risks to the efficient maintenance of law and order.

Child Care

7. In "The Child, the Family and the Young Offender" published as a White Paper (Cmd. 2762) on 24th August, 1965, the Government set out provisional proposals for practical reforms to support the family, to forestall and reduce delinquency, and to revise the law and practice relating to offenders up to 21. In order to implement the proposals, the child care service of local authorities will have to be re-organised and expanded to -

(i) establish and staff family councils;

(ii) take over duties corresponding to those now performed by the probation service for children under 16;

(iii) develop an expanded service of social case-workers to deal with children taken into care, or placed under supervision and their families;
(iv) develop a system of observation centres where children can be assessed before the family council considers treatment;

(v) take over and expand many of the approved schools run by voluntary organisations and run them as homes providing care and training appropriate to children of different types.

8. I do not believe that these important developments can be effected without the stimulus and sanction of a special grant. Some local authorities may show the necessary enthusiasm and accept the necessary guidance. But many will have to be induced to do what is necessary; and if proper standards are to be achieved strong central direction will be essential. I am quite satisfied that without the incentive of a special grant, and the authority which the payment of such a grant would give me, I cannot implement our new policy satisfactorily. I should of course be ready to look at the matter again once the new service had been satisfactorily established.

Fire

9. I believe that the resumption of an ad hoc grant is needed for the fire service, partly to re-establish essential central control of its organisation, standards of efficiency and conditions of service, and partly to enable me to induce fire authorities to undertake long overdue developments in the field of fire prevention. But I ask only that this possibility should be kept open. I am proposing an independent inquiry into the fire service; and the right time to review the grant position will be when the report of the inquiry is available.

Conclusion

10. I invite the Cabinet -

(i) to approve retention of the existing specific grant for police;

(ii) to approve the re-introduction of a specific grant for the child care service during the period when the proposals of the White Paper are being implemented;

(iii) to leave open for reconsideration, after the report of the proposed independent inquiry has been received, the re-introduction of an ad hoc grant for the fire service.
14th September, 1965

CABINET

LOCAL GOVERNMENT FINANCE - THE GRANT SYSTEM

Memorandum by the Minister of Health

The Chancellor of the Exchequer's memorandum (C. (65) 125) records the proposals of the Ministerial Committee on Local Government Finance and invites the Cabinet to decide whether, within the total Exchequer contribution on the lines of the scheme set out, there should be specific grants for health and welfare and some other services in addition to the specific grant proposed for education.

2. Local health and welfare services are partly services to prevent ill-health, partly services designed to help keep the sick and elderly within the community. They perform a major social function to which we as a party have always attached great importance. I have recently asked the local authorities to review their plans for these services over the next 10 years.

3. Since general grant was introduced, expenditure on the local health services and latterly on the welfare service has been treated in the same way as expenditure on education. Under the proposed scheme this parity of treatment would be lost unless a specific grant for health and welfare is included. Paragraph 26 of the Chancellor's memorandum makes the point that, even with a 50 per cent grant for education, it may take time for the novel implications of the new proposals to be appreciated by the local authorities. I am in no doubt that, without any specific grant for health and welfare, the inevitable inference that many local authorities would draw is that these services were the poor relation to which less importance was attached by the Government and to which they for their part could attach less importance also. It would certainly be seen as flatly inconsistent with our Manifesto pledge that we would give a new impetus to these services.

4. The Chancellor's memorandum says in paragraph 17 that the "prestige" argument for specific grants is inadmissible under the new system. That system could, no doubt, work without a specific education grant, but, by including one in the proposals, we should be giving education de facto a favoured status among local services. Once this breach is made we cannot, I submit, refuse to concede the claim of health and welfare to similar status or "prestige", in the eyes of local authorities.

5. Paragraph 17 of the Chancellor's memorandum also argues that a specific grant for health and welfare is less needed than is an education grant to help secure an equitable distribution of the total Exchequer aid by ironing out inequities in distribution, because the total expenditure on these services is much smaller. I accept, of course, that the amount is much smaller, but at an estimated £200 million a year it is by no means
negligible, and although the measures of need are necessarily crude (as indeed are those for education), there is undoubtedly a wide disparity in the needs of different local areas for health and welfare services.

6. The point in paragraph 24 of the memorandum that the total amount of specific grants should be limited in order to maintain the effectiveness of the rates support grant is an important one, and I have no desire to challenge it. It is not, however, an argument against the extension of specific grants to particular services. The size of the rates support grant can be maintained at the appropriate level, without unfairly excluding from specific grant services that have proper claims to treatment similar to that given to education, by fixing the rate of specific grant at a percentage which will secure that result - if necessary at, say, 40 per cent or even 45 per cent rather than 50 per cent.

7. If health and welfare were excluded from specific grant and local authorities were, as I fear, discouraged in consequence from developing their health and welfare services, it would, as my colleagues know, be necessary to make alternative provision, which would be more expensive and often socially less appropriate, through the Exchequer-financed hospital service.

8. I ask my colleagues, therefore, to support the inclusion in the new system of a specific grant for health and welfare similar to that proposed for education.

K. R.

Ministry of Health, S.E. I.

14th September, 1965
CABINET

PROPOSED ASSOCIATION AGREEMENT BETWEEN NIGERIA AND THE EUROPEAN ECONOMIC COMMUNITY

NOTE BY THE SECRETARY OF STATE FOR COMMONWEALTH RELATIONS

A difficult situation for us has arisen from Nigeria's negotiations with the European Economic Community (E.E.C.) for an association agreement. I attach a note for the information of my colleagues.

2. My conclusion is that the Nigerian Government will not be prepared to withdraw their offer of preferences for the E.E.C., and I do not see what more we can do at present to deter them. We shall not need to consider the question of retaliation unless and until it becomes clearer than at present that an agreement will be brought into force; this is likely to be some way ahead. Meanwhile the situation may change to our advantage either as a result of the present dispute within the E.E.C. or for some other reason. But I propose to continue to keep a close watch on developments.

A. G. B.

Commonwealth Relations Office, S.W.1,
24th September, 1963.
PROPOSED ASSOCIATION AGREEMENT BETWEEN NIGERIA AND THE EUROPEAN ECONOMIC COMMUNITY

The problem
1. Nigerian exports at present go in about equal proportions to Britain, the European Economic Community (E.E.C.) and other countries. But under the 1963 Yaounde Convention the E.E.C. grants tariff preferences to the Associated States—mostly former French African territories—and undertakes to grant complete free entry for their exports by 1969. Nigerian exports of cocoa, palm oil, groundnut oil and plywood face the full duty of 5 4 per cent, 9 per cent, 10 per cent and 14 per cent respectively. These commodities represent about 25 per cent of Nigeria's exports to the E.E.C. Nigeria thus fears the eventual loss of a substantial part of her E.E.C. market to her competitors among the Associated States.

The Nigerian solution
2. The Nigerian Government have reached agreement in principle with the European Commission on an association agreement under which they will grant preferences of between 2 per cent and 10 per cent to the E.E.C. in Nigeria on 26 items. This is in return for quota and duty-free entry for all their exports to the Six, except for the four products referred to in paragraph 1, on which they will get gradually increasing duty-free quotas based on past trade. The arrangement would be described as a free trade area, although only 75 per cent of Nigeria's exports to the E.E.C. would enter duty free. "Free entry" would be nominally accorded to the E.E.C. in Nigeria by the device of designating existing customs duties as "fiscal duties". Such an agreement would in the Nigerian view preserve her E.E.C. market, and at the same time give Nigeria an opportunity to establish a better position with the E.E.C. and the Associated States. It would be due for re-negotiation in 1969 at the same time as the Yaounde Convention. With the present state of disarray of the Community, however, it is likely to be some time before an agreement can be drawn up, signed, ratified and put into force.

The difficulties for Britain
3. The proposed agreement is objectionable on grounds of damage to our trade, precedent, and principle.

(1) Damage to trade
Some £2.5 million (3 ½ per cent) of our exports to Nigeria will be subject to the preferences in favour of the E.E.C. In most of the items we have only a small share of the trade. But on three items (parts of internal combustion engines, parts of machinery and "other household equipment") we have the major share. The first two items were added under French
pressure. There is a risk that Nigeria may later be persuaded to increase the number of items and the margins of preference.

(2) Precedent

It will be the first time that a Commonwealth country has given preferences to a foreign country over Britain.

(3) Principle

(a) Nigeria enjoys free entry and some preferences in Britain but has never given us preferences. If the Nigerian Government grant preferences to the E.E.C. we shall bear the cost of their obtaining much less widespread advantages in the E.E.C. than they already enjoy in Britain for nothing.

(b) It would be contrary to the view we have supported in the United Nations Conference on Trade and Development (U.N.C.T.A.D.) that developing countries should not be expected to grant new preferences in return for concessions in the markets of developed countries.

(c) It would not conform to Article XXIV of the General Agreement on Tariffs and Trade (G.A.T.T.) which exempts free trade areas from the most-favoured-nation (m.f.n.) rule only if they cover “substantially all the trade” between two customs areas.

Implications

4. If the agreement is put into force:

(a) it would weaken the ties between Nigeria and Britain and would strengthen the position of the E.E.C., and particularly of France, in Nigeria;

(b) other Commonwealth countries in Africa may follow suit. The East Africans are already negotiating with the Commission and Sierra Leone, Zambia and Trinidad have shown an interest. The cumulative damage to our trade could be appreciable.

(c) a drift away from the Commonwealth system into the E.E.C. orbit might be started;

(d) public opinion in Britain, and in particular exporters, would resent the continuance of free entry and preferences in favour of Nigeria or other countries which discriminated against Britain in favour of the E.E.C., and might press for our aid or Commonwealth preferences in their favour to be reduced or ended;

(e) developed countries which have supported moves in the G.A.T.T. and U.N.C.T.A.D. to give freer access to the trade of developing countries without requiring advantages for themselves in return would find it difficult to continue to do so, if they found themselves discriminated against in developing countries;

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(j) competition would arise between developing countries for concessions from developed countries. Britain would be at a disadvantage *vis-à-vis* the United States and the E.E.C.

(g) the G.A.T.T.'s basic most-favoured-nation rule would be weakened with wide implications.

Possibilities of preventing the agreement

5. We cannot stop Nigeria, or any other independent Commonwealth country, from making an agreement with the E.E.C. But at an early stage officials examined the possibility of the British Government making a constructive international offer such as would make an agreement between Nigeria and the E.E.C. superfluous, or would at least generalise the negotiations. The ideas examined included:

(i) the extension by both Britain and the E.E.C. of British and E.E.C. preferences to developing countries generally;

(ii) the elimination of tariffs by Britain and the E.E.C. on all tropical products;

(iii) the parallel elimination of tariffs by Britain and the E.E.C. on a m.f.n basis on the most important exports from Nigeria and the Associated States.

All these ideas were rejected as either contrary to the G.A.T.T., or obviously unacceptable to the E.E.C., or incompatible with our policy of support for the principle that new preferences should be extended on a non-discriminatory basis to all developing countries; or as being primarily of benefit to third country or Commonwealth exporters to the E.E.C. and without attraction to the Associated States and therefore to the E.E.C.

6. Consideration was also given to proposing that we should share the preferences offered to the E.E.C. by Nigeria. This, too, was rejected, because it would be regarded as a cynical reversal of our declared policy towards the trade of developing countries; it would be subject to the same objections in the G.A.T.T. as the proposed arrangement between Nigeria and the E.E.C.; and we should find ourselves in the impossible position of having to support the Nigerians in rejecting similar claims from other countries whose m.f.n rights under the G.A.T.T. are the same as ours.

Steps taken

7. Since we could hardly remain silent and inactive, we had no choice but to try to persuade the Nigerian Government not to go on with their offer of preferences to the E.E.C. The Nigerian Government were given an *aide-mémoire* on 31 March, setting out in detail our objections. They were also warned orally that we should be bound to oppose the agreement when it came before the G.A.T.T. In July an *aide-mémoire* was left with the European Commission, putting on record our objections, mainly on G.A.T.T. grounds.
8. The President of the Board of Trade and I hoped to discuss
the matter with the Nigerian Prime Minister when he was in
London in June, but he was unwilling to see us and asked
that officials should meet. This they did, but we obtained no
satisfaction.

9. The implications of the agreement could be so far-reaching
that I insisted on raising it with Sir Abubakar when I went to
Nigeria in August. Sir Alec Douglas-Home had spoken previously
in March 1964 to Sir Abubakar about the Nigerian Government's
reported intentions, before they began formal negotiations with the
E.E.C. Commission. Sir Abubakar referred to this meeting and
said that he wished to repeat the assurance he had given then that
no damage would be done to British interests. I went over our
main objections with him. I welcomed his assurance, but made it
clear to him that, if Nigeria's association with the E.E.C. were to
damage our interest, we should feel free to take such remedial action
as was necessary. He listened carefully, but at no stage indicated
that the Nigerian Government might change their attitude; and he
left me with the impression that there was no chance of their
altering their decision to seek association with the E.E.C. I repeated
the warning of possible remedial action at a Press conference before
I left Lagos and to other Nigerian Ministers. The text of my remarks
is annexed.

10. We must expect questions in Parliament after the Recess,
when I propose to take the same line.
APPENDIX

TEXT OF STATEMENT MADE TO THE PRESS IN LAGOS BY MR. ARTHUR BOTTOMLEY, SECRETARY OF STATE FOR COMMONWEALTH RELATIONS, ON 20TH AUGUST, 1965

"The Federal Government of Nigeria have kept the British Government informed on their discussions regarding the possibility of Nigeria’s association with the Community.

The British Government recognise the right of the Nigerian Government to negotiate an association with the Community. Indeed, they would welcome arrangements to give Nigeria improved opportunities in the European Economic Community market. The British Government recognise that in their negotiations with the Community the Nigerian Government have sought to take account of British trade interests. But in the course of the negotiations it has been proposed that Nigeria should grant certain preferences to the Community.

The British Government have pointed out that if these proposals were to be implemented Nigeria would be paying the European Economic Community at the expense of Britain for the same type of advantages she has long enjoyed in Britain without according any reciprocal advantages to British trade.

The British Government have therefore felt bound to inform the Nigerian Government that if they were to discriminate against British interests in this way the British Government might be obliged to reconsider the treatment of imports from Nigeria in the British market.

The Commonwealth Secretary has had discussions on this matter with the Prime Minister and with other Ministers in the Federal Government and has informed them of the views of the British Government."
CABINET

COAL PRICES

MEMORANDUM BY THE MINISTER OF POWER

The First Secretary has proposed in a Minute to the Prime Minister that coal prices should stay at their present level until 1st April, 1966, and that we should again review the situation “in a few months’ time”. I think we need to look carefully at this proposal in the light of past events and present circumstances.

2. Cabinet agreed on the 5th August (C.C. (65) 45th Conclusions) that a final decision on coal prices should not be postponed beyond September. Pending a decision, I was asked to inform the National Coal Board that the Government would consider it inappropriate that any action should be taken in relation to a possible increase in coal prices. This was done. The Coal Board’s proposal then before the Cabinet (C. (65) 110) was to introduce price increases (already postponed from 1st April and subsequently from 1st August) on the 1st September. This proposal would have produced £25 million of additional revenue in 1965–66, and £40 million a year thereafter, by:

(i) selective additions to the pithead prices of industrial coals designed to secure a better correlation between prices and the cost of production as between the various coalfields and the various coals; and

(ii) additions to the zone delivered prices of domestic coal concentrated on the more expensive grades of house coal in short supply.

3. In the meantime costs in the industry have continued to increase and the financial position of the Board to deteriorate. In the five months to August 1965 a loss of £35 million has been incurred, £7 million more than in the original budget of 1965–66. In the same period last year the loss, on a comparable basis, was £18 million. On these figures the Board’s July estimate of £25 million as the gap to be bridged (after allowing for capital reconstruction) may even prove to be too low.
4. Lord Robens has told me, and I accept, that it is now too late in the year for a deficit in 1965–66 to be entirely eliminated by price increases. To raise £25 million over four months instead of seven would require rates of increase that would be intolerable and, in relation to the Board’s needs in later years, prove perhaps unnecessary. The gap between costs and prices will have to be financed initially by the Exchequer, and I am discussing with the Chancellor of the Exchequer where the ultimate cost is to fall. I know that Lord Robens will seek to insist that the cost of the postponement, at the instance of the Government, should not be at the expense of the coal industry or of their expectations under the capital reconstruction already promised. Even if we were to take a decision to allow the Board to make the price increases it proposed, and even if these proposals were subjected only to the normal procedure of passing through the Consumers’ Councils, the increases could hardly be operative before 1st December. There are, however, coal industry reasons for not increasing the price of house coal just before Christmas, or indeed during the winter. Increases then would come on top of the normal seasonal increases at a time of highest demand and strong public reaction would be inevitable. For this reason, and in view of prices and incomes policy, I agree that the increase in house coal prices should be deferred until 1st April, 1966. These seasonal arguments, however, do not apply to industrial coal prices which ought, in my view, to be increased as soon as practicable. On the other hand, proposals for both industrial and house coal increases ought to be announced at about the same time: otherwise we will have no adequate reply to charges of discrimination against industrial users.

5. The resolution of this problem—which has not been eased by the delay that has taken place—is complicated by considerations of prices and incomes policy, and by the facts of the Parliamentary situation which I shall have to face early in the new Session. There seem to be three possible courses open to us:

(i) To allow the Coal Board now to go forward with price proposals to the Consumers’ Councils, the increases to be operative from an early date—except for the deferment of house coal increases to 1st April, 1966.

(ii) To refer the Coal Board’s price proposals for industrial and domestic coal to the National Board for Prices and Incomes with a view to obtaining an early decision from them. (The proposals would also have to go to the Consumers’ Councils.)

(iii) To review the situation in a few months’ time, to consider the case for an increase then, and, if appropriate, submit it to the National Board for Prices and Incomes, as proposed by the First Secretary.

6. All of these courses involve difficulties. In preparation for a Coal Industry Bill, which must be enacted before Christmas, we will be producing next month White Papers on Fuel Policy and on Coal Finances. That legislation will contain provisions for the
writing-off of about £400 million and it will have to make provision for dealing with the deficit in 1965–66, after capital reconstruction. We shall be open to justifiable criticism if our proposals do not contain specific provisions for meeting, in one way or another, the continuing deficit and for establishing a viable basis for the industry, after capital reconstruction. It seems to me very difficult in these circumstances for us to take the line proposed by the First Secretary that we will consider price increases later on, and, if appropriate, submit them to the National Board for Prices and Incomes. I would wish to be in a position, in the debates on the Coal Industry Bill, to make some reference to concrete proposals for price increases to cover the increases in costs, after allowing for the assistance which we are providing for the coal industry in the Bill. As far as prices and incomes policy is concerned, we would be able to demonstrate that we are giving massive assistance to the coal industry, and that we have already delayed price increases for several months. This is far more than we can expect anybody in the private sector to do.

If there had to be a reference to the Prices and Incomes Board, I would prefer it to be done as soon as possible rather than to be delayed until next year. There are, however, strong arguments against such reference. It would mean putting the question of price increases sub judice with the Prices and Incomes Board, and creating an area of uncertainty in a focal part of the Coal Bill. Moreover, I foresee embarrassment for us in a report by the Prices and Incomes Board. It could hardly avoid examining the revenue position of the Coal Board for the last year or so, identifying the time at which price increases were first mooted, and noting the inconclusive exchanges between the Coal Board and the Government. We might have trouble too about the Coal Board Accounts for the year to 31st March, 1965. These showed a small profit, but the underlying position was of considerable loss and the position has been worsening since mid-1963. I fear that any public document on these subjects would merely provide ammunition for our critics.

7. We must face the fact that coal costs have been and are going up and that increases in coal prices are, at any time, awkward. Indeed, increases now are more difficult than they would have been at 1st April, 1965—the date originally agreed. We have to grasp this nettle sometime, and I would be in favour of following course (i) in paragraph 5. No great harm, however, would be done if the industrial coal price increases were postponed until 1st January, 1966, the date as from which the new Coal Bill will have to be operative.

F. L.

Ministry of Power, S.W.1,
29th September, 1965.
CABINET

FUEL POLICY

Note by the Minister of Power

I am circulating for the information of my colleagues a draft White Paper on Fuel Policy. The general lines of the policy have already been approved by the Ministerial Committee on Economic Development whose members have now been asked for comment on, or clearance of, the draft by Wednesday, 13th October. The White Paper is due to be published on Thursday, 21st October.

F.L.

Ministry of Power, S.W.1.

8th October, 1965
Draft White Paper

Fuel Policy

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Appendix - Ministry of Power's Sector Analysis of Inland Energy Demand.

Ministry of Power
5th October, 1965.
I. INTRODUCTION

1. The purpose of this White Paper is to describe, with the necessary background, the principles which should govern a co-ordinated national fuel policy and the machinery and measures whereby the Government proposes to secure and maintain such a policy.

2. The fuel needs of Britain are met by the nationalised coal, electricity and gas industries and by the oil industry. These industries employ in total about one million men or 4 per cent of the working population: their capital investment in 1965 will be in the region of £1,000 million - about one-sixth of the country's total investment: the annual turnover of the industries is about £3,000 million: and the value of their net output is about 5 per cent of the national product.

3. Adequate supplies of fuel and power are essential for the community. The productivity of labour is closely linked with the power at its disposal and increasing quantities will be needed to support the growth of the economy and the rise in living standards. The pattern of fuel supplies depends primarily on the requirements of the consumers. The size and nature, however, of the fuel-producing industries are such that Government is inevitably involved. It is a function of Government to ensure that national considerations, which individual consumers would not otherwise take into account in their choice, are reflected in the situation. Government must, for example, be concerned about the pattern of fuel consumption in relation to security of supply, long-term costs, and the balance of payments. Moreover, the fuel industries, because of their size and nature, occupy a focal place in the planning of the economy, both national and regional. The Government has a more direct responsibility in the case of the nationalised fuel industries; in total, these finance about one-half of their investment by borrowings from the Exchequer, and their efficiency in the use of capital is of special importance to the economy.

4. Government policies in other fields - such as taxation, imports, land use, clean air, and distribution of industry - affect fuel policy, production and use. Conflicts of policy are bound to arise from time to time, but these should be capable of more ready and orderly solution against the background of a coherent fuel policy.
5. On taking office, the Government put in hand a review for the purpose of developing a co-ordinated fuel policy. A new appraisal of policy in the light of recent technological advances would in any case have been timely. New raw materials and processes are transforming the nature and prospects of the gas industry; the generation of electricity by nuclear power on competitive terms is now within reach; a large expansion of oil-refining capacity is in progress; the coal industry, though it has notable technological achievements to its credit, faces difficulties in covering its costs and holding its markets.

6. The field covered in this White Paper is very wide. To focus the issues within a reasonable compass, compression has been inevitable, and the White Paper touches only briefly, or not at all, on many aspects of the fuel industries which, though important in themselves, are not directly relevant to the main policy decisions.
7. The Ministry of Fuel and Power Act, 1945, places on the Minister of Power the duty of:

"securing the effective and co-ordinated development of coal, petroleum and other ... sources of fuel and power in Great Britain .... and of promoting economy and efficiency in the supply, distribution, use and consumption of fuel and power, whether produced in Great Britain or not".

The Government has improved and extended the machinery for this purpose.

8. The powers of the Government to give effect to fuel policy fall into three main categories. First, there are the general powers - for example in the fiscal and import fields - available to it for regulating the economy as a whole. Secondly, there are specific powers in relation to fuel production, of which potentially the most important are the powers under the Continental Shelf Act, 1964, to regulate the production of oil and natural gas in the British parts of the Continental Shelf. Thirdly, in relation to the nationalised fuel industries, the Minister of Power (or the Secretary of State for Scotland in the case of the Scottish Electricity Boards) appoints the Boards and has certain specific powers under the nationalisation statutes. Thus, the industries require Ministerial approval for the general lines of their capital development and research programmes and for their borrowings. The Minister also has powers to give them general directions on matters affecting the national interest.

9. In the formulation and application of fuel policy, however, the formal powers under the nationalisation Acts are of limited usefulness. They do not extend to the oil companies. Moreover, under the statutes, each of the nationalised bodies is responsible, subject to the Minister's general powers, for the management of its own affairs. In view of the size and complexity of these concerns and the desirability of fostering responsibility and self-discipline inside them, the Government thinks that these arrangements are wise. For the discharge of its duties under the 1945 Act, the Government is supplementing the instruments available to it by processes of discussion and consultation at various levels.

10. Among the most important subjects covered in these discussions are the investment, borrowing and financial performance of the three nationalised fuel industries - coal, electricity and gas. Investment in these industries is
reviewed annually under a procedure by which the Ministers responsible discuss with the Boards their plans for development and capital expenditure for the five years ahead. As well as approving the general lines of these five-year programmes, Ministers also fix each year an upper limit on the amount to be spent on investment during the succeeding year, and a provisional limit on investment in the year after that. It is of the utmost importance to economic growth that the industries should earn an adequate return on both past and future investment. This was one of the main objects of the White Paper on the Financial and Economic Obligations of the Nationalised Industries published in 1961 (Cmnd. 1337), which the Government has endorsed. The Boards' progress towards the financial objectives fixed under the terms of that White Paper is one of the subjects covered by these annual reviews of investment; and the Government's task - also referred to in Cmnd. 1337 - of satisfying itself that within each undertaking procedures for authorising capital expenditure are adequate, is carried out by continuing study of the subject between the Government and the individual Boards. The capital investment reviews also aim to ensure, among other things, that the programmes are broadly consistent with each other. This means that they must be based on similar assumptions about the growth of the economy, and involves scrutiny of the underlying forecasts of demand for the various fuels. The reviews also play a part in gearing the demands made by the fuel industries on the nation's resources with calls from other sectors of the economy.

11. Another subject for which both the Government and the nationalised fuel industries have a responsibility is research. It is of fundamental importance to the future health of the industries that their programmes of research and development - now amounting to over £14 million a year - should be wisely planned and vigorously executed and that the results should be effectively applied. The research programmes of the industries (other than those of the Scottish Electricity Boards, which are reviewed by the Secretary of State for Scotland, but co-ordinated in practice with those of the electricity industry in England and Wales) are reviewed by the Minister of Power's Advisory Council on Research and Development. This Council has an independent Chairman, and members drawn from all the fuel-producing industries, from industry generally, from the...
universities, Government Departments and the Atomic Energy Authority. The Council considers, among other things, whether the programmes of research are adequate to the needs of the fuel industries and of consumers, whether there is a proper balance between different lines of research, and whether there are any gaps, undue overlapping or lack of co-ordination between the programmes of the different industries, and between them and other programmes, including that of the Atomic Energy Authority, in the fuel and power field. The Minister of Power has a special responsibility for research on problems affecting the safety and health of miners; this research is carried out by the National Coal Board and by the Safety in Mines Research Establishment of the Ministry of Power, and is reviewed by the Minister's Safety in Mines Research Advisory Board. On research generally, there is informal co-operation between the nationalised fuel industries at all levels. There is also a Research Liaison Committee of the National Coal Board and the Central Electricity Generating Board, which has been expanded, on the Government's initiative, to include the gas industry also.

12. While their regular contacts with the separate industries afford Ministers adequate opportunities for discussing the affairs of each industry, there is also a need for collective discussion with all three industries together on the development of national fuel policy. This is achieved in the Co-ordinating Committee, of which the Minister of Power is Chairman and the Chairmen of the National Coal Board, Electricity Council and Gas Council are members. The Government is developing the work of this Committee so as to make it an effective instrument for promoting the co-ordination of the policies of the three nationalised fuel industries, and for assisting in the formulation and execution of national fuel policy.

13. The Government considers it important to bring into consultation on fuel policy not only the heads of the nationalised fuel industries, but also leaders from the oil industry, from industry generally, and from the trade unions. Accordingly, the Minister of Power set up in January, 1965, an Energy Advisory Council, composed of all these interests and of representatives of Government Departments. The Council sits under the Minister's Chairmanship and its terms of reference are "to consider and advise the Minister of Power about the energy
situation and outlook and the plans and policies of the fuel and power industries in relation to national objectives for economic growth. In the initial phase of its work, the Council has discussed estimates of energy requirements to be used as working figures for the National Plan (Cmd. 2764), and considered the basis of long-term policy, and the revision of the second nuclear power programme (paragraphs 69-71). The Government has taken into account the results of these discussions in preparing the present White Paper. As circumstances change, fuel policy will need to be kept under review, and the Council will have an important continuing contribution to make to this work.
14. Fifteen years ago, the British fuel economy was overwhelmingly dependent on coal, which supplied 90% of the country's needs. The electricity and gas industries were based almost entirely on coal. Of the relatively small amount of oil then used, about one-half was for transport, and the requirements were met largely by the import of products refined abroad.

15. At that time the impact which oil would have on the United Kingdom energy market was not generally foreseen. The National Coal Board's Plan for Coal, published in 1950, which was accepted by the Government of the day as an appropriate basis for framing the industry's development programme, foresaw a demand for coal in the period 1961-1965 of 240 million tons a year, including 25-35 million tons for exports. The Committee on the Use of National Fuel and Power Resources (with Lord Ridley as Chairman), reporting in 1952, thought this estimate too low (Cmd. 8647). Following this report, the National Coal Board reviewed production possibilities and formed the view that it might be able to increase output to about 250 million tons a year in the period 1965 to 1970. The subsequent course of events, of which the salient points are given in Table 1, belied these forecasts of demand.

### Table 1

<table>
<thead>
<tr>
<th>Inland fuel consumption in the United Kingdom</th>
<th>Million tons coal equivalent (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1950</td>
</tr>
<tr>
<td>Coal</td>
<td>202.6</td>
</tr>
<tr>
<td>Oil (including petroleum gases)</td>
<td>22.2</td>
</tr>
<tr>
<td>Nuclear electricity</td>
<td>-</td>
</tr>
<tr>
<td>Hydro-electricity</td>
<td>0.9</td>
</tr>
<tr>
<td>Natural gas</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total inland fuel consumption (2)</strong></td>
<td>225.7</td>
</tr>
</tbody>
</table>

**Index of industrial production (1958 = 100)**

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>83.1</td>
<td>99.3</td>
<td>105.1</td>
<td>119.0</td>
<td>126.2</td>
</tr>
</tbody>
</table>

(1) Requirements for all fuels are expressed in "coal equivalent" so that they can be summed to give a picture of total primary fuel input. One ton of oil is taken as equivalent to 1.7 tons of coal, and 280 therms of natural gas as equivalent to one ton of coal, these having roughly (on average) the same heat content. Nuclear power and hydro-electricity are equated to the amount of coal needed to produce electricity at the current efficiency of steam stations.

(2) These totals differ from the figures published in the Ministry of Power Statistical Digest where an adjustment is made for exports and stock changes of coke and manufactured fuel.
Coal and Oil

16. Coal consumption did, in fact, rise for a time and, despite a minor setback in 1952, home demand reached a peak of 217\(\frac{1}{2}\) million tons in 1956. During this period the coal industry had difficulty in meeting demand both at home and for export, and imports had to be arranged at high cost. These reached a peak of 11\(\frac{1}{2}\) million tons in 1955, of which nearly half came from the United States. Because of doubts about the industry's ability to meet the demand for coal, the Government in 1954 took steps to encourage the use of oil, notably in power stations. By 1957, however, the demand for coal began to fall.

Industrial activity stopped rising in the years 1956 - 1958 and, with improvements in industrial fuel efficiency, total inland fuel consumption was lower in 1959 - an unusually warm year - than it had been in 1956. Despite this, the consumption of oil, the price of which fell back substantially after reaching high levels during the Suez crisis, increased steadily. Power stations, as a result of the programme of conversion to oil firing decided in 1954, used over 7 million tons of coal equivalent of oil in 1959 as against less than one million tons in 1956. This growing use of oil within a static total demand for energy meant a sharp decline in the market for coal, with immediate and serious effects on the industry. Home consumption fell by nearly 5 million tons in 1957 and by over 10 million tons in each of the two following years. Although the Board cut back production, undistributed stocks rose to over 35 million tons by the end of 1959.

17. Following this sudden reduction in demand for coal, a number of measures were taken to help the industry. The electricity industry was asked to stop the switch from coal to oil. Licences were refused for the import of American coal although, as a result of a fall in pithead prices and in freight rates, these imports would have been cheaper than British coal at some places for some users. In the 1961 Budget, a duty of 2d. a gallon (about £2 a ton, equivalent to protection in the region of 23/- per ton of coal used for steam-raising) was placed on oil used for burning. This duty was initially imposed for revenue reasons, but its protective effect on the coal industry was one of the factors taken into account in deciding to retain it.
18. These measures, the renewed increase in total fuel consumption which began in 1960, and the coal industry’s efforts to improve efficiency, arrested the fall in the demand for coal, which remained around 200 million tons including exports in the four years up to 1963 (the winter of 1962/63 was abnormally severe). But since mid-1963 the industry’s difficulties have again been increasing, and on 12th April, 1965, the Minister of Power told the House of Commons that the Government was taking a number of short-term measures to relieve them. These comprised a temporary relaxation of the Board’s financial objective (which had been agreed under the terms of Cmd. 1337 - see paragraph 10), measures to increase in 1965/66 the amount of coal taken by the Central Electricity Generating Board and the gas industry, and a scheme to promote the use of coal in public buildings, including a 5 per cent preference over oil in Government establishments. It is estimated that, as a result of these measures, these consumers will take some five million tons more coal in 1965/66 than they would otherwise have done. Even so, on present indications, it does not seem likely that in 1965/66 demand for coal, including exports, will reach 190 million tons. On 1st July, 1965, the Minister of Power announced further plans for assisting the coal industry, including proposals for capital reconstruction (see paragraph 49).

19. The increase in the nation’s fuel needs from 1959 to 1964 was not primarily by oil, which increased its share of the total from 23 to 33 per cent, with a corresponding decline in the share provided by coal. A similar shift away from coal has occurred in every major industrial country. In the United States, with its large indigenous resources of oil and natural gas, the development took place much earlier. In most European countries it began at the same time as here. In almost all of them the process has gone further than it has in this country. Thus, taking four of the largest coal-producing countries in Western Europe, the share of coal in the national energy market had declined by 1964 to 49 per cent in Western Germany, 44 per cent in France, 60 per cent in Belgium and 39 per cent in Holland. The United Kingdom figure on a comparable basis (which differs from that normally used here) was 69 per cent.

20. Table 2 analyses the demand for coal and oil since 1956 in more detail.
<table>
<thead>
<tr>
<th>Consumption of coal and oil(^{(1)}) in the United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Million tons coal equivalent</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Coal:</td>
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<tr>
<td>For power stations</td>
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<tr>
<td>For gas works</td>
</tr>
<tr>
<td>For other purposes</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Oil (including petroleum gases):</td>
</tr>
<tr>
<td>For power stations</td>
</tr>
<tr>
<td>For gas works</td>
</tr>
<tr>
<td>For road and air transport and refinery fuel</td>
</tr>
<tr>
<td>For other purposes</td>
</tr>
<tr>
<td>Total(^{(1)})</td>
</tr>
</tbody>
</table>

\(^{(1)}\) The table covers only oil used as fuel. In addition there are now many "non-fuel" uses for oil, notably in the manufacture of chemicals, which absorbed over 3 million tons of oil in 1964 compared with well under one million tons in 1956.

21. Oil used for road and air transport and as refinery fuel has been shown separately because these are readily identifiable sectors in which, broadly speaking, there is no competition between oil and other fuels. This is true also for the "non-fuel" uses and for some of the fuel uses under "other purposes" - e.g. agricultural traction and coastal and river transport - but these are much smaller in comparison. In the other sectors in the table, coal and oil are generally in competition with each other; at power stations both are also in competition with nuclear energy and hydro-electricity and at gasworks with natural gas. The table shows the steady growth of oil, particularly in the sectors in which it is in competition with coal; and the fact that power stations are the only major expanding market for coal.

22. The expansion of oil use was accompanied by a rapid growth of the home refinery industry, broadly in step with the increase in consumption. Refinery throughput, which was less than 10 million tons of crude oil in 1950, reached 22\(\frac{1}{2}\) million tons in 1952, nearly 33 million tons in 1956, 52 million tons in 1962 and 58\(\frac{1}{2}\) million tons in 1964.
Electricity and Gas

23. While the share of the energy market taken by oil has been increasing, there has also been a marked growth in the use of electricity and gas - the two main secondary fuels.

<table>
<thead>
<tr>
<th>Year</th>
<th>Electricity (thousand million kilowatt hours)</th>
<th>Gas (million therms)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>47.8</td>
<td>2,371</td>
</tr>
<tr>
<td>1955</td>
<td>69.7</td>
<td>2,616</td>
</tr>
<tr>
<td>1960</td>
<td>113.0</td>
<td>2,618</td>
</tr>
<tr>
<td>1963</td>
<td>136.8</td>
<td>2,925</td>
</tr>
<tr>
<td>1964</td>
<td>143.4</td>
<td>3,014</td>
</tr>
</tbody>
</table>

(1) Net purchases by final consumers, as defined on page 13 of Ministry of Power Statistical Digest, 1954.
(2) Sales of town gas.

Electricity consumption has grown at over 8 per cent a year during the period 1950 - 1964, though the rate of growth has been lower in the last two or three years. The industry has invested heavily to meet the increasing demand; but, as a result of past under-estimation of the rate of growth in demand, and of the time required to increase capacity, the industry is still hard-pressed to meet peak demands. Economies of scale and greater efficiency have resulted in substantial savings in costs; and this has been reflected in electricity prices. In consequence, over most of this period the average revenue per unit of electricity sold has risen at a much lower rate than the average price of all United Kingdom goods and services.

24. Throughout the period, electricity production has been predominantly based on home-produced coal. Oil use at power stations, which reached a level of over 7 million tons of coal equivalent by 1959, and of over 9 million tons in 1960, has since remained at about the latter level. But in 1955 a step towards the development of a new primary fuel was taken with the adoption of a programme for the construction by the electricity industry of 1,500-2,000 megawatts (MW) of nuclear power stations for commissioning in the years 1960 to 1965. This was greatly expanded in 1957 to a nuclear programme of 5,000-6,000 MW of capacity by 1965; subsequently the date for the completion of this programme was put back in successive stages to end-1969. It is now expected that by the end of 1965 at least 2,500 MW of this capacity will be in service and that the programme will be completed by 1969. A second programme, announced in 1964, adopted for
Planning purposes a figure of a further 5,000 MW of capacity to be installed in England and Wales in the years 1970 - 1975; this programme has since been revised upwards (paragraphs 70 and 71). At the time the first programme was drawn up it was hoped that the cost of the power produced from the first commercial stations would be about the same as that produced from new coal-fired stations; but this hope has been falsified, mainly by the unexpectedly high capital cost of these nuclear stations and the steep fall in the cost per kilowatt of conventional generating sets, as these came to be built in ever larger sizes. None of the stations in the first programme is now expected to produce electricity as cheaply as conventional stations commissioned at the same time. But stations to be built under the revised second programme should produce nuclear power that is fully competitive with conventional stations (see paragraph 68).

25. As Table 5 shows, the gas industry has not expanded rapidly and continuously like the electricity industry over the years 1950 to 1964. The gas industry was handicapped by the limitations of the coal carbonisation process, which was not capable of substantial further development, had high capital costs, and required special coals which were becoming increasingly expensive. Gas sales rose only slowly up to 1955, after which they remained almost static until 1961. But the industry had been making strenuous efforts to free itself from over-dependence on carbonisation coal. Two large plants employing the Lurgi process, for producing lean gas by the total gasification of cheaper types of coal, were built, and the industry also pioneered the import of Saharan natural gas by refrigerated tanker. Even more important has been the development of processes capable of producing gas cheaply from a variety of oil products. Although the full benefits of these new sources of gas are still to come, there has already been in the last two years a marked advance in gas sales, and the use of gas is now rising at a rate of about 8 per cent a year - even faster than the present rate of growth in electricity. There would be a further powerful stimulus to the growth of the gas industry if the search for petroleum in the British part of the Continental Shelf were to result in a substantial find of gas.

Fuel Prices

26. The trend of the prices of the various fuels in relation to each other has
a considerable influence on the pattern of fuel demand. Accurate comparisons are difficult to make because, in some cases, published prices are subject to unspecified discounts, sometimes substantial. However, the general tendency over the period 1950 to 1964 has been in favour of oil as against coal, in spite of the imposition of the oil duty in 1961. Over the period 1950 to 1964 as a whole, but not in the years since 1961, electricity prices generally rose less than those of gas.

27. The Ministry of Power maintains a watch on the relative prices of fuels here and abroad. The evidence is incomplete and difficult to interpret, but indications are that, on the whole, United Kingdom fuel prices, both domestic and industrial, compare favourably with those of our main European neighbours, though they are undoubtedly higher in general than in the United States, which has much greater natural resources. Recent study of fuel prices in the United Kingdom and in Western Europe indicates that coal prices in this country are on average lower than in the European Economic Community; fuel oil prices seem slightly higher on average here than in the Community countries but, taking figures for coal and oil together, the balance of advantage is in the United Kingdom's favour. For electricity too, prices here are probably rather lower on average than in the Community countries, but comparisons of national averages are of doubtful significance since the variation within each country, as a result, for example, of the availability of cheap hydro-electricity in some areas, is so much greater than the variation from one country to another. For gas, also, there is considerable variation within each country. The prices on the Continent for manufactured gas are thought to be broadly equivalent to prices in the United Kingdom, but natural gas is usually much cheaper.

28. Domestic consumers' direct expenditure on fuel and light represents about one-twentieth of their total expenditure. Although for most industries fuel is not a large element in costs, it is a major item for some. For manufacturing industry as a whole, fuel accounts on average for about $\frac{3}{4}$ per cent of total costs, but this conceals wide variations; and fuel costs are heavy in some important sectors such as cement (nearly 30 per cent) and steel (rather under 15 per cent).
29. To complete the background for national fuel policy, it is necessary to assess the probable course of the demand for energy in total and for the various fuels individually. The rate of growth in total inland demand for fuel depends mainly on the rate of growth of the economy, while the division of the demand among the different fuels is governed by separate decisions made by a great number of consumers - industrial, commercial or domestic - who are influenced by the relative price and suitability of the different fuels. Estimates about the prospective demand for energy must, therefore, be based on assumptions about the growth of the economy; about the success of each of the fuel industries in improving efficiency, in keeping down costs and in selling its products; and about Government policies and other factors affecting the relative prices of the different fuels. It is assumed, as in the National Plan, that national output will grow 25 per cent between 1964 and 1970, an average of 3.8 per cent a year. Recent experience of the complex relationship between the growth of energy consumption and of the economy as a whole (see paragraph 32) suggests that a change of one per cent a year in the assumed rate of expansion in national output up to 1970 (in either direction) might affect the estimated annual demand for fuel by that year by about 11 million tons coal equivalent. Other assumptions, and the consequences of variation in them, are even less susceptible of precise treatment; even if all the assumptions proved valid, the estimates would still be subject to a margin of uncertainty. While forecasting of this type is essential for formulating fuel policy, the past experience described in paragraph 15 has shown how far out estimates can be, especially those relating to particular fuels. The estimates which follow should not, therefore, be looked on as more than broad indications of likely requirements on the assumptions adopted.

30. In reply to the Industrial Inquiry, undertaken in the preparation of the National Plan, each of the fuel industries provided in the spring of 1965 estimates of its own sales in 1970. The electricity and gas industries also provided estimates of their requirements of primary fuels. The estimates were prepared on the basis of the policies current at the time. The initial estimates appeared too high in total; they were revised and reconciled in
discussion with the Ministry, and subsequently discussed in the Energy Advisory Council. The revised estimates are summarised in Table 4, which incorporates figures for 1960 and 1964; these were both years of high economic activity and near normal temperatures and hence a comparison between them gives a good indication of recent trends in fuel consumption.

Table 4
Industries' estimates of fuel demand in the United Kingdom resulting from the Industrial Inquiry for the National Plan

<table>
<thead>
<tr>
<th>Million tons of coal equivalent (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>Coal:</td>
</tr>
<tr>
<td>For power stations</td>
</tr>
<tr>
<td>For gas works</td>
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<tr>
<td>For other purposes</td>
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<tr>
<td>Total</td>
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<tr>
<td>Oil (including petroleum gases):</td>
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<tr>
<td>For power stations</td>
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<tr>
<td>For gas works</td>
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<tr>
<td>For other purposes</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Natural gas</td>
</tr>
<tr>
<td>Nuclear power and hydro-electricity</td>
</tr>
<tr>
<td>Total inland demand for energy</td>
</tr>
<tr>
<td>Electricity (thousand million kilowatt hours)</td>
</tr>
<tr>
<td>1960</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>Gas (million therms)</td>
</tr>
</tbody>
</table>

(1) Except for electricity and gas.

(2) It is estimated, on present prospects, that a further 5 million tons may be exported, giving a total estimated demand for coal of 180 million tons. In 1960, coal exports were 5.5 million tons and in 1964, 6.0 million tons.

31. Using the same basic assumptions, the Ministry of Power made separate estimates of fuel demand in 1970, calculating both requirements for individual fuels, as in Table 4 above, and requirements for each of the main sectors of consumption. The primary method employed was to examine the trends of the various fuels, separately and jointly, within each sector. The total inland demand for energy was assessed by the Ministry at 324 million tons of coal equivalent. A summary of the Ministry's sector analysis is given in the Appendix.
32. The difference of 13 million tons between the Ministry total (324 million tons coal equivalent) and the aggregation of the industries' revised estimates (337 million) is small enough to fall within the margin of uncertainty. The Ministry's estimate shows an increase in total demand for energy between 1964 and 1970 of 13½ per cent (averaging 2.1 per cent a year), an "energy coefficient" of 0.55 – that is to say, an increase of 0.55 per cent a year in the consumption of energy for each one per cent a year growth in gross domestic product. The annual average increase in the consumption of energy in 1960-1964 was 1.9 per cent, giving an energy coefficient of 0.56. The Ministry's estimates allow for the continued improvements foreseen in industrial fuel efficiency and, in particular, for an expectation that fuel consumption per unit of output of iron and steel will fall considerably; and for an extra demand for energy implied by the more rapid increase in productivity and higher standard of living envisaged by the National Plan. It is, however, difficult to quantify the precise allowances necessary. To reach 337 million tons coal equivalent (the sum of the revised estimates of the fuel industries) would mean an increase in the energy coefficient to 0.74. There is no evidence that the general trend is upwards (although there have been considerable fluctuations from year to year). But the coefficient for the European Economic Community as a whole in 1960-1964 was nearly double that of the United Kingdom and seen in this light a coefficient of 0.74 is not high. Moreover, if there is to be flexibility to meet changes in technology and in consumers' choice of fuels, and to give an adequate allowance for uncertainties, there should be some margin of capacity above the estimated total energy demand.

33. Prices exercise an appreciable influence on the relative market shares of the various fuels. Estimation of the relative prices of the different fuels for years ahead is particularly hazardous, but the trend of prices in favour of oil is long-established. The estimates in paragraphs 30 and 31 were prepared before the Government proposed the capital reconstruction of the coal industry and the provision of the special funds that are referred to in paragraph 39.

*It is an over-simplification to express as a single coefficient the relation between the rates of increase in energy consumption and in economic activity. A number of factors contribute to the relationship. Comparisons between different countries are difficult to interpret because of differences between their energy patterns and general economic structures.*
These will relieve some of the difficulties of the industry. However, they cannot by themselves be expected to alter long-term trends and, whatever may be the position in the more distant future, there is no strong evidence to suggest that in the period to 1970 coal is likely to become significantly cheaper in relation to oil. Gas prices seem likely to fall generally in relation to other fuel prices, even assuming that changes are made in financial and fiscal preferences at present enjoyed by the gas industry (as suggested in paragraphs 86 and 90 below). Taking all these factors into account, the Government accepts the view, which emerged from discussions in the Energy Advisory Council, that it would not be prudent to count on a coal market in 1970 above the range of 170 to 180 million tons including exports, which, on present prospects, may be about 5 million tons.

The Ministry makes longer-term estimates and, though these can provide only broad guide lines, they form an essential background for taking decisions from time to time on investment projects which require a long period to mature and earn their keep. Present indications are that, even if the decline in demand for coal slows down in the early 1970's, it is unlikely to be reversed. The rate of expansion of nuclear power might well accelerate in the second half of the 1970's. In addition, there is the major uncertainty about the availability of natural gas from under the North Sea (see paragraphs 79 and 80). These factors, which cannot at this stage be quantified, could significantly affect demand for coal and oil in the years after 1970.
V. OBJECTIVES OF FUEL POLICY

35. It is against this background and in the light of these prospects that the objectives of fuel policy may be considered. The overriding objective is that the fuel sector should make its full contribution to the strengthening of the economy and the balance of payments. The objectives may be more specifically stated thus:

(a) Adequate and continuous supplies of fuels of suitable quality should be available to sustain the desired rate of growth in the economy.

(b) The price of fuels should be such as to enable them to play their part in making the United Kingdom economy as a whole competitive, particularly in relation to other countries of Western Europe.

(c) The fuel industries should be technically progressive and viable.

(d) Imports of fuel, particularly of oil, which on any reckoning will grow fast, should be in the form that is least costly in terms of foreign exchange.

(e) The supplies available should afford consumers freedom of choice between fuels, subject to their paying prices which fully reflect all the relevant costs. On this condition, consumer freedom of choice, apart from being desirable in itself, is an essential guide to the efficient planning of supplies.

36. Some of the foregoing objectives conflict with others, so that the single-minded pursuit of any one objective, such as the supply of every fuel at the cheapest current price, will not necessarily be the best for the nation. The aim must be to secure the balance between the various objectives that is most advantageous. For this, no static policy can suffice. The balance of advantage is continually liable to change, as a result of events which are neither predictable nor controllable. Technological changes, changes in the balance of supply and demand for fuel, and the discovery and development of new sources of supply, have all at times affected the balance in the past, and must be expected to do so again in the future. Fuel policy, therefore, must be flexible enough to move with the trend of events, and must maintain all possible room for manoeuvre by refraining from making, earlier than is demonstrably necessary, major changes which it may be impracticable to reverse.
37. The objectives outlined embrace all aspects of fuel supply and demand; fuel policy needs to be similarly comprehensive and to be coherent in all its elements. It needs also to be considered in its relation to the fuel policies of other countries, which can affect British overseas earnings. The Government believes that the policy described in the following sections fulfils these requirements. For convenience of presentation, the policy is explained as it affects, first, each of the primary fuels - coal, oil and nuclear power - and then the secondary fuel industries - electricity and gas. Exports of coke and manufactured fuels are separately mentioned in the coal section (paragraph 53), and supplies of solid smokeless fuels are considered, together with other fuel supplies for clean air, in the secondary fuels section (paragraph 91).
VI. COAL

38. The most difficult single problem in fuel policy is the health and size of the coal industry. It is, however, clear that the country will continue for many years to need indigenous coal as a main primary fuel. The Government has come to the conclusion that radical changes and substantial additional assistance are necessary to enable the industry to provide essential coal supplies in an efficient and economic fashion and to make its optimum contribution to our economy generally and to the balance of payments.

The Present Situation of the Coal Industry

39. The National Coal Board has been making great efforts to strengthen the industry's position and to increase efficiency by better use of men and machines and by concentration on the most economic pits. Productivity (output per man-shift) rose by 5.3 per cent a year over the period 1960/64 and is continuing to rise. The Board leads the world in developing the application of automation to mining and is beginning to put a new series of techniques to large scale use. But costs per ton in this labour intensive industry have also risen, often for reasons beyond the Board's control. Proceeds per ton, on the other hand, have tended to fall. Markets for the higher qualities of coal have tended to decline while the lower grades, which are in increasing demand for power stations, fetch much lower prices. The Board's difficulties have been aggravated by a burden of capital debt incurred through past investment designed to meet a level of demand which has not materialised. Moreover, the Board has half to aim to achieve a market big enough to absorb not only the maximum output obtainable from the economic pits but also the output from collieries which continued in operation even though they could not cover their day to day running costs. In present conditions this aim can no longer be sustained.

40. In the past year or two, the financial position of the Board has deteriorated. Improvements in the industry's productivity have absorbed increased labour costs, but have not been sufficient to offset the higher costs of materials and other expenses. As a result, the Board was only just able to meet outgoings in 1964/65, after taking credit for the release of some
financial provisions which were found to be no longer necessary. The Government had already agreed to a temporary relaxation of the Board's financial objective (paragraph 18). The unfavourable trend has continued into the current financial year, with the result that the Board now has to contemplate the prospect of introducing its first general price increase since 1960. (To be altered if price increases have been announced before publication of the White Paper.)

In 1960 and 1964 only two out of the eight coalfields - Yorkshire and East Midlands - made a surplus after the payment of interest. In effect, these coalfields, which produce about half the total tonnage, have been subsidising the others. In 1964 about half of the industry's 540 collieries made losses amounting in total to about £60 million. Of these, some 150 collieries, accounting for about 20 per cent of output, operated at a gross loss (i.e. the proceeds of sales fell short of running costs and made no contribution to interest charges or depreciation). These pits were, with few exceptions, in the coalfields that have not been able to pay their way. They comprised collieries marked for eventual closure because there was no hope of making them economic, collieries with a doubtful future, and other collieries, including some under reconstruction, that were expected to become economic. On the other hand, some of the collieries that covered their prime costs but not their total costs of production will become gross losers in the next few years.

The Case and Criteria for Protection

Protection for indigenous fuel industries is an accepted part of the policies of major industrial countries including the United States, France and the Federal Republic of Germany. There are many reasons why a measure of protection should be given to the British coal industry. First, supplies of indigenous coal on the scale envisaged in the estimates in section IV, and perhaps on an even larger scale, are reasonably secure provided that the industry is not disrupted by too sharp and indiscriminate a decline. Secondly, although oil is more attractive to many users on price and other grounds at present, and seems likely to continue so, the possibility that
this situation might change in the longer term cannot entirely be discounted.

The coal industry is by its nature inflexible. Capacity once lost could be re-created only with very great difficulty. Thirdly, there are practical limits to the rate at which the industry can contract economically - that is, by elimination of losing collieries. Fourthly, it is desirable that the fullest economic use should be made of the large investment already made in the coal industry. At the same time in considering new investment in the coal industry regard must be had to the possibility that the present scale of protection may not be continued indefinitely. Lastly, the coal industry, which places no direct burden on the balance of payments, is a large import saver.

4.3. The amount and form of protection given to the coal industry needs to be reviewed from time to time in the light of developments, but there are some general considerations which ought to govern it. In particular, the amount of protection:

(a) should not be such as to make British fuel costs uncompetitive as compared with those of our main competitors in Western Europe;

(b) should not be so great as to prevent the development of an adequate and well-balanced oil-refining industry in the United Kingdom;

(c) should be sufficient to prevent the market for coal from declining faster than output can, in practice, be economically reduced, and to help the industry to bring about smoothly its transition to a more compact and competitive structure.

Existing Methods of Protection

44. The most important of the existing measures of protection, which are described in paragraph 17 above, are the duty on heavy oil (and other oil used for burning) and the virtual ban on coal imports. The level of the oil duty has fiscal and budgetary implications which are outside the scope of this White Paper. The effects on the balance of payments of changes in the duty are complex, and there may be little or no advantage to the balance of payments from any increase in the duty above its present level. On fuel policy grounds there are objections to an increase in the rate of duty.
The present rate of 2d. a gallon is much the same as the average duty on heavy oil in the European Economic Community; and an increase in the rate would increase industrial costs to the prejudice of our international competitive position. It would also be a blunt instrument which would by itself do nothing to encourage greater efficiency in the coal industry and which could result in the continued operation of very high cost pits which should be closed as soon as possible. Indeed, it can be argued that, on fuel policy grounds alone, a reduction of the oil duty, and hence of the cost of fuel to industry, is in principle desirable. Although in the present circumstances of the coal industry there is no early prospect of such a reduction, the Government will keep this question under review.

45. The ban on coal imports, which is virtually complete, cannot be made more rigorous. Indeed representations in favour of its relaxation have been made by foreign Governments and by British industry. Unrestricted imports could, however, at present involve an unacceptable fall in the demand for British coal and could prejudice the task of concentrating the industry in an orderly manner. There is no practicable and fair method of limiting coal imports to those cases, such as coastal steel works, where they might be most advantageous. The Government will, however, keep the position under review in the light of developments at home and abroad, and take into account the various restrictions imposed by other Governments to protect their indigenous fuel industries.

Subsidies for the Coal Industry.

46. The Board does not seek, and the Government does not favour, a continuing general subsidy for coal production. Such a course would be inconsistent with the concept of a self-supporting industry, which coal can and should be. It would lessen the incentive for the industry to increase its efficiency and competitiveness, and could carry with it the risk of a growing commitment for the Exchequer.

Policy for Coal

(a) Concentration of Deep-mined Production

47. The size of the market for coal in any particular year depends on the growth of industrial activity, and on the weather and other unpredictable factors.
The estimates in section IV above suggest, however, that the market for coal in 1970 may not exceed 170 to 180 million tons. There are strong objections on fuel policy grounds to affording the coal industry additional protection by further measures to restrict or discourage the use of oil. An attempt by artificial means to restore the market for coal to a level of about 190 to 200 million tons a year by 1970 would, on the present pattern of production and costs, be costly and probably unavailing. The aim now must be to improve the position of the industry by further concentration of production on the economic pits. With this in view the Board will seek to accelerate the closure of gross losing pits that have no prospect of moving out of that category.

48. A substantial part of the industry has relatively low costs and has been consistently profitable. Nearly 80 per cent of coal is now obtained by mechanised methods and an immediate improvement in the industry's fortunes could be obtained by fuller use of machines already installed. The Board plans to increase the proportion of coal won by mechanised methods to over 90 per cent in the next five years. For the future, the most promising new developments lie in the application of remote control to mining operations. At the first pit being developed to employ these new techniques, output per manshift is expected to be about 8 tons, or over four times the present national average. With such developments, the sound heart of the industry can make an increasingly valuable contribution to the future health of the United Kingdom economy and provide assured and well-paid employment for the men who work in the mines.

49. The size of the industry depends basically on the extent to which, through the efforts of men and management, these potentialities can be realised. The Government recognizes, however, that further assistance is needed to enable the industry to overcome its present problems and the legacy of the past. This assistance will be provided in two main ways.

(i) Social Problems

The Board will be assisted in dealing with the human problems to which concentration gives rise. Even allowing for the expected reduction in mining manpower, much of which will be achieved by normal wastage, the
National Plan foresees in 1970 a substantial manpower gap in the economy as a whole, so other employment should in general be available for men not required in the coal industry. Difficulties arise, however, because reductions in mining manpower will continue to be heaviest in difficult employment areas - Scotland, the North East and South Wales. In the interests of economic efficiency as well as to ease the human problems to which this reduction in manpower will give rise, it will be necessary to ensure that the men affected by closures are quickly redeployed to other productive employment inside or outside the industry. The Board will continue to develop its schemes to assist the transfer of miners to those coalfields and areas where future production will eventually be concentrated and where the difficulties of recruiting and retaining manpower are likely to continue. The Government will provide special funds to speed the closure of uneconomic collieries by assisting redeployment within the industry and resettlement in other industries through its regional development policies.

(ii) Capital Reconstruction

Secondly, the Government proposes that about £400 million out of £960 million of the Board's capital debt to the Exchequer at end-March, 1965, should be written off. This will give continuing relief to the Board's finances, the immediate relief in 1965/66 being about £30 million. The Board will, for its part, aim to find from its own revenues the £380 million that it estimates will be required for capital expenditure on collieries over the period from 1st January, 1966, to end-March, 1971, and to achieve a greater concentration of the capital available within the industry on the most promising pits. The financial aspects of these policies will be examined more fully in a White Paper on the finances of the coal industry to be published shortly.

(b) Opencast Coal Production

50. Opencast production occupies a small but important niche in the Board's total activities. Such coal is economical to get and it provides, in some localities and for certain types of coal, a valuable supplement to deep-mined
production. Opencast coal production has declined from a peak of over 14 million tons in 1958 to around 7 million tons a year now; and is expected to remain at around the present level for the next few years. The level of output can be varied fairly quickly to meet temporary changes in demand, provided basic output is kept at a level sufficient to enable the contractors, who work the sites for the Board, to maintain an organisation adequate to provide a base for expansion. On the other hand, conflicting claims for land use and the need to preserve amenities have to be taken into account, and the Board can work only sites approved by the Minister of Power. All these factors will be taken into account by the Government in considering future applications by the Board for authority to work opencast sites.

(c) Co-operation with other Nationalised Fuel Industries and other Public Authorities

The electricity industry is the largest single market for coal; it consumed about 68 million tons in 1964, compared with 46 million tons in 1956 and 52 million tons in 1960. The growing proportion of coal production which goes to power stations has meant that the coal and electricity industries are becoming more closely bound together. The electricity industry gives preferential treatment to coal and the Government considers that this should continue for the present, subject to annual review. In the gas industry the new oil-based processes are substantially cheaper than processes founded on coal; the Government considers that the trend towards these new processes should not be inhibited, but does not exclude the possibility of modest assistance in this market for coal. (The subject of primary fuel use by the secondary fuel industries is more fully discussed in paragraphs 77-84 below.)

The Government has also decided to continue to encourage the use of coal in public buildings (see paragraph 18) subject to review from time to time.

(d) Pricing Policy

52. As mentioned in paragraph 41 above, the East Midlands and Yorkshire coalfields are at present subsidizing the others. The long term aim of the National Coal Board's pricing policies has been to make each coalfield self-supporting but with the burden of debt arising from past investment it has become more and more difficult to achieve this aim. The capital reconstruction
now proposed will provide further opportunities for the Board to secure a better correlation between the prices and costs of the various coalfields and of the various coals, which the Board and the Government believe is desirable. In this way the price mechanism will help to identify areas where production should contract, and reduce the scale of the subsidising of the losing pits by good pits, thus avoiding the risk of overpricing the more economic coals.

(e) **Exports**

53. In 1964/65, 5.3 million tons of coal and 1.3 million tons of coke and manufactured fuels, with a total value of about £33 million, were exported. In 1965/66 exports are expected to be somewhat less. A reversal of this trend and an increase of exports effected economically would have obvious advantages for the Board and for the United Kingdom balance of payments. The Board is seeking to secure such an increase, but market conditions are difficult and longer-term contracts are becoming increasingly necessary to secure additional business. The main export market is Europe, and British coal has to compete with American and Polish coal which can be supplied in Europe at a price below the home price of British coal in the United Kingdom. Prices reduced to secure business are often undercut by a competitor and there comes a point at which additional exports would not increase - and could even reduce - the total foreign exchange earnings. Moreover, the coal producing countries of the European Economic Community impose restrictions on imports, so that the volume of sales does not depend on price alone. At current prices, increases in exports are economic only where the Board has surplus capacity and the necessary manpower available in low-cost pits, so that extra tonnages can be obtained at costs of production very little higher than the wages costs of the men employed. In these circumstances, care is needed about entering into long-term commitments beyond what can be seen to be commercially justifiable in the light of plans for reorganising and reshaping the industry.

**Conclusions on Coal**

54. Although the estimates in section IV show that the market for coal in 1970, even after taking account of the Government's measures to assist the industry and of probable improvements in the industry's efficiency, may not
exceed 170 to 180 million tons, there is no question of requiring any arbitrary run-down in production. The size of the industry within the framework set by the general fuel policy will depend significantly on its success in reducing costs. Relieved of the double burden of unprofitable collieries and past capital debt, and with the successful prosecution of the National Coal Board's own policies for improving the health of the industry, the economic part of the industry should be able with rising productivity to increase its output and its market. The coal industry thus streamlined will continue for many years to be a main supplier of primary fuel on a basis which will enable it to make a major contribution to the strength of the national economy.
The Demand for Oil

55. In 1964, oil contributed one-third of primary fuel supplies. Consumption, including non-fuel uses, is increasing at a rate of about 9 per cent a year and is expected to continue to increase, though perhaps at a slower rate. For many uses there is no effective substitute for oil (see paragraph 21). In these fields, therefore, which account for about 40 per cent of the total tonnage and are increasing rapidly, oil is not in competition with other sources of primary energy. For other uses - mainly steam-raising (including use for power generation), process work, space-heating and water-heating - oil is in competition with other fuels. Among the uses where oil is in competition with other fuels, consumption of the light fractions (including the use of naphtha for gas-making) has been growing very fast in recent years. However, the biggest single item is the consumption of fuel oil. After a check in 1963/64, partly as a result of a reduction in use at power stations, consumption of fuel oil is now going forward again, though at a rather lower rate than that of the light fractions. The rate of increase in demand for middle distillates has recently been held back by the strong competition of the gas industry in the heating market.

56. The growth of demand for oil for the uses where it is in competition with other fuels has been encouraged by its efficiency and convenience and by its increasing cheapness compared with most other fuels. Oil prices have been more stable than those of most other commodities. Over the years, the selling price of fuel oil has fallen relative to that of coal, despite the tax of 2d. per gallon introduced in 1961. The relative deterioration in the position of coal was apparently checked in 1963 and the early part of 1964, but the previous trend has since re-emerged.

Reserves

57. There is little doubt that there are adequate reserves of oil in the ground to meet rapidly growing consumption throughout the world. The "proved reserves" (oil known to exist and to be economically recoverable by present methods) of the non-communist world at the end of 1964 amounted to 35 times...
production in that year (over 60 per cent of the reserves being in the Middle East). Looking ahead, the industry is confident that additional reserves will be proved as needed. New resources of oil are continually being discovered and large areas that are potentially oil-bearing remain to be explored. Proved reserves will also be increased by the development of improved techniques of recovery. Natural gas will increasingly supplement oil, and the current gas reserves of the non-communist world have been estimated as being equivalent to about one-third of the proved oil reserves. In addition, there are vast reserves, estimated at seven times the proved oil reserves of the non-communist world, in the shale oil deposits in the United States and in the Athabascas and South American tar sands. There is thus little risk of oil suddenly running out. What may happen eventually is that prices will rise as exploration and recovery become more difficult and expensive.

Security of Supply and Balance of Payments

Although reserves are adequate, reliance on imported oil, the bulk of which comes from one area - the Middle East - inevitably involves some risk of interruption to supplies and has balance of payments implications. On present prospects, the declared value of retained imports (i.e., imports of crude oil and products less exports) is likely to rise from about £484 million in 1964 to something over £600 million in 1970. These figures provide no guide to the net outflow of foreign exchange, and the charge on the balance of payments is considerably less; in particular, the cost of imports is substantially offset by the overseas earnings of the oil companies in which there is a British interest. The British Petroleum Co. Ltd. and the Royal Dutch/Shell group together account for about one-third of the international trade in crude oil and products. Their sales abroad, which are nearly five times as big as the United Kingdom's oil consumption, bring the country substantial invisible earnings.

Policy for Oil

From the beginning of the century oil has played a major part in advancing technology. Motor cars, aeroplanes and modern ships all depend on oil. Recent examples of the contribution of oil to advancing technology are the development of petro-chemicals, the new oil-based processes for gas making and improvements in techniques of iron making by the injection of fuel oil into
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It last furnaces. Leaving aside the uses for which oil is virtually irreplaceable, curtailment of oil use for other purposes, for which alternatives are available, would increase costs in the economy generally. It would affect the balance of refinery operations and the willingness of the oil companies to invest in refinery development in the United Kingdom. In an advanced industrial economy there are thus limits to the extent to which reliance on imported oil can in practice be diminished.

(a) Stockpiling and Diversification

The risks of relying on imported oil can be mitigated by stockpiling and by drawing oil from diverse sources. The Council of the Organisation for Economic Co-operation and Development (O.E.C.D.) has recommended to European member countries a programme of stockpiling designed to create a base sufficient to permit the switching of oil supply sources in a wide range of circumstances. This programme has been put into effect and it is the Government's policy to ensure that an adequate level of stocks is maintained in this country. The oil companies are constantly trying to locate and develop new sources. They have had some success (e.g. in Libya and Nigeria) but this country will probably remain largely dependent on imports from the Middle East in the 1970s. The Government looks to the companies to continue their efforts to diversify supplies. Substantial discoveries of oil or gas in the North Sea would, of course, improve the security of our supplies, and the Government is taking the necessary measures to ensure that exploration is vigorously pursued.

(b) Imports

It is the policy of the Government to permit imports of crude oil and products from the non-communist world without discrimination between companies or sources of supply. Although discrimination in favour of oil imported by companies in which there is a British interest might assist the balance of payments, it would be contrary to our international obligations and general commercial policy. For similar reasons the Government's import policy does not discriminate between imported products and products from United Kingdom refineries, but this policy will be kept under review in the light of the practices of other countries and progress towards adequate refinery capacity in Britain.
Home Refining

62. A major contribution to keeping down the cost of oil imports can be made by home refining. On average the value of refined products imported into the United Kingdom is nearly £3 a ton higher than the value of the crude oil from which the products are refined. Moreover, home refining has other advantages in the national interest. It avoids dependence on refineries in foreign countries and so promotes security of supply; it attracts foreign investment and orders for plant; its growth stimulates the development of secondary industry based on it. About 40% of proposed refining capacity is to be sited in and near development districts.

63. It is not practicable to balance precisely the output of United Kingdom refineries with inland consumption, bunkers and exports, so as to make imports of products unnecessary. Some imports are linked to exports and result from the balancing of supply and demand for different products in different countries by the oil companies. Some special products are not yet produced here. Companies starting in the United Kingdom market have to import until their trade is large enough to justify refining in this country. The Government has, however, adopted the objective that home refining should suffice to cover inland demand and bunkers in total. This should help to ensure that the proceeds of product exports are generally more than sufficient to cover the cost of product imports.

64. In 1964 home refining did not even cover inland demand, but this should be corrected as new refinery capacity recently commissioned or on order comes on stream. Plans for refinery construction which have been notified to the Ministry of Power will, when fully implemented, bring capacity up to 102 million tons in 1970 (giving an output of products of about 92 million tons). In practice, further additions are likely before 1970 from certain companies which have not yet completed their plans. The oil industry's estimate of refinery output in that year is 97 million tons, compared with an estimated demand (inland and bunkers)
The objective should therefore be achieved at least until 1975. Moreover, the implementation of these plans will spread refinery capacity widely between companies, including European as well as American owned concerns. This will powerfully reinforce the recent move towards increased competition in the United Kingdom market, by adding to the number of companies which are firmly established here.

5. To maintain the objective, there will be a need for more refining capacity coming into operation at intervals after 1970. The Government will press the oil companies to provide this capacity and, in particular, will expect newcomers to the United Kingdom market to refine here as soon as their share of the trade can justify doing so, either alone or in combination with others.

Conclusion

6. A continual rapid growth in oil consumption is likely for many years to come. This growth carries with it risks to security of supply and increasing direct costs to the balance of payments, but any undue restrictions on the use of oil would hinder technological advance and increase costs. The Government believes that it is in the national interest to accept a rapid growth in the use of oil but will take measures to mitigate the security and balance of payments disadvantages by ensuring adequate stocks in this country and by encouraging the oil companies to diversify their sources of supply and to develop the United Kingdom refinery industry. It is also taking steps to ensure that exploration for oil and natural gas deposits in the North Sea is vigorously pursued, for few developments could be of more benefit to the national economy than the discovery of major reserves within British jurisdiction.
VI. NUCLEAR POWER

67. Nuclear power has now been established as a reliable means of generating electricity on a commercial scale. It is characterised by high capital costs and low running costs; this means that nuclear stations, once built, must be operated at the highest possible load factor to get the full economic benefit from them. The uranium or thorium needed to produce the fuel for nuclear stations is not mined in the United Kingdom and therefore has to be imported. The foreign exchange cost depends on the form in which the fuel is imported, but is substantially less, per ton of coal equivalent, than the foreign exchange cost of imported oil. The fact that uranium deposits are widely scattered throughout the world, the highly-concentrated nature of the fuel and the fact that a nuclear station, once fuelled, needs only relatively infrequent re-fuelling, combine to make nuclear power relatively immune to interruptions of supply by events overseas. Both from the point of view of the balance of payments and from that of security of supply, therefore, nuclear power stands closer to home-produced coal than to imported oil.

68. Although the earlier expectations about the economics of nuclear power have proved premature, there has been a steady fall in the capital costs of successive stations in the first nuclear power programme, and the tender (an Advanced Gas-cooled Reactor — A.G.R.) recently accepted for the second nuclear station at Dungeness (1,200 MW) suggests that it should give cheaper base-load electricity than future coal-fired stations on the present price of power station coal. Total generating costs from the second Dungeness station are estimated, on cautious assumptions, to be about 0.46d./kWh (in terms of to-day's money values). This calculation is based on the discount rate of 7 1/2 per cent used by the Central Electricity Generating Board for the appraisal of investment, and on a 75 per cent load factor and a 20-year life. However, all components have been designed to have a life of 30 years at 85 per cent load factor, and these more optimistic assumptions would lead to an estimate of about 0.38d./kWh. These figures can be compared with costs from the coal-fired stations under construction or planned at Drax (4,000 MW) and Cottam (2,600 MW) of 0.52d. and 0.54d./kWh respectively and from the oil-fired station under construction at Pembroke (2,000 MW) of 0.52d./kWh, or 0.41d./kWh without tax.
69. In the light of the encouraging tenders received for the second nuclear power station to be built at Dungeness, the Government has reviewed the nuclear power programme for the six years 1970-75 given in the White Paper on the Second Nuclear Power Programme (Cmd. 2335) issued in April, 1964.

70. In agreement with the electricity supply industry and the United Kingdom Atomic Energy Authority, the Government has decided that for planning purposes it should be assumed that on average over the six years 1970-75 about one nuclear power station a year would be commissioned, starting in 1970 with the Dungeness 'B' station of 1,200 MW, and possibly including a second Scottish station. The programme will be based on the Advanced Gas-cooled Reactor developed by the Atomic Energy Authority, but at this stage the possibility of another reactor type making a contribution is not excluded. It is estimated that on these assumptions, and with further developments in nuclear technology and expected increases in the size of stations, a total of 8,000 MW might be in commission under the second nuclear power programme by 1975.

71. The nuclear programme will, therefore, be flexible and subject to review in the light of new information, including developments in nuclear and other methods of electricity generation.
IX. SECONDARY FUELS

72. Electricity and gas (1) - the main secondary fuels - account for an increasing proportion of our total energy consumption. On most bases of comparison, the electricity industry is much the bigger of the two. Of all the primary fuel used in 1964, 29% went to power stations and 9% to gas works. The investment requirements of the electricity industry - over £700 million in 1965 - are roughly five times as great as the gas industry's; and its turnover - around £1,000 million - is twice as large. The two industries compete with each other for many uses but by no means all. About one half of electricity sold is for lighting, power and other specialised purposes for which, in practice, no other fuel is a substitute. Electricity and gas also compete with oil and solid fuel in direct use.

Characteristics of the Electricity and Gas Industries

73. In general, electricity cannot be stored and capacity should, therefore, be available to generate and transmit power when it is wanted. The relationship between the total amount of plant which has to be provided to meet peak loads, and average consumption throughout the year, is important for the economics of the industry. The extra demand at the peak is met mainly by old power stations, whose capital costs have been largely written off, or by special plant with low capital costs, such as gas turbines. But though these involve lower capital costs than new power stations of the usual type, their running costs are higher. In addition, peak loads affect the capital costs of the distribution system. On the other hand, the increasing use of electricity at off-peak periods, e.g. by storage heaters, is likely to improve the load factor. Thus the time of day, and to a lesser extent the season of the year, at which the consumer makes his demand, significantly affect the costs of supplying him.

74. The gas industry on the other hand is much less affected by peak demands. The capital cost of the plant is lower - very much so in the case of the new coking-based processes. To meet hour-to-hour and day-to-day variations in

(1) All figures given here relate to the public supply industries. Electricity is also produced by industrial concerns for their own use and some of the gas produced at coke ovens and at blast furnaces is supplied direct to steelworks, etc.
demand, gas can be stored economically in traditional gas-holders or the pressure in the main can be varied; and underground storage — for which provision has been made in the Gas Act, 1965 — should help the industry to meet seasonal variations which are becoming greater with the growth of the seasonal heating load.

The Framework of Secondary Fuels Policy

75. The framework of statutory, administrative and financial measures within which the two industries operate has been broadly the same for both, but there are some important differences. First, the electricity industry has been subject to Government influence to adjust its choice of primary fuels in the light of wider national considerations. Thus, when coal was scarce, it increased its use of oil, and later, as the market for coal has declined, it has favoured coal when oil would have been cheaper; also, it has built nuclear power stations before they were competitive. The gas industry, on the other hand, has in recent years been allowed substantial freedom to choose whatever raw material it was able to use. Secondly, there is uneven treatment in the taxation field: the imports of Algerian methane by the gas industry are not subject to duty and the oil feed-stocks of the gas industry do not bear the 21/2 a gallon duty on burning oils, which is borne by the electricity industry; on the other hand, electrical storage heaters are exempt from the purchase tax, which applies to gas-heaters (as well as other electrical heaters). Thirdly, the gas industry’s present financial objectives are lower than those for the electricity industry. Finally, electricity carries special obligations in respect of rural electrification. So, under the present arrangements, gas receives preferential treatment as compared with electricity.

76. The chief justification for maintaining these preferences has been in the desirability of sustaining the gas industry and its system through a transitional period, and in anticipation of the advantages to the community of expected economies in capital and current costs of production of fuel. The new low-cost processes for making gas from oil, the prospect of natural gas, and the improvements in space-heating appliances account for the marked advance in gas sales in the last two years. Sales of gas are expected to increase rapidly, even without any discoveries of natural gas on the Continental Shelf — and faster still if worthwhile discoveries are made.
The electricity industry has, throughout the past fifteen years, been faced with a huge expansion of demand, calling for very heavy capital investment; and the prospects are that sales of electricity will continue to rise rapidly. Both industries, therefore, are expecting a period of expanding sales and it is against the background of these prospects that the Government has examined policies affecting the two industries.

**Primary Fuel Use - Gas**

77. In 1964, gas works used 20.5 million tons of coal and 5.0 million tons coal equivalent of oil. The industry also bought coke oven gas (over 2 million tons coal equivalent) and a small amount of methane (natural gas). The gas industry, in association with the National Coal Board and with the encouragement of the Government, is engaged in research on the possibilities of eventually developing new, economic processes of making cheap gas from coal. But any such possibilities are beyond the range of policies that can be shaped now. The forecasts given in Table 4 show that the gas industry expects that its use of coal will have fallen to 10 m. tons by 1970. The immediate issue is whether this trend away from coal is desirable for the economy as a whole. The new oil-based processes, with lower capital and running costs, produce gas at about half the cost of the old carbonisation processes, and are substantially cheaper than the new coal processes such as Lurgi. It is in general more economical to substitute oil for coal in this field than in other uses, e.g. steam-raising. The economic penalties of reversing the trend are therefore large. It is admittedly a drawback that the oil on which these new processes depend has to be imported. But the use of oils and refinery gases by the gas industry is complementary to the development and economical running of our home oil refining industry, which can be expected to provide the bulk of the supplies required. The gas industry can use a variety of petroleum products, including some that have been in surplus from time to time, and is conducting research to extend the range still further. This flexibility serves to reduce any increase in imports directly attributable to gas manufacture and would prevent the industry becoming dependent on any one petroleum product. Thus gas
manufacture by these means is unlikely to add significantly to our total import bill for oil. In the light of these facts, the Government is satisfied that the trend of the gas industry towards oil should be accepted.

78. This does not exclude the possibility that it might be in the national interest for the gas industry to assist the coal industry by adjusting, from year to year, the phasing of its retirements of coal plant when, as occurred this year, it can be done at no great cost. But such measures can have only a limited effect. As part of the short-term measures to assist coal (paragraph 16), the Gas Boards examined how far they could increase their expected coal consumption in 1965/66 and it now seems likely that they will use an additional 300,000 tons. This reflects not only modifications in plant programmes but also increased estimates of gas demand. But measures to influence coal consumption by the gas industry (other than strictly limited adjustments from year to year) would involve a heavy economic penalty and would not be in the interests of the economy as a whole.

79. Possibly the most significant development for the gas industry over the next ten years will be in the use of natural gas either as a feedstock for manufacture into town gas, or for supplying direct to consumers in its natural state. This high quality fuel has been of great economic value to all countries with ready access to it. The scheme now in operation for importing Saharan gas in refrigerated tankers will bring in about 350 million therms a year (10 per cent of current gas consumption). There are large gas fields in Holland, Nigeria and elsewhere, which are other possible sources of imports; and gas may be found under the British part of the Continental Shelf. Because of the uncertainties, however - economic, commercial or physical - which attach to these other possible sources of natural gas, no allowance has been made for such developments in the Forecasts in Section IV.

80. Decisions on the greater use of natural gas by the gas industry cannot be made until there are firm proposals for the import of a specific quantity from a particular source. Proposals for bringing additional gas from abroad would be subject to Ministerial consent. They would have to be critically
examined with reference, among other things, to the balance of payments costs and the possibility of indigenous supplies becoming available. If large quantities of gas become available from the Continental Shelf, a well developed gas industry will provide a means of using these resources quickly and economically; and the Minister of Power has powers to regulate disposals if this were needed to maintain the orderly development of the country's fuel economy.

Primary Fuel Use - Electricity

31. Electricity is produced from three main sources: coal, which in 1964 accounted for 82 per cent of the total fuel used; oil, 12 per cent; and nuclear, 4 per cent. The rest is mainly hydro-electricity. The technology of electricity production can be expected to show continued improvements. There should be further progress in conventional generation and distribution, though cost reductions on the scale of those made since 1950 cannot be expected in the future; and nuclear power is likely to become fully competitive with conventional electricity generation (see paragraphs 24 and 63). Looking even further ahead, methods of direct production of electricity - such as magneto-hydro-dynamic (M.H.D.) generation - may also be developed. As explained in paragraphs 69 to 71, the extent of the expansion of nuclear power up to 1970 has already been determined; and the programme for the five years following has now been settled for planning purposes. Two oil burning power stations are now in course of construction and these account for the expected rise in oil consumption at power stations shown in Table 4.

32. In determining the balance between coal and oil at power stations, there are different considerations from those which apply to gas. There are some power station sites where coal is economic. Electricity generation is one of the most effective ways of using the small coals which can be produced cheaply by mechanical means. There is a strong inter-dependence between the two industries. Not only does the majority of electricity produced come from coal, but electricity is coal's largest customer - in 1964 taking 35 per cent of the National Coal Board's output. The coal industry must envisage that an increasing proportion of its production will go to electricity. For its part, the electricity industry must be
largely reliant on its coal-fired stations for many years; and one consequence of this is that it could be exposed to bearing a large part of any additional costs falling on the coal industry as a result of under-utilisation of mining capacity. Thus, having regard to its aim of producing electricity as economically as possible, the electricity industry has a strong practical interest, when planning its own development, in looking to the well-being of the coal industry. As part of the short-term measures to assist the coal industry in 1965/66, the electricity industry agreed to adjust the operation of its present power stations so as to give coal a degree of preference over oil (paragraphs 18 and 51).

83. The Government has considered policy for oil and coal use both in existing power stations and in new ones. In addition to the considerations outlined above, the Government has had regard to the importance of security of fuel supply for the electricity industry and the need to minimise foreign exchange costs. As regards existing power stations and those under construction, the Government intends (as indicated in paragraph 51) to examine, from year to year, the case for continuing to accord preferential treatment to coal. Account will be taken of the coal supply position and the extent to which over-production may be unavoidable. As regards new power stations, each proposal will be dealt with on its merits. The case for some new oil-fired stations may be overwhelming because of siting requirements or because of the prospect of very large economies. But in the light of the heavy task of contraction which faces coal, the emergence of nuclear power as a serious competitor both of coal and oil, and the inevitable interdependence of coal and electricity, proposals to build oil-fired stations in future will receive special scrutiny.

84. The Government is convinced that the inter-dependence of the coal and electricity industries calls for the gradual development of more far-reaching and more enduring arrangements under which both industries would recognise a responsibility for the scale and nature of the provision of coal supplies for electricity and the investment in both industries would be
more closely co-ordinated. Some steps have already been taken. One part-time member is common to both the National Coal Board and the Central Electricity Generating Board. Close arrangements already exist between the two industries for discussing coal requirements in the short and the long term; and at the request of the Minister of Power the two industries are jointly to conduct operational research into ways of optimising the flow of coal to power stations. It is expected that as coal's markets become centred more and more on electricity, the links and the need for co-operation will grow. The two industries, on the suggestion of the Minister of Power, are to examine how best this wider co-ordination should be developed.

Primary Fuel Taxation

85. Allied to the question of primary fuel use is that of the taxation of primary fuels. Oil used in the new gas-making processes is treated for tax purposes in the same way as oil used as a raw material for the manufacture of chemicals and does not, therefore, bear the duty of 2d. a gallon on heavy and light oils used for burning. The gas industry receives through its exemption from this duty some advantage over electricity and considerable advantage over oil used directly as fuel. Moreover, methane, such as is now being brought in from Algeria, is not subject to the 10 per cent. tariff payable on other imported gaseous hydrocarbons.

86. These preferences accorded to the gas industry are anomalous in principle. In practice, the exemption from the 2d. per gallon duty is unlikely greatly to distort the pattern of the energy market: the oil duty borne by the electricity industry is a small part of its total expenditure, though this is not a measure of the full cost. Moreover, it seems that gas made from oil will, when the processes are established, be competitive with oil (even untaxed) for many purposes, particularly small scale industrial uses and domestic use. Nevertheless, the position needs to be kept under review and the Minister of Power has advised the industry that its plans for investment and expansion in the longer term ought not to assume the continuation of these preferences. Apart from fiscal considerations, it will be necessary to take into account the rate of progress of the gas industry.
in establishing the change-over to the new processes which should give it a more assured economic and financial basis. The exemption from duty of imported methane will also need to be reviewed, perhaps when there is some firm knowledge about the potential supplies from the British part of the North Sea Continental Shelf.

**Investment and Financial Objectives**

87. The growth in sales foreseen implies a very high level of investment (the details of which have been published in the National Plan). The requirements of the capital-intensive electricity industry will be particularly heavy. The industry's total capital expenditure at present throughout Great Britain is estimated to be about 10 per cent. of the country's gross fixed capital formation. It does not follow from the scale of the industry's investment and of its borrowing from the Exchequer that its growth should be curbed. Because the continuous rapid increase in demand for the product soon overtakes any over-provision of capacity, it offers a relatively safe, as well as profitable, field for investment. However, there is clearly a need to guard, as far as practicable, against the possibility of over-investing. Premature investment, especially at a time of strain on capital resources, is a real burden and avoidance of it is a function of the annual capital investment reviews. Over-stimulation of demand through uneconomic pricing provides another possible cause of misallocation of the country's resources. Against this danger, insistence that the return on the industry's capital should be adequate, and that the prices for any service should cover the full cost, including full capital charges of providing it, should provide sufficient safeguards. Hence the importance of financial objectives and of proper criteria for new investment for the nationalised industries.

88. If any restrictions were to be placed on the industry's growth, they should impinge on the growth of demand as well as of supply, and should avoid prolonging or worsening present strains on generating and distributing capacity. As explained in paragraph 23, the electricity industry is still hard pressed to meet peak demands. It has had nothing in reserve to meet
abnormally cold weather. It is the Government's policy that the deficiency should be remedied as soon as practicable, and this will be done progressively with the help of the new plant now under construction and due to be introduced in the next two years.

89. One sector of demand which it might be thought desirable to curb is that for space heating by direct-acting appliances because of the high costs to the economy which are generally involved, compared with other forms of space heating. The Government believes, however, that the solution to this problem lies in an appropriate tariff policy (see paragraphs 95 and 95 below).

90. Under the present arrangements, which cover the five years up to March, 1967, the gas industry has been given generally lower financial objectives than electricity. The difference in the objectives reflects, in part, the difference in the expected ability of the industries, at the time the objectives were agreed, to earn surpluses; and in this respect, the gas industry derives a further degree of preferential treatment. But the net return on capital in the gas industry, over a period of time, ought to be no less than in the electricity industry. The gas industry has needed time to free itself from the old style plant which could not be made to pay its way fully and to make the transition to the new style plant which can earn a high return on capital invested. But with the present growth prospects of the gas industry, and with increasing supplies coming from new processes, the present differentiation is becoming increasingly out of date. Progressive assimilation of the financial objectives for the two industries is envisaged, and the gas industry has accordingly been advised to expect an increase in its financial objective for the next period.

Fuel Supplies for Clean Air

91. The decline in the use of carbonisation for gas manufacture means that the gas industry will produce less coke; this has implications for the implementation of the Government's clean air policy. The Government, however, believes that this policy can and should go forward on the basis of fuels which can be supplied economically. The White Paper on Domestic Fuel Supplies and the Clean Air Policy published in December 1963 (Cmnd. 2231) / i.e. those which consume electricity at the same time as they give out heat, as opposed to those which store heat and give it out later.
suggested that, in the absence of appropriate measures, open-grate smokeless fuels in the years up to 1974 would be inadequate to meet the growing demand, and recommended action by the producers to bring supply and demand into better balance. Although supplies of solid smokeless fuels from the gas industry are decreasing, the National Coal Board and private producers have since announced plans to make substantial increases in the production of open-grate premium fuels; the Board also expects to increase the availability of hard coke for use in domestic closed appliances up to the level forecast in the White Paper. In addition there are plentiful supplies of non-solid smokeless fuels - gas, off-peak electricity and oil. All these together should be fully sufficient to maintain progress with the clean air policy.

SPECIFIC FACTORS IN THE INTER-RELATIONSHIP BETWEEN THE GAS AND ELECTRICITY INDUSTRIES

92. In addition to the general framework within which the industries should operate, there are other areas of particular importance involving either elements of competition between the two industries or scope for co-operation between them.

(i) Tariffs

93. It is the Government's policy that, in general, the industries' tariffs should provide revenue sufficient to cover the full accounting costs of the industry including overheads and the surplus needed to achieve the agreed financial objectives. This policy helps to maintain financial discipline, acts as a spur to efficiency in the industries and avoids the danger to morale and efficiency which can result from an industry's running a continuing deficit. It is also desirable that as far as practicable, the tariffs charged to each class of consumer, or for each load, should cover at least the long-term avoidable costs of supplying the class or covering the load plus an appropriate share of overheads. The appropriate addition is not necessarily a fixed percentage for all loads and groups of consumers, but should take into account other factors, including the actual share of overheads attributable to that load or group (in so far as this can be estimated), the Board's commercial judgment about the effect of varying tariff patterns, and wider economic considerations. In the past it has appeared that electricity tariffs had the effect of charging industrial and commercial consumers a bigger margin for overheads than domestic consumers. There are arguments against this. In order to assist the modernisation and expansion of industry, it is important that the price of electricity to industry should be kept as low as is consistent with the considerations mentioned above. The Government, therefore, endorsed the recent policy of the electricity industry of concentrating unavoidable increases in prices on the unit rate in domestic tariffs.
94. Space-heating by direct-acting electric appliances raises a special problem. Space-heating provides one of the main fields of competition between gas and electricity, but this use is one where the justification for electricity has been questioned. Direct-acting electric space-heating accentuates the peak load and is a more expensive demand to meet—especially in terms of capital costs—than space-heating by gas. The direct-acting electric appliances are cheap to buy and have attractions of flexibility and convenience especially when used for occasional heating. The consumer should be able to opt for these attractions, but his choice should be made on the basis of tariffs which reflect the full cost of satisfying his preference.

95. At present, it seems that the running rates of domestic two-part gas tariffs do generally cover the prospective marginal costs for space heating. In the case of electricity, it appears that the running rates of domestic tariffs amply cover the marginal cost of electricity to domestic users for all purposes taken together, but barely cover the cost of supply for direct space-heating alone. The much lower marginal cost of supplying night storage appliances, on the other hand, appears to be adequately covered by the relevant tariffs. The electricity industry, with the Government's encouragement, is experimenting with new types of tariff that can reflect more accurately the costs of the different kinds of domestic use; but while it may be possible to devise more flexible tariffs, it may be found that the extra cost of the special metering equipment involved would outweigh the savings which would arise from the improvement of load factor in the supply system. In the meantime, the industry should continue to encourage the use of storage heaters (see also paragraph 73); and electricity tariffs should take full account of the extra cost to the economy of using direct-acting electric space-heaters instead of other means of heating.

(ii) Amenity Considerations

96. The impact of the two industries on visual and other amenities is different. With gas, surface holders, which are likely to be a necessary
The adjunct of gas supply for years to come, are unsightly; but manufacturing plants are relatively small and emit virtually no sulphur into the atmosphere, and supplies are delivered by underground pipes. With electricity, the size of power stations and the spread of the grid give rise to increasing concern. Under the Electricity Act, 1957, both the industry in putting forward proposals, and the Minister of Power in considering them, are required to have regard to their effect on amenity, and a balance has to be struck between this obligation and the industry's duty to provide an economical supply. To preserve amenities, the industry may have to incur greater expenditure to reduce pollution from sulphur emissions; and may have to spend even greater sums than now on using underground cables, which can be at present up to twenty times as expensive as overhead lines. The Government is encouraging the research efforts of the electricity industry and cable manufacturers to reduce the cost of underground transmission. Meanwhile the statutory procedures providing for Ministerial consents for power stations and overhead lines have to be operated on the basis of current costs. In considering, therefore, the balance of all the factors affecting the two industries, it must not be overlooked that the preservation of amenity imposes extra costs on the electricity industry and hinders the task of meeting the expanding demand.

(iii) Rural Supplies

97. The electricity industry has been recognised to owe a greater obligation than the gas industry to extend supplies to rural areas, and this is reflected in the special statutory duty of the Electricity Boards. It is right that this burden should be on electricity rather than gas, because electricity is needed in these areas for purposes for which gas is no substitute. It is, however, important to avoid the provision of two uneconomic and competing public supplies in the less populous areas where each may make the situation of the other even more uneconomic. In general, gas supplies should be extended only where they would be remunerative even without the preferences that the industry at present enjoys (see paragraph 75); and uneconomic supplies
should be eliminated. There is prima facie evidence of cases where both
the gas and electricity industries made losses on supplies to the same
localities. Where uneconomic investment has already been made, there is
little that can be done until proposals arise for new or replacement
distribution facilities. For the future, the Minister of Power will keep
the activities of both industries in such areas under review in order to
ensure cooperation between them.

(iv) Initial Charges

98. There has for some time been growing concern at the possibility that
fair and open competition between gas and electricity might be distorted as a
result of the system under which, when new housing is connected to the mains,
initial charges are sometimes made which may vary according to the standard
of the wiring or piping installation, or with the type of equipment
installed by the developer. The gas industry generally makes no such
charge: indeed, some Boards are believed to subsidise the provision of internal
gas piping. Most Electricity Boards, however, when supplying local authority
housing estates, make freedom from initial charges dependent on the builder
providing a certain number of power-points in the houses, and on his not
installing, in advance of the consumer expressing his preference, certain
kinds of appliances which would use other fuels than electricity. The Boards
extend this also to privately-built houses. The two industries are
criticised by each other and the position is unsatisfactory for all
concerned. The Government have therefore taken the view that the two
industries ought to move towards an acceptable agreement. Some progress has
been made, but further discussions will be needed before revised
arrangements can be settled.

Conclusion on Secondary Fuels

99. The interests of the nation are best served by a policy towards the
secondary fuel industries which combines the elements of competition and
co-operation. The nationalisation Acts set up separate enterprises in the
expectation that there would be competition between them. Such competition
has yielded, and should continue to yield, a valuable stimulus to both industries. Co-operation in some fields is also essential. Some have been outlined above; other possible areas—e.g., meter-reading and billing, service centres and showrooms, and advertising—have been examined from time to time (notably by the Committee on Co-operation between Electricity and Gas Boards under Sir Cecil Voir, which reported in 1969—Cmnd 695) but the balance of advantage has appeared to lie in leaving these within the responsibility of each industry. The scope for further co-operation will be kept under review. Within the framework of the policy measures set out above, the part played by electricity and gas must be expected to increase, as technological progress extends the applications in which these refined fuels have inherent advantages.
X. CONCLUSION

Much of the background to fuel policy which is set out in this White Paper changes little from year to year. The national interests which fuel policy must seek to serve, and certain basic characteristics of the various fuel industries, change slowly if at all. But in other respects circumstances are never constant. This is an area markedly subject to technological innovation, and the research and development efforts of the industries are continually opening up new opportunities and presenting new problems. New sources of fuel supplies are being discovered and the balance of costs between different fuels is continually changing. These changes affect the relationships between the various industries and the way the interests of each industry conflict or harmonise with those of the others. They also affect the nature and scale of the very heavy capital investment undertaken by the industries.

For all these reasons the framework of Government policy established by this White Paper is not intended to be rigid. In describing the policies which the Government will pursue, attention has already been drawn to the probable need for future changes in policy. These changes will be made at the appropriate time. Other changes, not at present foreseeable, will no doubt also become necessary. With the advice and help of the Energy Advisory Council, the Government will keep fuel policy continually under review, so that as circumstances change it can continue to promote the greatest contribution by the fuel industries to the welfare of the nation.
### Appendix

**Ministry of Power’s sector analysis of inland energy demand**

<table>
<thead>
<tr>
<th></th>
<th>1960</th>
<th>1964</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron and steel</td>
<td>34.8</td>
<td>36.1</td>
<td>37.0</td>
</tr>
<tr>
<td>General industry</td>
<td>77.2</td>
<td>83.8</td>
<td>98.0</td>
</tr>
<tr>
<td>Railways</td>
<td>11.0</td>
<td>7.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Other transport</td>
<td>22.5</td>
<td>29.1</td>
<td>38.5</td>
</tr>
<tr>
<td>Domestic</td>
<td>74.5</td>
<td>78.7</td>
<td>86.0</td>
</tr>
<tr>
<td>Other inland</td>
<td>46.7</td>
<td>50.4</td>
<td>59.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>263.7</td>
<td>285.3</td>
<td>323.0</td>
</tr>
<tr>
<td>Adjustments for stock changes and exports of coke and manufactured fuel</td>
<td>1.2</td>
<td>0.6</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Total inland demand for energy</strong></td>
<td>264.9</td>
<td>285.9</td>
<td>324.0</td>
</tr>
<tr>
<td><strong>Adjusted to normal temperature</strong></td>
<td>265.4</td>
<td>286.4</td>
<td></td>
</tr>
</tbody>
</table>

(1) Secondary fuels (electricity, gas and coke) are equated to the quantity of primary fuel (coal, oil and natural gas) required to produce them. Thus the table indicates primary fuel input and the final total can be compared directly with that of Table 4. In arriving at the demand in 1970 for each sector shown above, allowance has been made for the different efficiencies of use of each fuel.
C. (65) 131
11th October, 1965

CABINET

RHODESIA

Note by the Prime Minister

I will give my colleagues, at our next meeting, a full account of the discussions which the Commonwealth Secretary and I have had with the Prime Minister of Rhodesia, Mr. Ian Smith. Meanwhile, Ministers may like to have the attached copies of the records of my talks with Mr. Smith. I need not emphasise the secrecy of these records or the delicacy of the situation in which we now find ourselves - a situation in which we and the Rhodesians have failed to agree but they have not yet committed themselves to any illegal action and we have not, therefore, finally broken off relations with them. In these circumstances it is imperative that we should refrain from any public action or statement which they could regard as provocative; and I therefore ask all Ministers to abstain from any public reference to the Rhodesian problem in the immediate future.

H.W.

10, Downing Street, S.W.1.

11th October, 1965
AGREED NOTE of a Meeting held at 10 Downing Street, S.W.1., at 3.00 p.m. on THURSDAY, 7th OCTOBER, 1965

PRESENT:
The Prime Minister
The Lord Chancellor
The Secretary of State for Commonwealth Relations
The Minister of State for Commonwealth Relations
Sir Burke Trend
The Hon. I.D. Smith, Prime Minister of Southern Rhodesia
The Hon. W.J. Harper, Minister of Internal Affairs
The Hon. D. Lardner-Burke, Minister of Justice
The Hon. J.J. Wrathall, Minister of Finance
Mr. G.E. Clarke, Secretary to the Cabinet

THE PRIME MINISTER suggested that it might be most convenient to begin by summarising the position which had been reached as a result of the discussions between Mr. Smith and the Commonwealth Secretary on 5th and 6th October.

Mr. Smith said that it was now essential to bring matters to the point of final decision, not least in view of the damaging impact of uncertainty on the Rhodesian economy. The Government of Southern Rhodesia, as it then was, had agreed to attend the Victoria Falls Conference two years before on the assumption that the question of Rhodesian independence would be settled as soon as, or perhaps even before, the Federation of Rhodesia and Nyasaland was dissolved. He understood that the United Kingdom Government did not accept this contention. But, however that might be, the Rhodesian hopes had been disappointed, and the Rhodesian Government had now reached a point at which they could not afford to wait any longer.

The discussions which he and his colleagues had had with the Commonwealth Secretary on the previous two days appeared to have set things back rather than to have advanced them. For example, it seemed that the United Kingdom Government no longer regarded the 1961 constitution as an acceptable basis of Rhodesian independence - whereas it was widely assumed throughout Rhodesia that, when this constitution was negotiated in 1961, it constituted the basis on which the country would proceed to sovereign independence. Again, the Rhodesian Government had been allowed to believe
that the United Kingdom insistence on a blocking mechanism related to the entrenched clauses in the constitution (where it would replace the existing provision for a referendum); but it now appeared that this mechanism was required for the type of normal constitutional amendment which the Government could effect at present by means of a two-thirds majority in the Legislature. In other words, the United Kingdom Government appeared to be imposing, as conditions of independence, fresh stipulations in relation to the management of the internal affairs of Rhodesia as well as to the conduct of her external policy. Whether the 1961 constitution had implied sovereign independence or not, it had certainly implied that the Government of Rhodesia would be free to manage their own internal affairs as they saw fit; but the changes which were now being proposed would give them less internal freedom than they had at present.

The United Kingdom Government seemed to be concerned only with the Africans in Rhodesia, not with the Europeans. If so, they were proceeding on purely racial lines. The proposal for a blocking mechanism in the form now put forward was clearly tailored to African needs; and, since even the blocking third (if the Rhodesian Government were prepared to concede it) would provide only a narrow margin of safeguard, it must be increased African representation which was the United Kingdom Government's real objective. But this was a quite different matter.

As an alternative to the referendum for the entrenched clauses the Rhodesian Government had offered a Senate which, although they had originally conceived it as consisting partly of Africans and partly of Europeans, they were now prepared to envisage as composed wholly of Africans, provided that they were Chiefs. In the two Houses sitting together these twelve Chiefs, with the fifteen African 'B' Roll members of the Legislature, would constitute a blocking third.

In addition, the Rhodesian Government were prepared to concede virtually universal adult suffrage on the 'B' Roll itself, to the extent of adding about 1 million African voters to that Roll. These, from Rhodesia's side, were real concessions.

The United Kingdom Government had felt unable to accept any of these proposals; and the Rhodesian Government had now to ask themselves, therefore, how this gulf, which was widening rather than contracting, could be bridged. They could not go on as they were. They realised that unilateral action would constitute a very grave decision and they had analysed the consequences very carefully. But it could cut both ways; and, in any event, it would be better, whatever its implications than merely acquiescing in a progressive decline of European standards. This was a matter of life and death.
for the Europeans in Rhodesia, since the only alternative they saw to independence was their eventual departure. In this respect the decision which they faced was not wholly unlike the decision which the United Kingdom had faced in September, 1959.

The Prime Minister thanked Mr. Smith for speaking so frankly. He would try to be no less candid. It would be premature, however, to discuss the implications of unilateral action at this point, since it was something which we must all seek to avoid. But as regards the substance of the issues involved the Commonwealth Secretary should now put the case as the United Kingdom Government saw it.

The Commonwealth Secretary said that his discussions with Mr. Smith and his colleagues had been conducted in a frank and cordial spirit on both sides. But they had revealed two basic differences between the Governments:

1. On the constitutional issue the Rhodesian Government had maintained their claim that the 1961 constitution was, in effect, an independence constitution. But the facts contradicted this claim. It would be possible to verify, by means of a referendum of the four racial groups as provided for in the constitution, whether any particular set of constitutional proposals was accepted by the people of Rhodesia as a basis for independence; but the Government of Rhodesia were anxious to eliminate the referendum procedure on the grounds that it was too cumbersome and laborious and proposed, instead, to institute a Senate as an alternative safeguard for the entrenched clauses of the constitution. It was clear to the United Kingdom Government, however, that this Senate, in the form proposed, would not suffice as a substitute for the protection afforded by the existing machinery. In return for a transference of power they would require adequate safeguards to ensure that the 1961 constitution would provide the means of making that unimpeded progress to majority rule which was one of the five principles on which the United Kingdom Government were bound to insist. Moreover, ordinary changes in the constitution (as distinct from any amendment of the entrenched clauses) would in their opinion require adequate safeguards after independence; and it was in this context that he had suggested a blocking third. But on this point, the Rhodesian Government had felt unable to agree.

2. In addition, there was the difficult question of racial discrimination. In one sense only full adult suffrage would solve that problem; in its absence it was essential to be able to point not only to adequate constitutional safeguards but also to some dramatic forward move in relation to e.g. the Land Apportionment Act. But the Rhodesian Government had felt unable to make any significant concession on this point.
THE PRIME MINISTER said that there were serious differences of view. The whole of the United Kingdom's record of de-colonisation illustrated and confirmed their insistence on majority rule as a condition of independence. In interpreting this, in the case of Rhodesia, as reasonably speedy progress towards majority rule they had already made a major concession to the Rhodesian Government, and they could have little hope of satisfying public opinion, not only in the House of Commons but also in the rest of the Commonwealth and in many foreign countries, unless they could demonstrate that the final settlement was consistent with the five principles in which they had sought to summarise the basic conditions of Rhodesian independence. It would be difficult enough to justify these principles to world opinion; but it should not be impossible to present them convincingly, provided that they were fully observed. How did we now stand in this respect? For example, the first principle required that "The principle and intention of unimpeded progress to majority rule, already enshrined in the 1961 constitution, would have to be maintained and guaranteed". But how far ahead, in the opinion of the Rhodesian Government, did majority rule lie? And how long would it be before it was achieved?

MR. SMITH replied that the principle of progress towards majority rule was indeed enshrined in the 1961 constitution. The Rhodesian Government accepted this and did not wish to detract from it. But, if the Africans continued to boycott the constitution, it was impossible to say how long it would be before the principle was realised. Indeed, he was bound to say, speaking frankly, that this would be a lengthy process; it was something which it would be dangerous to rush. Nevertheless, if the Africans would embrace the opportunities which the 1961 constitution offered them, they would ultimately achieve majority rule.

THE PRIME MINISTER said that if the Africans did co-operate in working the constitution, the rate of their political advance would presumably depend on the speed of their progress in acquiring the necessary educational and economic qualifications. Could Mr. Smith predict how quickly the educational and economic betterment of the Africans would yield majority rule?

MR. SMITH replied that several estimates on this point had been made, varying from fifteen to fifty years. No one could be dogmatic. He was not prepared to hazard an opinion. The Rhodesian Government would think it wrong to accelerate the educational advance of the Africans simply in order to improve their political status in the community. The question of their economic position was a different matter.
THE MINISTER OF STATE enquired about the facilities for the secondary education of Africans.

MR. SMITH replied that there was no problem here; indeed, there were more vacancies in African secondary schools than in their European counterparts.

MR. WRAMHALL added that it was untrue that the Rhodesian Treasury provided less finance for African than for European secondary education. It might not be possible to give either all that it asked for; but, insofar as abatements had to be made, there was no question of cutting the African provision more severely than the European.

THE PRIME MINISTER said that it appeared to be clear that, on the basis of the 1961 constitution, the rate of African educational advance at present envisaged by the Rhodesian Government would not yield majority rule within the next few years.

MR. SMITH agreed; indeed, the Rhodesian Government would oppose any deliberate acceleration for this purpose.

MR. HARPER added that it was European enterprise which basically financed African education; and the type of constitutional change which would alarm the former would therefore harm the latter.

THE PRIME MINISTER said that, if this was so and if the same considerations applied as regards the economic qualifications which an African must acquire before being entitled to the vote, would the Rhodesian Government consider adopting a more direct route towards majority rule by means of a simple widening of the franchise?

MR. SMITH rejected this suggestion because it would imply reverting to the position which had obtained a few years ago when European sentiment had become thoroughly alarmed and Europeans had begun to leave the country in significant numbers. He must make it clear that the Government Party in Rhodesia did not believe in majority rule. They accepted that the 1961 constitution would eventually bring it about; but they would not take any action to hasten this process. The criterion of fitness for majority rule must be a criterion of merit, i.e. a criterion in terms of those standards of civilized behaviour which other independent African countries were not succeeding in observing.
THE PRIME MINISTER observed that the Rhodesian Government must not suppose that the United Kingdom Government were not as concerned to safeguard the Europeans as much as the Africans. But how did we stand as regards the second principle, namely that "There would also have to be guarantees against retrogressive amendment of the constitution?"

MR. SMITH said that, as regards the entrenched clauses, the provision whereby an amendment could be approved by The Queen on the advice of the United Kingdom Government would, of course, lapse on independence. The alternative - i.e. amendment by referenda of all four races - was a clumsy procedure and was open to the further objection that it involved a highly invidious process of assigning individuals to different racial groups. Moreover, all four groups must vote in favour of any amendment; but, given the racial distribution within Rhodesia, this implied that 1 per cent of the population (e.g. the Asian group) could block an amendment which the other 99 per cent might regard as desirable. It was for these reasons that the Rhodesian Government had put forward the alternative suggestion of a Senate.

THE PRIME MINISTER asked whether the Senate was envisaged as voting separately from the Legislature and, therefore, as exercising in some sense a veto.

MR. SMITH replied that it would be preferable that both Houses should vote together and that a two-thirds majority should be required for an amendment. The Senate of 12 Africans, together with the 15 African 'B' Roll members, would total 27, i.e. an effective blocking third.

THE PRIME MINISTER asked whether the African members of the Senate would be elected.

MR. SMITH said that they would not. They would be Chiefs, appointed in accordance with the tribal system.

THE PRIME MINISTER observed that, in that case, it could not be said that there would be any democratically elected block to prevent retrogressive amendment of the entrenched clauses. This was not something which the United Kingdom Government could justify either to the House of Commons or to international opinion.
MR. LARDNER-BURKE said that the Rhodesian Government had reached their conclusion about the size and composition of the proposed Senate after a very comprehensive review of Second Chambers, which they had carried out with the help of the Commonwealth Relations Office Legal Adviser. It had become clear that the functions to be exercised by the Senate would be relatively limited, partly because the constitution already provided a safeguard for normal constitutional amendments (by means of the two-thirds majority procedure) and partly because the Constitutional Council would remain as an active element in the constitution. It followed that the only function of the Senate would be to provide, with the 'B' Roll members, a blocking safeguard against retrogressive amendment of the entrenched clauses; and for this purpose a Senate of 12 Africans appeared sufficient.

THE COMMONWEALTH SECRETARY said that the British Government considered the entrenched clauses to be protected by the referenda of the four racial groups. They wanted the blocking third as an additional protection for other clauses.

THE PRIME MINISTER said that, if the Senate was envisaged as a balancing factor in relation to the Lower House, the extent to which the latter was itself democratically elected was very relevant. He appreciated the difficulties which the Rhodesian Government saw in the referendum procedure. But, if some other form of safeguard was to be substituted for it, everything would depend on the method by which the individuals who would constitute the blocking factor were selected.

THE LORD CHANCELLOR added that it would be impossible for the United Kingdom Government to accept for this purpose individuals who, like the Chiefs, were not elected but were paid servants of the Rhodesian Government. Why could not the Rhodesian Government accept, for ordinary constitutional amendments, a simple blocking third in the form of 26 'B' Roll seats - as they had appeared ready to during the visit which he and the Commonwealth Secretary had paid to Rhodesia earlier in the year?
MR. SMITH replied by pointing out that the existing constitution already required a two-thirds majority for ordinary constitutional amendments.

THE LORD CHANCELLOR agreed but emphasised that Rhodesia was not yet independent.

MR. SMITH asked why the United Kingdom Government could not accept a blocking quarter.

THE LORD CHANCELLOR said that the reason was that there must surely be some increase in African representation.

MR. SMITH said that that was a different question. The Africans had already rejected the opportunities of representation which the existing constitution provided; and there was therefore no ground for enlarging these opportunities.

THE PRIME MINISTER asked whether the Rhodesian Government would change their view if the Africans were disposed to co-operate in working the 1961 constitution.

MR. SMITH said that the Africans would first have to prove that they were ready to do so; and this could only happen after independence when they had been given a chance.

THE PRIME MINISTER said that he could see some merit in the concept of a Senate; but it must be more elective in character.

MR. SMITH replied that, if so, it was for the United Kingdom Government to show how this was to be achieved.
THE PRIME MINISTER repeated that the Senate must be capable of being regarded as one element in a blocking safeguard which was essentially elective in character.

THE MINISTER OF STATE added that what was at issue was something which would replace the referendum. It must therefore be something which was at least as "strong" as the referendum itself.

MR. HARPER replied that the referendum was too cumbersome a procedure. The alternative must be something which essentially provided a basis of reasoned discussion among informed people and did not put at the mercy of political considerations changes in the constitution which might, on merits be desirable.

THE PRIME MINISTER observed that the concept of the Senate was an ingenious one; but, if it was to go forward at all, the Senate would have to be elected on something like the "B" Roll. He suggested that discussion should next turn to the third principle, namely that "There would have to be immediate improvement in the political status of the African population".

MR. SMITH said that the implementation of this principle depended on whether the Africans would take advantage of the opportunities already provided by the 1961 constitution. It was impossible to go further without a lowering of the franchise - although the Rhodesian Government would be prepared to put the "B" Roll virtually on the basis of "one man, one vote" by adding nearly a million Africans to the Roll.

THE PRIME MINISTER pointed out that this would not give the Africans any more seats in the Legislature.

MR. SMITH said that, nevertheless, cross-voting, which the Rhodesian Government were no longer pressing to eliminate, would allow the increased "B" Roll element to influence "A" Roll voting, at least in marginal cases.

THE MINISTER OF STATE pointed out that the second and third principles should be considered together, in the sense that, if the Rhodesian Government were prepared both to envisage an increased number of African seats in the Legislature and to constitute the proposed Senate from elected Africans, the result would not merely be improved safeguards against retrogressive amendment of the constitution but also an increase in African representation as well.

MR. SMITH replied that the Rhodesian Government had considered these issues very carefully but could make no further concessions.
THE COMMONWEALTH SECRETARY pointed out that the United Kingdom Government were prepared to contemplate the grant of independence before majority rule was actually achieved. This was a very major concession. Would not the Rhodesian Government make some parallel gesture?

MR. HARPER said that the United Kingdom concession was not new. It had been made not by the present Government but by their Conservative predecessors.

THE PRIME MINISTER replied that this might be so; nevertheless, it was the present Government who would have to meet the domestic and international criticism if they conceded independence to Rhodesia on an indefensible basis.

He suggested that they should now consider the fourth principle, i.e. that "There would have to be progress towards ending racial discrimination". In this context the future of the Land Apportionment Act was clearly a critical issue.

MR. SMITH said that, as regards this Act, things were moving continuously. Already 5 million acres of land which had formerly been European had been made available to the Africans; but only a small part had as yet been taken up by Africans. The Act was of value in protecting the Africans from exploitation. Africans were grateful for this, and its repeal would harm them more than the Europeans. As regards racial discrimination in the towns, the Rhodesian Government were presently considering several multi-racial areas. It was significant that the objection in one case had been made by a Coloured Rhodesian, not a European; nevertheless, the Government intended to go ahead.

THE COMMONWEALTH SECRETARY said that the Land Apportionment Act had been criticised by the Constitutional Council. Could not the Rhodesian Government at least admit publicly that its repeal was desirable in principle?

MR. SMITH replied that they had already said that they would be ready to consider withdrawing certain parts of it as and when it seemed desirable to do so.

THE MINISTER OF STATE asked whether more could be done to open Salisbury to the Africans?

MR. SMITH replied that the Rhodesian Government were currently examining whether that part of the Salisbury trading area which was adjacent to the Kopje could be made a multi-racial area.
THE COMMONWEALTH SECRETARY asked whether the attitude of the Rhodesian Government in relation to e.g. the University, the Medical School, the private schools, etc. was defensible in terms of progress towards a multi-racial society.

MR. SMITH said that, as regards the schools, it had been brought to notice that they had been breaking the law in admitting African pupils without the permission of the Minister. The Government were now considering the position; and, in any event, there was evidence that this type of change made for a worsening of racial relations rather than for their improvement.

MR. HARPER added that it was up to those who wanted multi-racial education to provide it; nothing would be done to prevent them. But it was unreasonable that existing private schools for one race should be turned into multi-racial schools without the consent of the parents concerned.

MR. LARDKER-BURKE said the Rhodesian Government had just approved the creation of a multi-racial teachers' training college, run by a group of missions in Bulawayo.

THE PRIME MINISTER said that, even so, the Rhodesian Government's attitude seemed to raise the same issues as those which had just been fought out in Alabama.

MR. SMITH replied that the circumstances were not the same. There were greater differences between European and African standards in Rhodesia than in the United States.

THE PRIME MINISTER said that, if so, this might perhaps be thought to be a reflection on the extent to which Rhodesian Governments had provided facilities for African education.

MR. SMITH replied that the Europeans had been in North America at least six times as long as they had been in Rhodesia. Even so, the standard of African education in Rhodesia was higher than in many other African countries.

THE PRIME MINISTER said that the United Kingdom had nevertheless felt justified in granting independence to those other African countries.

MR. SMITH replied that the consequences spoke for themselves. Tanzania was now little more than a Chinese puppet.
MR. LARDNER-BURKE asked whether, if the Rhodesian Government repealed the Land Apportionment Act, the United Kingdom Government would agree that they should also throw open the Tribal Trust Areas which had been entrenched in the 1961 constitution?

THE COMMONWEALTH SECRETARY said that what mattered was that the general impression of racial discrimination within Rhodesia must be removed by some positive signs which would convince international opinion that discrimination was really being progressively reduced.

THE PRIME MINISTER said that there remained the fifth principle, namely that "The British Government would need to be satisfied that any basis proposed for independence was acceptable to the people of Rhodesia as a whole". The Conservative Government had felt unable to accept the concept of an indaba, which Mr. Smith had proposed in September, 1961; and that concept was equally unacceptable to the present Government of the United Kingdom. Could the Rhodesian Government offer an alternative?

MR. SMITH suggested that it was necessary to settle the first four principles before dealing with the fifth, i.e. to decide the content of the proposals to be submitted to the people of Rhodesia before deciding how they should be consulted. Nevertheless, the Rhodesian Government continued to think that the proposals which they had made in 1964 were adequate; and there was some reason to believe that the Conservative Government would have accepted them if the Rhodesian Government had felt able to enlarge the scope of consultation to include not only the Chiefs and Headmen but also the Kraal heads of whom there were 30,000 — a step which, on further consideration, they had felt unable to take on the grounds that it would tend to undermine the authority of the Chiefs themselves. What alternative could the United Kingdom Government suggest?

THE PRIME MINISTER asked why the referendum procedure in the constitution should not be used? If a referendum had been regarded, in the context of the 1961 constitution, as essential for the amendment of one entrenched clause, it was a little difficult to see why anything less should be thought to be adequate to ascertain the wishes of the people as regards the constitution as a whole.

MR. SMITH replied that the reason was simply that, as he had already pointed out, 1 per cent of the population could nullify a referendum. In addition, he must repeat that it was an extremely cumbersome process to implement; and the assignment of individuals to their racial groups was a most invidious business.
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MR. HARPER added that the fact that the 1961 constitution had incorporated the concept of an appeal to The Queen as an alternative to a referendum was a tacit admission of the defects of the referendum procedure. It had had to be embodied in the constitution for political reasons; but the alternative of an appeal to The Queen had also had to be included, since everyone had known that a referendum was in fact unworkable.

THE PRIME MINISTER said that, although a referendum might be difficult to work, it could not be literally unworkable since it had been accepted elsewhere in Africa in relation to constitutional advance and the same principle would shortly be put into effect in the case of the changes in the constitution of Mauritius. How could the United Kingdom Government justify conceding independence to Rhodesia on the basis not only of a constitution which was less liberal than other independence constitutions but also of a means of verifying its acceptability which was less liberal than the methods adopted in other cases?

MR. HARPER said that it must not be forgotten that all the citizens of Rhodesia were members of one community; and the fact that only some of them enjoyed the vote did not detract from this basic principle of unity, which was exemplified by a common voters' roll. Allowance had to be made for two distinct standards in Rhodesia.

THE PRIME MINISTER replied that it remained true that only some of them had the vote.

MR. HARPER said that the reason for this was simply that the Africans were not as advanced as the Europeans. But the Rhodesian Government were making great efforts to improve the status of Africans.

THE PRIME MINISTER said that this merely meant that, although the country was alleged to be ready for independence, it was apparently not ready for democracy.

MR. SMITH replied that the United Kingdom did not have full democracy until the twentieth century; and by that time education was universal.

THE MINISTER OF STATE asked whether, if some 1 million Africans were added to the 'B' Roll, and 'A' and 'B' Rolls together might provide the basis of a referendum?

MR. SMITH said that he could not accept this proposal. The simple choice between two candidates, which was all that a voter had to exercise in an ordinary election, was one thing; and it was something which was within the compass of the average African. The decision on the complex issues of an independence constitution was a very different thing; it involved sophisticated judgments which the ordinary African could not comprehend.
THE PRIME MINISTER said that, nevertheless, the ordinary African could surely say 'yes' or 'no'.

MR. SMITH replied that the ordinary African simply would not understand what he was being asked to decide. This fact had been tacitly recognised in the 1961 constitution, when the vote had been granted to the Chiefs but not to the other Africans.

THE PRIME MINISTER said that the United Kingdom Government could not accept this view. It was now clear, therefore, that the two sides were very far apart on all five principles. Only the concept of a Senate offered some possibility of advance, although even here there was still a great gulf between the opposing views.

MR. HARPER said that the United Kingdom Government must remember that the 1961 constitution gave the Rhodesian Government powers in relation to those elements in the population about whom United Kingdom opinion was now exercised. The Rhodesian Government already had those powers; and the final step of conceding sovereign independence would not really make so very much difference as regards the realities of political and constitutional advance within Rhodesia.

MR. SMITH added that the United Kingdom Government's effective decision could be argued to have been taken even earlier - in 1923, when they gave Southern Rhodesia the option (on the basis of the European vote alone) of becoming a self-governing Colony or joining an independent South Africa. But what was to be done now?

THE PRIME MINISTER replied that the position was now very critical - and its implications extended far beyond Rhodesia itself. He suggested that both sides should reflect on the exchanges of the day and resume the discussion tomorrow.

MR. SMITH said that he did not object but he would like to have the United Kingdom Government's considered views and their proposals on how the situation should be resolved. It was clear that the two Governments were drifting apart rather than narrowing the gap between them; and there was no advantage in any further delay. The Rhodesian Government had learnt this lesson as a result of the Victoria Falls Conference; if they had refused to attend that Conference, they would have had their independence by now.

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THE PRIME MINISTER agreed that we should avoid any unnecessary delay. Nevertheless, it would be wise for both sides to reflect on their positions before they considered what their respective attitudes should be if it proved impossible to reach agreement.

It was agreed that the discussion should be resumed at 2.30 p.m. on Friday, 8th October, 1965.

London, S.W.1,

October, 1965.
AGREED NOTE of a Meeting held at 10, Downing Street, S.W.1., at 2.30 p.m. on FRIDAY, 8th OCTOBER, 1965

PRESENT

The Prime Minister
The Lord Chancellor
The Secretary of State for Commonwealth Relations
The Minister of State for Commonwealth Relations
Sir Burke Trend
Mr. P. Rogers
Mr. K.J. Heale

The Prime Minister, The Hon. I.D. Smith,
Prime Minister of Southern Rhodesia
The Lord Chancellor, The Hon. W.J. Harper,
Minister of Internal Affairs
The Secretary of State for Commonwealth Relations,
The Hon. D. Lardner-Burke,
Minister of Justice
The Minister of State for Commonwealth Relations,
The Hon. J.J. Wrathall,
Minister of Finance
Sir Burke Trend
Mr. G.B. Clarke,
Secretary to the Cabinet

THE PRIME MINISTER opened the discussion by saying that there had, in his view, been at the previous meeting a very clear examination by both sides of the five principles. He wondered if, after further reflection Rhodesian Ministers had anything to add.

MR. SMITH said that he had been disturbed to read in the British Press reports which suggested that the Rhodesians were to blame for refusing to meet the British Government on any of the five principles. This was a distortion of the facts.

THE PRIME MINISTER said that Press briefing on the British side had not gone further than an admission that the discussions had been cordial and frank but that the two sides were very far apart.

MR. SMITH said that he had not much to add about the substance of the discussions. The Rhodesian Ministers had made most of the running and he thought that their position was clear. He had hoped that, as a result of the adjournment, the Prime Minister for his part would be able to clarify his own position.
THE PRIME MINISTER said that the United Kingdom Government had made their position clear. They had spoken frankly on each of the five principles; and on each the gap was still very wide. He had said, in summing up on the previous day that a basis had not been found on which the United Kingdom Government could recommend Parliament to grant independence to Rhodesia. He had felt that the distance between the two sides might be a little less on the third principle (about racial discrimination) than on the others, since, although there was apparently no question of the repeal of the Land Apportionment Act, Mr. Smith had indicated certain proposals which might offer the prospect of some progress. His impression, therefore, was that disagreement on this point was not as absolute as on the others, where the differences were very wide indeed.

There was clearly no early prospect of majority rule; and, in so far as the matter lay in the Rhodesian Government's hands, there was no intention to do anything to accelerate the education of the Africans for this purpose. Rhodesia might be pressing on with education for Africans generally; but this was not for political reasons but in recognition of the intrinsic desirability of education. The United Kingdom Government could not countenance a transfer of sovereignty on the basis of so slender a guarantee of early majority rule. So far as safeguards were concerned, the concept of the Senate was the result of a good deal of thought and reflection; but it did not incorporate the principle of a blocking safeguard constituted from elected representatives of the majority race. In order to satisfy this requirement all 12 members of the Senate would have to be elected.

Without that guarantee the safeguard would be inadequate; and even on that basis it would be difficult to justify to the House of Commons and international opinion, including the rest of the Commonwealth (which did not mean, in this context, only the African members). At the recent Commonwealth Prime Ministers' Meeting there had been a long and serious discussion on this problem. The views expressed had been strongly and sincerely felt; and he had been pressed very hard by all members of the Commonwealth.
On the question of the political status of Africans the Rhodesian proposals were, again, insufficient. The suggestion which the Rhodesian Ministers had put forward for a considerable expansion of the 'B' Roll was helpful; but it was not decisive and would not provide any more seats for Africans. As regards the fifth principle it had to be recognised that what was in question was legislation to provide for independence which would not be on the basis of immediate majority rule. This made it all the more essential that the people of Rhodesia as a whole should be completely free to say whether they were content with the proposed basis of independence. In every case in which independence had been granted in recent years the views of the population as a whole had been ascertained on clearly-stated terms of independence; and in every case this had been on the basis of majority rule. When, in the unique case of Rhodesia, there was a proposition that independence should be granted before majority rule was achieved it was doubly necessary that the method employed should extend beyond the existing electorate, even if enlarged by the addition of one million African taxpayers to the 'B' Roll as had been suggested by Mr. Smith. But he had understood from Mr. Smith that it would be unacceptable even to extend the franchise as far as that for the purposes of a referendum. He did not believe that any British Government could recommend independence on the basis of the methods so far suggested. That, in summary, was the position as he saw it. THE COMMONWEALTH SECRETARY and THE LORD CHANCELLOR indicated their agreement with the Prime Minister's summing up of the position.

MR. SMITH remarked that what the Prime Minister had said might be accurate in terms of a purely academic appreciation of the position; but the Rhodesians had to be practical and realistic. They looked at the countries to the north which had received their independence; and they saw that there was now no such thing as democracy. In Tanzania there had been only one candidate for President and only one political Party at the recent election. In Zambia, where the United Kingdom Government had thought that they had provided for the protection of European interests by the provision of 'reserved' seats for Europeans, those were now being called in question. Rhodesians were living cheek by jowl with situations of this kind. He understood the British Government's difficulties and problems; but, from what the Prime Minister had said, the two sides were further apart than ever. They now had to face up to the practical consequences of what lay before them. He felt that the United Kingdom Government were now not ready to go even as far as their predecessors had gone.

THE PRIME MINISTER replied that this was not so. The previous Government had never accepted the method of consulting the population of Rhodesia as a whole which the Rhodesian Ministers had proposed.
THE COMMONWEALTH SECRETARY said that, as regards the one method which had been suggested, namely the Indaba of Chiefs, and Headmen, the previous Government had said "no" and so had the present Administration.

MR. SMITH replied that at any rate the two sides were clearly as far apart as ever. When he and his colleagues returned to Rhodesia they could do nothing but face up to what they considered the only alternative. The question, therefore, was how this could be implemented in a way which would cause the least trouble to both parties.

THE PRIME MINISTER said it would be tragic if an irrevocable decision was taken without full realisation of all the facts. So many tragedies in world history had been caused by a failure fully to appreciate in advance the possible consequences of particular courses of action.

MR. SMITH said that his Government were not unmindful of the implications for Rhodesia. It was unnecessary to rehearse them again or to embark on an argument about which side could do more harm to the other. He was anxious to avoid bitterness.

THE PRIME MINISTER agreed that there was no need to exchange threats and that he need not go in detail through all the statements which had been made by the United Kingdom Government; but it was essential that the Rhodesian Government should realise that they had been made not merely for the record but in all seriousness. Last October's statement still represented, clearly and categorically, the position of the United Kingdom Government. But it was not merely a question of the action which the United Kingdom Government might take in circumstances in which a Rhodesian Government was purporting to rule without legal authority; it was also a question of the consequences in a wider international context, which the United Kingdom Government might be powerless to prevent. These might be far graver than anyone realised. The United Kingdom Government had maintained in the United Nations that they were responsible for Rhodesia (despite the fact that the country had had internal self-government since 1923); but, if the Rhodesian Government took action which implied that they were purporting to govern the country illegally, there was no saying what other Governments and the United Nations might do, regardless of the
United Kingdom attitude. The Rhodesian Government might set relatively little store by the United Nations; but they must reckon with the fact that, in the present state of feeling, that Organisation might take immediate action, which might not be confined to economic measures. The United Kingdom Government had their own views as regards the admissibility of the use of military force by the United Nations. Nevertheless this possibility could not be ruled out; nor would it necessarily be merely a matter of the Afro/Asian reaction. In that event other countries might also become involved. Efforts might, and no doubt would, be made to prevent this from happening. But we could not be sure that these would succeed, however much we might deplore it. He begged Mr. Smith to consider the situation which might develop if pressures for military action proved irresistible. Mr. Smith had no doubt formed his own assessment of what might happen in Rhodesia. He had seen Mr. Smith's television broadcast on the previous evening; but he had also seen the Lord Chancellor's broadcast, in the course of which the Africans taking part had said that they would fight. No doubt Mr. Smith had considered this possibility; but such action might eventually set the whole of southern Africa, and even a wider area, ablaze. The Rhodesian Government might not desire this; but there might be no means of preventing it. Moreover, the passions which might be aroused might imperil the position of Europeans in other African countries. The British people had kith and kin in those countries; and the terrible things which might happen to them in a situation which might become one of genocidal strife were a matter of very grave concern. The United Kingdom Government would be bound to throw their whole weight against anybody who provoked a situation of this kind. This was not merely his view; all his colleagues shared it strongly. It was a dangerous illusion to think that the situation could be contained within the borders of Rhodesia, whether or not there was violence in the country itself. Mr. Smith had perhaps been right in saying that the United Kingdom Government were remote from realities of the position in Rhodesia; but perhaps the Rhodesian Government themselves were not as closely in touch with international opinion as the United Kingdom. They did not seem to realise the irresistible passions
which might be aroused, whether as the result of what might be described as an orderly intervention by the United Nations or otherwise. The Rhodesian Government had no doubt considered the position in which they would find themselves if they were denied recognition by some ninety nations; but had they considered the more indefinable consequences if wide areas of Africa were opened up to conflict? The situation in the Congo had been dangerous; but at least the United Nations had been able to prevent the country from becoming a cockpit for the major Powers. But would this be true a second time? Mr. Smith would be aware of the determined attempts being made by China to penetrate Africa. It had been realised at the Commonwealth Prime Ministers' Meeting that a great struggle was in progress between the Soviet Union and China for influence in Africa. Both these countries would be under strong temptation to intervene in Rhodesia with incalculable consequences. Here lay a great danger — almost, perhaps, a probability. He feared a terrible conflict and bloodshed. And, however much we might hope to prevent it, there could be no guarantee that we should succeed. He apologised for having to speak so frankly; but it was better to speak now than to wish later that he had.

MR. SMITH said that he was grateful to the Prime Minister for being so frank; and he appreciated the Prime Minister's concern for Rhodesia. The Rhodesian Government had, of course, considered every aspect of the situation, even if the worst should happen; but they had concluded that there was no other alternative for them. Their country and their lives were at stake. If Britain had considered all that might happen to her in 1939, she might not have gone to war. Rhodesia might be relatively insignificant; but the issues were just as important for her people. If they did not obtain independence, they would have to leave Rhodesia. They would rather fight it out than go voluntarily. The consequences to which the Prime Minister had referred might, or might not, happen. The Rhodesian Government would take the chance. They had analysed the situation over and over again and always reached the same answer. It was quite simple; they had no option.

THE PRIME MINISTER remarked that, when Britain had decided to fight in 1939, and to fight on alone in 1940, she had not been without friends and the whole of the rest of the world had not been against her. This was the difference from the Rhodesian situation. They would find that they were opposed not only by those who disagreed with them but by friendly countries, including members of the old Commonwealth, who would be in sympathy with them in many other respects.
MR. LARDNER-BURKE said that surely the consequences which the Prime Minister had described would stem from the action taken by the United Kingdom; it would be the United Kingdom whose lead would be followed. If the United Kingdom did not take action of the kind in question, the adverse reactions would be unlikely.

THE PRIME MINISTER said he did not agree. Even if we were to take no action of the kind which we nevertheless thought it inevitable that we should have to take, he feared that others would and that the demands for some form of sanctions would be overwhelming. We were on record against the use of economic sanctions by the United Nations in the case of South Africa; but this situation would be regarded differently in the United Nations. Proposals for military intervention might become equally irresistible, regardless of the United Kingdom's attitude. He was in close personal touch with the Foreign Secretary, who was now in New York and had formed his own estimate of the feeling in the United Nations.

MR. SMITH said that, if it were proved that any such action by the United Nations would do more harm to Africans than to Europeans, logic and commonsense would surely prevail. THE PRIME MINISTER said that it was not a question of logical proof. However eloquently the case was argued or however strong the evidence, the sovereign nations who were the members of the United Nations would take their own decisions. They would take the same view as the Europeans in Rhodesia in the sense that they would regard it as a choice between two evils. He asked Mr. Smith to consider the possible effect on Europeans in Africa outside Rhodesia, whatever might, or might not, happen in Rhodesia itself. He hoped he was wrong but he feared that there might be many innocent victims.

MR. LARDNER-BURKE said that the right way to look at the problem was to maintain that the time for action against Rhodesia would come only if, and when, retrogressive laws were actually enacted. Such action should not be taken on the mere assumption that this would happen. MR. SMITH added that the Rhodesian people were being denied independence because the United Kingdom Government thought that they might adopt policies harmful to the Africans, not because they had actually taken such steps. Would it not therefore be logical to reserve action against Rhodesia until some damage was in fact done to African interests? He believed that the action of the United Kingdom would give a lead to the rest of the world. It must be obvious that, if pressure were brought to bear on the Rhodesian Government, they might have to do unpleasant things. If economic measures created a recession, they would first get rid of the half million alien Africans in the country. In such circumstances Europeans could pull in their belts; but Africans would lose their livelihood and might even be without food. External opinion should consider these harmful effects which might follow action against Rhodesia. He wondered whether the United Kingdom Government had asked themselves whether what they were proposing to do was right.
THE PRIME MINISTER said that action by the United Kingdom would be dictated by the fact that the Rhodesian Government would have seized power illegally. But the United Kingdom could not control what action might be taken by others, including the United Nations. Indeed, if the United Kingdom did not react the rest of the world would probably react more strongly. The situation would be explosive; and the results would not depend on United Kingdom action. If there was violence in Rhodesia, it would spread. Measures taken to suppress violence in Rhodesia might themselves trigger off external action against Rhodesia.

MR. SMITH said that there would be no violence. There might be other problems; but there would be no violence.

MR. HARPER said that, basically, both sides were facing the same difficulty in relation to one course of action or another. People wanted to protect themselves in advance against something which they thought might happen. But it was wrong to try to meet a problem before it had arisen. If Rhodesia failed to fulfill its promises the position would be different. Given independence, the checks and balances within Rhodesia would ensure that the Rhodesian people would behave well. It was wrong to assume in advance that they would not and so prejudge the issue.

THE PRIME MINISTER replied that, even if this view were accepted, what was at issue was not what people's motives were, but what action they would take. On Mr. Harper's argument it could equally well be maintained that the actions of the Rhodesian Government were dictated not by any current threat to the Rhodesian way of life but by their belief that such a threat might arise in the future. Similarly, other nations would take action, even if only as a result of fears which the Rhodesian Government believed to be ill-founded. Events might then evolve in ways beyond the capacity of either side to control; and the repercussions might extend even beyond Southern Africa.

MR. HARPER said that the Rhodesian Government were seeking independence because of the increasing pressures on the economy. Development and further investment in Rhodesia would be withheld until independence was granted.

THE LORD CHANCELLOR replied that the reason why further investment was not taking place now was because of the threat of a unilateral declaration of independence.
MR. SMITH said that, so far from the threat of independence constituting a deterrent to investment, the facts were that since his Party came to power three years before and began to campaign for independence, investment had substantially increased, even though it was still insufficient.

THE LORD CHANCELLOR replied that investment might have increased when there was a prospect of independence on an agreed basis but that the uncertainty which would inevitably arise from any unilateral declaration would deter investors.

THE PRIME MINISTER added that the City of London were historically friends of Rhodesia but unsettled conditions would not reassure them.

MR. SMITH said the rate of expansion in Rhodesia was still not adequate for the expanding population. The more his Government had pressed the case for independence, the more business confidence had increased. Rhodesia had great resources and the Rhodesian Government had evidence that substantial capital would flow to the country when investors were certain of the future. Many who were deterred from establishing themselves in Rhodesia at present would come after independence.

Moreover, independence was needed not only for economic reasons but also for political reasons. There would never be unity in Rhodesia until after independence. At present the African Nationalist leaders looked to the United Kingdom, since the Government of the United Kingdom still had some say in Rhodesian affairs. But after independence they would realise that they could not appeal to any external support but must seek a solution with the Government of the country. The present political situation was unhealthy, with some African leaders under restriction; only independence would enable this to be resolved.

THE COMMONWEALTH SECRETARY said that it had been the uncertain future of the Federation of Rhodesia and Nyasaland which had deterred investment in the period before Mr. Smith's Party came to power; similarly business confidence would now be adversely affected by the threat of a unilateral declaration.

MR. SMITH said that his Government had hitherto assumed that independence was the only possible outcome of their negotiations, whether by agreement or by unilateral declaration. Was this correct or did the United Kingdom Government believe that an alternative lay in the maintenance of the status quo?
THE PRIME MINISTER replied that he certainly did not believe that, if
terms could not be immediately agreed for independence, the only other course
of action was a unilateral declaration. He and his colleagues would be
happy to discuss means by which it would be possible to move forward from the
status quo. For example, while the proposals for a Senate put forward by
Mr. Smith were not acceptable in their present form, the United Kingdom
Government would be ready to consider them further, even though the gulf to
be bridged was a wide one. Moreover, they recognised the difficulties with
which the Rhodesian Government were faced as a result of the attitude of
African extremists. The United Kingdom Government, for their part, would do
anything in their power to induce African Nationalist leadership to accept
that their future depended on political co-operation. It might perhaps be
possible to contemplate an arrangement whereby African Nationalists, who were
able to show that they enjoyed popular support, would be brought into the
government in a junior capacity, perhaps as Parliamentary Secretaries and so
obtain over a period experience of the responsibilities of administration.
At the same time there might be a further drive, in which the United Kingdom
Government would be ready to help, to expand African education in its
widest sense; and Africans of a suitable standard of education might
receive special training in administration. The United Kingdom Government
would be ready to seek to persuade other African Governments to provide
similar assistance. By such means as these it might be possible to foster
a genuinely multi-racial approach to political affairs more rapidly than
would be possible on the basis of the operation of the 1961 Constitution on
existing lines. These proposals might seem visionary at present; but it
was no less visionary to contemplate a successful outcome to a unilateral
declaration of independence.

MR. SMITH replied that it would not be possible for the Rhodesian
Government to contemplate an agreement on the terms which the Prime Minister
had suggested. They believed that they had been promised independence on
the basis of the 1961 Constitution; and they had been misled. The only
alternative to independence was that the Europeans would seek to entrench
themselves in their present position. For himself rather than adopt this
alternative, he would probably not remain in public life and might leave
Rhodesia. Those who stayed would be driven to pursue other policies
leading to increasing hostility between the races. A unilateral declaration
of independence would be better than this.
THE PRIME MINISTER asked that Mr. Smith and his colleagues should consider further what he had said and should bear in mind that the views which he had just put forward were those which he had also expressed at the Meeting of Commonwealth Prime Ministers earlier that year. Having regard to the serious consequences which might stem from a unilateral declaration of independence, would it not be preferable, despite the difficulties, to consider calling a Constitutional Conference? While its outcome might not be wholly palatable to Mr. Smith and his Party, neither was it likely to be wholly palatable to those who desired a constitution based on immediate universal suffrage.

MR. SMITH replied that the Rhodesian Government was not prepared to contemplate such a Conference. If Rhodesia could not obtain independence, he would not seek to remain; and there were many like him. He felt that they now had no option but to take their independence; and there might be advantage in discussing how a unilateral declaration might be implemented. If the United Kingdom Government felt bound to take certain action, the Rhodesian Government would have to place themselves in the most favourable possible position to counter it. The extent of their action would depend on the extent of the action taken by the United Kingdom Government; and they were ready to discuss those questions now.

THE PRIME MINISTER replied that it was not possible for the United Kingdom Government to discuss how an illegal act might be carried out.

MR. SMITH said that he had expected such a reply but had felt it right to make the offer.

THE COMMONWEALTH SECRETARY asked whether the Rhodesian Government must finally reject the proposals put forward by the Prime Minister. Was there not some advantage at least in trying this course?

MR. SMITH replied that the Rhodesian Government had given the matter very careful thought and did not now feel able to change their mind.
MR. HARPER said that it must be borne in mind that, just as the United Kingdom Government had their own political and Parliamentary difficulties, so had the Rhodesian Government on their side. If they went too far to meet the United Kingdom view, they would not be able to carry their own Parliament and public opinion with them. It was the Rhodesian Government who had the very much more vital difficulties and should therefore be given the benefit of the doubt. It was their misfortune that they had forfeited earlier opportunities to gain their independence; and, even if they now appeared to be something of an anachronism, it should not be held against them that they could not change their way of life at short notice to adapt themselves to the views and beliefs of other countries.

THE PRIME MINISTER interjected that it was not a matter of his Government being unwilling to face criticism, with which they would, indeed, inevitably be faced both from the Opposition and to some extent from within their own Party. But they were not prepared to face Parliament with proposals which they did not believe to be right.

MR. HARPER said that the proposals which the Rhodesian Ministers had put forward had exceeded the mandate which they had been given in Rhodesia. Yet they had not found that these brought them any closer to the views of the United Kingdom Government. The objections which United Kingdom Ministers had expressed did not derive from their own independent convictions but appeared to have been inherited from the previous Administration.

THE PRIME MINISTER said that he must make it clear that the attitude which the United Kingdom Government had maintained was not a matter of Party politics; nor was it inherited from the Conservative Government. When in opposition his Party had supported the action taken by the previous Administration in respect of Rhodesia at the 1964 Meeting of Commonwealth Prime Ministers; and they adhered to that view now because they believed it to be right.

MR. SMITH said that in these circumstances there was no prospect of agreement and the discussions would have to be broken off. Presumably there should be an agreed communique, which would make this clear.
MR. HARPER said that it must be borne in mind that, just as the United Kingdom Government had their own political and Parliamentary difficulties, so had the Rhodesian Government on their side. If they went too far to meet the United Kingdom view, they would not be able to carry their own Parliament and public opinion with them. It was the Rhodesian Government who had the very much more vital difficulties and should therefore be given the benefit of the doubt. It was their misfortune that they had forfeited earlier opportunities to gain their independence; and, even if they now appeared to be something of an anachronism, it should not be held against them that they could not change their way of life at short notice to adapt themselves to the views and beliefs of other countries.

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MR. SMITH said that in these circumstances there was no prospect of agreement and the discussions would have to be broken off. Presumably there should be an agreed communique, which would make this clear.
THE PRIME MINISTER agreed and suggested that the communique might frankly describe the scope of the discussions and indicate what had been said by each side on the five principles. Beyond that each side would be free to explain publicly the line which they had taken.

MR. SMITH said that a lengthy communique of this kind would take a considerable time to draft; and it would therefore be preferable to confine it to a short statement to the effect that the two Governments had been unable to reconcile their differences on the conditions of independence.

The meeting then adjourned while a communique was drafted. When the meeting reassembled - THE PRIME MINISTER proposed, and MR. SMITH agreed, that it would be preferable to omit the reference in the draft communique to the consideration which had been given to the possibility of a unilateral declaration of independence.

Certain textual amendments were agreed, and the communique was approved in the form annexed to this record.

THE PRIME MINISTER asked whether it was agreed that the discussions would now no longer be regarded as confidential and that each side would henceforward be free to report to Parliament and to the public on the views which had been expressed and to give a full account of the negotiations.

MR. SMITH agreed.

MR. LARDNER-BURKE said that the Rhodesian Government would probably wish to publish as a White Paper the correspondence which had passed between the two Governments since the previous Rhodesian White Paper, which had carried the exchanges to June, 1963.

THE PRIME MINISTER said that, if it were proposed to publish the correspondence which the Rhodesian Government had had with the previous Administration, it would be in accordance with constitutional conventions in the United Kingdom that he should seek the agreement of his predecessors who had been the Prime Ministers of the day. This he would now do.
MR. SMITH proposed that there should be no publication of any record of confidential exchanges during the negotiations, principally his own oral exchanges since February with United Kingdom Ministers through the United Kingdom High Commissioner in Salisbury.

THE PRIME MINISTER agreed that short of any unilateral declaration of independence such records should remain confidential.

In further discussion it was agreed that the White Papers should be confined to the relevant correspondence. It would be preferable that the same correspondence should be published in White Papers in each country and that this should be done simultaneously. There would be consultation between the two Governments to that end. Subject to this understanding, each side would be free to comment publicly on the course of the discussions which had been held during that week, provided there was no attribution of statements to individuals or direct quotation.

THE PRIME MINISTER said that he much regretted the outcome of the discussions; but he wished to thank Mr. Smith and his colleagues for the frankness and courtesy with which they had expressed their views.

MR. SMITH replied that he also was grateful to the Prime Minister and the other United Kingdom Ministers for the frank and straightforward manner in which they had conducted the discussions. He, too, regretted that they had failed in the purpose for which they had come to London.

London, 5.7.4.

October, 1965
AGREED COMUNIQUE

The Prime Minister and the Commonwealth Secretary have held during this week a series of discussions with the Prime Minister and other Ministers of Rhodesia, during which they have examined frankly and thoroughly all aspects of the question of Rhodesia's independence. The British Ministers have described the constitutional principles which the British Government would regard as the essential basis on which they could recommend to Parliament the grant of sovereign independence to Rhodesia; and the Rhodesian Ministers have indicated the reasons for which they feel unable to accept these principles in the measure required by the British Government. Despite intensive discussion, no means have been found of reconciling the opposing views. No further meeting has been arranged.
AGREED NOTE of a Meeting held at 10 Downing Street, S.W.1., on MONDAY, 11th OCTOBER, 1965 at 10.45 a.m.

PRESENT

The Prime Minister
The Hon. I.D. Smith,
Prime Minister of Southern Rhodesia

The Lord Chancellor
The Hon. D. Lardner-Burke,
Minister of Justice

The Secretary of State for Commonwealth Relations
Mr. G.B. Clarke,
Secretary to the Cabinet

Sir Burke Trend
Mr. P. Rogers
Mr. K.J. Neale

THE PRIME MINISTER said that he was anxious to clear up any possible misunderstandings on either side before Mr. Smith and his colleagues returned to Rhodesia. The previous evening he had had discussions with the leaders of the Opposition, from which it emerged that there might be one misunderstanding relating to the fifth of the five principles i.e. the need to satisfy the United Kingdom Government that any basis proposed for independence was acceptable to the people of Rhodesia as a whole. At a previous meeting it had appeared that Mr. Smith was concerned lest a referendum on the basis of four separate electoral rolls would enable a small minority of the population to veto a change; and he had explained that the Rhodesian Government therefore wished to seek an alternative blocking safeguard for the entrenched clauses (i.e. other than the final approval of The Queen, as at present, or what would amount to four separate referenda). The Prime Minister wished to make it clear that the United Kingdom Government had not so far expressed a view on the question of separate referenda and that they did not in fact contemplate what might amount to four separate electoral colleges. They had not pursued the issue in discussion because they recognised that Mr. Smith was in any event opposed to procedure by referendum. But, in case there was a misunderstanding, he wished Mr. Smith and his colleagues to know where the United Kingdom Government stood on this point, namely that, on the whole, they would be inclined to support a single referendum.
MR. SMITH said that he recognised the position of the United Kingdom Government in this matter. It appeared that there might have been some misunderstanding about what he had said to the leaders of the Opposition. He had made it clear to them that he could not accept four separate referenda; but he had never supposed that this was what the United Kingdom Government were proposing. He understood that they believed that a referendum on what would be virtually 'one man one vote' would be appropriate. In their earlier discussions the Prime Minister had referred to the procedure in relation to the grant of independence in the countries to the north of Rhodesia, where the United Kingdom Government had insisted on what amounted to a referendum on the basis of universal suffrage even for the achievement of independence on the basis of majority government. It followed that they must be all the more insistent on a similar safeguard for the achievement of independence on the basis of minority government.

THE PRIME MINISTER said that this procedure was not confined to other countries in Africa but represented the general practice of the United Kingdom in all previously dependent territories when they achieved independence. He wanted to be quite sure that the view of the United Kingdom Government on this issue was fully understood, since in their discussions on a blocking safeguard they had confined themselves to considering the proposal for a Senate.

MR. SMITH replied that he too was concerned that there should be no misunderstandings. He had been completely frank in his talk with the leaders of the Opposition and had made the same points to them as he had made in his discussions with the Government and, subsequently, in his Press Conferences. He recognised the sincerity of the United Kingdom Government's views; but he must nevertheless make it clear that he and his colleagues believed that the United Kingdom Government had moved away from their original position and that the two sides were now further apart than when they started.
THE PRIME MINISTER said that it was not the case that the United Kingdom Government had moved away from their original position; but it was true that they had now been more precise than their predecessors about the way in which the general principles of a settlement should be put into effect.

One further point had emerged from his own discussions with the leaders of the Opposition on the previous evening. This was that there had been some reference, when Mr. Smith saw them, to an alternative way of instituting guarantees against retrogressive amendment of the Constitution, namely that there might be a solemn treaty between the United Kingdom Government and the Rhodesian Government which would be registered with the United Nations, and, perhaps, subject to adjudication by the Privy Council.

MR. SMITH said that he would be prepared to accept such a treaty as an additional guarantee (i.e. additional to the guarantees in the Constitution itself) that the Rhodesian Government would honour the spirit of the 1961 Constitution. They had no intention of going back on this; but it would not be acceptable to them that the treaty should incorporate reservations going further than the Constitution itself. If it were simply to reinforce the Constitution, they would be happy to accept it.

THE PRIME MINISTER enquired whether this was not a new suggestion, which had not previously been put forward in their discussions.

MR. LARDNER-BURKE replied that there might have been some general reference to it in previous discussions with the Commonwealth Secretary, although possibly not in the form of a precise proposal for a treaty. The idea was conceived as a way of meeting the fear of the United Kingdom Government that the Rhodesian Government might, after independence, go back on their undertakings. He had suggested in the earlier discussions that it would be more appropriate that the United Kingdom Government should wait until the Rhodesian Government defaulted on their obligations than that they should try to anticipate misbehaviour of this kind. The concept of the treaty was consistent with this thought.
THE PRIME MINISTER asked what sanctions might be provided in such a treaty.

MR. LARDNER-BURKE replied that these might be whatever the United Kingdom Government wished. For example, it might be the action contemplated in their statements of October, 1964 and April, 1965.

THE PRIME MINISTER said that the action contemplated in those statements was appropriate as the immediate response to an illegal act; but it would not necessarily be appropriate as a sanction for a treaty, where alleged breaches of the treaty some years hence (if referred to the Privy Council) would be a justiciable issue, which could involve a lengthy process of argument.

MR. LARDNER-BURKE replied that, nevertheless, what would be in question would be a legal issue (on which, therefore, the Privy Council could appropriately adjudicate), just as it would be if the Rhodesian Government made a unilateral declaration of independence.

THE LORD CHANCELLOR agreed that the proposal for a treaty might deserve further consideration since it had not previously been put forward in the discussions.

THE PRIME MINISTER said that the only former British territory where the United Kingdom Government had entered into a treaty of guarantee as part of the process of granting independence was Cyprus; and the precedent was not entirely a happy one. Nevertheless, the idea might merit further discussion.

MR. SMITH said that, even so, the treaty would represent a possible means of meeting the difficulties in relation to only one of the United Kingdom Government's five principles. The difficulties in relation to the other four principles would remain.

THE PRIME MINISTER accepted this but said that further examination of the proposal for a treaty might enable progress to be made on at least one of the five points. He enquired whether there were any other issues on which there might be misunderstanding.

MR. SMITH replied that he did not think so.

MR. LARDNER-BURKE said that there was one point relating to the proposal for a Senate which might call for elaboration. He understood that the United Kingdom Government had felt that there was objection to the proposal...
put forward by the Rhodesian Government for the African representation on
the Senate to be selected from the Chiefs, on the score that these Chiefs
were not elected. It might be possible to meet this difficulty by arranging
that a panel of candidates for six of the twelve seats might be nominated by
the Chiefs while a panel of candidates for the remaining six seats might be
put forward by the electoral college for the Constitutional
Council. The actual elections might then be made by the electorate on the
'B' Roll or, perhaps, by the combined electorate on the 'A' and 'B'
Rolls. This procedure would ensure — and this was what mattered — that candidates
for the Senate would be responsible individuals.

THE PRIME MINISTER enquired whether Mr. Lardner-Burke contemplated this
proposal as representing a blocking safeguard but one which would depend
ultimately on the 'B' Roll electorate rather than on nomination by the Chiefs.
The United Kingdom Government were more concerned with questions of substance
then of form and would be prepared to examine this proposal.

MR. LARDNER-BURKE observed that, even if further discussion led to
agreement on this question, it would not remove the difficulties in relation
to the other principles. MR. SMITH added that the proposal was a safeguard
for the entrenched clauses of the Constitution; it would not overcome the
difficulty about the blocking mechanism in relation to normal constitutional
changes. This latter point represented a serious stumbling block and one
which the United Kingdom Government had only introduced at a late stage of
the discussions.

THE COMMONWEALTH SECRETARY said that, in his earlier discussions with
Mr. Smith in the previous February, he had raised the question of a blocking
third for normal constitutional changes and had understood that Mr. Smith
had accepted the principle involved but had suggested that it should be
satisfied by a blocking quarter. MR. LARDNER-BURKE said that the idea of
a blocking quarter had been explored in the discussions; but it was not a
specific offer by Rhodesian Ministers since they had no mandate to present
it as such.

MR. SMITH added that one of the objections put forward by the
Commonwealth Secretary to the proposal had been that the additional seats
should be filled by Chiefs but he understood that this proposal was less
acceptable to the United Kingdom Government than the idea of a Senate.

THE PRIME MINISTER said that in his discussions with leaders of the
Opposition he had mentioned the proposal that a White Paper might be published,
which would include all the relevant recent correspondence between the
United Kingdom and Rhodesian Ministers. Sir Alec Douglas-Home had accepted
this proposal so far as his Administration was concerned; but the Prime Minister had not yet spoken to Mr. Macmillan whose concurrence would have to be obtained in respect of correspondence exchanged during his administration. In considering this question of publication it appeared that the correspondence by itself would not be meaningful unless it was linked by a brief historical narrative summarising developments between successive stages in the correspondence. He proposed, therefore, that the White Paper should include a record of this kind, on the understanding that it would give no indication of the content of the exchanges which might have taken place between one letter and the next but would merely refer to their having taken place.

MR. SMITH agreed that this would be acceptable. He enquired whether the Prime Minister contemplated that the minutes of the current discussions might be published.

THE PRIME MINISTER replied that in certain circumstances (e.g. if there were a unilateral declaration of independence) the United Kingdom Government would feel free to publish them.

MR. SMITH said that he had been disturbed that morning to see a statement in the Press of what the Foreign Secretary had said in New York when he had been asked why Rhodesia wanted independence. Mr. Stewart was reported as having answered that this was because the Rhodesian Government wished to perpetuate white domination. This was an unfortunate and provocative statement. On the contrary, the Rhodesian Government accepted the principle of the 1961 Constitution which ensured an ultimate African majority; and they were willing to agree to safeguards for its continuation.

THE PRIME MINISTER said that, before commenting, he would wish to see the precise text of what the Foreign Secretary had said, since a misquotation or a much abbreviated version of what had been said frequently led to misunderstanding. He accepted that the differences between the United Kingdom and Rhodesian Governments related not to the question whether there should be perpetual minority rule but to the question how quickly minority rule might come to an end. But, if Mr. Smith contemplated - as he had said in public - that minority rule should last for at least as long as his own lifetime, this would amount to a difference of principle rather than of timing and might justify what the Foreign Secretary had said.
MR. SMITH said that he could not accept this view and hoped that the Prime Minister would examine the text of what the Foreign Secretary had said. He agreed, however, that misunderstanding could arise as a result of incorrect quotation by the Press. Indeed, the Rhodesian Government had themselves suffered in this respect in that there had been a Press statement that Mr. Harper, on his return through Johannesburg to Southern Rhodesia, had said that a unilateral declaration of independence was inevitable. In fact, what he had said was that such a declaration was not inevitable.

THE PRIME MINISTER suggested that at least the United Kingdom Press had not given an incorrect impression of what had been said by both sides during the recent discussions.

MR. SMITH agreed that the position was quite clear and that one thing which had emerged from the discussions was that both sides now knew where they stood.

London, S.W.1.,
October, 1965.
Cabinet

Rates Rebates and Rates by Instalments

Memorandum by the Secretary of State for Scotland and
Minister of Housing and Local Government

The Cabinet at their meeting on 5th August, C. C. (65) 45th
Conclusions, Minute 4), authorised the preparation, in advance of a
general measure of rating reform, of a short Bill to provide a measure
of relief to ratepayers with low incomes. It was understood that the
Bill would also provide for the payment of rates by instalments; it
would be a Great Britain measure. We submit the following proposals
for the approval of our colleagues.

Relief to ratepayers with low incomes

2. The aim here would be to improve rates as a tax by reducing
their impact on households with low incomes, rather than to relieve
hardship as such. We have other plans for dealing with hardship, in
particular the Income Guarantee. The purpose of rate rebates is to
bring some immediate relief to the income groups which suffer most
from the regressive character of rating, while we consider our long-
term proposals for making it a fairer tax; and that is our justification
for acting through rating authorities, not through the National
Assistance Board.

3. The scheme, which has been discussed with representatives of
the local authority associations, is designed to take some account of
income and family composition; to give a higher relief for a higher
level of rates; and to leave the rate poundage with some significance
for the beneficiaries of the scheme so that they do not lose their
financial interest in local affairs. On application to the rating
authority - which would administer the scheme - a household would
be entitled to relief if his rate liability exceeded £5 a year and his
income did not exceed £8 a week for a single person, or £10 a week
for a married couple, with an extra 30/- for each dependent child;
the relief would be two-thirds of the amount by which the rates
exceeded £5 a year. There would be provision for marginal relief
to prevent those just outside the scheme being worse off than those
just within it. Since relief would be confined to ratepayers, there
would be no assessment of household income, but it would be assumed
that any non-dependant made a proportionate contribution to the rates.
Thus, if the household consisted of the ratepayer, his wife and another
non-dependant, the non-dependant would be assumed to pay one-third
of the rates. If the household consisted of man, wife, two children
and one non-dependant, the non-dependant would be assumed to pay
one-quarter of the rates.
4. The scheme is admittedly crude, but so is the rating system; households with similar incomes may pay widely different amounts in rates. The aim has been to produce a scheme which is as simple to administer as possible. Since it is a scheme to reduce the impact of rates it does nothing for those who are not ratepayers; and because there is no assessment of household income a retired ratepayer who has earning children living with him will come off better than a household in which one of the children is the ratepayer and his parents are living with him. Such anomalies are inevitable but can be defended in what is an emergency relief measure designed to limit the harshness of rating pending long term reform.

5. Domestic ratepayers getting regular national assistance will continue to receive this rate relief from the Board and so be ineligible for rate rebates paid by the City Treasurer. The Board and the local authorities will need to work out liaison arrangements to avoid double claims when people move in and out of national assistance.

6. The main claimants for relief - those on whom the rates bear most hardly - are those who are above but not greatly above the national assistance limits. In some extreme cases, where rate bills are high and households contain several dependent children, some relief may be obtained with incomes as high as £1,000 a year (about the average for industrial earnings).

7. The local authorities administering the scheme will not be keen to do it. It is a difficult jurisdiction, and it will cost money - in some areas a great deal, in all areas something. Because the proportion of those needing assistance is likely to vary widely from one area to another, it is impossible to leave the cost of rebates to be financed by other ratepayers; the more so as the latter may well be little better off than those qualifying for assistance. In our opinion an Exchequer grant of 75 per cent is the minimum which will make a scheme of this sort workable - the local authorities consider that the Exchequer should meet the whole cost. On the 75 per cent basis the cost to the Exchequer in the first year might be about £35 million, assuming everyone claimed.

8. Though we are reluctant to add to the complexities of the scheme it is for consideration whether we need provide for an appeal against a refusal to grant a rebate; while local authorities would have no discretion in the matter, there is room for disagreement as to the relevant facts - the applicant's income and his household circumstances. It would obviously simplify the administration not to provide any appeal and there is no obvious body to whom an appeal might lie. We should be grateful for our colleagues' views on this.

Payment of rates by instalments

9. We propose that domestic ratepayers should have the right to pay by monthly instalments. Half of all domestic ratepayers pay weekly already through their landlord - private or local authority. This arrangement will stand. But a right to pay weekly direct to the local authority would be administratively very expensive if it were popular and we believe that the monthly provision will be adequate.
10. The local authorities in England and Wales have pointed out that the new poundage is not known soon enough each year to get through all the work of sending out notices of freshly calculated instalments in time for a first payment in April. And they would want March to chase up the laggards. So in practice monthly instalments in England and Wales will mean ten monthly payments and not twelve, which should be sufficient.

11. In Scotland rate poundages are not normally fixed until several months after the beginning of the financial year, and local authorities will have to be empowered, in any year, to fix provisional instalments for the first months of the next. In those circumstances twelve monthly instalments per year will be practicable in Scotland and there would be no advantages in ten.

12. We therefore seek the approval of our colleagues to:

(1) the proposals in this paper for a scheme of rate rebates and a scheme for payment of rates by monthly instalments,

(2) provision for an Exchequer grant of 75 per cent of the cost of rate rebates to the local authorities.

W.R.
R. H. S. C.

Scottish Office, S. W. 1.

11th October, 1965
LEGISLATIVE PROGRAMME, 1965-66

MEMORANDUM BY THE LORD PRESIDENT OF THE COUNCIL

It is necessary at this time of year to review the legislative programme for the coming Session so that we may avoid giving undertakings in The Queen's Speech on the Opening of Parliament which we are unlikely to be able to fulfil. It is also desirable to establish priorities in order to ensure that the resources of Parliamentary Counsel are concentrated on drafting the Bills which we must clearly have early in the Session.

2. The Queen's Speeches Committee (which includes the Ministers on the Future Legislation Committee) has reviewed the programme approved by the Cabinet in July (C.C. (65) 35th Conclusions, Minute 4) together with other Bills which it has since become plainly necessary to add. The original programme with these additions would provide enough legislative business for a Session-and-a-half. We therefore sought to identify those Bills which, however desirable, cannot be given priority, and to arrange the others into groups to be introduced, respectively, before Christmas, in January and later, according to their intrinsic urgency and the progress which has so far been made in their preparation. The classification which the Committee recommend is set out in the Annex.

3. The Committee consider it necessary to relegate to the reserve list Superannuation and Pirate Broadcasting; and to hold back Overseas Aid, Criminal Justice, Children and National Parks. This does not necessarily mean that it may not be possible to introduce one or more of these Bills late in the Session. It does mean that we should get on with other urgent Bills first and accept the risk that the four Bills in question may not be reached. If we cannot get Criminal Justice into the main programme I would hope that we should be able to take some parts of it in the form of separate Bills through the Second Reading Committee procedure.

4. The Committee recommend the addition to the programme of a Colonial Enabling Bill to enable us to confer independence, or a new status short of independence, on a Colonial territory by Order
in Council. We are unlikely to be able to find an opportunity to introduce such a Bill much before Easter, but, although it may initially take more time in the House than individual Independence Bills, we think that it is worth introducing in the present Session in the hope of avoiding at least some of the Independence Bills which we should otherwise have to obtain before the Summer Recess.

5. I ask the Cabinet to approve the priorities indicated in the Annex.

H. B.

Privy Council Office, S.W. 1,
18th October, 1965.
LEGISLATIVE PROGRAMME, 1965-66

1. Bills to be Introduced before Christmas

**LIST A1. ESSENTIAL BILLS**
- Expiring Laws
- Commonwealth Secretariat
- Armed Forces
- Rural Water and Sewerage
- Birmingham Tunnel
- Coal Industry
- Air Corporations
- Slum Clearance (Compensation)
- Building Controls
- Post Office Savings Bank
- Singapore

**LIST B. MAIN PROGRAMME BILLS**
- Land Commission
- Agriculture
- Prices and Incomes Board
- Teachers' Superannuation
- Commonwealth Immigration
- Local Government (Finance) (1)
- Housing (Financial Provisions)
- Housing (Financial Provisions) (Scotland)
- Workmen's Compensation (Old Cases)
- Companies Accounts
- Pensions (Increase)
- Road Safety
- Universities (Scotland)
- Convocations

II. Bills to be Introduced in January

**LIST B**
- Reserve and Auxiliary Forces
- Trade Descriptions
- Nationalised Undertakings (Manufacturing Powers)
- Earnings-Related Benefits

**LIST A1**
- *Oversea Aid*
- Indus Basin Development
- General Practitioner Services
- Public Works Loans
- Railway Finances

* Bill with lowest priority in drafting.
LIST A2. CONTINGENT BILLS WHICH MAY BECOME ESSENTIAL

- Purchase of Aircraft Overseas
- Atlantic Nuclear Force
- Constitution of Canada (Quebec)
- Malawi Republic
- The Gambia Republic
- †British Guiana Independence
- †Basutoland Independence
- †Bechuanaland Independence
- †Barbados Independence

LIST B

- Docks Reorganisation
- Investment Grants
- Leasehold Enfranchisement
- Local Government Finance (2)
- Local Government Finance (Scotland)
- Parliamentary Commissioner
- Colonial Independence (Enabling Powers)
- Ministry of Social Security

* Criminal Justice
* Children
* National Parks

IV. Bills to be Added to the Reserve List

- Superannuation
- Pirate Broadcasting

V. Bills without Priority to be Considered for Second Reading

- Committee
- Theft
- Juries
- †Felony and Misdemeanours
- ‡Small Fines
- Administration of Justice
- Bankruptcy, etc., Fees

* Bills with lowest priority in drafting.
† Unless dealt with under Colonial Independence Enabling Bill.
‡ If not included in Criminal Justice.

SECRET
CABINET

THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

NOTE BY THE LORD PRESIDENT OF THE COUNCIL

I circulate, for the consideration of the Cabinet, the draft of The Queen's Speech on the Prorogation of Parliament.

H. B.

Privy Council Office,
18th October, 1965.
DRAFT SPEECH ON THE PROROGATION OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

My husband and I were glad to welcome to this country the President of Chile and Senora de Frei.

2. We were touched by the warmth of our reception during our State Visit to the Federal Republic of Germany. We also have vivid memories of our friendly welcome in Ethiopia and the Sudan.

3. My Government have continued to work for peace and understanding in international relations. They have striven to promote the stability of South-East Asia, in particular, by seeking a peaceful settlement of the conflict in Vietnam. To this end the Commonwealth Prime Ministers at their Meeting in June appointed a Commonwealth Peace Mission.

4. My Government have taken practical steps to resolve difficulties at the United Nations and to support United Nations peace-keeping and economic and social work.

5. My Government were much concerned at the recent outbreak of hostilities between our two Commonwealth partners, India and Pakistan. They have throughout given full support to the efforts of the United Nations Secretary-General and the Security Council which, aided by the wise statesmanship of the leaders of both countries, have led to the achievement of a cease-fire.

6. My Ministers have played their full part in the North Atlantic Treaty Organisation and our other alliances for collective defence. They have been active in seeking progress towards disarmament and the non-dissemination of nuclear weapons.

7. My Government have continued to co-operate in strengthening the European Free Trade Association and have made proposals to bring about closer co-operation between the Association and the European Economic Community.

8. It was with great pleasure that I welcomed in London in June the Heads of Government or their representatives from all the member countries of the Commonwealth. This was the first Meeting of Commonwealth Prime Ministers to be attended by the President of Zambia and the Prime Ministers of Malta and of The Gambia. My Government welcomed the decisions to establish the Commonwealth Secretariat and the Commonwealth Foundation.

9. My Government are happy to know that other Commonwealth countries have agreed to the new State of Singapore becoming a member of the Commonwealth.

10. My Government have established a new Ministry to administer our technical aid and economic aid to the developing nations. Legislation has been passed to further its work.

11. [Rhodesia.]
MEMBERS OF THE HOUSE OF COMMONS

12. I thank you for the provision which you have made for the public services.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

13. My Government's first aim has been to restore the balance in our external payments and maintain the strength of sterling. New schemes to help exporters have been introduced. My Ministers have continued to play a full part in the discussions on international liquidity and an Act has been passed to enable the United Kingdom to give effect to the decision to raise members' quotas in the International Monetary Fund.

14. Important reforms have been effected in the taxation of companies and capital gains, and improvements have been made in the control of public expenditure.

15. My Government have prepared a National Plan to secure more rapid growth in the economy through the improvement of industrial productivity and a better use of our national resources. Regional Economic Planning Councils and Boards have been established to assist with this work.

16. In order to promote the development of the economy, the stability of prices and the faster growth of real incomes, My Government have agreed with management and unions a policy on productivity, prices and incomes, and set up the National Board for Prices and Incomes.

17. The Ministry of Technology has been formed and legislation passed to assist in the promotion of advanced technology: scientific research in universities and elsewhere has been strengthened, and the Science Research Council and Natural Environment Research Council have been established.

18. My Government have provided more help for small farmers and better facilities for agricultural credit. They have set up a Home Grown Cereals Marketing Authority to promote better marketing.

19. An Act has been passed to enlarge the Monopolies Commission, to extend its purview to services and mergers, and to strengthen My Government's powers to implement decisions taken after consideration of its reports.

20. Provision has been made for redundancy payments and the retraining of adult workers has been vigorously extended.

21. A Royal Commission has been appointed to consider relations between management and employees and the role of trade unions and employers' associations in promoting the interests of their members and in accelerating the social and economic advance of the nation. Legislation has been passed to remove an uncertainty in the law affecting persons acting in contemplation of furtherance of a trade dispute.
22. Pensions and other benefits under the national insurance, industrial injuries and war pensions schemes, and the scales of national assistance, have been substantially increased. The earnings rule for widows’ benefits has been abolished and local authorities have been given power to provide free or cheap travel on municipal transport for the aged and disabled. A comprehensive review of the social security schemes has begun.

23. Local education authorities have been asked to prepare plans for reorganising their schools on comprehensive lines and measures have been taken to improve the supply of teachers. New machinery has been created for determining teachers’ pay in England and Wales, and power has been taken to establish a General Teaching Council for Scotland.

24. Support for the Arts has been increased and broadened; and a Sports Council has been set up.

25. A start has been made on my Government’s plans for modernising the health and welfare services. Charges for National Health Service prescriptions have been abolished.

26. Legislation has been passed to restore security of tenure to tenants of decontrolled houses, to provide machinery for fixing fair rents for privately rented accommodation, and to make the harassment of tenants an offence.

27. My Government have taken steps to promote the integration into the community of immigrants from the Commonwealth. An Act has been passed to prohibit discrimination on racial grounds in places of public resort and to penalise incitement to racial hatred. To increase the effectiveness of these measures, the rate of immigration from the Commonwealth has been reduced.

28. My Government have taken powers to control office development.

29. A Highlands and Islands Development Board has been established for the economic and social development of the area.

30. Permanent Law Commissions, for England and Wales and for Scotland, have been established for the systematic and continuous review of the law.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS,

I pray that the blessing of Almighty God may attend you.
I circulate for the consideration of the Cabinet a draft of The Queen's Speech on the Opening of Parliament.

2. The draft contains firm commitments to introduce legislation on the following subjects:

- Army Reserve and Auxiliary Forces
- Investment Grants
- Prices and Incomes Board
- Docks Reorganisation
- Agriculture
- Trade Descriptions
- Nationalised Industries (Manufacturing Powers)
- Land
- Leasehold
- Housing (Financial Provisions)
- Housing (Financial Provisions) (Scotland)
- Building Controls
- Local Government Finance (1) and (2)
- Local Government Finance (Scotland)
- Scottish Universities
- Earnings—Related Benefits
- Workmen's Compensation
- Pensions Increase
- Teachers' Superannuation
- General Practitioner Services
- Criminal Justice (parts dealing with law reform)
- Commonwealth Immigrants
- Companies Accounts
- Parliamentary Commissioner
- Road Safety

3. Some references will have to be considered later in the light of events, for example Rhodesia, and of policy decisions which have not yet been taken. These are indicated by square brackets.

H. B.

Privy Council Office,
18th October, 1965.
DRAFT SPEECH ON THE OPENING OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. My husband and I look forward to our forthcoming Caribbean tour and to our visit to Belgium.

2. My Government will seek to promote peace and security throughout the world, to increase international confidence and co-operation and to strengthen the United Nations. They will promote disarmament, and in particular will seek the conclusion of a treaty to prevent the further spread of nuclear weapons. They will persevere in efforts to secure peace in Vietnam and to promote the stability of South-East Asia.

3. They will continue to support Britain's alliances for collective defence, and, in the interests of the cohesion of the Atlantic Alliance and of non-dissemination, they will work for the establishment of an Atlantic Nuclear Force.

4. My Government will continue to work for the greater unity of Europe. They will seek to strengthen the European Free Trade Association and to promote co-operation between the Association and the European Economic Community, and, when circumstances permit, the establishment of a common European market.

5. They will play a full part in promoting the success of the negotiations for tariff reductions under the General Agreement on Tariffs and Trade. They will seek a successful conclusion to their discussions with the Government of the Republic of Ireland on the establishment of a Free Trade Area between the two countries. They will continue to encourage Commonwealth trade.

6. A number of my Colonial territories are expected to reach independence during the coming year. My Ministers will continue to assist, in concert with other industrialised nations and the international institutions, the social and economic advance of the developing countries.

7. [A possible reference to Rhodesia.]

8. A measure will be laid before you to reorganise the Army Reserve and Auxiliary Forces.

MEMBERS OF THE HOUSE OF COMMONS

9. Estimates for the public services will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

10. My Government's aim is to develop a soundly based economy providing a rapid growth of output and welfare. To this end they will give priority to ensuring that balance in external payments is restored next year and that the strength of sterling is maintained. They will continue their efforts to increase exports. They will also do all they can to further the international discussions of means of strengthening the world payments system.
11. In implementing the National Plan My Government will extend the range of the Economic Development Committees and encourage British industry to achieve greater efficiency by reorganisation, the more general use of advanced technology, and better use of manpower. They will give special attention to ensuring balanced economic growth in all regions.

12. [Steps will be taken to improve the incentives for industrial investment with due regard to the development of the economy and the special needs of particular areas.] or [My Government will be laying before you further measures to promote the modernisation, and improve the distribution, of industry.]

13. My Government will strengthen and develop the policy for productivity, prices and incomes which they have agreed with management and unions. They will introduce a Bill for this purpose, and meanwhile will continue to develop the policy in co-operation with all concerned.

14. [My Government are taking action to secure a radical improvement in industrial relations and more efficient use of labour in the docks and will introduce legislation for these purposes. My Government consider the more efficient working of the docks to be of the highest importance and will, if necessary, introduce legislation to strengthen the provisions of the Harbours Act 1964.]

15. My Ministers will pursue their policy for the selective expansion of agriculture, based on increasing productivity. They will introduce legislation for the longer term development of agriculture through better farm structure, co-operation, and improved hill farming and to establish a Meat and Livestock Commission. [They will promote the economic development of the fishing industry.]

16. In the interests of consumers, a Bill will be introduced to extend the law on misleading trade descriptions.

17. [Legislation will be introduced to remove statutory limitations impeding the proper use of the nationalised industries' manufacturing resources.]

18. A Bill will be introduced to assist the financing of the coal industry and the re-deployment of its manpower.

19. A Bill will be introduced to establish a Land Commission with power to acquire land for the community and to recover a part of the development value realised in land transactions. My Ministers will propose [legislation to] change [s] [in] the leasehold system for residential property in England and Wales.

20. Legislation will be introduced to establish a new system of Exchequer subsidies for local authority housing, based on a stable rate of interest.

21. A Bill will be introduced to enable priorities in privately sponsored construction to be regulated.

22. Legislation will be introduced to improve the rating system and to limit the burden of rates by increasing Exchequer support for local authorities.
23. My Ministers will continue to develop higher education. A Bill will be introduced to facilitate revision of the constitution of the older Scottish universities and to provide for separate universities at St. Andrews and Dundee.

24. My Government will seek to provide more teachers and to promote further advances in secondary education on comprehensive lines. A Public Schools Commission will be set up to advise on the best way of integrating the public schools with the State system.

25. Measures will be laid before you to provide supplementary national insurance benefits, related to earnings, in the early stages of sickness, unemployment [and widowhood]; to extend the supplementation of workmen’s compensation; and to empower agricultural wages boards to fix minimum rates of sick pay for agricultural workers.

26. Other measures will increase the pensions of retired members of the public services and their dependants and provide a pensions scheme for teachers’ widows in England and Wales.

27. My Government are studying with the medical profession ways of improving the family doctor service and will introduce legislation to establish a general practice finance corporation and for other related purposes.

28. Measures will be introduced to improve the administration of justice and to reform and modernise the law.

29. My Government will promote the provision of improved services for the family, the development of new means of dealing with young persons who now come before the courts and the advancement of penal reform.

30. Further efforts will be directed to the effective integration of immigrants into the community and legislation will be proposed to strengthen the law on Commonwealth immigration.

31. Steps will be taken to provide for fuller disclosure of information by companies, including the disclosure of political contributions.

32. A Bill will be introduced for the appointment of a Parliamentary Commissioner for Administration with powers to investigate individual grievances.

33. You will be invited to approve a measure designed to promote greater safety on the roads.

34. Provision for meeting the special needs of Scotland will be made in the various measures proposed by My Government.

35. Other measures will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may rest upon your counsels.

SECRET
CABINET

ROAD SAFETY

Memorandum by the Chancellor of the Duchy of Lancaster

The Government are committed to making it an offence to drive or be in charge of a motor vehicle with more than a prescribed concentration of alcohol in the blood. The Government's intention, and hope that it would be possible to introduce a Bill before Christmas, was announced by the Minister of Transport in the debate on the Second Reading of Mr. Graham Page's Road Safety Bill on 18th June (Official Report, Col. 1119). The fulfilment of this pledge raises difficult problems of enforcement. The purpose of this paper is to put these problems before the Cabinet.

The case for amending the law

2. The case for amending the law is that drink is an important, though not the main cause, of road accidents. It is estimated that 20,000 to 35,000 casualties a year (5 to 9 per cent) are attributable to it. The existing law, which makes it an offence to drive while the ability to do so is impaired by drink or drugs, is an ineffective safeguard because proof turns mainly on the driver showing visible signs of intoxication, and many drivers take sufficient alcohol to be unsafe on the road without showing any such signs.

3. The Ministers concerned are consulting the Medical Research Council on the level of blood alcohol which should be prescribed. The British Medical Association have recommended 80mg./100ml. (about 5 pints of beer), which they consider to be the level at which there can be no doubt about the impairment of any individual's driving ability, irrespective of individual differences in ability to "hold liquor". But although this level is high enough to make a driver a potential danger, it will not usually produce erratic behaviour. If we are to make any impact on the problem of drink and driving we must effect a change in public attitudes so that driving after taking more than a very moderate amount of alcohol is no longer socially tolerable. This means applying sanctions to drivers who, though a potential danger, do not consider themselves unfit to drive and show no symptoms of intoxication.

Tests of blood alcohol level

4. It is possible to ascertain or assess the level of alcohol in the blood by chemical tests of blood, breath or urine. To obtain these specimens it is necessary to take a driver to a police station and require him to supply a specimen under pain of penalties unless he can show
reasonable cause for failure or refusal to do so. Since there must be no incentive to a driver who thinks that his blood alcohol level may be above a prescribed figure to defeat a prosecution by refusing to give a specimen, the penalties for unreasonable refusal must be the same as those for the substantive offence, including disqualification.

Police powers

5. The crucial question is: what extra powers is it necessary to confer on the police to make enforcement effective? At present the police can arrest drivers whom they suspect of having committed the existing offences, that is drivers who show such signs of intoxication that they are clearly unfit to drive. These drivers normally have a concentration of blood alcohol of more than 150mg./100ml. If the police are to detect those with a lower level, they need powers to apply a screening test to drivers selected either (i) at random or (ii) because they are suspected on grounds other than erratic behaviour of having been drinking. A screening test is available in the form of a simplified breath testing device which can be used at the roadside and will demonstrate a blood alcohol level above the prescribed figure with sufficient accuracy to provide prima facie evidence of an offence and so to justify requiring the person concerned to undergo the further test at a police station.

'Random tests'

6. This would involve taking power to stop a vehicle at random and require the driver to take the screening test. It would be an offence punishable simply with a fine to refuse without reasonable cause to submit to the test. Drivers who refused would normally be summoned. There would be no power of arrest unless there were grounds in addition to the refusal for suspecting that the driver had been drinking.

7. The Ministers principally concerned believe that this method would produce the greatest deterrent effect. It would have the advantage of casting no slur on the driver who happened to be stopped, and although it would be opposed by the police as being likely to impair their relations with the motoring public and probably by some sections of public opinion, they would be likely to regard this as less open to objection than a selective test of the kind described below. It might be thought oppressive that a driver who refused the screening test and who was suspected of having taken alcohol could be arrested without any evidence that he was in fact unfit to drive, and if he then refused to give a specimen would be liable to disqualification and imprisonment.

A "selective test"

8. If this were adopted the police would be empowered to stop and test a driver only if they had grounds for suspecting that he had taken alcohol, e.g. because he was seen coming out of a public house or club, was involved in an accident, or, being stopped for some other reason, showed signs of drinking.
9. This is a less drastic alternative than a "random" check, but it is open to considerable objection. Anybody seen coming out of a public house would be liable to be stopped, although he might have taken no alcohol; and merely to be stopped might be damaging to a driver's reputation. The check would appear to have a class bias because it would be applied mainly to drivers whose social drinking normally took place in public houses or clubs, and only rarely to those accustomed to drinking in private houses. It would expose the police to a suspicion of unfairness, since, in order to justify stopping a driver they would normally have to show that they had seen him coming away from a public house or club, and hence that they were in a position to select known individuals to be stopped. There is the further substantial technical difficulty that a breath test of a driver immediately on coming out of a public house or club might be misleading, since the traces of alcohol remaining in the mouth for a quarter of an hour or twenty minutes after drinking give a disproportionately high reading.

10. If neither "random" nor "selective" checks were thought acceptable, the only alternative would be to confer no additional powers on the police at all, but to provide that the presence of more than the prescribed level of blood alcohol should be conclusive proof of the commission of the existing offence of driving while the ability to do so is impaired by drink. The Home Affairs Committee rejected this on the ground that it would not be regarded as an adequate fulfilment of the Government's pledges to take effective action to deal with the problem. It might marginally increase the number of convictions for the existing offences, but it would not deter the considerable number of unsafe drivers who are not within reach of the present law, nor would it be likely to effect any change in social habits.

The conclusions of the Home Affairs Committee

11. The problem turns on an assessment of public reactions to a measure conferring on the police increased powers to stop drivers. Since the measure would be designed in part to promote a change in public attitudes to driving after taking alcohol, it would fail of its purpose if it created public resentment and stimulated public sympathy with drivers who were punished for driving or being in charge of a vehicle with more than the prescribed level of alcohol in the blood or for refusing either the screening or the substantive test. There is a risk that this might happen. It is not certain that a Bill with provision for random checks would be accepted in the House of Commons. On the other hand, Mr. Graham Page's Bill attracted considerable support from all parties, and there is believed to be a growing demand in the country for effective measures to protect the public against drivers who are unfit through drink. A National Opinion Poll in August this year showed that 85 per cent of drivers were in favour of a statutory blood alcohol level, and over 70 per cent thought the limit should be about 80mg./100ml. We may therefore be strongly criticised if we do not introduce an effective measure; but the Bill would be controversial and would provide opportunities to criticise us for seeking to confer on the police powers to interfere with the liberty of ordinary people of a severity out of proportion to the importance of drink as a cause of accidents.
12. The Home Affairs Committee had some initial doubts, but after a lengthy discussion concluded that the balance of advantage lay in creating new offences and empowering the police to impose "random" checks (H. (65) 23rd Meeting, Minute 5).

13. The proposals raise a subsidiary problem about the right to trial by jury. A driver accused summarily of the existing offence has a right to opt for trial by jury because the maximum penalty includes four months' imprisonment. Juries are notoriously lenient towards drivers. It is proposed that a driver charged with the new offence should not be able to opt for trial by jury. As a matter of drafting this would be effected by reducing the maximum penalty to three months' imprisonment.

14. The withholding of the right to opt for trial by jury can be justified in the case of the offence of driving with a blood alcohol level above the prescribed figure, on the ground that the point at issue is whether the blood alcohol level has or has not been demonstrated by a scientific test to be above the prescribed amount, and that this is not an issue which a jury is particularly suitable to determine. But there are other issues, e.g. whether a test has been unreasonably refused, or, in the case of being in charge of a motor vehicle with a specified level of blood alcohol, the question whether the accused has established the special defence which the law provides, i.e. that he had not driven and did not intend to drive while in that condition. These are issues of a kind which are suitable for a jury to determine.

15. The Home Affairs Committee thought that on balance it would be right to reduce the maximum imprisonment to three months, and so withhold the right to jury trial, provided that this purpose was frankly acknowledged, but that the Government should show themselves ready to give way on the point if opinion in Parliament was against them.

Conclusions

16. Questions on which decisions are required are:

(a) Do the Cabinet confirm that it is our policy to introduce early legislation to create offences of driving, attempting to drive, or being in charge of a motor vehicle with the blood alcohol level above a prescribed figure?

(b) Should the police be given powers to stop motorists at random and apply a screening test?

(c) Should the maximum sentence of imprisonment on summary conviction of the new offences be three months, with the consequence that the accused will have no right to opt for trial by jury?

D.H.

70, Whitehall, S. W. I.

18th October, 1965
EARNINGS-RELATED SHORT-TERM BENEFITS

MEMORANDUM BY THE MINISTER OF PENSIONS AND NATIONAL INSURANCE

On 29th July the Cabinet authorised me (C.C. (65) 43rd Conclusions, Minute 4) to consult various organisations about my proposals for earnings-related short-term benefits and asked for further consideration to be given to the priority which should be accorded to the inclusion of earnings-related widow's allowance in the scheme.

2. I have not yet concluded my consultations. I have, however, given further consideration, in consultation with the Chief Secretary, to earnings-related widow's allowance, and I now ask my colleagues to agree that this should be included in the scheme, and that our intentions on it should be made clear in The Queen's Speech.

3. There is a strong claim for better provision for the early months of widowhood. Part of the case for earnings-related unemployment and sickness benefit is that people need better provision against sudden and unexpected interruptions of their income in these contingencies. The argument applies with perhaps even greater force to widows who lose the support of a husband's earnings, often with little warning and no opportunity to adjust financial commitments. The cost of this particular proposal is about £7 million a year.

4. Apart from the very real merits of the case for improving widow's allowance, I have in mind that the previous Administration had committed themselves in their manifesto to including this in their scheme for earnings-related benefits. If we do not do the same there is every risk of an amendment which might well carry the day. I therefore think it realistic to recognise that earnings-related widow's allowance is likely to come and ought to come, and to take the credit for including it in our Bill. If this is accepted, I think it important that we should declare our intention in The Queen's Speech and so avoid the appearance of being pushed into the improvement for widows by the Opposition.
5. I am satisfied that the improved widow’s allowances can be fitted into my public expenditure limits, and that there are no competing claims which ought to displace it. There are always, of course, major desirable improvements which might be made in social security. For instance, there is pressure from time to time to improve benefits for the chronic sick, and this may well be renewed when we introduce a Bill dealing with short-term sickness. But provision for the chronic sick is to be examined in the context of our long-term review of pensions and we should not attempt to anticipate the outcome of that examination. Similarly, there is criticism of the present age 50 rule for widows, but what we do about this again depends very much on the shape of our long-term pension proposals. Under the agreed limits on expenditure any major innovation such as an income guarantee could be financed only by cutting severely the rise in benefit rates. I believe that cuts of the order required would be politically unacceptable besides being unjust to the recipients of those benefits. Certainly the cost of my proposals for widow’s allowance would make very little difference here. I am, as my colleagues know, working on some possible changes in national assistance but, again because of limits on expenditure, it is my intention that any improvements here which would otherwise take expenditure beyond the agreed limits should be met by positive savings elsewhere.

6. Among possible smaller improvements, I can think of none calling for a higher priority than my proposal for widow’s allowance. I am content that other possible reforms should be judged in the knowledge of the money already committed for widows. If my colleagues accept this, the proposal can be accommodated within my public expenditure programme on the assumptions that benefit rates will not rise faster than earnings and that the next uprating will not take place before June 1967.

7. I therefore ask the Cabinet to agree that earnings-related widow’s allowance should be included in the scheme, and that this should be announced in The Queen’s Speech.

M. H.

Ministry of Pensions and National Insurance, W.C.2,
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M. H.

Ministry of Pensions and National Insurance, W.C.2,
CABINET

EARNINGS-RELATED SHORT-TERM BENEFITS:
WIDOW'S ALLOWANCE

Note by the Chancellor of the Duchy of Lancaster

I was invited by the Cabinet to arrange for the Social Services Committee to consider the priority to be accorded to earnings-related widow's allowance and the implications of a decision to undertake such expenditure at the present time (C. C. (65) 54th Conclusions, Minute 3). The Committee based their consideration of the matter on a memorandum by the Minister of Pensions which I append.

2. The general conclusions of the Committee are that, while additional expenditure of £7 million on earnings-related widow's allowance will limit to that extent freedom of decision on proposals involving major expenditure in this field, e.g. the timing and amount of benefit increases, Income Guarantee and proposals which may emerge from the Government's long-term review, nonetheless there are strong reasons of social policy for taking the opportunity of making this additional provision for widows comparable with, and at the same time as, the introduction of earnings-related short-term benefits.

D. H.

70 Whitehall, S.W.1.

27th October, 1965
26th October, 1965

CABINET

MINISTERIAL COMMITTEE ON SOCIAL SERVICES

EARNINGS-RELATED SHORT-TERM BENEFITS - WIDOW'S ALLOWANCE

Memorandum by the Minister of Pensions and National Insurance

My memorandum C(65)137 sets out the main arguments in favour of including earnings-related widow's allowance in the scheme of earnings-related short-term benefits. In considering that paper, the Committee may like to have the following further information.

Public expenditure limits

2. The basic programme for benefits and assistance was calculated on the assumption that the rates of benefit and of assistance would be increased on 1st April each year in line with the assumed rise in average real earnings (3.6 per cent a year). An allowance was added for earnings-related unemployment benefit. The additional programme included a further allowance to enable earnings relation to be extended to sickness benefit also.

3. For reasons explained below it seems unrealistic to assume increases of benefit rates each April. Therefore the question whether my proposals for earnings-related short-term benefits can be contained within my public expenditure limits has been considered on the following assumptions:

(a) that an interim increase in national assistance will be needed in 1966;

(b) the next general uprating of benefits and assistance, sufficient to keep them in line with the movement of earnings since March 1965, will take place on 1st June 1967; and

(c) the next general uprating would be in April 1969.

4. My proposals for earnings-related short-term benefits, including the extension to widow's allowance, are estimated to cost £59 million in the first full year. Allowing for this and for certain other minor items of expenditure which have been agreed, the estimated expenditure on benefits and assistance would fall below the annual amounts approved for my basic and additional programmes by the following amounts:
As I mentioned in S.8(65)31, I am discussing with the Chancellor of the Exchequer the significance of the large surpluses in the years when there is no general uprating.

Effect of changes in the assumed dates for uprating

5. The 1st June 1967 was taken as the date for the next uprating because this seemed realistic. I think that the summer of 1966 would be too early (at any rate unless we were going in for annual upratings, on which I say something below). But in the autumn of next year we have to launch the scheme of earnings-related benefits. This will fully tax my Ministry, and we shall have a hard task to get and train the staff in time and to be ready to take the first impact of the scheme. Even when the scheme is launched, there will be a further severe testing time during the epidemic season in the early months of 1967. For these practical reasons we must leave the work of uprating pension books until we are clear of the epidemic season and I think it would be imprudent to plan for an uprating much before 1st June 1967. If, however, we were able to bring the uprating forward by as much as a month (though the advantage of this would be only marginal) expenditure in 1967/68 might be increased by something like £10 million, depending on how precisely the rounded figures turned out.

6. On the other hand, I do not think that we can rely upon holding off the uprating beyond about June 1967, especially if prices and earnings continue to rise at their present rate. If we could do so, this would, of course, ease the financial problem in 1967/68 but, in fact, expenditure for that year on the basis envisaged in paragraph 4 above is already within the limits after allowing for earnings-related widow's allowance.

7. Another possibility which has been mentioned is that we should go in for general upratings each year instead of at longer intervals. In present circumstances I am opposed to this if only because I should be reluctant to undertake the major upheaval of an uprating each year, at any rate until we have computer systems installed which will ease the task. If we did start annual upratings in 1966 we should, broadly speaking, use up our margin over the whole period as well as seriously aggravating the financial situation next year.
Possible Alternative Benefit Improvements

**Income Guarantee**

8. Perhaps the most important of the possible improvements we might make in social security benefits would be the introduction of an Income Guarantee, but on a very modest scale and even this would cost £80 million to £100 million a year. I have, however, circulated a memorandum to my colleagues (S.8.3.(65) 31) making alternative proposals designed to achieve to some extent the same objectives through the development of national assistance at a cost of about £40 million a year. In so far as these proposals would take my expenditure over the agreed limits I am considering whether they can be financed by positive savings elsewhere. Meanwhile I do not think they should be allowed to stand in the way of earnings-related widow's allowance.

**Better benefits for the chronic sick**

9. As I said in my memorandum C.(65) 137 the shape of improved provisions for the chronic sick must depend very much on the conclusions of our long-term review of pensions and I do not think we should attempt to anticipate the outcome of that review. It is not possible to put a cost on possible improvements without knowing what they would be, but I can say that any worthwhile addition to the benefits of the chronic sick would cost substantially more than the £7 million a year needed for earnings-related widow's allowance. For example a special allowance of £2 a week for those among the chronic and elderly sick, who need constant attendance might well cost as much as £50 million a year and perhaps even more.

**Age rule for widows**

10. Again, it is difficult to suggest a cost for any alternative provisions for widowhood making pensions available below the present age of 50, without knowing the shape of those provisions. To give some idea of the order of costs which might be involved I can say that to reduce the present age limit from 50 to 45 would cost about £43 million a year, on present rates of benefit; and to abolish the age condition completely would cost something approaching £20 million a year rising to about £25 million. Costs would be less if lower rates of benefit were paid at lower ages but we should be establishing minimum standards for the future in advance of working out our long-term proposals. We should be prejudicing those proposals if we committed ourselves now to any scheme of graduated benefits for widows related to age.
Conclusion

11. My view, in short, is that our proposals for earnings-related short-term benefits will not be complete nor acceptable to the House and the country without inclusion of an earnings-related short-term benefit for widows to give better cover for the early months of widowhood. I give priority therefore to an earnings-related widow's allowance over possible alternative improvements we might make, all of which would in any event cost substantially more and most of which we could hardly embark upon in the early future without prejudicing the conclusions of our long-term review.

M. H.


26th October, 1965.
THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

Note by the Deputy Secretary of the Cabinet

I circulate for the information of the Cabinet a copy of The Queen's Speech on the Prorogation of Parliament in the form in which it has been approved by The Queen. A further passage will be added later in the light of events in Southern Rhodesia.

(Signed) P. ROGERS

Cabinet Office, S.W.1.

20th October, 1965
PROROGATION SPEECH

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

My Husband and I were glad to welcome to this country the President of Chile and Senora de Frei.

2. We were touched by the warmth of our reception during our State Visit to the Federal Republic of Germany. We also have vivid memories of our friendly welcome in Ethiopia and the Sudan.

3. It was with great pleasure that I welcomed in London in June the Heads of Government or their representatives from all the member countries of the Commonwealth. This was the first Meeting of Commonwealth Prime Ministers to be attended by the President of Zambia and the Prime Ministers of Malta and of The Gambia. My Government welcomed the decisions to establish the Commonwealth Secretariat and the Commonwealth Foundation.

4. My Government have continued to work for peace and understanding in international relations. They have striven to promote the stability of South-East Asia, in particular, by seeking a peaceful settlement of the conflict in Vietnam. To this end the Commonwealth Prime Ministers at their Meeting in June appointed a Commonwealth Peace Mission.

5. My Government have taken practical steps to resolve difficulties at the United Nations and to support United Nations peace-keeping and economic and social work.

6. My Government were much concerned at the recent outbreak of hostilities between our two Commonwealth partners, India and Pakistan. They have throughout given full support to the efforts of the United Nations Secretary-General and the Security Council which, aided by the wise statesmanship of the leaders of both countries, have led to the achievement of a cease-fire.

7. My Ministers have played their full part in the North Atlantic Treaty Organisation and our other alliances for collective defence. They have been active in seeking progress towards disarmament and the non-dissemination of nuclear weapons.

8. My Government have continued to co-operate in strengthening the European Free Trade Association and have made proposals to bring about closer co-operation between the Association and the European Economic Community.

9. My Government are happy that the new State of Singapore has become a member of the Commonwealth.

-1-
10. My Government have established a new Ministry to administer our technical aid and economic aid to the developing nations. The first Commonwealth Medical Conference has been held in Edinburgh.

11. [Reference to Rhodesia]

MEMBERS OF THE HOUSE OF COMMONS

12. I thank you for the provision which you have made for the public services.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

13. My Government's first aim has been to restore the balance in our external payments and maintain the strength of sterling. New schemes to help exporters have been introduced. My Ministers have continued to play a full part in the discussions on international liquidity and an Act has been passed to enable the United Kingdom to give effect to the decision to raise members' quotas in the International Monetary Fund.

14. Important reforms have been effected in the taxation of companies and capital gains, and improvements have been made in the control of public expenditure.

15. My Government have prepared a National Plan to secure more rapid growth in the economy through the improvement of industrial productivity and a better use of our national resources. Regional Economic Planning Councils and Boards have been established to assist with this work.

16. In order to promote the development of the economy, the stability of prices and the faster growth of real incomes, My Government have agreed with management and unions a policy on productivity, prices and incomes, and set up the National Board for Prices and Incomes.

17. The Ministry of Technology has been formed and legislation passed to assist in the promotion of advanced technology; scientific research in universities and elsewhere has been strengthened, and the Science Research Council and Natural Environment Research Council have been established.

18. My Government have provided more help for small farmers and better facilities for agricultural credit. They have set up a Home Grown Cereals Marketing Authority to promote better marketing.

19. An Act has been passed to enlarge the Monopolies Commission, to extend its purview to services and mergers, and to strengthen My Government's powers to implement decisions taken after consideration of its reports.
10. My Government have established a new Ministry to administer our technical aid and economic aid to the developing nations. The first Commonwealth Medical Conference has been held in Edinburgh.

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19. An Act has been passed to enlarge the Monopolies Commission, to extend its purview to services and mergers, and to strengthen My Government's powers to implement decisions taken after consideration of its reports.
20. Pensions and other benefits under the national insurance, industrial injuries and war pensions schemes, and the scales of national assistance, have been substantially increased. The earnings rule for widows' benefits has been abolished and local authorities have been given power to provide free or cheap travel on municipal transport for the aged and disabled. A comprehensive review of the social security schemes has begun.

21. Provision has been made for redundancy payments and the retraining of adult workers has been vigorously extended.

22. A Royal Commission has been appointed to consider relations between management and employees and the role of trade unions and employers' associations in promoting the interests of their members and in accelerating the social and economic advance of the nation. Legislation has been passed to remove an uncertainty in the law affecting persons acting in contemplation or furtherance of a trade dispute.

23. Local education authorities have been asked to prepare plans for reorganising their schools on comprehensive lines and measures have been taken to improve the supply of teachers. New machinery has been created for determining teachers' pay in England and Wales, and power has been taken to establish a General Teaching Council for Scotland.

24. Support for the Arts has been increased and broadened; and a Sports Council has been set up.

25. A start has been made on My Government's plans for modernising the health and welfare services. Charges for National Health Service prescriptions have been abolished.

26. Legislation has been passed to restore security of tenure to tenants of decontrolled houses, to provide machinery for fixing fair rents for privately rented accommodation, and to make the harassment of tenants an offence.

27. My Government have taken steps to promote the integration into the community of immigrants from the Commonwealth. An Act has been passed to prohibit discrimination on racial grounds in places of public resort and to penalise incitement to racial hatred.

28. An Act has been passed strengthening the law regarding the possession and use of firearms and ammunition.

29. My Government have taken powers to control office development.

30. A Highlands and Islands Development Board has been established for the economic and social development of the area.

31. Permanent Law Commissions, for England and Wales and for Scotland, have been established for the systematic and continuous review of the law.
MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may attend you.
2nd November, 1965

CABINET

THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

Note by the Secretary of the Cabinet

I circulate for the information of the Cabinet a copy of The Queen's Speech on the Opening of Parliament in the form in which it has been approved by The Queen. A further passage will be added later in the light of events in Rhodesia.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

2nd November, 1965
THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. My husband and I look forward to our forthcoming Caribbean tour and to our visit to Belgium.

2. My Government will seek to promote peace and security throughout the world, to increase international confidence and co-operation and to strengthen the United Nations. They will promote disarmament, and in particular will seek the conclusion of a treaty to prevent the further spread of nuclear weapons. They will persevere in efforts to secure peace in Vietnam and to promote the stability of South-East Asia.

3. They will continue to support Britain's alliances for collective defence and will work for a generally satisfactory organisation of the nuclear resources of the allies.

4. My Government will continue to work for the greater unity of Europe. They will seek to strengthen the European Free Trade Association and to promote co-operation between the Association and the European Economic Community, and the establishment of a wider European market.

5. They will play a full part in promoting the success of the negotiations for tariff reductions under the General Agreement on Tariffs and Trade. They will seek a successful conclusion to their discussions with the Government of the Republic of Ireland on the establishment of a Free Trade Area between the two countries. They will continue to encourage Commonwealth trade.

6. My Ministers will continue to assist, in concert with other industrialised nations and the international institutions, the social and economic advance of the developing countries.

7. [A reference to Rhodesia.]

8. A measure will be laid before you to reorganise the Army Reserve and Auxiliary Forces.

MEMBERS OF THE HOUSE OF COMMONS

9. Estimates for the public services will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

10. My Government's aim is to develop a soundly based economy. They will give priority to ensuring that balance in external payments is restored next year and that the strength of sterling is maintained.
They will continue their efforts to increase exports. They will also further the international discussions of means of strengthening the world payments system.

11. In implementing the National Plan My Government will extend the range of the Economic Development Committees and encourage British industry to achieve greater competitive efficiency by reorganisation, the more general use of advanced technology, and better use of man-power. They will give special attention to ensuring balanced economic growth in all regions.

12. Steps will be taken to improve the incentives for industrial investment with due regard to the development of the economy and the special needs of particular areas.

13. My Government will strengthen and develop the policy for productivity, prices and incomes which they have agreed with management and unions. They will introduce a Bill for this purpose, and will continue to develop the policy in co-operation with all concerned.

14. My Government considers the more efficient working of the ports, including a radical improvement in industrial relations and more efficient use of labour in the docks, to be of the highest importance and will introduce legislation and take other necessary action to further this objective.

15. My Ministers will pursue their policy for the selective expansion of agriculture, based on increasing productivity. They will introduce legislation for the longer term development of agriculture through better farm structure, co-operation, and improved hill farming and to establish a Meat and Livestock Commission. They will promote the economic development of the fishing industry.

16. For the protection of consumers, a Bill will be introduced to strengthen the law on misleading trade descriptions.

17. Legislation will be introduced to remove statutory limitations impeding the proper use of the manufacturing resources of the nationalised industries.

18. A Bill will be introduced to assist the financing of the coal industry and the redeployment of its man-power.

19. A Bill will be introduced to establish a Land Commission with power to acquire land for the community and to recover a part of the development value realised in land transactions. My Ministers will
introduce legislation to reform the leasehold system for residential property in England and Wales, including provision for leasehold enfranchisement.

20. Legislation will be introduced to establish a new system of Exchequer subsidies for local authority housing.

21. A Bill will be introduced to regulate priorities in privately sponsored construction.

22. Legislation will be introduced to lessen the injustices of the rating system and to limit the burden of rates.

23. My Ministers will continue to develop higher education. A Bill will be introduced to facilitate revision of the constitution of the older Scottish universities and to provide for separate universities at St. Andrews and Dundee.

24. My Government will take steps to provide more teachers and promote further advances in secondary education on comprehensive lines. A Public Schools Commission will be set up to advise on the best way of integrating the public schools with the State system.

25. Measures will be laid before you to provide supplementary national insurance benefits, related to earnings, in the early stages of sickness, unemployment and widowhood; to extend the supplementation of workmen's compensation; and to empower agricultural wages boards to fix minimum rates of sick pay for agricultural workers.

26. Other measures will increase the pensions of retired members of the public services and their dependants and provide a pensions scheme for teachers' widows in England and Wales.

27. My Government are studying with the medical profession ways of improving the family doctor service and will introduce the necessary legislation.

28. Measures will be introduced to improve the administration of justice and to reform and modernise the law.

29. My Government will promote the provision of improved services for the family, the development of new means of dealing with young persons who now come before the courts and the advancement of penal reform.

30. Further steps will be directed to the effective integration of immigrants into the community and to strengthening the control of Commonwealth immigration.

31. A measure will be introduced to provide for fuller disclosure of information by companies, including the disclosure of political contributions.
32. A Bill will be introduced for the appointment of a Parliamentary Commissioner for Administration with powers to investigate individual grievances.

33. My Ministers will bring forward proposals for the more effective co-ordination of inland transport. You will be invited to approve a measure designed to promote greater safety on the roads.

34. Provision for meeting the special needs of Scotland will be made in the various measures proposed by My Government.

35. Other measures will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may rest upon your counsels.
On 1st September the Cabinet agreed on further steps in our prices and incomes policy (C. C. (65) 46th Conclusions, Minute 1). On the following day I announced that the Government proposed to introduce legislation early in the coming Session to give the National Board for Prices and Incomes (N. B. P. I.) statutory powers to collect information and to call witnesses; and to give the Government power by Order in Council:

(i) to require advance notification of intention to increase prices or charges; and to require notification of claims relating to pay, hours or other major improvements and prospective terms of settlement;

(ii) to refer to the N. B. P. I. in the national interest:

(a) any price, whether existing or proposed; and

(b) any claim or settlement;

(iii) to require the proposed price or pay increases to be deferred until after the Board had reported.

I undertook that we would not bring these permissive provisions into effect without further consultation with the Trades Union Congress and the Confederation of British Industries.

2. Work has been proceeding on the terms of this legislation and at its meeting on 28th October the Economic Development Committee generally approved proposals for inclusion in the Bill. I think, however, that all my colleagues may like to be aware of what is proposed. I am therefore circulating herewith an outline of the proposed legislation with a note on some of the most difficult points which are raised. Of these one of the most difficult is the precise formulation of offences and penalties on the pay side and a letter which I have received from the Attorney-General dealing with this point is also attached. I am sure that in the light of our previous decisions and consequent public statements we must proceed, despite the difficulties. But I wish my colleagues to be completely clear about the possible political consequences.
3. Meanwhile we are also pressing ahead with the introduction of early warning arrangements on a non-statutory basis. The details will be further discussed at an early date with the Trades Union Congress and the Confederation of British Industries and with other organisations concerned.

4. The development of the prices and incomes policy will inevitably have implications for the role of arbitration bodies, wages councils and so forth. The Economic Development Committee is still considering how best we can proceed in this field.

G.B.

Department of Economic Affairs, S.W.1.

29th October, 1965
The preparation of a Bill is in hand for introduction early in the next Session. An outline of the main provisions which it is proposed to make is attached. Among the points which arise on it are the following:

(i) The reconstitution of the N.B.P.I. on a statutory basis (it is at present appointed under Royal Warrant as a Royal Commission) provides an opportunity to consider whether any changes are desirable in the light of experience during the past few months. I foresee that we shall need to increase the flow of references to the Board—possibly to about 20-25 cases a year, possibly more. This means that we must provide scope in the Bill for increasing the Board in size. The original idea (set out in Cmd. 2577) of a separate Prices Review Division and Incomes Review Division has not proved entirely appropriate in practice and I propose to drop it, leaving the Board with fairly wide powers to organise its work in the most efficient and convenient way. The Board have also represented to me that the arrangement of special members drawn from panels nominated by the T.U.C. and the employers' organisations is not working well. I have agreed with the Board's Chairman that the use of special members should be discretionary, not mandatory as under the Royal Warrant. I shall need to discuss this with the T.U.C. and C.B.I.

(ii) It is going to be difficult even for the limited purpose of an early warning and standstill scheme to find satisfactory definitions for a 'price' and for the commodities to which the provisions of the scheme relate. Although we are not legislating for price control, the effect of the standstill on price increases while reports are being prepared by the Board will be that of a short-term price control. The need will be to find definitions which will give a proper legal basis for enforcement and yet enable us to avoid the burden of sifting a mass of notifications of intended price changes. It seems likely that we will have to concentrate on manufacturers' prices and on those as charged either generally or to different classes of buyers (for example, discounts on quantities) leaving out prices which are settled by individual contract even though this might leave a loophole in some cases.

(iii) Some important prices and charges are already fixed by independent statutory bodies (London passenger fares, provincial bus fares, inland air passenger fares, iron and steel and port charges). It would be undesirable to refer such cases to the N.B.P.I. until the statutory body has done the job of price determination which it was set up to do. This would mean a dual jurisdiction which would be unsatisfactory in practice and would complicate the legislation. Moreover I think it would be only in exceptional circumstances that we should want to refer a decision of a specialised body of this kind subsequently to the N.B.P.I., although one would not rule out the possibility of referring a general question relating to one of these particular prices and charges. The main need is to ensure that these statutory bodies take into account the agreed criteria relating to the national interest. The most straightforward way of achieving this seems to be...
to include in the Bill a requirement that the bodies concerned are to take into account the same general considerations as the N. B. P. I. as well as the various other considerations which are already enjoined on them. These bodies could then be exempted from the Bill's requirements in relation to statutory notification and standstill.

(iv) We are faced with some difficulties over offences and penalties on the pay side. The unions understandably are suspicious of any legislation which would make them and their officers liable to offences and penalties. But if there is no obligation for unions to notify claims, they will not be touched directly by a statutory early warning system and we should be exposed to very strong criticism for making employers only liable to penalties on prices and on pay as well.

I have been in touch with the Attorney-General who, I am glad to say, thinks that we can find a way round these difficulties which should enable us to reassure the unions. We have in mind that the obligation to notify pay claims should be placed both on the employer and on workers' representatives but that it should be a defence for either party to show that they knew or had reasonable grounds for thinking that the other party had given this notification. The employer will almost always be ready to notify the receipt of a claim out of self-interest and it is unlikely that there would be need to consider proceedings against unions for failure to notify and no proceedings could be taken without the authority of the Attorney-General.

I am also considering, in consultation with the Attorney-General and the Minister of Labour, a means of overcoming the objections which would be pressed if unions were left fully protected against any offence of trying to force employers to act in breach of the latter's obligations during the standstill period but, of course, without exposing unions to charges of criminal conspiracy at Common Law. I hope that we may be able to have some discussion of this problem at our meeting.

(v) The C. E. I. have pressed me to provide that the exercise of the compulsory notification and standstill powers should be subject to annual renewal. I have told them that we can accept this. There may be strong pressure during the passage of the Bill for a time limit to be set at least on the life of the powers in Part II of the Bill to apply a statutory early warning and standstill system but I think it is right not to concede this from the outset.
OUTLINE OF PRICES AND INCOMES BILL

The Secretary of State is to have power to refer to the National Board for Prices and Incomes for examination and report:

(a) any question relating to the prices charged for goods, processes applied to goods or for services of any class or description;

(b) any question relating to claims or settlements for pay or other conditions of employment in any occupation, or class or description of occupation;

(c) any question relating to prices or money incomes of any kind.

2. There is to be wide discretion in the framing of questions referred to the Board.

3. The Board is to be required to have regard to such considerations affecting the national interest as are set out in the White Paper on Prices and Incomes Policy (Cmd. 2639); the Secretary of State may from time to time direct the Board to take other considerations of the national interest into account. Such directions will be by Order subject to Affirmative Resolution procedure. It is intended that the Secretary of State will be required to consult employers' and workers' representatives, etc., before giving directions to the Board about criteria of the national interest.

4. The Board is to report on every reference within two months (or, at the discretion of the Secretary of State, within a longer period not exceeding six months) and the Secretary of State is to lay before Parliament every report by the Board.

5. The Board is to have power to exclude from reports information which, in its opinion, would damage the legitimate interests of any person or body, and the Secretary of State is to have a similar power in relation to information which would endanger national safety.

6. The Board is to consist of not less than nine and not more than 15 regular members appointed by the Secretary of State who will have power by order to vary the maximum or minimum number. There will be the usual provisions governing full and part-time appointments, periods of service, appointment of Deputy Chairman and related matters such as appointment of Staff and expenses.

7. There will be provision in the Bill for the Secretary of State, after consultation with employers' and work people's organisations, to appoint two panels of special members for service in equal numbers from each at the discretion of the Chairman of the Board.

8. Subject to any general directions by the Secretary of State, the Board is to have discretion to determine its own procedure; the intention is to provide flexibility because the Board's work on references will be subject to fairly narrow time limits and must be carried out expeditiously.
9. The Board is to have power to require witnesses to attend and give evidence and to require the production of documents, returns or other information; it will be an offence for any person to refuse or fail to do anything required of him in these respects or to make any false statement.

Part II: Powers to impose a standstill on price increases and pay claims and settlements and to require advance notification,

10. The intention is that these powers will be held in reserve and the provisions of Part II may be brought into operation by Order in Council which is to be subject to affirmative resolution; any such order is to continue in effect for one year only but may from time to time be continued for a further period of one year by resolution of both Houses of Parliament.

11. The powers of control are to be:

(a) The Secretary of State is to have power to require advance notification of any proposed increase in prices or change in pay or conditions of employment in relation to any class or description of goods, processes to goods or services, or in relation to any type of services, or in relation to any type of employment which he may prescribe by order, and no such increase or change is to be made without his consent during a standstill period of thirty days from the date of notification.

(b) If within this standstill period the Secretary of State refers the increase or change to the Board for report, the standstill is to continue until the Board has reported and their report has been laid before Parliament. In the absence of a reference to the Board during the thirty day period, the proposed increase or change may be made on its expiration.

(c) The standstill will apply to any prices or changes of pay which form the subject of a reference to the Board whether or not advance notification of them has been required. But it will be possible for general matters relating to prices and incomes to be referred to the Board without entailing a standstill.

12. The Secretary of State is to have wide power to prescribe by order the classes or descriptions of goods, processes to goods or services to which the requirements of advance notification and standstill are to apply and similarly for claims and settlements on the pay side.

13. It is to be an offence in relation to price increases for the person concerned:

(a) to fail to give notice of a price increase as required by the order;

(b) to increase a price of which notification is required if no notification has in fact been given;
(c) to increase a price where notification has been duly given within thirty days of the date of notification unless the Secretary of State has given notice that he does not intend to refer the matter to the Board;

(d) to increase a price where the Secretary of State has given notice of reference to the Board before the date on which the report of the Board is laid before Parliament.

14. It is to be an offence in relation to pay claims and settlements:

(a) for any trade union or other body of representatives of workers and for any employers or organisations of employers (of a class affected by the order and making or receiving a claim of the kind prescribed), to fail to notify the claim or the receipt of the claim within a specified period. It shall be a defence for either party to show that they knew, or had reasonable grounds for thinking that the other party had given such notification; no proceedings under this provision may be taken without the authority of the Attorney-General;

(b) for any employer to fail to notify any agreed settlement of a kind prescribed or to put it into operation within thirty days of such notification unless the Secretary of State has given notice to the employer that he does not intend to refer the matter to the Board;

(c) for the employer to implement the agreed settlement where the Secretary of State refers the matter to the Board prior to the date on which the report is laid before Parliament.

15. There will be supplementary provisions as to the supply of information.

16. Provision will be made for penalties, including penalties for the rendering of false information.
COPY OF A LETTER DATED 26th OCTOBER FROM THE ATTORNEY-GENERAL TO THE FIRST SECRETARY OF STATE

Prices and Incomes Bill

Paragraph (iv) of your memorandum of 20th October to the Ministerial Committee on Economic Development (Annex A) refers to two problems in this proposed legislation on which I have been asked to advise.

The former of these concerns the sanctions which the Bill should provide for failure by trade unions or employers (including employers' associations) to notify the making or receiving of claims in respect of wages or conditions of employment.

After giving further thought to this matter, I confirm the view which I expressed at our meeting on 15th October that it would be difficult to justify a provision which places the onus exclusively upon employers. As was pointed out at our meeting, there are precedents for placing obligations upon trade unions to provide information, failure to comply with which is punishable by a small fine. I suggest accordingly that failure to notify the making or receipt of claims should be subject to a fine. In connection with this offence we discussed the question whether liability should be incurred if, for instance, a trade union fails to notify the making of the claim but the employer to the knowledge of the trade union duly notifies its receipt. In those circumstances I cannot think that the trade union would be prosecuted if, as I propose, it is to be provided that no prosecution may be brought for this offence save by me or with my consent. I do not believe that any Attorney-General would sanction a prosecution in such a case. If, however, it would materially assist the passage of the Bill to relieve trade unions expressly of liability in these circumstances, it would be possible for the provision creating the offence to state that it should be a defence for a trade union or employer, as the case may be, to show that some other person or body, who was under an obligation to notify the claim, had duly done so.

The second problem is far more difficult. It raises the question whether sanctions should be applied in relation to breaches of a standstill affecting proposed increases in pay or improvements in conditions of employment, and if so, what sanctions. I have given careful thought to the possibility of imposing a duty to observe the standstill period and dealing with a prospective or actual breach by means of proceedings for an injunction. I have come to the conclusion that this would not be feasible. Nor would it help to deal with the difficulty that once it becomes the legal duty of employers to observe the standstill, an agreement by employees to strike in order to try to compel an employer to act in breach of the standstill would be a criminal conspiracy indictable as such - it may be at the instance of private prosecutors.

If the proposed machinery is to be effective I see no way of escaping the necessity to make it an offence for an employer to act in breach of the standstill. If this is done, unhappily it follows from this as a matter of law that any industrial action taken by a union or workers
to compel an employer to raise pay or improve conditions in breach of a standstill will be illegal and the existing protection contained in trade union legislation will not afford protection against either civil liability in tort or criminal liability, e.g., a charge of conspiracy.

From a presentational point of view, however, I feel that it would be difficult to justify imposing sanctions upon employers unless at the same time some sanction were imposed upon those who seek to compel them to break the law in this way. Equally I have no doubt that the consequences (e.g., unlimited liability in tort and criminal liability in conspiracy) which would follow if the Bill failed to preserve the protections in existing trade union legislation would be much too severe, apart from being politically unacceptable. The legislation protecting acts done in contemplation of furtherance of a trade dispute has as recently as this year been extended by the Trade Disputes Act 1965 (c.40) pending the Report of the Royal Commission on Trade Unions and Employers' Associations and it would be politically impossible to undermine these protections at the present time.

In these very difficult circumstances the best solution I can think of may lie along the following lines -

(a) to provide that it shall be an offence for any person or body (including a trade union) to take action, whether by breaking or urging others to break their contracts or otherwise, which is designed to compel, induce or influence an employer to act in breach of a standstill; and

(b) to provide that no person shall incur any civil or, save as provided in (a), criminal liability in consequence of the acts there referred to by reason only of the fact that they were intended to compel the employer to act in breach of a standstill. This would protect employees against the risk of indictment for criminal conspiracy and civil proceedings for damages.

As you will remember at our last meeting I suggested that prosecutions for the offence of failing to notify claims for increases in pay or changes in conditions of employment should not be undertaken without my sanction. I feel that this safeguard should be extended to all offences in connection with notifications required under the Bill and to those involving breaches or the inducement of breaches of the standstill by employers. The effects of these offences will vary greatly in their seriousness and in their economic consequences and it seems right that the Attorney-General should have the ultimate decision.

The level of penalties for offences under the Bill is clearly a matter on which we must consult the Home Secretary. Subject to this, however, I would suggest that the penalty for failure to notify claims should be of the order of £50. In the case of the more serious offences of an employer acting in breach of the standstill period or of any attempt by another person to induce him to do so, I would suggest a penalty of £500 or three months' imprisonment, or both, the fine being unlimited in the case of a corporate body.

I am sending copies of this letter to the Minister of Labour and the Treasury Solicitor.
CABINET

RHODESIA

Note by the Prime Minister

I should like my colleagues to have before them for the purposes of our discussion at Cabinet tomorrow the following documents:—

(1) Annex A: The text of the statement which I am making in the House of Commons this afternoon.

(2) Annex B: The text of a report which I have received from the Commonwealth Secretary and the Attorney-General about the result of the discussions which they have conducted with the Rhodesian Government since my own departure from Salisbury.

(3) Annex C: The text of a letter which I have received today from the Rhodesian High Commissioner in London.

(4) Annex D: The text of part of the discussions which the then Prime Minister and Commonwealth Secretary held with Rhodesian Ministers in London in September, 1964.

H. W.

10 Downing Street, S. W. 1.

1st November, 1965
STATEMENT BY THE PRIME MINISTER

With permission, Mr. Speaker, I wish to make a statement on Rhodesia.

The House will recall that, following the break-up of the Central African Federation in 1963, there have been continuing discussions on the question of independence for Rhodesia, and in particular on the terms on which Her Majesty's Government could recommend Parliament to pass the necessary legislation. For it cannot be too clearly stated that independence for Rhodesia can come only by the authority of this Parliament.

In pursuance of the discussions which began in September, 1964, the right hon. Gentleman, the then Prime Minister, and his colleagues had thorough and frank discussions with the Prime Minister of Rhodesia. In those discussions the then British Government made clear three things. One, any unilateral declaration claiming independence would be invalid, illegal and indeed a revolt against the Crown. Two, that while the discussions should start from the 1961 Rhodesian Constitution, that had not in fact been devised as an Independence Constitution (the Rhodesian Government contest this statement) and there must be sufficiently representative institutions as a condition of the grant of independence to Rhodesia, a view which was endorsed by the 1964 Commonwealth Prime Ministers' Meeting. Third, the then Government made clear that whatever settlement was reached as a basis for independence must be acceptable to the people of Rhodesia as a whole.

This was the position at the time of the change of Government in Britain, and Her Majesty's Government have in fact consistently followed the principles laid down by our predecessors and sought to give effect to them. On 15th October last year, Polling Day, the then Government rejected Mr. Smith's suggestion that the judgment of the forthcoming indaba of Rhodesian chiefs could be taken as indicating the views of the Rhodesian people as a whole.

On taking office we confirmed that rejection.

The House will recall that in view of evidence that a Unilateral Independence Declaration was imminent, the Government issued on 27th October, 1964 a statement on the legal, constitutional and economic consequences of such a step. The House will recall also that when, in April this year, in the course of the Rhodesian election doubts were thrown on the implication of that statement, I made a further statement in this House on 29th April this year.
I will not weary the House with all the details of my exchanges, written and oral, with the Prime Minister of Rhodesia. But it will be recalled that after written exchanges, I met Mr. Smith when he came to London to attend the funeral of Sir Winston Churchill and that shortly afterwards my noble Friend the Lord Chancellor and my right hon. Friend the Secretary of State for Commonwealth Relations visited Rhodesia for discussions with the Government there and with representative leaders of all shades of opinion.

Following that visit exchanges continued by letter and orally through the British High Commissioner in Salisbury - and I cannot find words adequate to pay tribute to his work through all this time - on the basis of five principles which Her Majesty's Government considered must be realised before independence must be granted, and which Mr. Smith accepted. These principles, as the House knows, were:

(1) The principle and intention of unimpeached progress to majority rule, already enshrined in the 1961 Constitution, would have to be maintained and guaranteed.

(2) There would also have to be guarantees against retrogressive amendment of the Constitution.

(3) There would have to be immediate improvement in the political status of the African population.

(4) There would have to be progress towards ending racial discrimination.

(5) The British Government would need to be satisfied that any basis proposed for independence was acceptable to the people of Rhodesia as a whole.

A fuller statement on the position which Her Majesty's Government have taken up on these principles was in fact published by my right hon. Friend's Department on 9th October, after the breaking-off of the recent London talks, and for the convenience of the House I propose to circulate that statement in the Official Report.

In furtherance of the discussions on these principles, my hon. Friend the Minister of State for Commonwealth Relations in July visited Rhodesia for further discussions and after further written and oral exchanges Mr. Smith came to London for talks aimed at producing a final settlement of the points at issue. After talks lasting four days, from 5th to 9th October, it became clear that no agreement was in sight, and an agreed communique was issued saying so. The statement of 9th October to which I have referred set out in more detail the points at issue and I will not take up the time of the House going over the material in that statement.
Although we failed to reach agreement on the means of giving effect to every one of the five principles, I would particularly draw the House's attention to our insistence that guaranteed and unimpeded progress to majority rule should not be frustrated by the freedom of an independent Rhodesia to amend the 1961 Constitution in a retrogressive sense. In this connection the House will be aware of a singular feature in that Constitution, in that while certain Constitutional safeguards are entrenched, other provisions—including even the numbers of members of Parliament to be elected on the "A" roll and "B" roll respectively—are not entrenched and, on a two-thirds Parliamentary majority could be altered in such a way as completely to frustrate the spirit of the Constitution and the prospects of orderly progress to majority rule. Equally, in the London talks, there was no agreement at all on the means of giving effect to the over-riding fifth principle that the British Government and the British Parliament must be satisfied that the terms for independence are acceptable to the Rhodesian people as a whole.

Despite the breakdown, I made clear to Mr. Smith on the day of his departure, and my right hon. Friend reconfirmed when he saw him off at London Airport, that we were prepared to continue the discussions. There were of course a number of proposals which deserved further consideration, including our proposal of a Constitutional Conference, Mr. Smith's proposal for a Senate to vote on constitutional matters—though, on his formulation, only on the entrenched clauses—and the proposal which came up very late in the day for a Treaty between the British and the Government of Rhodesia to provide the necessary safeguards.

As the House knows, exchanges continued, including those covering my proposal for a Commonwealth Mission to be headed by Sir Robert Menzies which Mr. Smith rejected. On the 20th of October, Mr. Smith sent me an urgent letter, which hon. Members will have seen and which many hon. Members will have regarded as being in the nature of an ultimatum, demanding our immediate acceptance of independence on the basis of the 1961 Constitution combined with a Treaty on the lines suggested by Mr. Smith. Following my visit to Salisbury I must tell the House that I am in no doubt that a U.D.I. would have followed the Government's rejection of that demand, for I am sure the House would never have agreed to our accepting it.

As the House knows, I replied saying that I proposed to come to Salisbury to continue the discussions with the Rhodesian Government and to have talks with all—including African Nationalist Leaders—who I felt could help. Accordingly, accompanied by my right hon. Friend the Commonwealth Secretary and by hon. Friend the Parliamentary Secretary to the Ministry of Overseas Development, who went for the purpose of discussing an intensified education programme with Rhodesian Ministers, I left for

SECRET
Salisbury on the 24th of October. I should perhaps add that in the course of my journey, more than 13,000 miles, I discussed the Rhodesian and of course other questions with the Presidents of Kenya, Zambia and Ghana and the Prime Minister of Nigeria, (while my right hon. Friend had visited Tanzania and Kenya). The House will recognise that, although Britain alone carries the responsibility and the trust, there are other people to consider, not only the peoples of Britain and of Rhodesia, but also the Commonwealth, and indeed the United Nations as a whole.

For my talks in Salisbury I was joined by my hon. and learned Friend the Attorney-General. In all I had talks spread over four days, and covering practically every minute of those four days with the Government of Rhodesia and with leaders of all sections of Rhodesian opinion. In all, my talks covered nine and a half hours with Mr. Smith, alone, or with his colleagues, and in one case, with the whole Cabinet: twenty-nine hours in separate meetings with other leaders of opinion, including three long meetings with Mr. Nkomo and his colleagues, three with Mr. Sithole and his colleagues, and one meeting with Mr. Nkomo and Mr. Sithole together. In all, serious talks with 126 leading and representative Rhodesians.

No-one, British or Rhodesian, has been able to hear the views of so many leaders of opinion, African or European, for very many years. Before I come to the crucial meetings with the Rhodesian Government and describe the state at which the discussions now stand, I should tell the House that in my talks with the African Nationalist leaders, and with African and other M.P.s elected on the "B" roll, I made clear, with absolute frankness, three things. First, I regarded it as my duty to remove from their minds any idea of hope they might have that Rhodesia's constitutional problems were going to be solved by an assertion of military power on our part, whether for the purposes of suspending or amending the 1961 Constitution, of imposing majority rule tomorrow or any other time - or for that matter of dealing with the situation that would follow, an illegal assertion of independence. To quote
the words I used to them,

"If there are those who are thinking in terms of a thunderbolt hurtling from the sky and destroying their enemies, a thunderbolt in the shape of the Royal Air Force, let me say that thunderbolt will not be coming, and to continue in this delusion wastes valuable time, and misdirects valuable energies."

Secondly, I said that,

"Although successive British Governments are deeply and irrevocably committed to guaranteed and unimpeded progress to majority rule, the British Government who alone through the British Parliament, have the legal power to grant independence, do not believe that in the present and tragic and divided condition of Rhodesia, that majority can or should come today, or tomorrow. A period of time is needed, time to remove the fears and suspicions between race and race, time to show that the Constitution of Rhodesia with whatever amendments may later be made, can be worked, and is going to be worked, and that the rule of law, equally with the maintenance of essential human rights, will be paramount. And the time required cannot be measured by clock or calendar, but only by achievement."

Thirdly, I urged them to unite the at present bitterly divided forces of African opinion, to work the Constitution of Rhodesia in a constitutional manner, to persuade their followers to register and to vote; I urged them to stand for Parliament and to show to Rhodesia, to ourselves and the world, that they and the others concerned could make a reality of a multi-racial Parliament, with a system of multi-racial government, as long as possible before and of course indefinitely after majority rule. And let it be clear, such an achievement is going to require a very painful surrender of prejudice, a very substantial eating of words, by a lot of people, African and European alike.

Now I turn to the discussions with the Government. Every issue was exhaustively discussed and there is no question which has not been fully thrashed out. And I want the House to know that no-one in authority in Rhodesia can now be in any doubt of the dire consequences, legal, constitutional or economic, of an illegal seizure of power. Indeed, I would hope that no-one in Rhodesia at all, following my statement to a news conference (which, if the Houses wish, I will place in the Library) would now be in any doubt of the position. For the House must realise that Rhodesia today is not only hyper-charged with emotion, particularly the emotion of fear, it is - Europeans and Africans alike - characterised by an extraordinary degree of self-deception.
There were no threats. There were warnings, not only of the action we should have to take, but of assessment of the international reaction and of the steps that might be taken, and taken irrespective of anything we might do, by the United Nations or by other African countries.

On the issues we discussed, it became quite clear that the proposal for the Treaty is not a runner. We were fully prepared to discuss it in depth, and my hon. and learned Friend the Attorney-General flew out specially for this, but it became clear that it plays no real part in Rhodesian thinking. They and we agree that constitutional safeguards should be entrenched in a Constitution, not a Treaty. Moreover, even if a Treaty were regarded as an appropriate vehicle, we should still need to agree on its contents, including the problem of the unentrenched clauses. The Treaty idea, therefore, is dead, and we agreed to pursue the discussions on the basis of amendments to be made now to the 1961 Constitution.

Sir, by last Friday morning we had made no progress, indeed there were ominous signs not only of a breakdown of the discussions, but of imminent action.

In these circumstances I put to the Rhodesian Prime Minister two propositions. The first of these stemmed from Mr. Smith's repeated assertion that the Rhodesian people, including a majority of Africans, wanted independence on the basis of the 1961 Constitution. I proposed to him that this should be tested by a referendum of the whole Rhodesian people, whether on universal suffrage, or perhaps on the basis of the present electorate plus the majority of Africans whom Mr. Smith has proposed should now be added to the "B" roll voters on the single test of whether they pay taxes. There would have to be safeguards, including international, presumably British, supervision guarantees against intimidation from either side, and freedom for lawful, constitutional political organisation and canvassing. This would show whether Mr. Smith was right or whether those were right, European and African, who said that the country would be opposed to independence on Mr. Smith's terms.
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The second proposition was that Her Majesty should be recommended by the Governments both of Britain and Rhodesia to set up a Royal Commission, under the chairmanship of Rhodesia's Chief Justice, to recommend the amendments to the 1961 Rhodesia Constitution which would provide the basis on which Rhodesia may proceed to independence as rapidly as possible in a manner giving effect to the principles enunciated by the British Government in our statement of the 9th October, 1965, and which at the same time would be acceptable to the people of Rhodesia as a whole. What was envisaged first was that the Royal Commission in addition to taking formal evidence should be free to make informal contacts to reach agreement on an acceptable independence constitution. Secondly it would need to recommend how its proposals could be shown to be acceptable to the people of Rhodesia as a whole. What I had in mind was that the Commission should continue the informal consultation, should continue the work we had begun in breaking down the apparently irreconcilable and intransigent positions of those involved. For in fact what we were doing last week, and what the Commission would continue, was to hold a running and informal constitutional conference, in place of the formal conference referred to in this year's Commonwealth Prime Ministers' Conference communique, but which in present circumstances, as I promptly told those who pressed it on me, would be a meaningless gesture.

Both propositions were later put by me to the African leaders. On Friday evening my colleagues and I met the full Rhodesian Cabinet. While accepting neither of my two alternatives they came forward with a proposal which, in fact, represented a combination of them. They agreed on a Royal Commission, under the chairmanship of the Chief Justice and proposed that one member should be nominated by the Rhodesian Government, one by Her Majesty's Government, the three to work on the basis of a unanimous report. Instead of the Commission proceeding from the 1961 Constitution towards an entirely new Constitution which would be generally acceptable, they proposed that it should work on a narrower canvas, namely to receive from the two Governments an agreed draft independence arrangement, based on the 1961 Constitution with such amendments as we might consider necessary; and then to ascertain whether such a document was or was not acceptable to the Rhodesian people as a whole.

I believe this was a helpful, not to say ingenious combination of our own proposals, though I should make it clear that we reserve our position on two main points. First, on our right to revert to our original concept of the Commission's powers and duties, not least if the Commission reported failure or could not agree, working on the narrower terms of reference. Second, on balance we feel, and we reserved our position on this, that it might be more consistent with the responsibility which the two Governments carry in this matter for the Commission to produce an interim report to the
two Governments on the methods they recommend for consulting Rhodesian opinion as a whole, and if these were accepted by the Government, to go on to supervise the consultation progress.

I believe that, subject to these reservations, we now have a way in which given goodwill and ordinary plain common sense it is possible to settle the problem on a basis acceptable to the Rhodesian people, to Parliament and I believe to world opinion. Procedurally, at least, there is nothing to prevent an agreed settlement, and we have provided for the realisation of the fifth principle.

But the House will realise there is one outstanding difficulty. We have still to agree - as we would have had under a Treaty, or on any other basis - on the content of the document which, after approval, by the two Governments which the Commission would put to the peoples of Rhodesia. My right hon. Friend and my hon. and learned Friend stayed on in Salisbury to seek agreement. They are now on their way back to report, but I have to tell the House that there are still important differences. The principal issues include the doctrine of the so-called blocking third or blocking quarter for amendments to the constitution of clauses which are not entrenched and provision of effective safeguards for the specially entrenched clauses. The Rhodesian Government proposal to augment the elected African members for this purpose by a number of hereditary chiefs, paid by the Rhodesian Government simply will not do. I have seen the chiefs. They cannot by the widest stretch of imagination be said to be capable of representing the African population as a whole.

Equally I am sure the House would feel that we cannot leave without safeguards a situation which would permit, amongst other things, an independent Rhodesian Parliament, without check or constitutional hindrance to reduce the "B" roll seats from 15 to 1 or to increase to 100 the "A" roll seats, and thus postpone for many more years the achievement of majority rule.

We have still to reach agreement. With the necessary goodwill, I do not see why we should not.

I simply cannot believe, now we have got so far, that the Rhodesian Government or anyone else in their senses, could reject an agreed and constitutional means of resolving this problem and embark on the dangerous lunacy of an illegal declaration, with all that would follow. The way is open, given the will, and now only those - and there are those - who want a U.D.I. for its own sake, or who in their hearts reject the ultimate purpose of the 1961 Constitution and of the five principles on which Mr. Smith and I have agreed to base all our discussion, could now contemplate illegal and unconstitutional action.
Sir, I hope the House will concede that I have done everything in a man's power to avert the tragic and dangerous development which only ten days ago was imminent, and cannot even now be said to have been removed, and to carry through the consultations necessary to any long-term solution. I hope hon. Members will agree that as a result of those ten days we can say that the door is wide open to an acceptable, agreed, and constitutional solution, that there is no case for - that we in Britain, and the rest of the world, could not now understand, still less condone - an attempt to solve Rhodesian problems by illegal and unconstitutional means. And I hope they will agree that we have reached this situation without any retreat from the principles which all Parties in this House have proclaimed, without any surrender of that position of trust which we hold and must hold for the peoples - all the peoples of Rhodesia. For that is a trust which we cannot morally escape or seek to evade; it is inescapably ours until we hand over to an independent Rhodesia not only our powers and responsibilities but also our trusteeship, on terms and on conditions which will ensure that, in letter and in spirit, the principles which have inspired that trusteeship will endure.
REPORT TO THE BRITISH AND RHODESIAN GOVERNMENTS

INDEPENDENCE OF RHODESIA

PROPOSED ROYAL COMMISSION

1. At the meeting of British Ministers and the Rhodesian Cabinet on 29th October, the two Prime Ministers discussed proposals for an Independence Constitution for Rhodesia which might be put before a Royal Commission to be appointed to ascertain whether such proposals would be acceptable to the people of Rhodesia as a whole. The Prime Minister of Rhodesia maintained that any such proposals must be acceptable to the Government of Rhodesia; and the British Prime Minister accepted the importance of this. The two Prime Ministers agreed that the Commonwealth Secretary with the Attorney-General and Rhodesian Ministers should explore the extent of agreement on such proposals which can be reached and should identify the points of disagreement.

2. The results of our discussion are as follows –

(a) Ordinary Constitutional amendments

Rhodesian position
The Rhodesian Government consider that the present provision that the clauses of the constitution, other than those specially entrenched, may be amended by a two-thirds majority in the Legislative Assembly should be continued into the Independence constitution unaltered.

British position
The British Ministers suggested that, while this two-thirds provision should be maintained, the B Roll seats in the Legislative Assembly should be increased to provide a "blocking third" for the amendment of those clauses. This proposal is unacceptable to the Rhodesian Ministers.

(b) Amendment of the specially entrenched clauses

Rhodesian position
The Rhodesian Ministers regard the present provision for amendment of the specially entrenched clauses by four racial referenda as unworkable. They would however allow this provision to continue in the Independence Constitution provided an acceptable alternative was introduced for the present arrangements, set out in Section 109, whereby in lieu of these referenda a Bill may be submitted to Her Majesty for assent. The Rhodesian Ministers propose that, in place of this procedure, a House of 12 Chiefs should be established which would vote with the assembly on the third reading of any Bill seeking to amend the specially entrenched clauses. The Rhodesian Ministers consider that the 12 Chiefs, added to the existing 15 B Roll members, would provide a predominantly African "blocking Third".

(1)
British Position

The British Ministers do not regard these proposals as providing an acceptable substitute for the present Section 109 procedure and point out that the sole constitutional safeguard would be a margin of two votes. They suggest alternative procedures for the amendment of specially entrenched clauses, to replace the two alternative procedures in the present constitution.

The first of these would require that a Bill to amend a specially entrenched clause should receive a two-thirds majority in the Legislative Assembly and should then be submitted to a referendum of the electorate, provided that the electorate on the B Roll had been increased to include, say all adult taxpayers.

The alternative procedure would be that an amending Bill should receive a three-quarters majority in the Legislative Assembly, provision having been made for an increase in the B Roll seats to provide a "Blocking Quarter". Thereafter, before the Bill became law, a fixed time should elapse during which the validity of the Bill would be challenged by any Rhodesian on the grounds (a) that the Bill discriminated or had the effect of discriminating unjustly between the races (b) that it failed to pay proper respect to the rights and freedoms of the individual. The question of the validity of the Bill would be determined by the Appellate Division of the High Court of Rhodesia with an appeal as of right from the decision of that court to the Judicial Committee of the Privy Council.

The Rhodesian Ministers find the first of these alternative procedures (i.e. approval by a two-thirds majority followed by a referendum) unacceptable. They are prepared to consider the second alternative, provided the additional two seats necessary to enlarge the B Roll to a Blocking Quarter are filled by Chiefs, who on appointment to the legislature would cease to receive any Chiefs' subsidies, and provided the reference to the High Court is strictly limited to the question whether the Bill "discriminates unjustly between the races".

The British Ministers consider that the additional two seats on the B Roll should be filled by members elected on the B Roll.

Additions to the specially entrenched clauses

Rhodesian position

The Rhodesian Ministers are not prepared to agree to the further entrenchment of any clauses in the present constitution, with the possible single exception referred to below.
The British position

The British Ministers suggest the special entrenchment of Chapter III of the constitution which is not now specially entrenched in the constitution. This chapter relates to the delimitation and number of constituencies at electoral districts. Without such special entrenchment, it would be possible, by a two-thirds majority, to amend the clauses governing the number of A or B Roll seats.

The Rhodesian Ministers cannot accept the special entrenchment of these clauses. They would, however, agree to the special entrenchment of the provisions governing the total number of B Roll Seats, provided a "fadeout" arrangement was introduced into the Independence Constitution, under which any reduction in B Roll seats would be dependent on non-Europeans winning A Roll seats. The Rhodesian proposal is that for each A Roll seat won by a non-European, a B Roll seat should be abolished. This is unacceptable to the British Ministers. They consider that if an arrangement of this kind were to be introduced, it ought at least to provide that two A Roll seats would have to be won by non-Europeans before a B Roll seat was abolished. Additionally, the British Ministers have doubts about this proposal on practical grounds e.g. the difficulty of definition or of subsequent electoral reversal.

The Franchise

Rhodesian position

Provided the remaining provisions of the constitution satisfied their requirements, the Rhodesian Minister would be willing to extend the Franchise on the B Roll to qualified indigenous adult taxpayers.

British position

Provided the remaining provision of the constitution satisfied their requirements, and subject to the reasonableness of the proposed qualification, the British Ministers would accept this.

Consequential Amendments

Rhodesian and British Ministers are satisfied that no serious problems are raised by the sequence of amendments, of a consequential nature, which would be necessary to convert the 1961 Constitution into an Independence Constitution.

Submission of this report

It is agreed that this joint report will be submitted by the British and Rhodesian Ministers to their respective Governments.
I have been asked by my Prime Minister to give you the following message:

"From Rhodesian Prime Minister to British Prime Minister,
31st October, 1965.

The talks ended here this morning without managing to bring the two sides any closer. After you departed no progress was made, I regret to report.

As we agreed here on Friday night, there is no point in the Royal Commission starting, unless the proposed constitution is acceptable to the Rhodesian Government. Otherwise, the exercise would be a useless one.

Even though our proposals may not completely satisfy the British Government, I believe that we should now leave it to an impartial arbitrator - the proposed Royal Commission - to determine whether our proposals are acceptable to the people of Rhodesia as a whole. If the Commission finds in the affirmative, then, in all justice, no one will have any right to stand in our way.

I would remind you that last year I made an agreement with your predecessor that Rhodesia could have Independence on the 1961 Constitution, if it could be proved that this was acceptable to the people of Rhodesia as a whole. Unfortunately, we differed over the mechanics of testing public opinion in Rhodesia. Under this proposed scheme the Rhodesian Government has agreed to additional liberal concessions in your favour.

Therefore, if you are unwilling to accept the proposal now put to you, this means that you are departing, in principle, from the agreement which I made with your predecessor last year. As for the mechanics of carrying out the exercise, we have already agreed that this should be a Royal Commission. Hence we have overcome the difficulty which arose between your predecessor and myself."

Message ends.
Mr. Smith said he might be able - he hoped he would be - to go further in the direction of some sort of referendum than his own original proposal had contemplated. But he could not go as far as "one man, one vote". "If I were thought to have conceded this, I should be out".

The Prime Minister said that we adhered to what we had said in Parliament, in particular that sufficiently representative institutions would be a condition of the grant of independence. But, if the Government of Southern Rhodesia could produce - and we very much doubted that they could - evidence clearly showing that the people of Southern Rhodesia considered that they already had sufficiently representative institutions, a new situation would arise, which we should have to consider on its merits. He repeated that we should have to consider it; we should still not be committed to grant independence.

The Commonwealth Secretary agreed that, if Mr. Smith could prove - and he underlined the Prime Minister's scepticism on this point - that the Africans would accept the present constitution without any enlargement of representative institutions, it would be very difficult for us to do otherwise than to acquiesce.

Mr. Smith replied that, even so, he must be clear whether, if he demonstrated to our satisfaction that the Africans would accept the present constitution, he would still be liable to be refused independence until a greater degree of African representation was permitted. If he were still liable to be challenged on this point, that would be the end of it so far as he was concerned.

The Prime Minister said that he should then presumably be back to a unilateral declaration of independence.

Mr. Smith confirmed this was so.

The Prime Minister said that, nevertheless, we should not reach this situation until the process of ascertaining African opinion had been completed to our satisfaction; but he was anxious that Mr. Smith should be under no illusions that we might have to say, when the time came, that it was not to our satisfaction.
The Commonwealth Secretary said that if, contrary to our expectations, we were convinced that African opinion had been fully consulted and supported the present constitution, it seemed unlikely that we should be able to insist on the Africans being given a greater degree of representation, which they would have themselves indicated that they did not want. That would not be the main difficulty. The main difficulty would be much more likely to be the method of ascertaining African opinion.

Mr. Smith said that, even so, he hoped that the United Kingdom Government would not allow themselves to be trapped into indicating publicly, before they had received proposals from the Government of Southern Rhodesia, whether they would, or would not, regard any particular procedure as an adequate means of ascertaining African opinion.

The Commonwealth Secretary agreed. It should be part of the understanding between the two Governments that neither of them would publicly commit themselves, until the time came, to any particular method of consultation. We assumed, of course, that the Government of Southern Rhodesia would consult us privately on their proposals before they put them to us formally.

The Prime Minister said that, in addition to specifying sufficiently representative institutions as a condition of the grant of independence, we had also publicly indicated that independence could only be conceded on the basis of majority rule. Here was another point on which we might be asked whether the communique was consistent with our previous declarations of policy.

Mr. Smith said that, if he did succeed in convincing the British Government that African opinion would accept independence on the basis of the present constitution, they would not in effect be able to adhere to their earlier stipulations that majority rule and sufficiently representative institutions must be a pre-condition of the grant of independence.

The Prime Minister replied that he must, nevertheless, remain wholly free to say that we did adhere to our previous statements that sufficiently representative institutions would be a pre-condition.

Mr. Smith replied that he would accept this. What he would not accept was a pre-condition requiring greater African representation in the Legislature, if the Africans themselves indicated that they did not want it.
The Prime Minister said that greater African representation in the Legislature was precisely what sufficiently representative institutions meant—unless the people of Southern Rhodesia made it wholly clear that they did not want this change. He continued to regard an increase in African representation as a pre-condition of the grant of independence, although we would, of course, be ready to consider any clear expression of African opinion on this subject. In short, we believed—and we must continue to say publicly that we believed—that the Africans themselves wanted greater representation; but we could add that we were ready to be convinced to the contrary, if Mr. Smith could convince us.

Mr. Smith replied that the choice which he intended to offer was the simple option to accept or to reject independence on the basis of the present constitution—not on the basis of the present constitution with the prospect of this, that or some other amendment. He would give this simple choice; he would make it clear to the Africans that the alternative was an African nationalist government; and he believed that the great majority of them would be so appalled by this prospect that they would vote in favour of his own proposal.

The Prime Minister repeated that it was essential that Mr. Smith should be under no illusions. Sufficiently representative institutions had always meant greater African representation. It must continue in our mouths, to mean this.

***MEETING AT 3.30 p.m. ON THURSDAY, 10th SEPTEMBER, 1964.***

The Prime Minister said that he wished to propose a revised form of communique.

The United Kingdom's position must be reserved and must be seen to be reserved. We must therefore insist on the inclusion in the communique of a sentence or sentences indicating that we had made it plain to Mr. Smith that we reserved our position; and we must also insist that this should form its final paragraph in order that our reservation might be seen to apply over the whole field of the discussion.

The meeting then formally approved the draft communique in its final version, as at Annex.
There was a full discussion of all aspects of the problem of independence for Southern Rhodesia. The Prime Minister of Southern Rhodesia expounded his case for the grant of independence on the basis of the present constitution and franchise. The British Prime Minister re-stated and explained the position of the British Government, as already stated in Parliament.

The British Prime Minister conveyed to the Prime Minister of Southern Rhodesia the views expressed at the Meeting of Commonwealth Prime Ministers in July as set out in their Final Communiqué. The Prime Minister of Southern Rhodesia for his part made it clear that he did not feel bound by any of the statements made at the Commonwealth Prime Ministers' Meeting to which he had not been invited.

The British Prime Minister told the Prime Minister of Southern Rhodesia that the British Government looked forward to the day when Southern Rhodesia would take her place as an independent Sovereign State within the Commonwealth. For their part they were anxious that this should come about as soon as practicable.

The British Prime Minister said that the British Government must be satisfied that any basis on which it was proposed that independence should be granted was acceptable to the people of the country as a whole.

The Prime Minister of Southern Rhodesia accepted that independence must be based on general consent and stated that he was convinced that the majority of the population supported his request for independence on the basis of the present constitution and franchise. The British Prime Minister took note of this statement but said that the British Government had as yet no evidence that this was the case. The Prime Minister of Southern Rhodesia recognized that the British Government were entitled to be satisfied about this and said that he would consider how best it could be demonstrated so that independence could be granted.

The British Prime Minister said that the British Government would take account of any views which might be freely expressed by the population on the issues involved; but he must make it plain that the British Government reserved their position.
CABINET

IMMIGRATION

Memorandum by the Secretary of State for the Home Department

I seek my colleagues' approval to the appointment, as a matter of urgency, of a Committee to review the law on immigration.

2. The whole question of immigration into this country, and the means by which it is regulated, is likely to be discussed in the debate on The Queen's Speech - having regard to the omission of any reference to a Bill taking further powers in relation to Commonwealth immigrants and in the course of the subsequent debates on the Expiring Laws (Continuance) Bill (under which both the legislation regulating alien immigration and that regulating Commonwealth immigration fall to be renewed). We ought, therefore, to reach a conclusion at once on the question of an inquiry, so that if it is thought right to do so an announcement can be made in the course of debate.

3. My colleagues in the Home Affairs Committee and I have considered whether to recommend a comprehensive review, possibly by a Royal Commission, covering broad issues of policy and the general system of control, as well as the legal powers on which control is based. We have, however, come to the conclusion that such an inquiry would be inopportune and that it would be preferable to appoint a Committee with terms of reference limited to the questions of putting the existing temporary legislation on a permanent footing, for both aliens and Commonwealth immigrants, and conferring rights of appeal on immigrants refused entry or subsequently required to leave the country. We think that the general system of control should not be within its terms of reference and that the problem of the short-term visitor, as distinct from the immigrant who wishes to settle here, should also be excluded. I therefore propose that the Committee should have the following terms of reference:

"To review the law affecting aliens and Commonwealth citizens who wish to enter and settle in this country (including the remedies available to those refused admission to, or subsequently required to leave, the country) and to make recommendations."

4. I propose that the inquiry should be undertaken by a Departmental Committee of independent persons appointed by me. If the Cabinet approve my proposal, I shall have further discussions.
with my colleagues about the membership of the Committee; at present I have in mind a Committee of about five or six persons, of whom two or more should be legally qualified.

5. If my colleagues agree, I would like to announce the decision to appoint a Committee during a debate on The Queen’s Speech.

F. S.

Home Office, S. W. 1.

2nd November, 1965
CABINET

ARMED FORCES' PAY

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

Under present arrangements for reviewing the pay of the Armed Forces an increase in pay of the order of 18 1/2 per cent and costing over £50 million would fall due next April. We consider that severe damage to our agreed policy for prices and incomes will ensue unless this question is referred to the National Board for Prices and Incomes for examination.

2. The attached report by officials (Annex A) on the merits of such a reference was completed on 7th September, effectively before it was decided that the economic situation made it essential, for a much more stringent application of prices and incomes policy, including the institution of an "early warning system" and the introduction of legislation to provide the possibility of statutory backing if voluntary arrangements did not succeed.

3. The arrangements for biennial reviews of the pay of the Armed Forces, loosely called the Grigg system, have been in force since 1960 and were designed to bring pay into line with civilian analogues. They therefore have much in common with other "fair comparison" arrangements for determining the appropriate levels of pay in the public service. But all such arrangements tend to settle the pay of one group of staff at the cost of providing new arguments in favour of claims elsewhere. Since these arrangements were instituted, we have a new and agreed national policy for prices and incomes. Whatever is done about pay anywhere must take this agreed policy into account. And unless it is clearly being taken into account in settling the pay of the public services, the new policy is bound to fail.

4. Later figures than those in the memorandum by officials suggest that the current review would point to increases in Service pay of some 18 1/2 per cent with effect from 1st April, 1966, at a cost of £52 million a year. We do not see how the Government would be able to argue with conviction that increases of this order were so obviously compatible with the agreed criteria of our White Paper.
on Prices and Incomes Policy (Cmnd. 2639) that they were justified in putting them into full effect. On the other hand, we do not see how the Government could decide, without any outside guidance, that only part of the increase shown by the formula should be paid, or that it should be paid in stages. If it were argued that this had to be done because the economic situation did not permit the expenditure, we should be expected in fairness to take similar drastic action on a much wider front than this. If it were argued that it had to be done because the percentage increase was too large on incomes policy grounds, how could we find a basis for determining an alternative figure which would be accepted as consistent with the White Paper?

5. This is just the kind of situation in which the guidance of the National Board can be invaluable, because it is the agreed instrument for applying the agreed criteria to individual cases in order to determine whether the national interest is met.

6. There is the argument that reference to the Board will take too long. We find this hard to accept because the increase in Service pay is not due to start under present arrangements until 1st April, 1966.

7. We suggest therefore that we should refer to the National Board both the question of the immediate increase in Service pay, on which they should be asked to report within two months (if necessary on an interim basis), and also the more general question of the system of Service pay determination for which they could be given a longer period.

8. The terms of reference of the Board would need to be drawn sufficiently widely for them to take account not only of incomes policy, but also of the recruiting needs of the Services and the special features of Service life and emoluments. The Board should be asked to apply the criteria of the White Paper on Prices and Incomes Policy to this case, considering *inter alia* whether an exceptional increase in pay is justified by one or more of the various factors set out in paragraph 15, namely:

(i) where the employees concerned, for example by accepting more exacting work or a major change in working practices, make a direct contribution towards increasing productivity in the particular firm or industry. Even in such cases some of the benefit should accrue to the community as a whole in the form of lower prices;

(ii) where it is essential in the national interest to secure a change in the distribution of manpower (or to prevent a change which would otherwise take place) and a pay increase would be both necessary and effective for this purpose;

(iii) where there is general recognition that existing wage and salary levels are too low to maintain a reasonable standard of living;

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(iv) where there is widespread recognition that the pay of a certain group of workers has fallen seriously out of line with the level of remuneration for similar work and needs in the national interest to be improved.

We should expect the Board to advise, with these criteria in mind, whether the Grigg increases should be applied in full next April or should be modified in some way, such as by application in stages or by confining large percentage increases to those points where they would really help manpower difficulties.

9. We are not impressed by the arguments in the paper by officials that these questions should not be referred to the National Board because there would be major difficulties in presenting the relevant information about Service pay and because the delay imposed by a reference would make it impossible to take proper provision for Service pay in the 1966/67 Defence Estimates. We are sure that these are less serious difficulties than those we should experience if we let the Grigg review take its course and then either applied it willy nilly, or decided for ourselves by how much or in what way we should need to reduce it. If we refer the question to the Board straightaway, we ought in any event to be able to have their guidance by the end of the year or very early in the New Year.

**Recommendation**

10. We therefore recommend that the Government should straightaway refer to the National Board for Prices and Incomes first what increases should now be made in Service pay, and secondly what the arrangements for determining Service pay should be in the longer term. A draft of such a reference (Annex B) is attached. We propose that, in order to still speculation that has already arisen about the Government's intentions, an immediate announcement to Parliament should be made of a decision to refer Armed Forces' pay to the National Board.

G. B.
L. J. C.

Department of Economic Affairs, S.W.1,
ANNEX A

ARMED FORCES' PAY

The present arrangements

The arrangements for reviewing the pay of the Armed Forces are based on the recommendations of the Advisory Committee on Recruiting (The Grigg Committee) which reported in 1958. In brief, these arrangements, loosely called the Grigg system, provide for biennial reviews to adjust the pay of officers to take account of movements in Civil Service Executive and Administrative Class salaries and that of other ranks to reflect changes in the average earnings and wages in manufacturing and certain other industries.

2. The last Grigg review led to the introduction of new rates of pay on 1st April, 1964. Since the last review there have been substantial increases in the pay of the analogues used in the Grigg system, and the current review may be expected to point to increases in Service pay of some 15 per cent to 20 per cent with effect from 1st April, 1966.

3. The first Grigg increases took effect in 1960. The system is now well understood by the Services. They have learned to accept that they cannot expect pay adjustments more than once every two years, but they rely on the biennial review to bring them into line with their civilian analogues. The arrangements have now assumed the nature of a long-term agreement. Indeed, this was an important consideration in the minds of Ministers in rejecting the proposed interim pay increase for the Services. It follows that there is a strong moral obligation on the Government to observe their side of the deal and not to interrupt the Grigg system during a biennial cycle, the more so since the Services do not enjoy the advantage of the normal processes of trade union representation and collective bargaining. Any failure to carry through the current review would be regarded by the Armed Forces as a breach of faith, and the Ministry of Defence believe that the result on recruitment, morale and willingness to serve might be very serious.

Presentational difficulties

4. The difficulty in present circumstances of justifying increases of 15 per cent to 20 per cent in Service pay will be considerable. But a report from the National Board for Prices and Incomes, on a reference about the methods for determining pay, as distinct from the levels of pay, might not make the task of presentation any easier. The Board might well criticise aspects of the present arrangements and the result might be to make it more difficult, rather than less, to justify the use of the present Grigg formula in the 1966 pay review.

5. There is also a serious difficulty of timing in any reference of the Grigg arrangements to the National Board. Although the new rates of pay are not due to take effect before April 1966 they must be settled before the end of 1965 in order that proper provision may be made in the 1966–67 Defence Estimates and the outcome published
with the annual Statement on Defence in February. For this reason
the detailed work on the review is already well advanced. It would be
very difficult in the available time to arrange for the Board to
examine the Grigg system and to consider how any views it might
express could best be taken into account, particularly if the mass of
detailed work involved in producing a new Pay Code had to be gone
over again.

6. Finally, the Grigg arrangements might be very awkward to
present adequately to the Board. Normally the interests of the
employees can be represented by their trade union or corresponding
body. The Armed Forces, however, have no such organisation to
put their case. In discussions on their pay within the Government
machine their interests are represented by the Ministry of Defence,
but it is highly undesirable that conflicting evidence should be given
to the National Board by the Ministry and the Treasury. On the
other hand the Ministry of Defence could not accept that the
Services’ case should go by default should it be decided to refer the
Grigg arrangements to the Board.

7. The problem of justifying large pay increases for the
Services might be helped, however, if the Government, when the
outcome of the current review is announced, could say that the
increases were being granted in discharge of long-standing
commitments on Service pay, but that a full-scale review, taking into
account all the relevant factors, was being undertaken of the
arrangements for determining Service pay in future. It would be for
further consideration at the due time whether there would be
advantage in referring whatever new arrangements might emerge to
the National Board before any final decisions were taken by the
Government.

Review of Grigg system

8. There is much to be said, apart from the presentational
advantages, for a review of the Grigg system. It is suggested that
this review should be undertaken as a matter of some urgency by
officials of the Ministry of Defence, Department of Economic Affairs,
Ministry of Labour and Treasury under the following two heads:

(a) The timing of increases and the form of future reviews;
(b) The criteria for determining movements in pay.

The timing of increases and the form of future reviews

9. Fixed biennial reviews, on the present basis, suffer from two
weaknesses, which reflect the extent to which the present system is
now rather out of line with what happens in the public sector
generally.

(a) The Grigg system is not designed to revalue pay but only
to maintain its previous broad relationship with the pay
of civil servants and with earnings in manufacturing and
certain other industries.

(b) But, in so far as the intention is to maintain a constant
relationship between Forces’ and other forms of pay,
biennial reviews are too infrequent to achieve this.

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Thus, the present system reflects, often in a particularly embarrassing way, large increases that have taken place in civilian pay and earnings, as happened in 1962 and will happen again in 1966. Moreover, in an occupation with a fairly rapid turnover of staff, to adjust pay at two-yearly intervals is not the best way of maintaining it consistently at a level that would most help recruitment and particularly re-engagement.

10. It is easier to point to the weaknesses of the present system than to define a new one which would not give rise to more problems than it would resolve. Any new arrangements would have to take into account the arrangements to succeed the current Civil Service Pay Agreement. One possibility which might be examined in the course of the proposed review might be to provide for relatively frequent interim adjustments, related to the norm, and relatively infrequent full-scale reviews, not necessarily at fixed intervals, which would ensure that Service pay did not lag behind if in fact other incomes were increasing faster than the norm.

11. On the other hand it cannot be overlooked that the Services set considerable store by the undertaking by the Government in November 1958 that Service pay would be reviewed regularly at intervals of not more than two years. To increase the period of review to coincide with arrangements for the review of administrative and executive class salaries might give rise to claims from the Services for the same provisions for retrospective increases as were currently in operation for the Civil Service. This would clearly represent a major stumbling block.

The criteria

12. Any full scale review would need to take account of all relevant factors including—

(a) Incomes policy.

(b) The ability of the Services to recruit and retain on a voluntary basis sufficient suitable men to meet their commitments.

(c) The relationship of Service emoluments to those of civilian occupations with which the Services have to compete in attracting and retaining manpower.

(d) The special features of Service life.

Recommendations

13. It is recommended that:

(a) In view of the strong moral obligation on the Government not to interrupt the Grigg system during a biennial cycle, and the serious effect on recruitment and morale of any such action at this stage, the present Service pay review should be allowed to take its course;

(b) The Grigg arrangements should not be referred to the National Board for Prices and Incomes at this stage, since this might well intensify, rather than ease, the problem of presentation of the results of the review.
Officials of the Ministry of Defence, Department of Economic Affairs and Treasury should be instructed to consider what changes are needed in the current arrangements for determining Service pay.

Further consideration should be given to a reference to the National Board in the light of any new arrangements that may be recommended.

ANNEX B

ARMED SERVICES' PAY

The pay of the Armed Forces has been reviewed at two-yearly intervals since 1960. The next review is due to take effect on 1st April, 1966.

The formula at present used to determine the increases due under these reviews is set out in Cmnd. 945, dated February 1960, viz., “It has been agreed that changes in the pay of Service Officers will in future be governed broadly by the relative changes in the pay of comparable grades in the Home Civil Service” i.e., the Executive and Administrative grades: and “It has been agreed that in future changes in the pay of ratings, soldiers and airmen will be governed broadly by changes in the average earnings and wages in manufacturing and certain other industries as notified by the Ministry of Labour”.

The Government are concerned to establish whether this system can be regarded as in line with the considerations in Part I of the White Paper on Prices and Incomes (Cmnd. 2639). In particular, they wish the Board to consider, first, what increases, if necessary on an interim basis, should be made now or later in the pay of the Armed Forces, and, secondly, what the arrangements for determining the pay of the Armed Services should be in the longer term. The Board are accordingly requested to examine and report on these issues.
5th November, 1965

CABINET

EARNINGS-RELATED SHORT-TERM BENEFITS

Memorandum by the Minister of Pensions and National Insurance

In July I was invited by the Cabinet (C. G. (65) 43rd Conclusions, Minute 4) to open discussions with the Trades Union Congress (T.U.C.), the Confederation of British Industries (C.B.I.) and other interested bodies on my proposals for a scheme of earnings-related short-term benefits, as set out in memorandum C.(65) 112. These discussions have now been taken as far as possible within the limits of confidentiality and time available. They were conducted either directly with the organisations concerned or through the machinery of the Official Committee on Occupational Pensions (O.C.O.P.) which was used to consult a wide range of employers in the public sector, including the nationalised industries and local authority associations, with a particular interest in the proposed modification of the arrangements for contracting out of part of the State pension scheme. I now report the outcome of these consultations.

2. Appendix I to this memorandum summarises the observations made on the proposed scheme. While some features of it have been criticised, the general tenor of my discussions and of the comments received has confirmed me in the belief that the proposed scheme represents a realistic assessment of what we can reasonably hope to achieve by the autumn of next year as an interim measure in advance of the result of the general review of social security benefits. In the light of experience of the operation of the scheme refinements will no doubt be possible when claimants, employers and the staff of the Departments concerned have become used to the new techniques required and our resources are increased by the availability of automatic data processing equipment.

3. As regards the proposed change in the contracting-out arrangements the reaction of those consulted has, of course, varied. Some of the bodies concerned welcome it, a few dislike it; but the attitude of the majority can be summed up as one of reluctant acquiescence. In practically all quarters there is a recognition of the inevitability of such a change within the next few years and an acceptance of the reasoning which has led me to conclude that it should be made now. There is understandable concern particularly in the public sector with the implications of the new arrangements for some pension schemes and related conditions of service. The effect of any change in the national insurance scheme on conditions of employment is, however, a matter for normal employer/employee negotiations. In this connection it has been strongly urged upon me that concurrently with the proposed changes in
national insurance arrangements the Government, as employer, ought to initiate negotiations with public sector employees on the long-term relationship between their occupational provision and the State scheme. It is clear that such negotiations will be necessary and they are bound to be both lengthy and controversial. The flat-rate abatement plan itself if generally accepted not only as a sensible way of bringing contracted-out employees into the scope of the graduated system of contributions which will finance the new earnings-related benefits but also as a means of removing an obstacle to the development of longer-term plans in the pension field.

4. While I must emphasise that flat-rate abatement is the only practicable method I have found both for dealing with our immediate benefit proposals and for making room for future developments, I do not put it forward as just a technical device. I see it as an essential first step towards our long-term plans for a dynamic earnings-related pension scheme and it also has immediate merits of its own. It would provide every worker with the cover of the graduated scheme for widowhood; it would relieve the lower-paid contracted-out worker of a quite unjust contribution burden; and it would secure a fairer contribution from the higher-paid contracted-out worker who is at present paying less than he ought. The proposed change is explained in more detail in Appendix II.

5. With the inclusion of earnings-related widow's allowance which was recently agreed by Cabinet (C.C.(65) 55th Conclusions, Minute 3), the cost of my proposals would be about £59 million a year.

6. If we are to bring earnings-related short-term benefits into payment in the autumn of 1966 the Bill to give effect to these proposals must be presented immediately after the Christmas Recess and passed by the end of March. This is a very tight timetable and it is now urgent that we finalise our views. I therefore invite the Cabinet's approval of an interim scheme of earnings-related short-term benefits, accompanied by changes in contributions and contracting-out arrangements, on the basis of the proposals set out in C.(65) 112.

M.H.
Summary of Comments made on the proposed scheme

A - Earnings-related short-term benefits

1. For convenience, the comments are listed and discussed by reference to the summary of the proposed scheme set out in paragraph 2 of C.(65) 112.

Scope of the scheme

2. The C.B.I. accepted my proposal for earnings-related unemployment benefit, which they recognised as desirable on economic grounds. They were opposed to extra social expenditure on sickness benefit, which would increase industrial costs and create a bad impression abroad. I pointed out that to make better provision for the unemployed than for the sick would produce socially undesirable results and grave administrative anomalies and would attract the strongest criticism. The C.B.I. seemed impressed by these considerations, and did not press their objections at the end of my meeting with them. (The T.U.C. are, of course, insistent that sickness benefit must be covered.)

Scale of benefit

3. The T.U.C. regard the proposed scale (one-third of average weekly earnings between £9 and £30) as inadequate for lower wage-earners, particularly those with family responsibilities. They pointed out that at the lower end of the scale the new benefits would be insufficient, in themselves, to remove the need for national assistance supplementation. I pointed out to the T.U.C. that the low-wage earner with family responsibilities is inadequately provided for whether he is at work or not. (It is estimated that there are far more people in work who are receiving a total income below the national assistance standard than there are affected by the 'wage-stop'!) This problem cannot be solved until we can do something for such families whether the head of the household is in work or not, e.g., by radical changes in provision for children through family allowances. The arguments are set out more fully in paragraphs 6 to 10 of C.(65) 112.

The benefit ceiling

4. The T.U.C. thought the dangers of over-compensation could be overlooked or deliberately disregarded - in an interim scheme and urged me to reconsider the proposal to have a benefit ceiling at all. On the other hand, the C.B.I. (and the National Coal Board) argued very strongly that the proposed ceiling of 85 per cent of gross earnings was too high and would discourage people from seeking or returning to work. They objected in particular to the proposal (paragraph 20 of C.(65) 112) that, in injury

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benefit cases, the existing 55/- differential between the rates of injury benefit and sickness benefit should be paid on top of the benefit ceiling. I impressed upon the T.U.C. the importance in an earnings-related scheme of keeping the maximum rate of benefit below the level of take-home pay (subject to retaining the normal preference for those who are injured at work). The proposed benefit ceiling seems a reasonable compromise between the conflicting views of the two sides of industry.

Reference period for reckonable earnings
5. The proposal to use gross earnings in the previous tax year was strongly supported by the C.B.I., who assured me that employers would be very ready to co-operate in making the scheme work on this basis. (Such co-operation will be vital to the success of the scheme.) The T.U.C. accept that there is no better practical alternative for a scheme to start next year but they hope it will be possible eventually to adopt a more flexible reference period.

No allowance for interruption of earnings in the reference period
6. The T.U.C. were disappointed by this feature of the proposed scheme and argued that benefit should be based on earnings during actual weeks of work, i.e., by dividing the tax-year earnings not by fifty but by the number of weeks of work. I explained that this would impose a greatly increased administrative burden which I could not undertake at the start of the new scheme, and that there were in any case objections of principle to what the T.U.C. had in mind. The additional cost of paying benefit in respect of notional earnings on which no contributions had been paid would have to be met by a general increase in contribution rates and this would mean that lower-paid workers in steady employment would be subsidising higher benefits for higher-paid workers. I pointed out, however, that automatic data processing might eventually enable us to make some allowance for periods of interruption of employment during the reference period and the T.U.C. seemed partly satisfied by my assurance that this would be carefully considered once the new scheme was established.

Duration of earnings-related supplement
7. The C.B.I. would prefer three months' earnings-related supplement, but are prepared to accept six months as the absolute maximum. The T.U.C. still feel that the supplement should be payable for a year (as proposed in New Frontiers) but did not press their view at all strongly. In the context of the proposal (paragraph 15 of C. (65) 112) to rationalise the duration of flat-rate unemployment benefit by providing a standard maximum duration of twelve months for every claimant (instead of the present system of from seven to nineteen months depending on a claimant's previous insurance record)
the T.U.C. asked about the position of the long-term unemployed and put forward their view that unemployment benefit, like sickness benefit, should be of unlimited duration. I explained that the question of provision for the long-term sick and unemployed was being looked at as part of the general national insurance review, and that the present interim scheme would not prejudice the ultimate decision on the structure of benefit for long-term interruption of employment.

Waiting days
8. The T.U.C. thought that the proposed twelve-day waiting-day period for earnings-related supplements was too long and argued that, if it was necessary for administrative reasons, the supplement should be paid retrospectively once the spell of sickness or unemployment had lasted for twelve days. I explained the reasons for the twelve-day waiting period (which were set out in paragraphs 16 to 17 of C.(65) 112) and pointed out that to make retrospective payments where interruption of employment had lasted for twelve days would provide a substantial and highly undesirable financial incentive for many claimants to delay their return to work. This would not only place an intolerable strain on the scheme but would greatly increase its cost.

B - Changes in contracting-out and the flat-rate abatement plan
9. Consultations on the proposals for changes in contracting-out and the flat-rate abatement plan have taken place with the four following interests: the actuarial profession and the Life Offices and other representatives of Pensions Funds and of private insurance interests; employers as represented by the C.B.I. employed persons through the medium of the T.U.C.; and Government Departments and other public bodies in their capacity as employers.

Actuaries
10. The Institute of Actuaries and their Scottish colleagues, the Faculty of Actuaries, sent me a detailed memorandum. They referred to previous documents which they issued when the present graduated pension scheme was being prepared, in which they argued that the present form of contracting-out would work satisfactorily only for so long as the scope of the scheme was limited. They say that the new proposals go a long way to meet this objection to the present arrangements. Their memorandum is distinctly favourable to my proposals.
Representatives of insured and other pension schemes

11. Representatives of the Life Offices and, generally speaking, of other organisations interested in occupational pensions in the private sector regard my proposals with favour, as they have practical experience of the drawbacks of the present system of contracting-out and recognise that it cannot be adapted even to relatively minor future changes in the State scheme. They see the proposals as a firm and lasting basis on which State and occupational pensions can operate side by side. Their main concern about flat-rate abatement is that the contribution reduction offered to contracted-out employers should not be so small that they may be tempted to wind up, or cut back, their occupational schemes rather than continue to contract out. The figures on which I have been working (see Appendix II, paragraph 6) would, I think, be accepted by responsible opinion in the pension world as a reasonable settlement.

C.B.I.

12. The C.B.I. accept the need for change and have told me that they do not wish to oppose my proposals.

T.U.C.

13. The T.U.C. were concerned that the time available for consultation did not allow them adequately to test the feeling of their affiliated bodies, and consequently consider that they must reserve their position on the Government’s proposals. In general, however, they accept the arguments which have led us to propose flat-rate abatement, although they are concerned that this should not lead to the establishment of many different categories of pensioner with entitlement calculated in separate ways. It was clearly not possible for me to assure them that the level of abatement proposed to operate from next year would never be varied, but the T.U.C. regard it as a point in the scheme’s favour that I was able to tell them that we did not intend that the abatement would be adjusted automatically when changes were made in other features of national insurance, and that indeed this was one of the objectives of the scheme.

14. The T.U.C.’s principal reservation is that flat-rate abatement, while a reasonable provision for employees in private occupational schemes, cannot be applied in the public sector without considerable disadvantage to the employees concerned. The problem here is that, whereas the terms of employment allow an occupational pension and a flat-rate national insurance pension to be drawn together (in some cases with a modification of the occupational pension of up to 26/- a week), occupational pensions have normally been adjusted to take account of the whole of any graduated national insurance benefit earned. Thus a change in national insurance which went
that contracted-out employees began to contribute towards graduated benefit, while losing a part of their flat-rate entitlement, would be doubly disadvantageous to civil servants and others in similar employments. The T.U.C. agree that a long-term solution must be found in re-negotiating the provisions for the adjustment of occupational pension, rather than in tailoring national insurance to the special circumstances of public sector employees, but in the meantime they are prepared to give their full support to representations by the unions which speak for public service employees and similar bodies against a worsening of their terms of service.

Local Authorities
15. The reactions of local authority associations are a little mixed. In general, they have concentrated attention not so much on my proposals, which they do not oppose, as on the methods by which they might adapt their own arrangements to them. No doubt they have in mind that, as at present less than half of their employees are contracted-out, they have room for manoeuvre in extending contracting-out and the net financial effect, for employers and the majority of employees, could well be advantageous.

Other public sector employers
16. The replies received from Government departments and public bodies through the consultation machinery of the O.C.O.P. have similarly concentrated on the anomalous results of applying flat-rate abatement to the type of occupational pension provision which at present exists for their employees. Some employing departments make the point that their staff — whose total present contribution liability of £1/£ a week will in many cases increase (and in those cases the amount of the increase will be anything up to a further £/£ a week) — will not stand to gain anything from the proposals, because they will not be able to qualify for the new earnings-related benefits, since they already receive full pay during six months' sickness, and unemployment is not a likely contingency for them. Hence they say that, from their point of view, it would be desirable for the present scheme to continue with as few changes as possible until the Government's long-term review is complete. But most of the replies accept that graduated national insurance liability has to be extended to the contracted-out, and that the flat-rate abatement scheme seems a sensible way of doing this; their concern is at the effect which, under present arrangements, the Government's proposals would have on their own employees' present conditions of service. But, of course, these are matters which can only be settled by employer-employee negotiations in the light of firm Government decisions on the national arrangements.
17. At the meeting at which the proposals were discussed the O.C.O.P. recommended that consideration should be given as a matter of urgency to establishing a type of pension provision in the public sector which was compatible with the extension of the earnings-related State pension scheme. One solution envisaged was "integration", whereby the Civil Service and other public bodies would contract in to the national scheme, and the occupational pension would serve to "top-up" the employee's eventual full State benefit to a pre-arranged level. It seems clear that working out and agreeing the details of any new arrangements (which would of course be a matter for me, but for the Government as employer) will be a lengthy and controversial business, particularly perhaps for the Civil Service and the police; and I have been warned that resentment may well arise from the fact that the need for new arrangements will spring from the establishment of a scheme of sickness and unemployment benefit which is itself unlikely to benefit public sector employees. From the point of view of timing, however, the flat-rate abatement scheme will also take some while to have any appreciable effect: the graduated benefit earned and the flat-rate pension foregone under the scheme by a contracted-out employee will each amount to only two or three shillings a week by the end of 1968. This means that time will be available for occupational provision in the public sector to be put on to a revised basis before the anomalies caused by the flat-rate abatement scheme become too glaring or too burdensome in that sector.

Cost

18. It is the intention that the change to flat-rate abatement should be self-balancing - that is, that the extra contribution income which will arise from extending graduated contribution liability to the contracted-out should be used to finance a general reduction in flat-rate contributions in so far as the finances of the National Insurance Fund permit.
APPENDIX II
THE PRESENT CONTRACTING-OUT SYSTEM AND THE PROPOSED SYSTEM OF FLAT-RATE ABATEMENT

The present system
1. Under existing arrangements an employer with an adequate occupational pension scheme can contract his employees out of the graduated part of the national insurance scheme. Employer and employee do not pay graduated contributions and the employee does not earn graduated pension. But because the graduated contribution includes an element to support flat-rate benefits, they pay in place of this element a larger flat-rate contribution than others.

The need for change
2. There are two separate reasons for wishing to change the existing arrangements. First the new earnings-related short-term benefits must be matched by a contribution similarly related to earnings. (Otherwise the lower paid would be subsidising the benefits of the higher paid). Workers contracted out for pension cannot be excluded from the new short-term benefits and must therefore start to pay graduated contributions. It is administratively scarcely practicable to collect two different graduated contributions for different categories of worker counting differently for benefits.

3. Secondly, quite apart from the introduction of earnings-related short-term benefits, there are strong arguments for changing the present contracting-out arrangements which involve the following inequities:

(a) Most occupational schemes do not make provision for an employee's widow. Thus when an employee is contracted out he loses the cover for his widow provided under the graduated pension scheme (when herself retired, she receives half the graduated pension her husband had earned) without any guarantee and usually with no prospect of alternative provision for her.

(b) The graduated pension now being earned is fixed in the legislation in money terms. It will not be possible to up-rate the graduated pension already earned without doing an injustice to those who have been contracted out. The guaranteed occupational pension on the strength of which their employers were able to take them out of the graduated scheme cannot be increased by Government action.
(c) The higher flat-rate contribution paid by those contracted out bears harshly on the lower-paid employee and is over-generous to the higher-paid. In the extreme case the contracted-out man earning £9 a week is paying 2s. 5d. more by way of national insurance contribution than if he were not contracted out but gets no more national insurance pension in return. If his occupational scheme is contributory, as it usually is, the total contribution burden for him is excessive.

(d) The present requirement that even those with low earnings should if contracted out be assured an occupational pension at the rate appropriate to earnings of £18, can distort an occupational scheme and impose on it an excessive charge when young workers leave the employer and are brought back into the graduated scheme as if they had been earning £18 a week.

4. These flaws in the present arrangements all flow from the attempt to match unlike provisions for those contracted in and those contracted out. For the former the law provides a pension and a contribution varying with earnings; pension rights capable of adjustment by Parliament in line with changed money values and provision for widows; for the latter none of these provisions apply.

5. If we were prepared to support these inequities it would no doubt be possible for the present arrangements, unsatisfactory as they are, to continue as long as no other changes are made in the national insurance scheme. But they could scarcely remain tolerable if on the occasion of a future general increase of benefit rates it were desired to expand the span of earnings attracting graduated contributions. If for instance graduated contributions were collected on earnings from £9 up to £24 the amount payable by the contracted-in employee would vary (according to earnings) from nothing up to 12s. 9d. (in 1961 it went only as far as 5s. 1d.) and this wide range of contribution would still have to be matched by a flat-rate contribution for the contracted-out. The maximum amount of graduated retirement pension for widows (originally 21s.) would become 52s. 6d. but would still illogically be denied to the widows of men contracted out. The occupational pension to be guaranteed for those contracted out would be at the rate of £5 5s. for a working life (originally £2 2s.) and the lower-paid worker would have to pay contributions at a level geared to providing for him and his wife pension (State plus occupational) of £11 15s. — in some cases above his current earnings.
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The proposed system

6. The proposed scheme of flat-rate abatement is designed to fulfill the primary purpose of contracting out, that is to avoid undesirable overlap between national insurance and occupational provision, while getting rid of the objectional elements of the present arrangements. Its main features would be:

(a) The contracted out would pay the same graduated contributions and qualify for the same earnings-related short-term benefits and the same graduated pensions, including graduated retirement pension for widows, as the contracted-in.

(b) The employer would be able to contract out his employees on the same conditions as at present. The level of pension to be guaranteed under the occupational scheme would also be the same as it is now. For a man this is about 1s. 4d. a week for each year of contracted-out employment.

(c) The contracted-out employee would have his national insurance pension abated by a fixed amount in respect of each year during which he was contracted out. (This amount would, I propose, be 1s. a week for a man - rather less than the amount guaranteed under the occupational scheme).

(d) In recognition of the reduced commitment of the National Insurance Fund and the commitment assumed by the employer, the contracted-out man and his employer would each pay a flat-rate contribution lower (I am proposing by 2s. 3d. a week) than those for contracted-in employees.

The figures in sub-paragraphs (c) and (d) above have not yet been approved by the Treasury.

Advantages of the change

7. The basic advantage of my proposal is that instead of trying to equate, as does the scheme we inherited, a fixed amount of pension which the employer is required to provide with a variable amount of State pension which the worker foregoes, we should be balancing like with like; the employer would still be required to provide a fixed amount of pension for each year of contracted-out employment, but this would be in substitution for a fixed amount of State pension foregone. The immediate consequence would be to remove for the future the inequities listed in paragraph 3 above.

Additionally the small but necessarily universal graduated contribution for the new short-term benefits would be easily collected along with the bigger graduated pension contribution now also universal in its application.
Reasons for making the change now

3. As we are anxious to introduce the new short-term benefits in the shortest possible time it is tempting to concentrate on that task and to postpone changes in the contracting-out provisions. The objections to this are over-riding. First, to collect for the contracted-out only the small graduated contribution for the new benefits but for others the combined pension and short-term benefit contribution would introduce very formidable difficulties both for my Department and for employers. Secondly, once the machinery existed for collecting graduated contributions for the contracted out it would be wrong not to use it to get rid of existing inequities, listed in paragraph 3 above. Lastly, if a change became inevitable, as sooner or later it must, a benefit increase Bill, necessarily rushed through against time, is not a suitable vehicle for structural changes which Parliament must be allowed adequate time to discuss and employers to operate.
NOTE

The attached memorandum by the Chancellor of the Exchequer (C. (65) 146) is for discussion at the meeting of the Cabinet arranged for Thursday, 11th November, at 10.00 a.m.

The contents of the memorandum are of a particularly confidential character. Ministers will no doubt ensure that it is treated accordingly.

The memorandum should be returned, under cover, after the meeting to:

Mr. V. C. Budgen,
Cabinet Section,
Room 140,
Cabinet Office, S.W.1.

Cabinet Office, S.W.1.

9th November, 1965
9th November, 1965

CABINET

PAY OF THE HIGHER CIVIL SERVICE

Memorandum by the Chancellor of the Exchequer

I attach a copy of a report which Lord Franks, as Chairman of the Standing Advisory Committee on the Pay of the Higher Civil Service, has made to the Prime Minister.

2. The Franks Committee recommend increased rates of pay from 1st September, 1965, as follows:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Present Salary (Inner London)</th>
<th>Recommended Salary (Inner London)</th>
<th>Crude Percentage Increase</th>
<th>Annual Percentage Increase since last adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent Secretaries to the Treasury and Cabinet Office</td>
<td>8285</td>
<td>9200</td>
<td>3.55</td>
<td>1.79</td>
</tr>
<tr>
<td>Other Permanent Secretaries</td>
<td>6285</td>
<td>6600</td>
<td>2.00</td>
<td>1.92</td>
</tr>
<tr>
<td>Deputy Secretaries</td>
<td>5285</td>
<td>5300</td>
<td>7.05</td>
<td>3.47</td>
</tr>
<tr>
<td>Under Secretaries</td>
<td>4785</td>
<td>5335</td>
<td>11.49</td>
<td>5.56</td>
</tr>
<tr>
<td>Assistant Secretaries</td>
<td>3385</td>
<td>3585</td>
<td>5.90</td>
<td>3.51</td>
</tr>
</tbody>
</table>

3. These recommendations affect about 8,000 civil servants in all, including those in the Professional, Scientific and other Specialist Classes in the Higher Civil Service. Their direct cost would be about £1.5 million in a full year. There are also a number of other groups who are likely to be affected indirectly to a greater or less degree, e.g. staff in the Atomic Energy Authority, senior officers in the Armed Forces and certain smaller groups; and there are also the effects over a wider field to be considered, for instance on the doctors. The Cabinet will be considering memoranda on the pay of the Armed Forces and doctors.

4. The White Paper on Prices and Incomes Policy (Cmnd. 2639) states that the norm is an average annual rate. For the higher Civil Service as a whole, these increases average out at an annual rate of 3\(\frac{1}{4}\) per cent of the total salary bill, i.e. within the norm. Taking the grades separately, the Under Secretary increase exceeds the norm, and paragraph 5 of the Franks Reports indicates that there are special reasons for that.
5. The Committee also recommend that:

(i) Higher Civil Service grades up to and including Under Secretary may from 1967 receive, after reference to the Committee, the equivalent of any Central Pay increases which may be awarded to the rest of the Civil Service; and

(ii) London weighting should no longer be paid at Deputy Secretary level and above.

The first of these two recommendations presents no difficulty; nor does the second, provided that increases at these levels are at least as much as the present London addition of £85. But the main recommendations on pay (as summarised in paragraph 2) are another matter.

6. Acceptance of the Standing Advisory Committee's recommendations is not obligatory. The Royal Commission on the Civil Service of 1953-55 (the Priestley Commission), which recommended the setting up of this Committee, said that the findings of the Committee should be advisory and not binding on the Government. However the Priestley Commission also said that they thought it would be most unlikely that the Government would fail to take action when the Committee tendered advice; and on the four previous occasions on which the Committee have recommended higher rates of pay, their recommendations have been accepted in full by the Government of the day and implemented forthwith.

7. In normal circumstances, I should have no hesitation in recommending to my colleagues that the Committee's advice on the new rates of pay for the higher Civil Service should be accepted. There is no doubt that the increases proposed are justified on fair outside comparisons. But present circumstances are not normal. Our incomes policy is at a crucial point. We have been accused of failing to carry out this policy even in those fields which are under our direct control. If some senior civil servants are now given increases of as much as 11\% per cent in crude terms some people may say that we do not mean business. It is true that on an annual basis the increases are much smaller and taken as a whole fall within the norm. But it is very doubtful whether arguments based on annual percentages carry much conviction when one is dealing with highly paid people. We had, for example, to face vociferous criticism about the increases for the Higher Judiciary, which were within the norm but in crude percentage terms, at 25 per cent, were very large. What critics tend to seize on in cases of this sort is the crude size of the increase. In any case, the concept of a norm means that some people must get less if others are to be given more. It may well be that the more highly paid public servants ought to be among those who, at this stage at any rate, should be given increases of less than the norm.

8. These considerations point to the desirability of our refusing to implement the Standing Advisory Committee's recommendations as they now stand. There are also, however, some important factors which point the other way. In the first place, there are the comments of the Priestley Commission and the precedents to which I have referred in paragraph 6. In addition:
(i) If we do not accept the Committee's recommendations, which they put forward as persons of judgment who have been expressly charged with advising the Government, their resignation may follow. Perhaps this would not be a disaster; but it might have wider effects in the field of independent advice. We might also be told that we were singling out the higher ranks of the public service for specially rigorous treatment, a course followed for all ranks by previous administration during the "pay pause" of 1961-62.

(ii) The recommendations were formulated by the Franks Committee specifically with the general economic situation in mind.

(iii) A suspicion that we are treating civil servants less than fairly could affect recruitment, particularly in the fields in which there is already such grave difficulty in meeting the competition of the expanding universities.

(iv) A decision not to implement the recommendations may give rise to difficulties in relation to the medical profession, whose own independent review body will shortly be asked to recommend what increases in their remuneration should be given. The Minister of Health is circulating a memorandum dealing with this related issue.

(v) Good management is seriously impeded by the cramped pay differentials between the grades of the higher Civil Service, particularly between the Under Secretary and the Assistant Secretary on his maximum. This is not simply a question of the salary gap between these two grades themselves. There are about 350 posts, mainly in the scientific and professional fields, on salaries which have to be fitted within this gap. Since 1st January, 1964, this differential (expressed as a percentage of the Assistant Secretary maximum) has been cut to little more than one-third of the differential following Priestley. This led the Standing Advisory Committee (see paragraph 5 of Lord Franks' letter) to conduct its present review, and to recommend in effect that, whilst the post-Priestley position should not now be fully restored, the differential should be increased to two-thirds of what it was in 1956. These differentials are too small to allow a proper grading structure or to give adequate rewards for promotion.

(vi) We have to bear in mind that unless special action is taken (as it was when implementation of the full Chorley recommendations was postponed in 1949), the pensions of those retiring in the near future would be permanently affected by a decision to reduce or defer the pay increases recommended.

9. This, then, is the background against which my colleagues will wish to consider the problem. Several courses are open to us and the main possibilities are as follows:

(a) Acceptance. One might justify this by reference to the precedents for accepting the Standing Advisory Committee's recommendations, to the fact that taking the higher Civil Service as a whole the increases are within the norm, and to the fact that the Committee's recommendations expressly took the economic situation into account. One might draw special attention to the relatively small increases at the highest levels - £315 for a Permanent Secretary.
Rejection. A straight rejection would be unwise particularly having regard to its effect on the negotiations on doctors' pay.

Between these two extremes there are at least three other possibilities.

(c) For the present allow no increases at all at the highest levels (above Under Secretary) and confine immediate increases to a straight 3½ per cent at Assistant Secretary and Under Secretary levels. At the same time we would undertake to implement the balance of the Franks recommendations from 1st September, 1966. This would mean that the bunching of rates of pay at the Assistant Secretary/Under Secretary level (paragraph 8(v) above) would remain almost unchanged, for the next 12 months, when the situation would be corrected.

(d) Accept the recommendations to the extent that they do not exceed an annual rate of increase of 3½ per cent. The only grade which on this basis would receive less than the increases recommended by the Franks Committee would be the Under Secretary. He would receive something over half of the recommended increases and would get the rest next year. This would diminish, but would not remove until next year, the cramping effect of the compression of the Assistant Secretary/Under Secretary differential since 1st January, 1964.

(e) Accept the Franks recommendations as to their amount, but defer their operative date from 1st September, 1965, to 1st January, 1966, the date from which increases in the pay of the lower and middle grades operate under an agreement which runs to the end of 1966. This course of action would almost certainly be less unpalatable to the Civil Service unions than (b) to (d) above. They might possibly be persuaded to acquiesce in it. For the higher Civil Service as a whole the increases would average out at an annual rate of 2.72 per cent, well under the norm; but this would not meet the objection about the size of the crude increase indicated in paragraph 7 above.

If it is decided to proceed either on the lines of (c) or (d) above it would seem right to protect the pension position of those retiring in the near future from the permanent effect of deferred pay increases. I am advised that this can be done simply and without legislation.

10. The choice between these courses of action is difficult. I propose to let my colleagues know orally what my conclusions are.

L. J. C.

Treasury Chambers, S. W. 1.
8th November, 1965
STANDING ADVISORY COMMITTEE ON THE PAY OF THE HIGHER CIVIL SERVICE

Seventh Report

I am writing to report to you the conclusions and recommendations reached by the Standing Advisory Committee on the Pay of the Higher Civil Service as a result of the further general review, the decision to embark upon which I reported when I wrote to you on 19th January last.

2. We conducted our last general review of the pay of the Higher Civil Service in 1963. As a result of our recommendations the salaries of the Administrative grades in the Higher Civil Service were increased with effect from 1st August, 1963, to the rates shown below, and the salaries of other classes and grades in the Higher Civil Service were correspondingly increased.

<table>
<thead>
<tr>
<th>National rates</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Permanent Secretaries to the Treasury and Secretary of the Cabinet</td>
<td>8,800</td>
</tr>
<tr>
<td>Other Permanent Secretaries</td>
<td>8,200</td>
</tr>
<tr>
<td>Deputy Secretaries</td>
<td>5,800</td>
</tr>
<tr>
<td>Under Secretaries</td>
<td>4,700</td>
</tr>
<tr>
<td>Assistant Secretaries</td>
<td>3,050-3,900</td>
</tr>
</tbody>
</table>

At that time the London weighting payable over and above those national rates of pay for staff working in London was £65 for staff employed in Inner London (up to three miles from Charing Cross) and £60 for staff employed in Outer London (up to sixteen miles from Charing Cross). From 1st January, 1964, these amounts were raised to £85 for staff employed in Inner London (up to four miles from Charing Cross) and £65 for staff employed in Outer London.

3. In June, 1964, the National Whitley Council reported to us a pay agreement of 6th February, 1964, providing for the pay of most grades in the non-industrial Civil Service with salary scales whose maxima did not exceed that of the Principals’ scale to be increased by 3 per cent from 1st January, 1964, 3½ per cent from 1st January, 1965, and 3¼ per cent from 1st January, 1966. The agreement provided that for any grade which was on any of these dates the subject of a pay research survey (or was linked for pay purposes to such a grade) the payment of the central pay increase due on that date should be deferred, and only made if by the following 30th June negotiations on the survey had not produced...
either a settlement or a decision to go to arbitration. The Administrative and Executive Classes were being surveyed on 1st January, 1964, so that the Principals and a number of other grades did not immediately become entitled to the first of the three increases. The agreement was not in fact reported to us until it had become clear that negotiations on the Administrative and Executive Class pay research surveys could not be completed by 30th June, 1964, and that the central pay increase would therefore become payable to the Principals and the other grades concerned with effect from 1st January, 1964.

4. In December, 1964, the Treasury, the Association of First Division Civil Servants and the Society of Civil Servants informed us that, following pay research surveys for the Administrative and Executive Classes, agreements had been reached to increase the Principals' salary scale to £2,100-£2,900 (national rates) and the Chief Executive Officers' salary scale to £2,400-£2,800 (national rates) with effect from 1st January, 1964, and invited us to recommend new salary scales with effect from 1st January, 1964, for the Higher Civil Service grades covered by these surveys, as follows -

<table>
<thead>
<tr>
<th>Grade</th>
<th>National rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistant Secretaries</td>
<td>3,300-4,300</td>
</tr>
<tr>
<td>Principal Executive Officers</td>
<td>3,800</td>
</tr>
<tr>
<td>Senior Chief Executive Officers</td>
<td>2,950-3,300</td>
</tr>
</tbody>
</table>

At the same time we were invited to recommend corresponding increases for other Higher Civil Service grades at comparable levels.

5. We accepted these proposals, and recommended accordingly on 19th January, 1965; our recommendations were in due course accepted and put into effect. In reporting them we stated that we thought that the new differential thus created between the Assistant Secretaries' maximum and the Under Secretaries' rate was too small to be allowed to persist. We also took into account the steady narrowing of the differential between the Principals' maximum and the Assistant Secretaries' minimum as a result of the 1965 and 1966 central pay increases under the agreement referred to in paragraph 3 above: the Principals' maximum rose from £2,900 to £3,002 from 1st January, 1965, and will rise again to £3,107 from 1st January, 1966. It was in these circumstances that we decided that the time had come to embark on a further general review of the pay of the Higher Civil Service.

6. The Staff Side of the National Whitley Council have suggested to us that the problems created by the narrowing of differentials as a result of applying central pay increases up to the Principals' maximum but not to the Higher Civil Service could be avoided by applying central pay increases right to the top of the Civil Service. They point out that, at a time of relatively frequent movements of pay in the rest of the Civil Service, to adjust Higher Civil Service salaries only once every four or five years not only gives rise to constant difficulties with differentials between the Higher Civil Service and the rest of the Civil Service, but also means that members of the Higher Civil Service receive less total pay than they otherwise would and tends to have an adverse effect upon retirement benefits, which are calculated on
average salary over the last three years of service. The National Staff Side suggest that, if it is felt undesirable to extend central pay settlements to the very highest ranks of the Higher Civil Service, they should at least be extended to grades and posts up to and including the Under Secretary and there should be biennial reviews of salaries above that level.

7. The Treasury agree that, since central pay settlements are now given more frequently than was envisaged by the Royal Commission on the Civil Service 1953-55 (from whose recommendations the existing arrangements stem), there would be advantage if Higher Civil Service grades up to and including the Under Secretary received the equivalent of central pay increases. They consider, however, that above that level there should be no commitment to annual or biennial reviews, since they believe as a matter of principle that the higher the grade in the public service the greater the desirability that its pay should move relatively infrequently, and then only as a result of weighty and specific investigation.

8. We accept that Higher Civil Service grades up to and including the Under Secretary should in future receive the equivalent of central pay increases. The evidence which we have collected suggests that both in other public services and in employment outside the public service the salaries of senior staff now tend to move more or less in parallel with those of subordinate salaried staff, save at the highest levels in industry. On the other hand it seems to us that the special considerations which the Royal Commission identified as entering into assessments of the pay of the Higher Civil Service are particularly important in relation to the highest ranks (those whose rate exceeds that of the Under Secretary), and that at those levels salaries should not as a matter of course follow salary movements lower down. We consider therefore that central pay increases should not apply to grades above the level of Under Secretary.

9. If the limit for central pay increases is raised as we propose, the technical problems created by narrowing of differentials as a result of central pay increases will no longer arise in the area directly above the Principals' maximum. They will to some extent be recreated in the area directly above the Under Secretaries' rate. At that level, however, the number of grades and posts affected in much smaller and the gaps between rates are wider. Some temporary narrowing of differentials is therefore easier to accommodate at that level.

10. Since the pay of the Higher Civil Service is determined under different arrangements from the pay of the rest of the non-industrial Civil Service, it would not be appropriate to include Higher Civil Service grades up to and including the Under Secretary in National Whitley Council central pay agreements. We therefore recommend that in future central pay increases for grades up to and including the Principal should be reported to us, on the understanding that when central pay increases are received by Principals we shall normally recommend similar increases for grades and posts in the Higher Civil Service whose fixed rates or scale maxima do not exceed the Under Secretary rate, which will involve appropriate adjustments for grades and posts between Under Secretary and Deputy Secretary level. In considering our recommendations on new rates of pay we have assumed that this recommendation will be accepted.
11. It does not seem to us to be necessary or desirable to fix the frequency of reviews of other Higher Civil Service salaries. Under the present arrangements reviews of the pay of the Higher Civil Service can be undertaken either at the Government's request or on our own initiative; the Government are free to request, and we are free to initiate, reviews at any time they, or we, think right. We therefore recommend no other changes in these arrangements. It is clear, however, that the pay of Assistant Secretaries, Principal Executive Officers and Senior Chief Executive Officers will have to be reviewed when the results of pay research surveys for the Administrative and Executive Classes are known, and we expect (without seeking to bind the Government or ourselves in any way) that those reviews may well provide suitable occasions for reviewing the pay of the Higher Civil Service as a whole.

12. The Treasury and the National Staff Side have invited us to frame our recommendations on this occasion and in future for salaries at and above the level of the Deputy Secretary on the basis that London weighting will not be payable at these levels and that salaries should take account of this fact. They point out that only a very few posts at these levels are outside London; to all intents and purposes the effective rate of pay for almost all of those concerned is the amount payable to those employed in Inner London. We agree that the arguments for a system of London weighting on national rates hardly apply to staff at these salary levels virtually all of whom work in London. Accordingly we recommend that London weighting should from 1st September, 1965, cease to be payable to Deputy Secretaries or to staff in any other grade or post on a flat rate or with a scale maximum which is the same as or more than the Deputy Secretary's rate. In considering our recommendations on new rates of pay we have assumed that this recommendation will be accepted.

13. We decided to embark upon this review mainly on account of the compression of differentials between Principals, Assistant Secretaries and Under Secretaries and between grades at corresponding levels in other classes, and our main concern in this review has been to restore a workable pattern of salary relationships in the Higher Civil Service. We have also taken the opportunity of collecting information about how salaries in other public services and in broadly comparable employment outside the public service have moved since our last general review. We acknowledge gratefully the help we have received from those of whom we have made inquiries for this purpose.

14. We have also had regard to the general economic situation in which our recommendations are made. We are not specifically required to do so by our terms of reference; indeed we recognise that one of the purposes of establishing the Committee was to provide a source of independent advice to Governments who might on occasion find it difficult to balance their obligations as employers of senior civil servants against their wider responsibilities for management of the economy. On this occasion, however, we have felt that our view of the economic problems confronting the country must lead us to modify views based on other considerations about the pay of the highest grades of civil servants. We believe that our recommendations will establish a pattern of salary relationships which can be regarded as workable and tolerable for the time being; but the new rates, particularly at the highest levels, do not fully reflect our assessment of what would constitute fair and reasonable remuneration for the grades in question, because in our judgment at those levels in the Civil Service what is
appropriate to the general state of the economy must for the time being over-ride other considerations. We should not, however, think it right for those concerned to be indefinitely penalised by a decision taken in the light of a particular economic situation, and we therefore intend to review the salaries of these grades earlier than would otherwise be the case.

15. Taking all these considerations into account we recommend the following new rates for the administrative grades in the Higher Civil Service, to take effect from 1st September, 1965 -

<table>
<thead>
<tr>
<th>Grade</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Permanent Secretaries to the Treasurer and Secretary of the Cabinet</td>
<td>9,200 (*)</td>
</tr>
<tr>
<td>Other Permanent Secretaries</td>
<td>8,600 (*)</td>
</tr>
<tr>
<td>Deputy Secretaries</td>
<td>6,300 (*)</td>
</tr>
<tr>
<td>Under Secretaries</td>
<td>5,250 (National)</td>
</tr>
<tr>
<td>Assistant Secretaries</td>
<td>3,500-4,500 (National)</td>
</tr>
</tbody>
</table>

* In accordance with our recommendation in paragraph 12 the rates marked with an asterisk will not attract London weighting: these will be the rates payable to the staff concerned whether they are employed in London or elsewhere.

We recommend that rates of pay for other classes and grades in the Higher Civil Service should be revised from the same date to give corresponding increases at comparable salary levels. These recommendations take account of the central pay increases that are due under the agreement of 16th February, 1964, to come into effect on 1st January, 1966, for grades up to and including the Principal, and we do not intend to recommend any further adjustment of pay in the Higher Civil Service on that account.

16. We have received a submission from the Society of Civil Servants inviting us to recommend that Principal Executive Officers should be paid on a scale rather than on a flat rate and that the level of their pay should be raised in relation to that of Assistant Secretaries. We have carefully considered both this submission and a counter-submission by the Treasury, but we have come to the conclusion, having regard to the definition of our scope and functions laid down by the Royal Commission on the Civil Service (Cmd. 9613, paragraphs 386 to 389), that these are not sufficiently major matters to warrant our intervention, and we therefore make no recommendations on them.

(Signed) FRANKS
9th November, 1965

CABINET

DOCTORS' AND DENTISTS' REMUNERATION

Memorandum by the Minister of Health

The remuneration of doctors and dentists in the National Health Service is due to be reviewed with effect from 1st April next when the current three-year period for which the Government accepted the recommendations of the Review Body comes to an end.

2. The Review Body was set up on the recommendation of the Royal Commission on Doctors' and Dentists' Remuneration which reported in 1960. The Royal Commission referred to the precedent of the Franks Committee in making this recommendation. Like the Franks Committee, it is appointed by and reports to the Prime Minister. The present Chairman is Lord Kindersley and the other members (normally six) are drawn from academic, business, legal and actuarial fields. One member is, deliberately, also a member of the Franks Committee. The Review Body has made one general report for the period 1963-66 and four subsequent reports dealing with sections of the profession. All have been accepted and implemented by the Government.

3. The Royal Commission's intention, to which great importance was attached, was that, while the Review Body would be advisory only, it would give the medical and dental professions confidence that their remuneration would be determined by considerations other than those of political convenience. The purpose was to end the recurrent disputes between the professions and the Government over pay. The Commission believed that the Review Body would "make recommendations of such weight and authority that the Government will be able, and indeed feel bound, to accept them."

4. Rejection in whole or in part of the Franks Committee recommendations would be regarded by the medical and dental professions as a strong indication that their own Review Body's recommendations might suffer a similar fate. It would be difficult to avoid this implication. General practitioners in particular would be deeply disturbed. There is a deep-seated feeling of unrest among them. Mass resignation was threatened because conditions in general practice have grown increasingly difficult and the system of remuneration was such that it did not adequately recognise efforts to provide a better

(1) The profession will note what the Royal Commission on the Civil Service (1953-55) said of the Franks Committee: "Its findings should ... be advisory and not binding on the Government, though we think that it will be most unlikely that the Government will fail to take action when such a committee tenders advice."
As a result of lengthy negotiations, a new basis for their contract designed to secure a better service for patients and new methods of payment have recently been worked out. (These methods of payment in themselves carry no necessary implications for levels of pay). The doctors have just agreed by a large majority that the new contract should go to the Review Body for pricing. The Doctors' Charter demanded direct negotiation with the Government on levels of payment and perhaps the most formidable difficulty in the entire negotiations was to persuade the profession to accept reference of this question to the Review Body. As recently as 22nd September, after they had expressed alarm about the forecasts in the National Plan of expenditure on the family doctor service, I told them that the publication of these figures would not affect the freedom of the Review Body to reach whatever conclusions seemed right to it. The profession decided some months ago to retain in being the 18,000 undated notices of resignation until after the Review Body has reported, and even accepted the deferment of advantageous reforms rather than destroy the resignations in advance of the pricing.

5. Whether or not the doctors remain in the National Health Service and so whether or not I can carry out my duty under the Act to provide the service - now depends on the acceptability to them and to the Government of the Review Body's recommendations. If they come to fear that these recommendations will be rejected or significantly modified by the Government they will conclude that our insistence on reference to the Review Body was no more than a cynical delaying tactic. In such a situation there would be renewed agitation among general practitioners to send in the resignations forthwith.

K. R.

Ministry of Health, S. E. 1.

8th November, 1965
9th November, 1965

CABINET

ARMED FORCES PAY

Memorandum by the Secretary of State for Defence

I am opposed to the proposals by the First Secretary and Chancellor of the Exchequer in C. (65) 144 which reject the advice which has been agreed between officials of the Department of Economic Affairs, Treasury and Ministry of Defence. This advice concerns only the pay of other ranks and officers (other than doctors and dentists) up to and including the rank of Brigadier or equivalent. The pay of officers above this rank is related to the pay of Civil Service Under-Secretaries and above; and the pay of doctors and dentists to average career earnings in the National Health Service.

Reference to the Board

2. I am sure that it is neither politically defensible nor practicable to put the issue of an award - even an interim one - to the National Board for a report within two months. In this time they can merely express an arbitrary opinion. They cannot form a considered view without a comprehensive revaluation of the immensely complicated structure of Service pay. Literally hundreds of rates of pay would have to be broken down into their components of separation, disturbance, rates for the job and so on. All these factors would have to be evaluated as would be the elements given in kind e.g. food, accommodation and clothing. The last time that this was done - by expert officials - it took twelve months.

3. In any case to ask the Board to make a decision for us, in a situation in which the Government is the employer and there is no union is surely tantamount to asking for outside advice on how to bring actions which are wholly within our own control into line with our own policy.

4. It is true that the Grigg increases are not due until 1st April, 1966. But the money for them (and for any interim increase which may be recommended by the Board) should be included in the Estimates which close at the very latest in mid-January. We could of course resort to the device of a Supplementary as was done in 1962, but this is an unconventional and inconvenient procedure and we were very critical of it when our predecessors used it. If the money does not appear in the Estimates the Services will assume that they are not going to get anything. If it does the amount will be known and compared with the figures of the Grigg increases. In either event we shall have to face strong criticism inside and outside Parliament at the turn of the year.
The Need for the Grigg Increases

5. The biennial review arrangements are regarded as a long-term agreement. This was certainly the view taken by my colleagues in the Ministerial Committee on Prices and Incomes when I asked for an interim increase in Service pay earlier in the year. The First Secretary himself, in a recent paper (E.D. (65) 102, paragraph 16) for the Committee on Economic Development, said that "where there is already a firm commitment to an improvement... for example through a long-term settlement... it must clearly be honoured!". The principle of honouring long-term agreements has been followed in the case of Government industrials, the railwaymen and the airport workers i.e. the position reacted in negotiation was left undisturbed and the reference to the Board was effectively to consider the arrangements for the next claim. I cannot accept that we should make an exception of the Services because the amount involved is large and/or because as a disciplined force they have no means of resisting the decision. If we do, there will be intense bitterness and resentment, not least because we shall be denying to the Forces the belated and partial application of increases already given by this Government to the Civil Service.

6. I must remind my colleagues that the pace-setter in the current set of outside comparisons for Grigg is the Civil Service. In a position where increases have been approved by the present Government for the Civil Service, including provisions for retrospection which, under normal Grigg procedure will not apply to the Armed Forces, it would be grossly unfair to select the Forces for discriminatory treatment; the only justification for doing so would be the argument that the increases approved for the Civil Service are themselves inflated, and in this case the first thing to be referred to the National Board would logically be the further 3½ per cent increase which will apply to the Civil Service on 1st January, 1966.

Probable Consequences of Abandoning the Grigg Review

7. Since the outcome of the Grigg review is available for anybody to work out any attempt to juggle with the calculated figures will be politically damaging. In 1962 we were fiercely critical when it was decided to split the Grigg award into two instalments. In any case it is difficult to see how in logic there could be a distinguishable second instalment if we abandon Grigg in favour of a full scale revaluation either by officials or by the National Board after an 'interim' (i.e. first) payment. We must also expect use to be made of the passage in the 1965 Defence White Paper (Cmd. 2592, paragraph 6) that "if our Armed Forces are to attract and hold voluntary recruits, their pay and allowances will have to rise with wages and salaries in civilian life".

8. The Forces are already seriously overstretched, and the manpower situation is worrying. Rates of recruitment and re-engagement are unsatisfactory and getting worse. To take some examples; between 1960 and 1965, the proportion of Naval ratings prepared to sign on after a nine-year engagement fell from 70 per cent to 25 per cent; the proportion of airmen prepared to extend their service has declined by 65 per cent over the past two years; the manpower deficiency in both Royal Navy and Royal Air Force is expected to double during the next two years; the Army has had to postpone until an unknown date hopes of reaching its manpower ceiling, the recruiting rate having fallen to some 16 per cent below target. As a clear indication of dissatisfaction with current conditions of service, the Army's rate of discharge by purchase has risen by 50 per cent since April, 1964.
Applications for premature discharge are, of course, much higher, and the other two Services show a similar trend. If on top of this we refuse to give the Services what they are entitled to we shall face a very grave situation, not merely in recruitment from civil life (which must go on whatever the size of Forces ultimately decided on) but also about re-engagements of trained men which are vital to operational efficiency, particularly in the Navy. I must also emphasise that the period in which it will be vital (and most difficult) to maintain morale and to continue to attract recruits will be the period of major disturbance following the announcement of the Defence Review. There will be no possibility at all of maintaining recruiting if at the same time the Forces believe themselves to be underpaid.

Recommendation

9. I am prepared, if my colleagues feel it to be necessary to involve the National Board in some way, to accept that the more general question of how to determine Service pay after 1st April, 1966, might be referred to the Board. But I must strongly resist any reference, or for that matter any other procedure, which would interfere with the normal working out and implementation of the current biennial review.

D.H.
10th November, 1965

CABINET

RHODESIA: GENERAL ENABLING BILL

Memorandum by the Attorney-General

Following discussion in the Defence and Oversea Policy Committee the Prime Minister further discussed with me the procedure for the making of statutory instruments under the General Enabling Bill, and we concluded that the balance of advantage lay in making them subject to negative, rather than affirmative, resolution. However, the Leader of the Opposition and Sir John Hobson, to whom we have shown the draft Bill (Annex A), have indicated strongly that they do not consider that the negative resolution procedure will provide sufficient opportunity for the consideration by Parliament of the wide powers which may be taken in Orders in Council; and that, unless the Bill is amended in this respect, there will be strong opposition to the Bill in Parliament. In these circumstances, I think we should reconsider this question, about which in any event there were divided views among Ministers.

2. Under the negative resolution procedure, statutory instruments can take effect as soon as they are made. They must then be laid before Parliament, and may be prayed against by either House within forty days thereafter. Such prayers are infrequent. Debates on them in the House of Commons are normally limited to 1½ hours, from 10,00 p.m. to 11,30 p.m. There need be no vote at the conclusion of the debate.

3. Under the affirmative resolution procedure, statutory instruments are normally laid in draft before each House and cannot be made (and thus cannot be put into effect) until both Houses have passed the necessary resolution approving them. There is no time limit on the debate; I understand that the Chair does not normally accept a motion for the closure before the debate has run for about six hours. Under this procedure it is, of course, always necessary to proceed to a vote.

4. It is clearly essential that Orders in Council made under the Bill should take effect as soon as they are made. It may become necessary to make them on a day when the House is not sitting or it is not possible to provide the time necessary for the debates on affirmative resolutions. For these reasons the adoption of the normal affirmative resolution procedure will not be practicable. But it would be possible to make use of a modified affirmative resolution procedure, under which the Orders will take effect as soon as they are made but will expire at the end of a specified period.
(say, twenty-eight days) unless they are approved within that period by a resolution of each House. This procedure was originally adopted in, for example, the Emergency Powers (Defence) Act, 1939, and has been used in a few more recent statutes. The draft of a suitable provision is at Annex B.

5. The main advantage of the negative resolution procedure is that Orders in Council made under the Bill will require a minimum of parliamentary time. Its disadvantage is that if this procedure is adopted the Opposition will, so it appears, oppose the passage of the Bill and may also pray against each Order in both Houses of Parliament. At present seven or eight Orders are contemplated but of course as the situation develops it may well be necessary to make more.

6. The advantage of the modified affirmative resolution procedure is that the Bill will have a much easier passage through Parliament, as it seems that the Opposition will be content with that procedure. Its disadvantage is that each of the Orders will require a separate resolution in each House, and there may in particular be some difficulty in securing the passage of the resolutions in the Lords. I understand that in that House Standing Orders require a Report from the Special Orders Committee before the resolution is passed, and it seems not improbable that some Opposition members of that House will prove obstructive.

7. There is no doubt that the powers we propose to take under the Bill are wide and far-reaching, and the way in which we propose to exercise them will not be apparent until the Orders in Council are made. In such circumstances, it might well prove difficult to justify the exclusion from the Bill of a procedure which would provide Parliament with a full opportunity for debating the Orders.

8. I ask my colleagues to consider which procedure should be adopted. On balance, I recommend the modified affirmative resolution procedure as provided for in the draft at Annex B.

F. E. J.

Law Officers' Department, W. C. 2.

10th November, 1965
ANNEX A

Southern Rhodesia

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Make further provision with respect to Southern Rhodesia.

A.D. 1955

Be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:

1. It is hereby declared that Southern Rhodesia continues to be part of Her Majesty's dominions, and that the Government and Parliament of the United Kingdom have responsibility and jurisdiction as heretofore for and in respect of it.

2. (1) Her Majesty may by Order in Council make such provision in relation to Southern Rhodesia, or persons or things in any way belonging to or connected with Southern Rhodesia, as appears to Her to be necessary or expedient in consequence of any unconstitutional action taken in Southern Rhodesia or of any proposal to take such action therein.

(2) Without prejudice to the generality of subsection (1) of this section an Order in Council thereunder may make such provision:

(a) for suspending, amending, revoking or adding to any of the provisions of the Constitution of Southern Rhodesia 1961;

(b) for modifying, extending or suspending the operation of any enactment or instrument in relation to Southern Rhodesia, or persons or things in any way belonging to or connected with Southern Rhodesia;

(c) for imposing prohibitions, restrictions or obligations in respect of transactions relating to Southern Rhodesia or any such persons or things,

as appears to Her Majesty to be necessary or expedient as aforesaid; and any provision made by or under such an Order may apply to things done or omitted outside as well as within the United Kingdom or other country or territory to which the Order extends.
(3) An Order in Council under this section may make or authorise the 
making of such incidental, supplemental and consequential provisions as 
appear to Her Majesty to be expedient for the purposes of the Order, and 
any provision made by or under such an Order may be made to have effect 
from any date not earlier than 1965.

(4) An Order in Council under this section may be revoked or varied 
by a subsequent Order in Council thereunder.

(5) Any statutory instrument comprising an Order in Council made 
under this section shall be subject to annulment in pursuance of a 
resolution of either House of Parliament.

3.-(1) Subject to the following provisions of this section, 
section 2 of this Act shall continue in force for the period of one 
year beginning with the date of the passing of this Act and shall then 
expire unless it is continued in force in accordance with subsection (2) of 
this section.

(2) Her Majesty may from time to time by Order in Council provide 
that section 2 of this Act shall continue in force for a period of 
one year beyond the date on which it would otherwise expire; but no 
recommendation shall be made to Her Majesty in Council to make an Order 
under this subsection unless a draft of the Order has been laid before 
Parliament and approved by resolution of each House of Parliament.

(3) The expiration of section 2 of this Act shall not affect -
(a) the operation of that section as respects things 
previously done or omitted to be done; or
(b) the Constitution of Southern Rhodesia 1961 as in force 
immediately before the expiration of that section.

4.-(1) This Act may be cited as the Southern Rhodesia Act 1965.

(2) This Act extends to Southern Rhodesia, the Channel Islands, 
the Isle of Man, any colony or protectorate within the meaning of the 
British Nationality Act 1948, and (to the extent of Her Majesty's 
jurisdiction therein) to any foreign country or territory, in which 
for the time being Her Majesty has jurisdiction:

Provided that no Order in Council under section 2 of this Act shall 
extend to any place other than the United Kingdom or Southern 
Rhodesia as part of the law of that place, except so far as it makes 
provision with respect to ships or aircraft to which this section 
applies, or affects the operation of any Act of Parliament which 
has effect in that place, with or without modifications, as part of 
its law, or of any instrument in force under any such Act.

(3) This section applies to British ships registered in the United 
Kingdom or any other country or place to which this Act extends, and 
to aircraft so registered.
ANNEX B

RHODESIA

Draft amendment

Clause 2, page 2, line 9, leave out sub-section (5) and insert -

(5) An Order in Council under this section shall be laid before Parliament after being made and shall expire at the end of the period of twenty-eight days beginning with the day on which it was made unless during that period it is approved by resolution of each House of Parliament.

The expiration of an Order in pursuance of this sub-section shall not affect the operation of the Order as respects things previously done or omitted to be done or the power to make a new Order; and in calculating the period aforesaid no account shall be taken of any time during which Parliament is dissolved or prorogued or during which both Houses are adjourned for more than four days.
CABINET

EXCHANGE TELEGRAPH COMPANY

Memorandum by the President of the Board of Trade

At its meeting on 4th November (C. C. (65) 57th Conclusions, Minute 6), the Cabinet invited me, in consultation with the Postmaster General —

(i) to enquire into the position which would obtain in the running of Parliamentary and general news services as a result of the withdrawal of the Exchange Telegraph Company from these fields and of the indication that the Universal News Service might correspondingly expand their services;

(ii) to consider in the light of these enquiries what, if any, Government action was required.

2. On the 5th November, I saw a deputation from the Printing and Kindred Trades Federation and the National Society of Operative Printers and Assistants. The deputation made it clear from the outset that they accepted the view that the closure of the Exchange Telegraph's Home and Parliamentary Services was not an appropriate matter for reference to the Monopolies Commission. They also accepted that there was no case for the provision of public money for the continuation of these services. What they asked was that the Postmaster General and I should use our good offices informally to bring about some agreement between the Exchange Telegraph Company (Extel) and its customers, the large newspapers, the B.B.C. and Independent Television News (I.T.N.).

3. I subsequently saw the Chairman of Extel, who explained to me the reason for the closure of these particular services. Briefly, they have been earning for the Company a revenue of only £60,000 a year against a requirement, if they were to be economic, of at least £160,000. Not unnaturally, Extel has found that the newspapers, the B.B.C. and I.T.N. have not been prepared to bridge this gap. They can satisfactorily obtain news by relying on the Press Association (which operates on a much larger scale and more cheaply) and on their own news-gathering resources. The Chairman of Extel explained that the decision to close these services had been taken reluctantly but the inevitability of it had been evident for some time.

4. I enquired about the Universal News Service but found that this would in no sense be a substitute for the Extel services. It operates what is tantamount to a public relations service on behalf of commercial customers and its proposed Parliamentary Service would be confined to industrial and trade matters.
5. I concluded that, in the light of the great difference between what Extel needed to charge to make these services economic and what the customers were prepared to pay, there was no point in our seeing the Newspaper Proprietors' Association, the B.B.C. or I.T.N. We could not properly try to influence them to pay an increase of the order in question for a service they had decided they could do without.

6. I am satisfied that there is no issue of public detriment here. Extel has been supplying these particular news services only to the major national newspapers and five of the provincial newspapers, the B.B.C. and I.T.N. The vast majority of local newspapers, and the whole of the Thomson chain, have never been subscribers to them. There is no suggestion that the Press Association (which is itself owned by 120 provincial newspapers) issues biased news which could be harmful to the public, and the customers can in any event supplement the Press Association's service from their own resources. Almost all those who were using the Extel Service have alternative news-gathering services of their own, in addition to the Press Association. No serious question of monopoly, therefore, arises.

7. The Postmaster General, whom I consulted, agrees that no action on his part is called for in the absence of any issue of public detriment.

8. I propose to announce in the House of Commons, in reply to a written Parliamentary Question, that I have made the further enquiries which I promised in my answer on the 4th November, that I am satisfied that the public interest is not in jeopardy, since adequate alternative facilities are available, and that as a result I am taking no further action.

D.J.

Board of Trade, S.W.1.

10th November, 1965