C(66) 142 - Future of the Airframe Industry. Memorandum by the Secretary of State for Education and Science

143 - Import Arrangements for Apples and Pears. Memorandum by the President of the Board of Trade

144 - Homosexual Law Reform. Memorandum by the Secretary of State for the Home Department

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148 - Decimal Currency: Coinage. Memorandum by the Chancellor of the Exchequer

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167 - Draft White Paper on Prices and Incomes Criteria During the Period of Severe Restraint. Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

168 - Housing Prospects. Memorandum by the Minister of Housing and Local Government

169 - Public Expenditure: Space Policy. Note by the Secretary of the Cabinet

170 - Public Expenditure 1967-68: Finance for Container Ships. Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

171 - Modalities of the Visits by the Prime Minister and the Foreign Secretary to the Capitals of the Six. Memorandum by the Secretary of State for Foreign Affairs

172 - Draft White Paper on Rhodesia. Note by the Secretary of State for Commonwealth Affairs

173 - Rhodesia: Mandatory Sanctions. Memorandum by the Secretary of State for Commonwealth Affairs

174 - Draft White Paper on Decimal Currency. Memorandum by the Chancellor of the Exchequer

175 - Help towards Home Ownership. Memorandum by the Minister of Housing and Local Government

176 - Local Authority Current Expenditure (England and Wales) 1967-68 and 1968-69. Memorandum by the Minister of Housing and Local Government

177 - Broadcasting Policy and Draft White Paper. Memorandum by the Postmaster General

178 - Agricultural Policy: Bacon Industry. Memorandum by the Minister without Portfolio

179 - Rhodesia. Memorandum by the Secretary of State for Commonwealth Affairs

180 - Home Information Services. Memorandum by the Prime Minister

181 - Family Endowment. Memorandum by the Chancellor of the Exchequer and the Minister without Portfolio

182 - Family Endowment. Note by the Secretary of the Cabinet
C(66) 183 - Family Endowment. Memorandum by the Minister of Social Security

184 - Service Doctors and Dentists: Amount of Pay Increase. Note by the First Secretary of State and Secretary of State for Economic Affairs

185 - P. 1127. Note by the Prime Minister
18th October, 1966

CABINET

FUTURE OF THE AIRFRAME INDUSTRY

Memorandum by the Secretary of State for Education and Science

At their meeting on 2nd August (CC(66) 41st Conclusions, Minute 6) the Cabinet approved the appointment of a Sub-Committee under my chairmanship to consider and make recommendations on the future of the airframe industry, which in practice means the future of the British Aircraft Corporation (BAC) and Hawker Siddeley Aviation Limited (HSA) who are the two main companies in this industry.

Background

2. The background to this subject is the Plowden Report on the Aircraft Industry (Cmd 2853), and in particular Chapter 37 on the future financial arrangements for the industry. The Committee recommended that there should be some degree of public ownership of the two main airframe companies; they considered but rejected 100 per cent nationalisation, and concluded that the balance of advantage lay in favour of the Government acquiring a shareholding in BAC and HSA. The majority of the Committee felt that over half the equity should be in Government ownership to give the degree of control that would make it possible for the Government to forgo detailed technical and financial control of projects by the Ministry of Aviation. Mr. Aubrey Jones, in a reservation, dissented from these conclusions; he did not think that a degree of Government ownership would of itself ease Government control and he thought that it would lead to a less commercial approach on the part of the industry. He thought that the Committee’s objectives could be achieved without Government ownership of any part of the equity.

3. The issues and the possible courses of action were discussed in memoranda by the then First Secretary of State (C(66) 119), and the Minister of Aviation (ED(66) 71). They were more fully argued in two memoranda which formed the basis of the Sub-Committee’s discussions, one by the Minister of Aviation (Appendix A, which should be considered in conjunction with ED(66) 71) and one by myself (Appendix B). In the hope of sparing my colleagues the need to read through all this paper in detail, I endeavour now to summarise at least the main points.
Future Load

4. When the Cabinet discussed this, it was suggested that the key question for the future of the airframe industry was the future load on the industry. Accordingly we asked the Minister of Aviation to give us a full report on the prospects for the industry over the next ten years, and the main conclusions of a report by a Working Party on aircraft industry loading are set out in an annex to this memorandum.

5. A number of major uncertainties overhang the industry. The picture cannot be regarded as wholly assured in respect of the Anglo-French Variable Geometry aircraft, the Airbus or the P1127. We considered whether at any rate for some of these projects the future might look a little clearer in six months' time, and whether we should therefore do better to postpone decisions until then. But it is now ten months since Plowden reported; there are signs that delay in the announcement of Government decisions is beginning to damage morale in the industry and lead to loss of staff; and moreover experience suggests that there is hardly ever a time when there are not major uncertainties about the future of this industry. The general pattern and scale of its activities over the next ten years are, however, reasonably clear; future decisions on projects may modify them but are not likely to alter them fundamentally (unless, perhaps, the French Government were eventually persuaded to abandon Concord). We therefore concluded that decisions should not be deferred on this account.

6. The general picture is that, while total output is not expected to change very greatly over the next ten years, within the total the share of Government work and of military sales is likely to fall off considerably in the early 1970's. Total expenditure on research and development (both civil and military) will remain high until about 1970 but will decline thereafter; in particular, by 1976 military research and development may well be at a level only one-third of present expenditure. The level of employment in the two main companies is expected to fall from 65,000 in 1966 to under 40,000 in 1976. The level of Government support which the industry receives will be higher in the second half of the 1960's than in the early 1960's, but from 1970 will begin to decline to a level which by 1975 is likely to be considerably lower than in the early 1960's.

Objectives

7. We are all agreed:

(a) That the airframe and guided weapons interests and activities of BAC and HSA should be rationalised. There is still scope for much internal rationalisation of production and design resources within each of them. Eventually the two organisations should merge. The timing of this should be determined by the programme of work as it evolves, but it would be advisable to bring the two companies as soon as possible under a single management, with power to ensure that the joint resources are used in the most economic manner and to make plans for a merger.
That our objective in the rationalisation should be to get a strong management which will carry through this rationalisation and face up to the difficult decisions that it will require, and at the same time to retain for the British airframe industry the best possible design and technical staff.

On past form BAC have been strong on the design and technical side, with some notable aircraft to their credit, the BAC 111 being the most recent example. Hawker Siddley have been less good on design, and have not launched a new civil project since 1960. Each of the two groups was formed by the amalgamation of various companies early in 1960, and both have been extremely slow to effect any significant degree of integration of activities. But Hawkers have benefited from having one parent rather than three and have set up a simplified company structure. The BAC top management has been less effective than had been hoped. The strong top management of Hawker Siddley has given HSA an air of greater financial and commercial shrewdness. Whatever new organisation now emerges should combine the virtues of both companies: a strong design and technical staff, with a resolute and expert top management, particularly on the financial and commercial side.

In deciding how to achieve this we have to take into account the possible reactions of the industry. There will be less upheaval, and less danger of losing key people, if we can come to a reasonably amicable conclusion with the industry. So far as we know the position is as follows:

(a) The two companies are very unlikely to merge of their own accord.

(b) The parent companies of BAC are not interested in going into partnership with the Government. They have expressed a desire for the Government to acquire a 100 per cent holding.

(c) Some elements in BAC might oppose 100 per cent public ownership of BAC if that was the prelude to merging BAC and HSA in a new company in which Hawker Siddley had the major interest and the managerial control, since they would expect HSA to give preference to Hawker personnel in reorganisation. It is not clear if any BAC staff would push their opposition to the point of resigning and leaving the industry rather than accept a merger with HSA. Nor is it clear whether these staff would also oppose 100 per cent public ownership of BAC if it coincided with 100 per cent public ownership of HSA as a prelude to rationalisation under a public corporation. To all except perhaps the most senior design and technical staff one would expect that the prospects of continuing work would be more important than the ownership of the organisation.

(d) Hawker Siddley are now in a position to pull out of the airframe industry after 1970 if they wish, and it seems that they will not undertake any new major commitments with their own money going beyond that date, at any rate until the future of the industry is settled. If we decided to leave things as they are, Hawker Siddley would probably pull out. They would not want to continue as they are in competition with a 100 per cent publicly owned BAC, for fear that the Government would give preference to BAC in allotting contracts and providing assistance. They would not go into partnership with a majority Government shareholding. They would welcome an arrangement
whereby they were in charge of the assets and activities of the two companies, and would accept a Government minority shareholding. If BAC were being taken over by the Government Hawker Siddeley would probably not in the end refuse to sell the whole of the HSA equity to the Government, if the price was reasonable. Their ideas of a reasonable price might well however be different from ours, and some of us doubt whether they would in practice refrain from publicly opposing 100 per cent nationalisation of the industry.

Possible Courses of Action

10. We have considered four possible courses of action:

(a) To leave things as they are.

(b) To take a majority holding in both companies, and use the majority power to carry through rationalisation.

(c) To take over the whole of the equity of BAC, and then merge BAC and HSA into a new company in which the former BAC equity would represent a substantial minority shareholding for the Government.

(d) To take both companies into 100 per cent public ownership, bringing them as separate companies under a new public corporation, which would also take over responsibility for other airframe interests in public ownership (e.g., the Government holding in Shorts, and the Beagle Aircraft Company), and would be charged with the duty of rationalising the industry.

11. We are agreed that we cannot leave things as they are. If we do that, Hawker Siddeley will fade out, and probably eventually BAC also. We are agreed that a majority shareholding would be practicable only with the agreement and co-operation of the industry, and that this would not be forthcoming; there are also other reasons (into which I need not go) why this solution would not be attractive for the Government even if it were practicable. That leaves the courses summarised in paragraphs 10(c) and (d) above.

12. The main arguments for 100 per cent nationalisation of both companies and against the minority shareholding solution are:

(c) The Government are the industry's main customer and will continue to have to find 100 per cent of the finance required for military projects. Hitherto the Government have been contributing up to one half of the launching costs of major civil projects. Now BAC on the Concord and HSA on the Airbus have indicated that the Government will have to find the whole of the launching costs of future major civil projects, and a share of working capital for production as well. This could set a precedent for the Government bearing virtually all the risk on all major projects in future. The annual amounts at stake are so large in relation to the value of the equity, and the Government's dominance in the affairs of the industry is so great, that 100 per cent public ownership is, as the Plowden Committee put it, no more than a realistic recognition of the dominant role of the Government in the industry's affairs. The responsibility for providing capital, for making critical decisions and for dealing with the industrial consequences of those decisions would thus be concentrated firmly in the hands of a corporation appointed by and responsible to the Government.
(b) If the companies will not risk private capital on major ventures, the normal commercial sanctions will not bite, and a private enterprise management will have little or no commercial incentive to responsibility and efficiency.

(c) With a minority shareholding in a new company, the majority share of which would be owned by Hawker Siddeley, there would be the risk of conflict of interest. Though under the Companies Act provisions, possibly supplemented by reserve powers, the Government as a minority shareholder would retain certain rights of veto, they would not be able to impose their views on future policy or on questions of management.

(d) The need to reduce detailed financial and technical control of projects was one of the main objectives of the Plowden recommendations. In the view of the Minister of Aviation this objective can be achieved only if the industry is 100 per cent publicly owned. It would be inappropriate for the day to day activities of a public corporation to be controlled in detail; there would no longer be any question of undue benefits to private interests, and the Government would have the powers to dismiss members of the corporation if they lost confidence in their capacity to manage the affairs of the industry and to run projects efficiently.

(e) Objections in BAC to incorporation in a company dominated by Hawker Siddeley could lead to resignations of key design and technical staff, who might well be lost to this country.

(f) It would be politically hard to justify a course of action involving the takeover of BAC and a merger of a publicly owned BAC with a privately owned HSA. This would be presented by hostile opinion as taking BAC into public ownership and then giving it back to private enterprise.

(g) HSA’s lack of initiative on the civil project side since 1960 suggests that they might not provide the industry with the leadership it needs.

13. The main arguments for the minority shareholding solution and against 100 per cent nationalisation are:

(a) The industry must contract and rationalise, and as its military work falls away its civil work will become increasingly important to it. In these circumstances commercial disciplines and commercial expertise will be more rather than less necessary than in the past. A predominantly private enterprise organisation is more exposed to such disciplines, and more likely to possess such expertise, than a publicly owned corporation. A public corporation might also be at a disadvantage in meeting the competition of overseas private enterprises (particularly American firms) in international markets.

(b) It is questionable whether we should be in a hurry to nationalise an industry which is not a “commanding height” and is about to enter upon a period of contraction and rationalisation. The process of rationalisation will involve tough and difficult decisions. As a majority customer and a minority shareholder the Government would not wholly avoid the odium in the decisions, but they might find it easier to meet the pressures and answer the criticisms that the decisions would entail if they were the decisions of a commercial management rather than of a public corporation.
Specifically, the management of Hawker Siddeley has the toughness, and the financial and commercial expertise, which will be needed; but it would almost certainly not be available to a wholly publicly owned industry. Good management is even more difficult to secure than good design and technical staff. We could certainly find a management for a public corporation; it is not so certain that we could find a management that was sufficiently tough, efficient and experienced in the working problems of the aircraft industry.

A substantial minority shareholding, combined with the Government's power as a purchaser and a source of working capital, should give the Government sufficient influence on the policy of the merged company. Ideally the majority holding should be diversified, so that the Government's share was the largest single shareholding. If that were not possible the Government might need to negotiate certain reserve powers (for instance, on the right of veto on the appointment of a chairman), but such reserve powers could and should be kept to a minimum.

It is unlikely that Government participation in ownership would reduce the need for detailed technical and financial control of projects by the Ministry of Aviation or its successor. It will make little difference from this point of view whether the industry is wholly or partly owned by the Government, or whether a part holding is a majority or a minority share of the equity. Moreover the question of undue benefits to private interests, which is of much wider application, will shortly be resolved by the insertion of "post-costing" conditions in all appropriate Government contracts. What matters here is not the precise form and degree of ownership but efficiency of management.

It is not clear that those in BAC who would object to a merger with HSA would object any less to incorporation in a nationalised industry of which the old HSA would inevitably be a major part. There is room for doubt whether the ownership of the industry is as important to design and technical staff as a settled prospect and an assured programme of work.

It would cost the Exchequer much less to take over BAC alone than to take over both companies.

Four general points should be added:

Whatever solution we adopt, the assets of both companies will have to be valued, whether for the purpose of assessing the purchase price or for deciding the relevant size of shareholdings in a new company resulting from a merger. The process of valuation will be difficult and controversial; and, if we are going for the minority shareholding solution, Hawker Siddeley will want to be associated with the valuation of the BAC assets because of its implications for the size of the Government holding in the new company. On the other hand the valuation of the HSA assets might present slightly less difficulty if the purpose was simply to decide upon the relevant shares in a new company (since absolute precision would not be necessary) than if the purpose was to decide on a purchase price.
The merger of the two organisations is the prior condition of rationalisation and of the increased efficiency that should result. If both companies are taken over 100 per cent, the next year or so will be taken up with the business of nationalisation, and the two organisations will continue to go on as they are. Rationalisation will be postponed until there is a public corporation to undertake it. Thus rationalisation, and a term to the uncertainty in the industry, would come earlier on the basis of the minority shareholding solution (given the right calibre of management) than on the basis of 100 per cent nationalisation.

Neither solution would be unopposed or uncontroversial, inside the industry or more widely. If we go for the minority shareholding solution, some people in BAC may object to a merger in which HSA would be the dominant partner (though one doubts whether they would have very rational grounds for their objection). The parent companies of BAC might be tiresome (though, as they would be getting out, their need or right to concern themselves with the future structure of the industry would be questionable). Hawker Siddeley would welcome that solution. We should meet some criticism for taking over BAC and then 'giving it back' to private enterprise. But we could present that positively and constructively as a scheme of rationalisation, consistent with the general Plowden recommendation and likely to reap the advantages which the Plowden Committee expected to flow from their recommendations. It could prove to be a useful precedent, like Fairfields, for other measures of rationalisation in which private enterprise and Government co-operated and shared responsibility for the development of an efficient industry in the national interest. If we went for 100 per cent nationalisation of both companies, there might be some objections from key personnel in both companies. The managements might not in the end resist, though we should certainly have a rough passage in negotiating a price for the assets. But Hawkers would be almost bound publicly to oppose nationalisation (which they would describe as confiscation if we did not offer what they regarded as a reasonable price); and the parent companies of BAC might well follow their example. We have to reckon that this would certainly broaden out into a general controversy on the nationalisation issue, on broadly predictable political lines.

A decision to go for the minority shareholding solution now would not exclude a decision to go for 100 per cent nationalisation later. Obviously the reverse is not true. If we went for the minority shareholding solution, and either our negotiations with Hawker Siddeley broke down or the arrangements proved not to work out in practice, we could then go on to nationalise the whole industry. We should not want to indicate in the initial negotiations for a minority shareholding solution that we had this possibility in our minds; but we should hardly need to do so, since the possibility would certainly be in the minds of the other side. There may be advantages, particularly at this point of time, in going for the smaller step in the first instance.

Conclusion

The Sub-Committee on Aviation were evenly divided between these two solutions, and I have therefore to ask the Cabinet to decide. The argument is nicely balanced; there will be difficulties whatever we decide to do. My own conclusion is still in favour of the minority
shareholding. But the Minister of Aviation is the Minister responsible for the industry, and the fact that he supports 100 per cent nationalisation must therefore carry great weight.

C. A. R. C.

Department of Education and Science, W.I.

17th October, 1966
CONCLUSIONS OF A REPORT BY THE WORKING PARTY ON AIRCRAFT INDUSTRY LOADING

(a) The aircraft industry's total output is not expected to change very greatly over the next ten years.

(b) Within the total, the shares of government work and of military sales fall off considerably in the early seventies, but rise again at the end of the period.

(c) There is a very rapid prospective fall in military R and D in the last part of the period. By 1976 this may have reached a level only one-third of present expenditure.

(d) Total expenditure on R and D, for civil and military purposes combined, is at present rising and will remain at a high level until 1970 or thereabouts. The increase is largely explained by work on the Concord project, which is superimposed on a military programme which remains fairly stable until 1970.

(e) Within the total of military R and D there is a fall in design content. The prospects for the design labour force in the main airframe companies, even if there are no reductions or cancellations in programmes, is a continuing decline to a level less than a quarter of the present one. The size and extent of this decline raise some major issues of policy.

(f) Expenditure on procurement is expected to remain at roughly current levels until about 1971. Within the total during this period there is a considerable increase in expenditure on engines and a decline with respect to airframes and equipment. Procurement expenditure may fall off in the early 1970's, but is expected to be at a very high level in 1975 and 1976.

(g) There is a possibility of slippage in programmes on the military side. Any such tendency would probably make the year-to-year changes in total output even smaller than they now appear on our projections.

(h) Exports and home civil sales together are expected to remain at a high level, and on our assumptions about Concord and the Airbus the level of exports should considerably exceed the present figure in the early 1970's.

(i) The industry is heavily dependent on a limited number of major projects, especially in the early 1970's. Over the years 1972-74 the Concord project alone will on our assumptions account for some 20 per cent of the industry's total output.

(j) The level of support which the industry receives as reckoned by the methods of the Plowden Committee, will be significantly higher in the next five years than in the early 1960's. But it will fall steadily from about 1970 onwards, and in the latter half of the period it can be expected to be considerably lower than in the period 1961-64.
Detailed projections of employment suggest a continuing decline from 1967 or 1968, to a level of perhaps 170,000 to 180,000 at the end of the period. The main reduction is expected to be on the airframe and equipment sides of the industry. A rough projection of employment based on the output forecasts would suggest a rather later and more gradual decline, ending with a figure of perhaps 190,000 to 200,000 in 1976.
THE FUTURE OF THE AIRCRAFT INDUSTRY

Memorandum by the Minister of Aviation

I was invited at the last meeting of the Sub-Committee on Aviation on 10th August to submit further information and comments on my previous proposals and to bring up-to-date the state of major projects.

2. My officials have prepared and circulated the attached paper for consideration at the official level. I regret that it has not been possible for an earlier meeting to take place. This paper deals with the arguments for and against various options. As I said in my original paper ED(66)71, there is no easy course. Every possibility (including taking no action at all) is open to objections. While there are attractions in either taking no action or acquiring B.A.C. and merging it with Hawker Siddeley to give a minority government interest, on balance, I remain convinced that the best course is to acquire a 100% holding of both groups on the lines proposed in my paper, and I hope therefore that my colleagues will confirm the recommendations made in paragraph 25 of ED(66)71.

3. I should report developments on major projects as follows:

CONCORD

I have had meetings this month with the French Minister of Equipment (M. Pisani) when he was here for Farnborough and when I visited the Sud factory at Toulouse at his invitation. There is no doubt of French determination to proceed with the project and I see no way of persuading them to agree otherwise. They have now agreed, although it has taken much longer than we wished, to set up the joint committee of officials to examine economic and commercial prospects, decided at Cabinet on 21st July, 1966 (GJ(66)39th Conclusions, item 4). It is intended that this committee should report in two months. We are preparing proposals for sonic bang tests and it may prove possible to have a joint examination of sonic noise problems.

At the meeting on 8th September, M. Pisani and I agreed to publish the revised estimates. It was essential to issue them on this day to avoid prior publication by the Public Accounts Committee who had been supplied with them on a confidential basis and who insisted on putting them in their report. Earlier publication (i.e. before the House rose) would have been more embarrassing and would have given rise to difficulties with the French.

AIRBUS

I reported the earlier discussions to E.D. on 28th February (ED(66)5th meeting item 4). Since then it has been established that the Germans are keen to participate but there was considerable delay following this intimation as both the Germans and French spent time exploring possibilities of an
"Atlantic airbus", one developed jointly between European firms and an American company. The French have always maintained their interest in a European project; the Germans are at least ready to keep the option open until the Americans decide one way or the other whether to offer cooperation, and if so, on what terms.

There are no definite indications of American intentions in this field at present. The probable outcome is that either Boeing or Lockheed, (i.e. the one who does not get the American supersonic civil transport), will develop a large short-medium haul aircraft of 250-300 seats. Douglas is also known to be interested.

Circumstances are thus favourable to launching a European project but for success a decision will need to be taken in the next few months, both to get ahead of the American project (there will certainly be one as estimates of the market vary from 400-1000) and to meet delivery requirements of Air France and other airlines from 1972 onwards. It would now prove difficult to meet the 1972 date but we should aim to get as near to it as is technically possible. It is also essential that the airbus should have operating costs 25-30% cheaper than current jet aircraft.

Hawker Siddeley and representatives of the French and German industries have been asked to prepare a joint report by October 15th of the technical and financial aspects of a European project. It may then be possible to put forward proposals to Ministers prior to further talks with the French and German Ministers. M. Pisani is anxious to get this project moving so that, as he puts it, Concord will not be the swansong of the European aircraft industries. Since we have already virtually decided to get out of the long-haul sub-sonic civil transport field, unless we can participate in the next generation of short-medium haul aircraft, we shall be out of the civil market completely, except for small aircraft. I hope, therefore, that we can find means to get a European airbus going. A successful venture would save us dollars on our own requirement and bring in considerable exports.

Hawker Siddeley are on the brink of deciding whether to proceed with this project for a 40-50 seat feeder line jet or Dakota jet replacement. If they do decide to proceed they will undoubtedly apply for the usual 50% launching aid for civil aircraft.

**MILITARY AIRCRAFT**

(a) Anglo-French V.G. aircraft

Both the French and ourselves were very concerned at the financial aspects of this aircraft when the Defence Secretary and I met the French Minister for the Armed Forces in July and its future seemed doubtful. However the subsequent work of officials on both requirements and costs suggests that it may now prove a viable project. I understand that the French are also more optimistic now than in July about its prospects. It will be recalled that this aircraft was described in this year's Defence White Paper as "the core of our long-term aircraft programme". A detailed report is shortly to be put to Ministers and further meetings with the French Minister are planned for the end of October.

(b) Jaguar

Progress will also be reviewed at the October meeting but its continuance seems assured.

(c) P.1127

This VTOL aircraft programme is continuing satisfactorily and papers are in preparation for the October Ministerial Review decided upon last March.

CONFIDENTIAL
LIGHT AIRCRAFT

Although not strictly relevant as the two main airframe groups are not involved, I should add that since the last meeting, authority has been given for launching aid for the Handley Page Jetstream (a large executive or small feeder line aircraft) and a loan approved to expand the production facilities and the Britten-Norman Islander (7-8 seater). Detailed negotiations to complete the acquisition of Beagle are well-advanced.

F.M.

Ministry of Aviation,
Horse Guards Avenue,
S.W.1.
29th September, 1966.
THE FUTURE OF THE AIRFRAME INDUSTRY
Memorandum by the Ministry of Aviation

1. At their meeting on 10th August, the Ministerial Sub-Committee of E.D. on Aviation "..... invited the Minister to arrange for his officials, in consultation with officials of the Treasury, the Department of Economic Affairs, the Board of Trade, and the Ministry of Technology, to examine the technical and organisational aspects and implications of the various possible forms of reorganisation of the airframe industry and to submit the results of this examination, with his own comments and recommendations to the Sub-Committee for their next meeting."

2. E.D.(66)71 submitted by the Minister of Aviation to the Ministerial Committee on Economic Development on 25th July, 1966, set out the background to this subject and summarised the main considerations bearing on the reorganisation. The paragraphs which follow are largely a supplement to this paper, in the light of the points made at the E.D. and E.D.(A) meetings.

3. Among the various possible courses of action open to the Government, there now seem to be three that should be examined closely:

(a) To leave things as they are.
(b) To take a part shareholding in the industry, either 50%, or a minority.
(c) To take over both groups completely.

(a) Leaving things as they are

4. On the face of it, there are attractions in this course. By this means we would avoid making a substantial investment in an unstable industry and one presenting considerable management and industrial problems. It might indeed be argued that the basic concerns of the industry, namely the need for a stable programme of work and the need to improve productive efficiency, are unaffected by changes in ownership.

5. But we must look deeper than this, and firstly at the financial situation in the two groups. Of their three principal companies of B.A.C., Bristol Aeroplane have sold their holding to Rolls Royce who want to get rid of it, English Electric are chary of any new investment in civil projects, and Vickers want to quit aircraft manufacture. There is no hope of B.A.C. raising any significant amount of new risk capital from private sources. The Government will have to finance the whole Concord programme, including production, and furnish the whole of the money needed to stretch the VC-10 and BAC.1-11 which BEA are considering. Hawker Siddeley though much the stronger company financially have not launched a major new aircraft project for five or six years. They would be the likely contractor for the British part of the European Airbus if it gets off the ground and have participated in the industrial studies for it. But they have already said that the Government must provide the development finance and possibly some part of the production expenditure. In parallel, Government missile and military aircraft projects will continue to be financed wholly from Government funds.

6. Thus the Government faces the prospect of providing virtually all the risk capital for the forward aircraft programme, civil and military, and there are no present indications that this situation is likely to change in future.

7. Of course, if we were to provide a stable programme for the industry, and pump in sufficient money, the two groups could be expected to carry on indefinitely as they are now. But since neither group would be risking their own money, there would be no incentive to financial responsibility and business efficiency. We see grave objections to vast sums of public money being hazarded under these circumstances.
8. Even if we were prepared for this, there is another significant factor, namely, morale in the industry. This is low. It is touch and go whether the industry will be able over the next year or so to keep sufficient high quality designers and technicians and thus to retain the capability for developing major new military and civil aircraft of the future, since the pull of a thriving and even overloaded U.S. industry is very strong. If all the main projects of the next generation could be approved within a month or two, namely, Concord production, V.G. aircraft, Airbus, HS.136, etc., there would be no problem. But this is unrealistic, since it may take us many months to reach decisions on all these. It is, therefore, urgent that the question of government participation, raised by Plowden last December, should be settled soon.

9. If our long term expectation for the industry were that it would become predominantly a sub-contracting agent for the United States, there would be a lot to be said for letting it find its own level under commercial forces. But we have repeatedly proclaimed our intention to maintain a strong and healthy industry, and we cannot allow it to disintegrate by default.

10. Even if we had doubts about the long term competitive ability of our airframe firms, a substantial airframe capability in this country is essential to maintain the strength of our aero-engine and equipment companies. We could not hope to exploit the full commercial potential of these companies without retaining a capability for independent design and development of airframes. In particular, the powerful aero-engine merger in the offing might prove abortive.

11. A possible intermediate solution would be to take over B.A.C. completely and leave Hawker Siddeley in private hands. Hawker Siddeley would be highly suspicious of such an arrangement, and would fear discrimination in favour of the nationalised undertaking. This would almost certainly prompt them to leave the aircraft field as soon as their current programmes come to an end. They are now placed in a position where they could steadily run down their aircraft interests by about 1970.

(b) A Part Shareholding

12. In the earlier discussions some Ministers had reservations about a 100% take-over of the industry and thought that outright nationalisation (even on the assumption that this would be done with the consent of the owners) might be interpreted particularly abroad, as an irrelevance in the present economic circumstances. They thought that the alternative of a partnership between Government and industry, on the lines recommended in the Plowden Report, should first be considered further.

13. One possibility would be a 50/50 holding, but we can see no virtue in this. Under Company Law the important changeover points in holding are at 25% and 75%. A minority holding of 25% provides an assurance that the Objects of the company, or its Articles, cannot be altered without consent, nor its capital reduced. Special reserved rights can be negotiated but it is unlikely that the Government would obtain significantly stronger rights by a 50% shareholding than by 25% or 30%. On the other hand, in the public eye, a 50% holding would imply that the Government was responsible for the industry, but we would lack effective control over it. From the point of view of the industry, it would not be clear as to who was in charge, and Hawker Siddeley would almost certainly find the arrangement unacceptable.

14. The B-P arrangement is often invoked as a successful example of a 50/50 arrangement. But the oil industry is commercially prosperous and by convention the Government is little more than a sleeping partner in B-P. The situation in the aircraft industry is by no means analogous.

15. If a part shareholding by the Government were desired, it would be more sensible to make this a minority. One way of achieving this would be for the Government to take over B.A.C. completely and then merge the undertaking with H.S.A. Since the value of B.A.C. at current rates would be likely to be less...
than half the combined value of the two companies, we would thus have a substantial minority holding in the combined organisation. Hawker Siddeley would also favour a solution on these lines since it would leave them in majority control. There are several attractions in it from the Government's point of view. The cost would be much less than that of a full take-over of both firms, and would leave open the possibility of full take-over later, if desired. In the matter of cost, however, it should not be overlooked that the valuation of the assets, which would form the basis of the negotiations over the purchase price, would reflect the future prospects of the companies. The fact that the industry faces a period of decline and subsequent uncertainty would thus be taken account of in the price paid. Commercial sanctions and pressures would remain to the limited extent possible in an industry almost wholly dependent upon Government money. If there should be a serious contraction in the workload of the industry, calling for rationalisation on a substantial scale, the main burden of the responsibility for unpopular measures would nominally rest with Hawker Siddeley, though the Government would in practice still get most of the blame.

16. It must be recognised that the Government's status in such an arrangement would inevitably reflect the fact that the holding was a minority one only. Its role would tend to be passive rather than active. The arrangement would necessarily have to be one under which the Government sought to influence the company policy rather than to control it. The means of influencing it would have to be mainly through reserved rights secured as part of the initial deal.

17. Any such reserved rights could be acquired, if at all, only by negotiation. The Fairfields arrangement provides a guide as to what we might aim to achieve in the way of reserved rights, but it must be remembered that this was on the basis of a 50-50 partnership, and the Government were in a particularly strong bargaining position, since the only alternative for the firm was immediate collapse. The rights which were obtained by the Government represent the maximum that we could hope to secure with a holding of less than 50% in the merged airframe organisation. All the indications are that Hawker Siddeley would be extremely tough in their bargaining, and the outcome of the negotiations cannot be taken for granted in advance. Hawker Siddeley made this clear when they told us that if the Government took a minority holding in H.S.A., the Government could not then expect powers appropriate to a majority holding.

18. The sort of reserved rights (apart from a veto on the choice of Chairman of the Board) which would be essential to protect the Government investment would be agreement that decisions by the Board would have to be unanimous if involving an increase in share or loan capital, disposal or acquisition of substantial assets, and capital expenditure of more than a certain sum (perhaps £500,000). In addition, the Government might find itself in an embarrassing position if unanimity was not also required for decisions to diversify, association with other firms, e.g. American or European companies, and payment of dividends. It cannot be assumed that Hawker would agree to any of them, it is judged unlikely that they would readily agree to more than the first two (viz., the requirement of unanimity for increases in capital or disposal of substantial assets). Hawker would probably ask for some reserved rights in return, e.g., perhaps the right to be bought out completely in certain circumstances such as continuing poor profit record.

19. Even if all these reserved powers were secured, however, the arrangement has some serious disadvantages. The Government would have no power to impose its views on the form future rationalisation of the industry should take, either from the aviation or distribution of industry points of view. It would have no power to secure the replacement of managers who had proved inadequate. Hawker Siddeley would probably deal drastically with the present B.A.C. set-up, and there are some features of this, particularly on design, we should want to conserve. The Government would still be obliged to provide the greater part of the risk capital on new projects through launching aid (and even on production in the case of the Concord and probably the Airbus) while the majority control of the organisation would remain in the hands of a private company. Finally, the change in the relationship between Government and
industry would probably not be sufficiently fundamental to permit any substantial relaxation in the financial and technical controls which are now exercised by the Ministry of Aviation, and which are dictated mainly by statutory requirements. It will be recalled that the Plowden Committee attached great importance to the need to relieve the companies of a good deal of this detailed supervision, which they regarded as a brake on efficient and dynamic management.

(c) 100% Take-over of both Groups

20. This is the solution which the Minister recommended in: ED(66)71, enabling us as it would to achieve the fullest possible extent and in the quickest time, the main objectives of re-organisation. But before reaching a decision in principle on this, it is desirable to look in more detail at the management structure and finances of the two groups.

21. The structure of B.A.C. and Hawker Siddeley is described in Annex A.

Management

22. It is difficult to make judgments about the respective competence of the general managements of B.A.C. and Hawker Siddeley, and even more difficult to compress these into a few paragraphs. The following are the general impressions of the Department.

23. B.A.C. are stronger on design. Quite apart from the stature of Sir George Edwards (the only man in the industry with a world-wide reputation as a designer), the design elements in the management divisions are well led, particularly at Preston and Filton, and the middle grade technicians are most promising. Only B.A.C. has designed supersonic military and civil aeroplanes. On the whole, however, the senior commercial and production management of the Company does not inspire the same confidence, nor have any figures of authority yet emerged as possible successors to Sir George Edwards.

24. Hawker Siddeley have not the same strength of leadership on design either in their factories, or at the centre now that Sir Sidney Camm has gone, though there are many competent technicians in the middle and lower grades. On the Board of Hawker Siddeley Aviation, which appears to exercise a stronger central control, commercial and financial elements predominate.

25. On production, there is little to choose between the two groups. There are good and indifferent factories in each. In the selection of projects, Hawker Siddeley have been more successful, mainly because they have ventured so little, (they have, for example, now dithered for five years over launching the HS.136, a Dakota replacement and a relatively modest venture). The past records of the constituent companies which led up to the formulation of the large groups do not suggest that one group has been significantly shrewder than the other.

26. In any rationalised and revitalised industry we would hope to retain the best managerial elements, on design and production, in both Companies. They should complement each other in the right form of organisation. How particular individuals would react to any particular measures or re-organisation is of course largely a matter of conjecture. But we think the prospects of retaining a competent management would be rather better in a 100% Government set-up than in one with split ownership. It can be assumed that the whole of Hawker Siddeley would welcome an arrangement whereby they would retain a controlling commercial interest in a merged group. On the other hand, Sir George Edwards would be most unlikely to stay in an organisation dominated by Hawker Siddeley.

Merger

27. Some Ministers have asked what scope there is for rationalising the industry through a merger, and whether the Government's aims could be secured without any shareholding at all. In the first place, the Minister deployed /fairly
fairly fully in his earlier paper (paras. 13 and 14) the reasons why we think it would be premature to embark on a physical merger of the two groups at this stage, though the apparatus for effecting this in due course could be set up straight away. It was with this in mind that the setting up of a National Airframe Board with jurisdiction over both companies was recommended. In the present state of uncertainty in the industry we see no prospect of any major measure of re-organization coming about on the airframe side without direct Government intervention. It is no use our hoping that the airframe companies will emulate the aero-engine companies and initiate a re-organization on commercial lines. Their morale is too low and they lack the confidence and the money for such a move. Hawker Siddeley’s have also made it clear that they are not interested in finding the capital necessary to acquire B.A.C. on Rolls-Royce-Bristol Siddeley lines. The desire of the principle shareholders of B.A.C. to limit or get out of their aircraft investment rules out any move on their part to acquire Hawker Siddeleys.

28. Some factual information about the finances of the two airframe groups is set out at Annex B. Ministers also asked for a forecast of the profits for the next five years, and an estimate of the level of orders needed to allow the companies to break even, and also for an assessment of the future market for the companies’ products. It is very difficult to provide a forecast of this kind and the variable assumptions are such that an arithmetical picture would be artificial and possibly misleading, but in Part C of Annex B we have summarised the material in paper ED(A)(66)2 giving our best forecasts on the future load of work on the industry. This is perhaps the most reasonable basis on which to deduce broadly the level of prosperity of the companies.

Ministry of Aviation, Horse Guards Avenue, S.W.1. 26th September, 1966.
BRITISH AIRCRAFT CORPORATION

1. British Aircraft Corporation was incorporated in 1960 as a private company to merge together the aircraft activities previously separately carried on by Vickers, English Electric Aviation and Bristol Aeroplane Co. Later in the same year it acquired a 70% share interest in Hunting Aircraft Ltd. In 1963 the Corporation acquired the remaining interest in Hunting Aircraft Ltd. and from English Electric their aircraft activities at Preston, Samlesbury and Warton. It also acquired a 50% interest in certain guided weapon projects being developed by Fairey Engineering Ltd. The share capital of the Corporation is held as to 40% by Vickers Ltd., 40% by English Electric Ltd. and 20% by Bristol Aeroplane Co. Ltd. Rolls-Royce have just recently made an offer to acquire the entire share capital of Bristol Aeroplane Co. Ltd., with the result that if the offer succeeds Rolls-Royce will effectively become 20% shareholders in British Aircraft Corporation in lieu of Bristol Aeroplane Co.

2. The Board of B.A.C. is as follows:

- Viscount Portal (Chairman)
- Sir Dermot Boyle (Vice Chairman)
- Sir George Edwards (Managing Director)
- Viscount Caldecote (Deputy Managing Director)
- Viscount Nelson (Deputy Chairman)
- A.V.E. Houghton
- A.D. Morris
- W. Masterton
- G.A. Riddell
- Sir Leslie Bowen
- Sir Reginald Verdon-Smith
- R.P.H. Yapp

3. At the end of 1963 the management structure of B.A.C. was changed in that a new company, British Aircraft Corporation (Operating) Ltd., was formed as a wholly owned subsidiary to take over the manufacturing facilities and physical assets of B.A.C. and its then operating companies. B.A.C. (Operating) Ltd. is divided into four divisions each of which is managed by executives who are directors of local Management Companies.

4. These divisions and their corresponding Management company are as follows:

- **Airframe Division**
  - Preston Division: B.A.C. (Preston) Ltd.
  - Weybridge Division: B.A.C. (Weybridge) Ltd.
  - Filton Division (Bristol): B.A.C. (Filton) Ltd.

- **Guided Weapons Division**
  - B.A.C. (Guided Weapons) Ltd.
  - (factories at Filton, Stevenage and Cardiff)

Apart from B.A.C. (Operating) Ltd. and these Management companies, there are other small subsidiary and associated companies, some of which are overseas.
Hawker Siddeley Group Ltd., is a large public holding company with subsidiary and associated companies both in the United Kingdom and overseas. In the United Kingdom its interests are divided between aircraft and industrial activities, the latter mainly in the electrical and mechanical engineering fields. Although at present it also owns a 50% share and loan interest in Bristol Siddeley Engines Ltd., this interest has now become the subject of an offer for cash by Rolls-Royce Ltd. At the same time Rolls-Royce are bidding to take over Bristol Aeroplane Co. Ltd., who own the other 50% interest in Bristol Siddeley Engines Ltd.

At 31st December 1965 the Hawker Siddeley Group had total net assets (including part financed by bank borrowings) of £157M of which just over one-third related to the U.K. aircraft interests.

The Board of Hawker Siddeley Group is as follows:

Sir Thomas Sopwith (President)
Sir Roy H. Dobson (Chairman)
Sir Arnold Hall* (Vice Chairman & Managing Director)
Sir Aubrey Burks* (Deputy Managing Director)
Harold T. Chapman
John F. Robertson* (Financial Director)
H.G. Harrington*
Sir Halford Reddish
J.T. Lidbury*
A.S. Kennedy*
Sir Joseph Lockwood
Sir Percy Lister

The directors marked with an asterisk form an executive committee.

Hawker Siddeley's aircraft interests in the U.K. are now divided between two wholly owned subsidiaries, Hawker Siddeley Aviation Ltd. (airframe) and Hawker Siddeley Dynamics Ltd., (mainly missiles, but including aircraft equipment and propellers). These companies resulted from a reorganisation in management structure in 1953 when the activities and physical assets of a number of separate subsidiaries were merged.

Hawker Siddeley Aviation (H.S.A.) is no longer divided into management divisions. It has factories at Kingston-on-Thames, Hatfield, Brough, Chester and Hamble, each of which is managed by local executives. The board of H.S.A. is as follows:

Sir Arnold Hall (Chairman)
J.T. Lidbury (Dep. Chairman & Managing Director)
Sir Aubrey Burks (Dep. Managing Director)
Air Chief Marshal Sir Harry Broadhurst (Assist. Managing Director & Chief Exec. [Civil])
Air Cdr. F.R. Banks (Assist. Managing Director & Chief Exec. [Military])
R.L. Lickley
Sir Roy Dobson
Sir Aubrey Burks
J. Robertson
L.S. Kennedy
J.L. Thorne
Capt. E.D.G. Lewin
E.G. Rubython
A.J. Laurence

Sir Joseph Lockwood
Sir Percy Lister

General Manager, Brough
Commercial Director

CONFIDENTIAL
6. Hawker Siddeley Dynamics (H.S.D.) operates at Hatfield, Stevenage, Bolton, Whitley and Manchester. The Board is as follows:

Sir Arnold Hall          (Chairman)
Sir Aubrey Burke         (Deputy Chairman & Managing Director)
J.F. Robertson
A.S. Kennedy
G.C.J. Gardiner          (General Manager)
M.G. Ash                 (Financial Director)
Dr. G.H. Hough           (Technical Director)
C.R. Burgess             (Sales Director)
J. Dent                  (Chief Engineer, Coventry)
C.T. Wilkins             (Space Projects, Stevenage)
S.H. Lines
FINANCIAL STRUCTURE OF THE MAIN AIRFRAME GROUPS

1. This note describes the financial situation of the British Aircraft Corporation and the Hawker Siddeley Airframe and Missile Groups. The examination is in three parts, firstly a description of their latest known capital structure and utilisation, secondly a record of their profit rate on average capital employed over the last few years, and thirdly a generalised impression of their future prospects.

A. CAPITAL STRUCTURE AND UTILISATION

2. Table I shows the source of funds, the amounts invested by the parent or principal companies and borrowings, and their deployment as assets. This information is based on the latest available annual accounts. In the case of B.A.C., latest available figures are for end-1964, and thus 21 months out of date. In their Directors' Report for 1965 issued in June 1966 it is stated that the Directors defer submission of the Accounts for 1965 for separate consideration later this year. No reason is given for the deferment.

<table>
<thead>
<tr>
<th>TABLE I</th>
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<tr>
<td></td>
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<tr>
<td>(a) Source of funds</td>
</tr>
<tr>
<td>(i) Shareholders' funds</td>
</tr>
<tr>
<td>Shareholdings</td>
</tr>
<tr>
<td>Vickers</td>
</tr>
<tr>
<td>English Electric</td>
</tr>
<tr>
<td>Bristol Aeroplane</td>
</tr>
<tr>
<td>Hawker Siddeley Group</td>
</tr>
<tr>
<td>Retained profits, reserves, etc.</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>(ii) Borrowings</td>
</tr>
<tr>
<td>Advances by Parent or Principal Companies</td>
</tr>
<tr>
<td>Bank loans and overdrafts</td>
</tr>
<tr>
<td>F.C.I. term loan</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Total funds</td>
</tr>
<tr>
<td>(b) Utilisation of Funds</td>
</tr>
<tr>
<td>Working capital invested in stocks and work-in-progress</td>
</tr>
<tr>
<td>Liquid and semi-liquid funds</td>
</tr>
<tr>
<td>Total working capital</td>
</tr>
<tr>
<td>Fixed assets (net after depreciation)</td>
</tr>
<tr>
<td>Total employed capital</td>
</tr>
</tbody>
</table>

/Confidential
3. Under shareholdings of the principal companies, issued share capital called upon is shown with total authorised share capital in brackets. Outstanding calls on English Electric and Bristol are due to be paid by June 1967.

4. Loans from the principal companies (which are in direct proportion to their authorised shareholding) can be regarded virtually as additional equity funds; interest is payable to the principal companies at 1% over Bank Rate. The £15m term loan from the Finance Corporation for Industry Ltd. (FCI) made primarily to finance the BAC 1-11 falls due for repayment on 30th September 1972; interest is at 1 1/2% over Bank Rate at present and will be at 2% over from 1969.

5. BAC continues to divide its activities between projects undertaken on behalf of its principal companies and those on its own account. The picture of the utilisation of finances is therefore not fully reflective of an undertaking working wholly on its own account.

HAWKER SIDDELEY AVIATION AND HAWKER SIDDELEY DYNAMICS

6. These companies are wholly owned subsidiaries of the Hawker Siddeley Group. Apart from share capital (itself provided solely by the Hawker Siddeley Group) and retained profits, almost half of the combined assets of the two companies is financed by loans from the parent company. The parent company thus acts as virtual banker to its subsidiaries, and hence analysis of the separate companies gives a somewhat unreal picture of the financial rewards behind these activities. Some details of the parent company are therefore given below.

Shareholdings of the Hawker Siddeley Group

7. The present share capital of the Group comprises:

<table>
<thead>
<tr>
<th>Shareholding</th>
<th>Authorised £m</th>
<th>Issued £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% cumulative preference shares (£1)</td>
<td>6.0</td>
<td>5.96</td>
</tr>
<tr>
<td>Ordinary shares (£1)</td>
<td>51.0</td>
<td>47.63</td>
</tr>
</tbody>
</table>

These shares are widely held and at the end of 1965 were divided between approximately 80,000 separate ordinary shareholders and 7,000 preference shareholders. Whilst the content of nominee shareholdings is not known, it seems unlikely that at the same date any single shareholder held more than 5% of the equity capital.

Structure of the Hawker Siddeley Group

8. The Group is essentially a holding company whose assets consist principally of shares in and loans to a large number of subsidiary and associated companies. Major reorganisation of the management and capital structure took place in 1963 and the present (31.12.65) structure is summarised below:
Parent Company  Hawker Siddeley Group Ltd.

Subsidiary Companies

(a) In the United Kingdom

Aerospace Engineering Companies
Hawker Siddeley Aviation Ltd.
Hawker Siddeley Dynamics Ltd.

Electrical Engineering Companies
Hawker Siddeley Electric Ltd.
Itself owning
Brush Electrical Engineering Co. Ltd.
Fuller Electric Ltd.
Morecambe Electrical Equipment Co. Ltd.

Mechanical Engineering Companies
Hawker Siddeley Diesels Ltd.
Itself owning
Mirrlees National Ltd.
Petters Ltd.
R.A. Lister & Co. Ltd.
Blackstone & Co. Ltd.

Hawker Siddeley Holdings Ltd.
Itself owning
Glosters Saro Ltd.
Hands (Letchworth) Ltd.
Kelvin Construction Co. Ltd.
Norstel & Templewood Hawksley Ltd.
Saro Products Ltd.
S.G. Brown Ltd.
Thomas Green & Son Ltd.

Metal Companies
High Duty Alloys Ltd.
Aluminium Wire & Cable Co. Ltd. (Associated company - 33.1/3% owned)

(b) Overseas

Subsidiary and associated manufacturing companies operating in Argentina, Australia, Canada and South Africa, of which the largest is Hawker Siddeley Canada Ltd. (59% owned) and The de Havilland Aircraft of Canada Ltd. (97% owned).

In addition there are Sales companies controlled by Hawker Siddeley International Ltd. in countries throughout the world. There is also the 50% share and loan interest held by the Hawker Siddeley Group in Bristol Siddeley Engines, which is the subject of the recent bid by Rolls Royce.

9. The relative size of each of the Hawker Siddeley main interests at the end of 1965 can be gauged from the following table given in the Directors' review to shareholders for 1965:-
Analysis of capital employed of the Hawker Siddeley Group:

<table>
<thead>
<tr>
<th></th>
<th>£M</th>
<th>Representing %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace Engineering Companies</td>
<td>54</td>
<td>34</td>
</tr>
<tr>
<td>in the U.K.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electrical and Mechanical</td>
<td>49</td>
<td>31</td>
</tr>
<tr>
<td>Engineering Companies in the U.K.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in Hawker Siddeley,</td>
<td>26</td>
<td>17</td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in Bristol Siddley</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Engines (see note)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The de Havilland Aircraft of Canada</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Other manufacturing companies</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>overseas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>157</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: The investment in Bristol Siddley Engines has become the subject of a bid by Rolls-Royce who have made an offer in cash of £26.7M subject to minor adjustments in respect of final settlement of negotiations at present in progress by Bristol Siddley. The purchase consideration will be payable by instalments (with interest) up to 31st March 1967.

Hawker Siddeley have stated that they intend that the proceeds when received, should be used for the purpose of strengthening the Group’s activities.

E. PROFIT RECORD ON AVERAGE CAPITAL EMPLOYED

**TABLE II**

Profit Rate on Average Capital Employed 1960/65

<table>
<thead>
<tr>
<th>Average Capital Employed (£M)</th>
<th>Trading Profits (£M)</th>
<th>Profit Rate (°)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAC Hawker Siddeley</td>
<td>BAC Hawker Siddeley</td>
<td>BAC Hawker Siddeley</td>
</tr>
<tr>
<td>------------------------------</td>
<td>----------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>1960 37.0 60.2</td>
<td>6.5</td>
<td>-</td>
</tr>
<tr>
<td>1961 48.2 66.9</td>
<td>3.8</td>
<td>2.6</td>
</tr>
<tr>
<td>1962 47.5 66.3</td>
<td>5.1</td>
<td>7.6</td>
</tr>
<tr>
<td>1963 61.4 38.6 16.6</td>
<td>4.1</td>
<td>6.7</td>
</tr>
<tr>
<td>1964 82.4 38.5 17.6</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>1965 N/A 37.5 17.2</td>
<td>4.1 0.8</td>
<td>4.7</td>
</tr>
</tbody>
</table>

*In 1960 BAC (and its 'old account' companies) made a trading loss averaging about £8,000 for the year and in 1964 a loss of £262,000 (principally due to losses on VC-10 deliveries incurred by Vickers Aviation Ltd.).
British Aircraft Corporation

10. The company was incorporated in 1960 to merge the airframe and missile activities of Vickers, English Electric Aviation and Bristol Aeroplane Co. By 1963 BAC had also acquired Hunting Aircraft Ltd. The merger arrangements provided that profits or losses on projects in existence when the merger took place were to accrue to the principal shareholder companies not to BAC. These were known as "old account" projects as distinct from BAC's own "new account" projects. However, to provide a more realistic picture results shown in Table II include activities of certain subsidiaries of the shareholder companies engaged on "old account projects". The figures therefore differ from those for BAC in Table I which relate to the Corporation on its own. There are no separate figures for the Guided Weapons Division.

Hawker Siddeley Aircraft Interests

11. The Hawker Siddeley Group had several aviation subsidiaries, but the rearrangement of the structure of the Group in 1963 resulted in two aircraft companies - HSA (airframes) and HSD (Guided Weapons). Figures in Table II to 1962 are totals for all the aircraft subsidiaries of the Hawker Siddeley Group, but from 1963 onwards HSA and HSD are shown separately.

C. FUTURE PROSPECTS

12. We do not consider it possible in the present situation of the programme to make a realistic estimate in financial terms of the future commercial prospects of the groups. However, Table III gives the employment figures of the past three years (i.e. since the Hawker Siddeley Companies assumed their present structure and BAC Guided Weapons division as a separate unit was formed) and compares them with the projections of labour to be employed on known airframe projects to 1975 prepared for paper ED(A)(66)2. These projected figures embody certain major assumptions -

(a) that Concord will go ahead
(b) that the Airbus will be produced from 1970 as an Anglo-French-European collaborative effort
(c) Jaguar and V.6 will go ahead as Anglo-French projects
(d) production of current types will end when current orders and options and firmly expected orders are fulfilled (i.e. no spectacular unexpected orders will materialise).

The picture is therefore weighted heavily to the more optimistic side in respect of known projects, but omits allowances for any new types which might emerge in the early 1970s.

Table III
TABLE III
Labour Force of BAC and HSA - 1963/1975 estimates

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<td>BAC</td>
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<td>HSA</td>
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13. The picture shown for BAC is heavily dependent on the success of Concord. If this in fact goes ahead, and BAC receives part of the BEA order, the present labour force will not decline drastically until the mid-1970s. A crisis will however occur on the design side in this period and this will lead to a lack of viability as an independent design from beyond that date. (This point does not emerge from the figures in Table III since these are for total employment in the groups). Assuming a correlation between utilisation of labour and that of capital, current rates of profitability should broadly be maintained.

14. The picture with HSA looks reasonably rosy until 1970 especially if part of BEA's order comes their way. However, from 1970 a drastic fall in workload is envisaged. This would normally mean uneconomic overheads. But new projects may turn up and Hawker Siddeley have proved skilful in diversification, and their overall profit rate may not suffer as much as might be expected. Their future in aviation, however, must look bleak.
REORGANISATION OF THE AIRFRAME INDUSTRY

Memorandum by the Secretary of State for Education and Science

At the meeting of the Sub-Committee on Aviation on 10th August we invited the Minister of Aviation to arrange for an examination of the various possible forms of reorganisation of the airframe industry and to circulate the results to us, with his own comments and recommendations (EB(A)(66) 1st Meeting, Minute 1, Conclusion (i)). We also thought that other Ministers with views on this matter could usefully circulate notes of their views before our next meeting. It may help the discussion of this matter if I as a layman try to set out what our objectives are, as I see them, and what are the advantages and disadvantages of the possible courses open to us.

2. I think we are all agreed that the airframe interests and activities of the two main companies, Hawker Siddeley Aviation (HSA) and the British Aircraft Corporation (BAC), should be rationalised, and that this means in effect merging them in one way or another under a single management. This result could come about in a number of different ways, but I think it is agreed that it will require injection of money from public funds, on a scale which would call for a measure of public ownership. The main objectives which govern our choice of ultimate structure and ownership are -

(i) to get a tough and efficient management, which will have both the knowledge of what needs to be done and the determination to do it;

(ii) to get a greater measure of Government influence on the general direction and management of the industry, as distinct from control of particular projects.

Whatever we decide to do should serve these objectives; but in making up our minds we need also to have some regard for what we know about the possible reactions of those who are at present in charge of the industry. There will be less upheaval, and less danger of losing key people, if we can come to a reasonably amicable conclusion with the industry.
3. The choice is in effect between -

(i) a company with a majority Government shareholding - the solution favoured by the majority of the Plowden Committee;

(ii) a company with a minority Government shareholding - the solution favoured by the minority of the Plowden Committee;

(iii) a public corporation wholly owned by the Government (100 per cent nationalisation) - the solution recommended by the Minister of Aviation and endorsed by the Economic Development (Official) Committee.

100 per cent nationalisation

4. To take the last of these courses first, the main arguments in favour of 100 per cent nationalisation are as follows -

(a) This industry is heavily dependent upon Government orders and Government money. As the Plowden Committee recognised, 100 per cent nationalisation would acknowledge the dominant role of the Government in the industry's affairs.

(b) With the industry wholly in public ownership the Government would not be trammelled by obligations to the companies or to their shareholders, and could pursue directly and without delay the objectives of rationalisation. So long as there is any degree of private ownership in the industry, there remains the possibility of conflict of interest.

(c) If the industry were wholly in public ownership, the need for detailed control and supervision of projects by the Ministry of Aviation would be lessened.

5. The counter-arguments to these are as follows -

(a) Dependence on Government orders and money is not by itself a conclusive argument for 100 per cent nationalisation. The aero-engine industry's position in this respect is not greatly different from that of the airframe industry; but there we have not sought any degree, let alone 100 per cent, of public ownership. Moreover, the airframe industry is, for the next ten years at any rate, an industry that must decline and may well during that time have difficulty in paying its way. It is questionable whether we should want, in political terms, to take over an industry with this prospect, or indeed to assume direct responsibility for the redundancies and write-offs that might well be entailed. Indeed it could well be easier for the board of a predominantly private enterprise company to carry through the process of rationalisation, and to be tough where toughness was called for, than for the board of a public corporation, which would be exposed to certain pressures by virtue of being a public corporation.
The risk of conflict of interest, at any rate on any major issue of policy, would be more serious if our objective was to maintain a larger capacity than the forecasts of demand would justify. On the contrary, our aim is to see the industry trimmed to a shape and size which bear a reasonable relation to probable demands upon it. We want to see an industry that is not only technically but also commercially efficient. Commercial disciplines and expertise will become more, not less, important, as we run into a period when military demands will be considerably reduced and the industry's position will depend to a greater extent on its success in achieving sales in the civil aircraft market.

Given the requirements of control of public expenditure and of accountability to Parliament for departmental expenditure on the industry's product, a considerable measure of detailed financial and technical control of projects will probably continue to be required, whether the industry is organised as a public corporation or as a private enterprise company (with or without Government participation). Mr. Aubrey Jones, in his reservation to the Plowden Report, thought it unlikely that Government participation in ownership would reduce the need for detailed control. Our best safeguard here is not participation in ownership but efficiency of management.

6. There are moreover certain other arguments which seem to tell against 100 per cent nationalisation:

(a) 100 per cent nationalisation is not a condition of efficiency of management. In our earlier discussions it has been argued that it would be advantageous not only to keep the existing management of HSA but also to bring the airframe activities of BAC under that management, since many who have some knowledge of the industry believe that the HSA management would be both tough and efficient. There seems, however, to be some doubt whether the existing HSA management would be available to a 100 per cent publicly-owned corporation. We could certainly find a management for such a corporation; it is not so certain that we could find a management that was sufficiently tough, efficient and experienced in the work and problems of the aircraft industry.
(b) There could also be international arguments against 100 per cent nationalisation, although I am not competent to judge them. The airframe industry is not just selling to British airlines but essentially depends on its ability to compete in the international market. It is sometimes stated that public corporations are at a disadvantage in meeting the competition of overseas private enterprise in international markets. Moreover, we see continuing European co-operation as an important element in the future of our own industry, either in the form of co-operation on particular projects between national firms, on the lines of Concord, or of the formation of international companies. International co-operation on these lines demands a good deal of flexibility. It might be argued that it would be less easy for a public corporation than for a mixed enterprise to engage in this sort of co-operation, and that the need to promote European co-operation is itself a reason for preferring a mixed enterprise structure in our own airframe industry.

(c) We must reckon that, while BAC would not oppose nationalisation of their airframe interests, HSA would be likely publicly and vigorously to oppose nationalisation. Apart from wider political implications, this would adversely affect the detailed negotiations which would have to precede nationalisation and would no doubt be reflected in the price HSA sought for their assets.

(d) Generally, the airframe industry is not a self-evident case for 100 per cent nationalisation. It cannot be said to be one of the "commanding heights" of the economy.

Majority Government shareholding

7. The majority of the Plowden Committee favoured a partnership between public and private enterprise in the airframe industry, but felt that over half the equity of a merged airframe company should be in Government ownership, if the purpose was to be achieved of "foregoing detailed and technical control by the Ministry of Aviation". In the earlier Ministerial discussions (MISC 96) it was suggested that a majority interest was the minimum to be sought. There was perhaps some implication at that time that a majority holding might be less controversial than 100 per cent nationalisation; subsequent inquiries suggest that it would be little or no less controversial.

8. The Minister of Aviation has argued (ED(66) 71, paragraph 15) that there would be little or no merit for the Government in a majority shareholding. As he said, we should be saddled with the greater part of the expense; and, while we should be widely regarded as having complete responsibility and would incur all the odium for unpleasant decisions, our...
control and our power to run the industry with an eye purely to our own view of the requirements of long-term efficiency would be fettered by the existence of and obligations to the minority interests. This solution would give us less than the advantages of 100 per cent nationalisation, with many of its disadvantages and others as well.

9. In any case majority shareholding would be practicable only with the agreement and co-operation of the industry. It is clear that that would not be forthcoming.

Minority Government shareholding

10. We are told that the shareholders of BAC are not interested in going into partnership with the Government: they insist on 100 per cent Government ownership or nothing, with a preference (I understand) for the former. HSA, on the other hand, would accept a minority Government shareholding, though they would be apprehensive of competing with a wholly Government-owned BAC. This has led to the thought that the Government should take over the entire shareholding of BAC, and then convert this 100 per cent holding of BAC into a minority holding in a new company formed by merger with HSA.

11. It might not be possible to rely solely on the size of the Government holding in the new company and on Government nominations to the board of directors to ensure the degree of influence on management that we should want to retain, since the majority interest would presumably be held not direct by private shareholders but by Hawker Siddeley. We might well need, therefore, to negotiate special rights for the Government-held shares: these might include a power of veto for the Government nominees on the board on such matters as senior appointments, raising of new capital and major changes in policy.

12. The main advantage of a scheme on these lines (apart from the fact that it would cost the Government much less) would be that in this way, and perhaps only in this way, the existing management of HSA could be put in charge of the rationalisation of the industry, and of its subsequent direction. From what we have been told about the industry’s reactions there seems to be some prospect of being able to negotiate an agreed solution on these lines with the industry. The Government would have a substantial stake in the industry, and the right and power to exercise some influence over policy, but should be less exposed to the sort of political pressures to which they would be liable if they owned the whole or the majority of the shares. At the same time the company would still be exposed to commercial disciplines, and would operate in international markets as a commercial concern.
It would not be exposed to domestic competition; but there has in any case been only a modified kind of competition between BAC and HSA, at a time when the placing of Government orders has been heavily influenced by the need in practice to divide orders between the two companies so as to keep both going. The competitive spur to efficiency would come, as with the Rolls-Bristol aero-engine merger, from overseas industry in international markets.

13. The disadvantages of this arrangement would be that the Government's influence on the policy of the industry would be more limited than under either of the other arrangements; and that it would not obviate the need for close financial and technical project control. There is also the political objection that it would look odd for us to take BAC into public ownership and then hand it back to private enterprise.

14. These objections do not seem to be decisive. A minority shareholding, possibly supported by special rights on the lines suggested in paragraph 11, should give us the measure of influence that we needed, provided that we had confidence in the management of the company. I have already drawn attention (in paragraph 5(c) above) to the point that it is unlikely that Government participation in ownership would reduce the need for detailed control. In practice it might well make little difference from this point of view whether the industry was wholly or partly owned by the Government, or whether a part holding was a majority or a minority share of the equity. Again, it is efficiency of management rather than the precise degree of ownership that is significant from this point of view.

15. No doubt we should meet some political criticism for taking over BAC and then converting our holding into a minority holding in the new company. If we accept, however, that HSA would oppose, and not co-operate in, 100 per cent nationalisation, but would co-operate in a "mixed" enterprise on these lines if we decided that this would be the best form of reorganisation in the circumstances, it should be possible to present it positively and constructively, as a scheme of modernisation and rationalisation, consistent with the Plowden recommendation and likely to reap the advantages which the Plowden Committee expected to flow from their recommendation, in which the Government were co-operating with private enterprise to develop an efficient industry in the national interest. As was suggested at the meeting of the Ministerial Committee on Economic Development, this "could prove to be a useful precedent, like Fairfields, for measures of rationalisation in which private enterprise and Government co-operated and shared responsibility".
CONCLUSION

16. I had completed this memorandum by the time I received my copy of the Minister of Aviation's memorandum of 29th September (Appendix A). The conclusion which I had reached, after re-reading all the previous papers, was that the balance of the argument came down in favour of taking over BAC and merging it with HSA in a new company in which the Government shareholding of BAC would represent a substantial minority holding. Though the Minister comes to a different conclusion, I still incline to my original view, for reasons which I hope I have made clear; I am therefore circulating this memorandum in the hope that it will help my colleagues, in thinking about and discussing the problem, to have this somewhat different assessment before them as well as the note by officials attached to the Minister's memorandum.

C.A.R.C.

Department of Education and Science,

30th September, 1966
18th October, 1966

CABINET

IMPORT ARRANGEMENTS FOR APPLES AND PEARS

Memorandum by the President of the Board of Trade

I have to ask the Cabinet to resolve a difference of view which has arisen in the Sub-Committee on External Economic Policy of the Ministerial Committee on Economic Development, relating to proposals for liberalising the quota arrangements for imports of apples and pears. I am submitting this memorandum summarising the opposing views since, in the absence of the First Secretary of State, I acted as Chairman of the Sub-Committee on the three occasions when this issue was discussed.

2. For apples and pears, the real protection is by quota from all sources except the sterling area, since there is no tariff on imports of apples (and only a nominal one on pears) during the home marketing season and only a modest tariff on both apples and pears during the Southern Hemisphere marketing season, as a matter of imperial preference. The present quota levels for apples are 15,200 tons for the period July to December, and 68,750 tons for the period January to June. For pears, there is an annual quota of 28,000 tons. These restrictions in common with similar restrictions imposed by continental countries are contrary to our obligations under GATT. The Sub-Committee on External Economic Policy discussed a possible basis of liberalisation contained in a report submitted without commitment by officials of all the departments concerned at a meeting on 27th June and again on 25th July and agreed by a majority that revised quota arrangements should be introduced as from 1st January, 1967 as follows:

(a) An apple quota of 37,000 tons for the months of January and February.

(b) Thereafter a quota-free period for both apples and pears covering the months from March to July inclusive.

(c) The present six-monthly apple quota of 15,200 tons to apply to the five months from August to December inclusive.

(d) The present annual pear quota of 28,000 tons to apply to the seven months from August to February inclusive.

The implementation of these conclusions was, however, subject to the results of consultations with the Australian and New Zealand Governments which we are under obligation to carry out before altering the present arrangements.

-1-
3. These consultations have now been completed and in addition the Canadian Government and the National Farmers Union (NFU) have been consulted. Australia and New Zealand, while recognising that the quotas would have to be terminated eventually, criticised the proposed changes on the ground that they would result in increased quantities of fruit being stored by Northern Hemisphere suppliers (particularly France and Italy) for export to the United Kingdom in the early part of the proposed free-entry period of March to July, to the detriment of Southern Hemisphere Suppliers. The Canadian Government found the proposals unacceptable on the grounds that they were more interested in export opportunities before Christmas but they asked, if we went ahead with proposals on the lines envisaged, that there should be a higher quota for the months of January/February. The NFU challenged the proposals to admit more imports as contrary to the import saving role allotted to the home industry under the National Plan. They argued that the proposals could lead to heavy imports from Europe and low prices at the beginning and end of the home marketing season; and the southern hemisphere countries might, in consequence, feel unable to continue their long standing arrangement under which their exports are timed not to overlap with the beginning of the English crop.

4. The Sub-Committee discussed the result of these consultations at their meeting on 17th October and a difference of view emerged. The Minister of Agriculture, supported by the Parliamentary Under-Secretary of State, Commonwealth Office, felt that the proposals should not be pursued at the present time. His reasons can be summarised as follows:

(a) The revised quotas would seriously damage the interests of home growers who have been encouraged by the Government to grow more fruit and to invest in better storage facilities and could lead to a loss of confidence and a setback in home production.

(b) It was doubtful if any significant benefit to the balance of payments would result, and home growers would regard a move towards liberalisation at this time as being in contradiction to the present need for import saving.

(c) The proposals would also adversely affect our suppliers in Australia and New Zealand who incurred losses on sales at last season's level of supplies and the representations of their Governments on this point must be taken seriously.

(d) The proposed arrangements would expose us to dumping from France and Italy. Any benefit to the consumer by way of lower prices would be short-lived because the long-term effect would be to prejudice the maintenance of supplies from the Southern Hemisphere on which we depend for a substantial part of the year.

(e) Supplies from English, Australian and New Zealand growers have expanded in the past ten years and growers' prices have not risen. There has been no question of shortages and high prices in the United Kingdom Market. The real problem is the surpluses which have built up in the past few years in France and Italy where new plantings have been encouraged for political reasons. There is a serious risk
that these supplies would be dumped and that our market would collapse if we relaxed our restrictions on imports while other countries maintained theirs. This problem can only be solved by international negotiations in the Kennedy Round, as we proposed in our offer last August, leading to some regulation of supplies and allround reductions of barriers to trade. Exploratory discussions on the United Kingdom proposal have already begun in Geneva and it is important that we should lose no opportunity to get a settlement on this basis. It would make nonsense, and suggest that we have no faith in our own proposal if, on the eve of negotiations about it the United Kingdom were to take unilateral action which would be irrelevant to the real problem of world surpluses which we are seeking to discuss. Such action would materially damage the interests of the British, Australian and New Zealand growers and would get no thanks from France and Italy.

The Minister of Agriculture therefore felt that the action proposed was unwise and untimely and that we should instead concentrate on pursuing the broader objective in the Kennedy Round negotiations.

5. The view of the Board of Trade, supported by the Treasury, the Foreign Office and the Department of Economic Affairs, was that we should adhere to the Sub-Committee's provisional decision at its earlier meetings. While Ministers from these departments thought that there might be a case for increasing the proposed quota for January/February from 37,000 tons to 40,000 in deference to the Canadians' views, they did not press this in view of the Minister of Agriculture's objections. The reasons for the view taken by these Ministers may be summarised as follows:

(a) The reactions of those we have consulted were on the lines we expected. No new factor had emerged which was not present in Ministers' minds when the issue was discussed on previous occasions.

(b) We must have regard first and foremost to the effects of the proposed measures on our balance of payments. While these cannot be precisely quantified, it was thought possible that the introduction of the revised arrangements might produce import savings ranging between £200,000 and £500,000.

(c) The effect of the existing quotas was to maintain prices of apples and pears (and hence of other fruit) at artificially high levels. A move towards liberalisation would therefore bring advantages for the home consumer.

(d) The interests of home growers would not be significantly prejudiced because quotas would remain for the period of the home marketing season.

(e) Apples and pears were unlikely to figure to any appreciable extent in the Kennedy Round negotiations. We could not in any case expect to get any substantial quid pro quo in return for liberalising restrictions which are contrary to our obligations under GATT.
The majority view on the Sub-Committee was therefore that we should go ahead with the revised quota arrangements.

Conclusion

6. If we are to introduce revised arrangements, an announcement should be made in the next week or so to give the industry reasonable warning. I therefore invite the Cabinet to decide whether -

(a) an announcement should now be made that revised quotas as set out in paragraph 2 above will be introduced from 1st January, 1967; or

(b) no change should be made in existing arrangements for the coming year, thus leaving time for discussions in the Kennedy Round.

D. P. T. J.

Board of Trade, S. W. 1.

18th October, 1966.
MEMORANDUM by the Secretary of State for the Home Department

The Wolfenden Committee recommended that homosexual acts in private between consenting adults should cease to be unlawful. Lord Arran's Sexual Offences Bill to amend the law of England and Wales in accordance with this recommendation has twice been through all its stages in the House of Lords. It was passed on 28th October, 1965, by 96 votes to 31 and on 16th June, 1966, by 78 votes to 60. A similar Bill introduced by Mr. Humphry Berkeley last Session was given a Second Reading in the House of Commons on 11th February, 1966, by 164 votes to 107. The Bill was well placed to make further progress, but became a casualty of the General Election.

2. No member successful in the ballot for Private Members' Bills this Session wished to introduce a Bill on this subject. But on 5th July, 1966, Mr. Abse was given leave under the '10-minute rule' to introduce such a Bill by 244 votes to 100. The Bill has not yet been published, but will probably be identical with Lord Arran's Bill.

3. The recent votes show that a majority in both Houses (and particularly now in the House of Commons) favours implementation of the Wolfenden Committee's recommendation. I do not suggest that the Government should depart from its earlier decision to adopt a neutral attitude on the principles involved (C. C. (65) 28th Conclusions, Minute 5) but we shall be under considerable criticism, mainly from our own supporters, if we fail to provide a little time for Mr. Abse's Bill to make progress. There is also the point that, if we leave the matter in abeyance, there is difficulty in administering a part of the Criminal Law against which both Houses have twice pronounced.

4. I ask my colleagues to agree that half a day of Government time should be made available for a Second Reading debate on Mr. Abse's Bill. This proposal has the support of the Lord President and the Chief Whip.

R.H.J.

Home Office, S.W.1.

24th October, 1966
25th October, 1966

CABINET

THE TELECOMMUNICATIONS INDUSTRY AND THE POST OFFICE PROCUREMENT POLICY

Memorandum by the Minister of Technology and the Postmaster General

The Ministry of Technology as the sponsoring Department has the task of fostering the technological and economic development of the telecommunications industry. The Post Office is the industry's main customer, taking more than half its total output. Both Departments therefore have a direct interest in matters concerning the manufacture and supply of telecommunications products of all kinds. Last year the industry's output exceeded £100 million.

2. The United Kingdom has for long been the leading exporting country. About one third of the industry's output is exported but our share of world trade has been declining (see the graph at Annex II). The reasons for this trend are complex.

3. The two Departments have under discussion a number of matters arising from their respective interests in the industry, particularly the way in which the purchasing policies of the Post Office affect the technological advance of the industry and its competitiveness in world markets. Both accept that the possibility of some sort of joint research and development organisation, bringing together the Post Office and industry, should be further studied. The Ministry of Technology regards the working out of satisfactory arrangements of this kind as of fundamental importance to the future well-being of the industry. On the procurement of exchange and transmission equipment there are differences of emphasis between the two Departments on the way in which competitive purchasing could be used to secure rationalisation of manufacture. These matters are still being explored. Meanwhile transmission equipment will continue to be bought competitively and the Bulk Supply Agreement (BSA) for exchange equipment will not be renewed in March, 1968, being replaced by a series of contracts to be negotiated with the manufacturers which will be as competitive as circumstances in this highly specialised field allow. But we are unable to agree what procedures should replace the present BSA for telephone subscribers' apparatus, which also expires in March, 1968, and which last year accounted for £14 million of Post Office expenditure.

4. The BSA's have a long history, and have frequently been attacked by Parliamentary committees and other bodies. The Post Office has already announced that it will not renew the agreement for apparatus after March, 1968. Instead it proposes to use competitive buying and in doing so will aim to bring about rationalisation of the
industry, taking advantage of economies of scale. The Post Office would avoid the risk of a monopoly and would be prepared to place contracts with new firms having expertise in new techniques. The intention would be to announce this change of policy forthwith.

5. The Ministry of Technology sees the need for a Government policy positively designed to rationalise the industry. In the case of apparatus the Ministry proposes the formation of a joint production unit with ownership and management shared between the Post Office and industry. It recognises that this may not be possible before the BSA expires in March, 1968. Some interim arrangements would in that case be necessary and in view of the Post Office's intention to use competition to secure rationalisation, it regards the Post Office proposals in paragraph 4 above as an acceptable interim step. Nevertheless the Ministry regards it as essential that its longer term objective should be accepted in this field. If this is agreed it would be essential to amplify the Post Office announcement in paragraph 4 in order to make it clear to the industry that their proposal was an interim one pending the working out of alternative arrangements.

6. The Ministry of Technology proposal is set out in more detail in Annex I, together with comments by the two Departments.

Conclusion

7. It is urgently necessary to decide the purchasing policy to replace the existing BSA apparatus, having regard to the need to let industry know where it stands, and to negotiate alternative arrangements. There appear to be the following courses of action:

(a) To adopt the line of action proposed by the Post Office in paragraph 4 above.

(b) To adopt the line of action proposed by the Ministry of Technology in paragraph 5 above.

(c) If course (b) is adopted, we recommend that the Ministry of Technology's proposal be referred for urgent examination to an ad hoc official committee drawn from the Department of Economic Affairs, the Treasury, and the Board of Trade together with the Post Office and the Ministry of Technology.

A. W. B.,
E. S.

Ministry of Technology, S. W. 1.

24th October, 1966
ANNEX I

Telephone Subscribers' Apparatus

General

1. Subscribers' telephone apparatus comprises mainly telephones of various kinds, and private manual branch exchanges.

2. Under the existing Bulk Supply Agreement (BSA) (expiring on 31st March, 1968) there are eight nominal suppliers, namely:

   - Associated Electrical Industries (AEI)
   - Automatic Telephones and Electric (ATE)
   - Ericsson Telephones (ET)
   - General Electric Company (GEC)
   - Plessey
   - Phoenix
   - Standard Telephones and Cables (STC)
   - Telephone Manufacturing Company (TMC)

   Of these, ATE, ET and Plessey have amalgamated, Phoenix is owned by the big four (AEI, GEC, Plessey and STC) whilst TMC is controlled by the Pye Group. The present BSA therefore effectively comprises AEI, GEC, Plessey, STC and TMC. These five manufacturers are guaranteed 75 per cent of Post Office orders. The remaining 25 per cent may be placed with any other firm who tenders competitively.

3. The number of telephones of all types ordered by the Post Office for supply in 1966-67 is about one and a half million. The agreement firms also sell to other home market customers at the rate of about 30 per cent of their sales to the Post Office and export a like quantity. The non-agreement firms have negligible export sales.

The Ministry of Technology Proposal

4. The Ministry of Technology proposes that a single production unit should be established, which would be jointly owned by the Post Office and the five Companies now parties to the current agreement, to undertake the design and manufacture of subscribers' apparatus.

5. The Ministry's proposal is intended to secure the following advantages:

   (a) The maximum integration of the operating, marketing, design and production expertise of the Post Office and the manufacturers.

   (b) This is particularly important to put the industry in the strongest possible position to improve its export performance and to meet the competition in the home market to which it will shortly be exposed from EFTA and perhaps later from EEC.
(c) The maximum economy of scale. Telephone apparatus and particularly telephone sets are ordered in quantities in which substantial economies of scale can be secured. Economy of manufacture is best obtained by concentrating as many of the processes as possible in a single location to avoid transport and handling charges. At present fabrication of parts takes place in numerous separate locations.

6. Comparison with experience abroad lends support to the proposal. Two of the most efficient telephone administrations have arrangements not unlike that proposed. In Sweden, the Post Office Administration has a manufacturing department which supplies approximately half its needs and operates in a special relationship with industry which is basically competitive but does have regard to the industry's welfare. In the USA the Bell System has an integrated manufacturing unit, the Western Electric Co., which undertakes the production of 7-9 million telephones a year in a single establishment.

Post Office Comments on Ministry of Technology Proposal

7. The following are the Post Office comments on the Ministry's proposals -

(a) The Post Office must be assured of continuity of supply of telecommunications equipment at a proper price and has no confidence that this can be secured by the Ministry's proposal.

(b) To create a consortium by taking over the industry's existing manufacturing facilities would not produce economies of scale or rationalisation.

(c) On the other hand, to set up a new production unit would pose the problem of the provision of public capital and that of the closing down of existing factories, some of which are in development areas.

(d) The Post Office has little or no know-how on commercial manufacture and would have to rely entirely on the co-operation of the existing manufacturers, which would not necessarily be forthcoming.

(e) The competitive element would be entirely eliminated under this proposal; it has not been established why the Government's present policy of competitive buying should not apply in this case.

(f) The Post Office doubts the wisdom of separating the production of subscribers' apparatus from the rest of the telecommunications industry, because the techniques and requirements are so closely knit.
The efficiency of the Western Electric Co's production unit in the USA is not disputed; but

There are several other large manufacturers of telephone apparatus in the USA, providing a competitive environment.

It is general experience that transfer to this country of American practices and enterprises do not reproduce the same degree of efficiency as in the country of origin.

8. There may be a time when it would be appropriate for the Post Office to acquire production facilities for telephones, perhaps jointly with part of the industry, and to manufacture in competition with other suppliers, but this could not be until the process of rationalisation through competition has made considerable headway. And to announce this at this stage would stultify the Post Office's hopes of improving efficiency by competition.
EXPORTS OF TELECOMMUNICATIONS EQUIPMENT
From The United Kingdom, Sweden & W. Germany

Value of Exports of Telecommunications Equipment
(Millions of Pounds Sterling)

Sources: Export Statistics of the Governments concerned
CABINET

EUROPE

Memorandum by the Secretary of State for Foreign Affairs

On 1st November the Cabinet were in "general agreement on the need for the Government to demonstrate the sincerity of our desire to join the European Economic Community (EEC) if our requirements could be met. To defer action, in order to give time for the strengthening of our economy, would be widely assumed to mean that we had lost interest in joining: our friends in the EEC would be profoundly discouraged and the cohesion of the European Free Trade Association (EFTA) would be at risk."

2. The problem at issue is how to obtain from the Governments of the Six indications of how our special difficulties could be met if we decided to apply for membership of the EEC. Until we have such indications, we cannot decide whether or not to apply. We cannot embark on the probing necessary to obtain these indications unless the Governments of the Six are made to realise that we are in earnest. The immediate point is thus what step should be taken in order to prove that Her Majesty's Government are in earnest.

3. As a preliminary to the necessary probing, three main ideas have been under discussion:

(a) A meeting of EFTA Heads of Government. This was an idea put forward for the first time in Cabinet on 1st November.

(b) Early visits to the capitals of the Six by the Prime Minister and Foreign Secretary. This was an idea which was put forward at the Chequers meeting on 22nd October.

(c) A declaration that Her Majesty's Government were prepared to accept the Treaty of Rome, subject to receiving satisfaction on the points on which we saw difficulty.

If any of the above courses were adopted, that would be followed by, and would be inseparable from:

(d) The probing which we need to undertake in greater depth and which would respond to invitations we have had (but not taken up) from some of the Five.
4. The ideas at (c) and (d) above (which in effect represent one single process of probing) were put forward in the paper jointly circulated by the First Secretary of State and myself in preparation for the Chequers meeting.

5. It goes without saying that a major step of any of the kinds indicated above cannot be embarked on before we have carefully considered what action would be appropriate in order to ensure that our obligations to our EFTA and Commonwealth partners are met (see paragraph 9 below).

6. A meeting of EFTA Heads of Government (possibility (a) above) has certain attractions if we are thinking solely in terms of buying time while we strengthen our economy. But we must buy time in a way that suggests forward movement to our friends in EEC; and in this respect as well as in others the serious disadvantages in an EFTA summit outweigh the solitary advantage mentioned above. One of the reasons why our leadership is implicitly accepted in EFTA, where relations with EEC are concerned, is that we are in a median position between those (e.g. Austria, Denmark) who want to go much faster, and those (Portugal, Switzerland and to a lesser extent Sweden) who are more reticent than we. An EFTA summit is not likely to change this situation and could hardly result in our receiving agreed advice from our EFTA partners or in any consensus being reached. Moreover, even if a consensus were achieved, this could produce pressure within EFTA either for additional commitments within the EFTA framework (which could be embarrassing for us) or for some kind of joint negotiation between EFTA and EEC - and this, as we know, is unacceptable to EEC, even if we ourselves could accept it. But we could hardly do so, not least because the problems of the other EFTA countries are different from ours. We might well find that in certain matters an unholy alliance would develop between some of our EFTA partners (e.g. the Danes) with the EEC to press for concessions on which we had the best of reasons to hold back. In sum, a meeting of EFTA Heads of Government might seriously complicate our own eventual negotiating posture without appearing to opinion both in this country and in Europe as the kind of decisive step forward that is now required.

7. As regards (b), I warmly supported the idea of visits by the Prime Minister and myself to the capitals of the Six. Such visits would be an effective way of countering any doubts about the seriousness of our intentions and would inaugurate the process of probing in depth which is necessary.

8. If, on the other hand, my colleagues consider that such a tour might appear too dramatic, or see difficulties (I myself do not think they need be serious) arising from the present political situations in Germany and Holland, I would be equally prepared to accept course (c), coupled with course (d).

9. I at no time envisaged any overt move or the adoption of any of the courses set out above without prior information to EFTA Governments and Commonwealth Governments. As regards EFTA, the immediate question is whether our EFTA partners would feel hurt because what we told them came so soon after the Lisbon meeting when we could tell them nothing. My own view is that it will be sufficient to notify EFTA rather
than to consult them. Our EFTA colleagues made it clear at Lisbon that they expected us to take the lead. We (and they) know that any long period of notice to them (48 hours would be the outside) would bring danger of a leak. In which case our announcement would lose its effect. For these reasons I think that notification as opposed to consultation is indicated and that no more would be expected by EFTA. The same considerations would apply to apply to the Commonwealth and, in the case envisaged, to notify them would be consonant with what we undertook in the Commonwealth Prime Ministers' communique last September.

10. To sum up, two courses are open to us. First, the course the Prime Minister proposed at Chequers (alternative (b) above). This, as the Prime Minister said in his summing-up at Chequers, would involve our being prepared, if asked whether we could accept the Treaty of Rome, to say that, provided that we received satisfaction on the points on which we saw difficulty, adherence to the Treaty would not in itself be a sticking point. The second course is to declare acceptance of the Treaty of Rome and to probe in depth (alternative (c) and (d)). Although it was not my own proposal, I would prefer the course proposed by the Prime Minister. If, however, my colleagues reject it, then I think that the second course ((c) and (d) in combination) must be accepted as the right one. Were both courses to be rejected then I must say plainly that I do not see that any further probing is possible. It would be a mistake to suppose that we could put a moratorium on probing and then resume it as if nothing had happened. A moratorium would be equivalent to dropping probing altogether and that would be disastrous for us both as regards the EEC and EFTA.

G. B.

Foreign Office, S.W.1.

2nd November, 1966
TELEVISING PARLIAMENTARY PROCEEDINGS

MEMORANDUM BY LORD PRESIDENT OF THE COUNCIL AND
THE LORD PRIVY SEAL

Now that the Select Committee on Broadcasting, etc., of Proceedings in the House of Commons has reported, it is necessary for us to consider what the attitude of the Government spokesmen should be in the debate for which the previous Lord President agreed to give time. It is hoped to arrange this debate later this month. It will also be necessary at a later date for the Lord Privy Seal in the Lords to indicate the Government's view of the proposal to televise that House, which has already decided in principle that it desires its proceedings to be publicly televised for an experimental period.

2. When the matter was last considered by the Cabinet (CC (65) 31st Conclusions, Minute 5), as a result of a debate initiated by Mr. Iremonger, there was some support for the view that changes in the relationship between Parliament and public opinion might provide stronger justification than had formerly existed for consenting to some degree of broadcasting of Parliamentary proceedings, but it was agreed that the Government spokesmen in the debate should confine themselves to indicating that the Government would not take any initiative in this matter, but that they would be prepared to pursue it if this was clearly the general wish of Parliament. This was the line adopted by the previous Lord President in the debate on 28th May, 1965.

3. The Select Committee has now come out in support of arrangements for televising proceedings. The detailed examination conducted by the Select Committee shows that there are no technical reasons why the televising of proceedings should not proceed and the necessary apparatus would not be obtrusive or inconvenience Members. In particular, no difficulty is envisaged about the enhanced level of lighting which will be required. The Select Committee's view on televising proceedings is, I think, to be welcomed, although a number of their long-term recommendations

* Any Minister who does not have a copy of their First Report may obtain one from the Privy Council Office.
will require careful consideration. It is unnecessary at this stage to examine the merits of these recommendations but it is perhaps worth pointing out now that the concept of a House of Commons Broadcasting Unit gives rise to difficulties, since such a Unit might find themselves with little to do during the recesses and it would be uneconomic in the use of staff (if it were left to the broadcasting authorities to provide expert staff, such staff could, during recesses, be rotated to other tasks); any suggestion that a full record of Parliamentary proceedings should be broadcast, or even preserved seems unjustifiable (although there is much to be said for arranging for a permanent sound record to be retained for the archives); and the view of the Select Committee that the televising of proceedings would not affect the nature of debates is unlikely to prove realistic.

4. It is not, however, necessary to reach decisions on the long-term proposals at this stage. Before such decisions are reached, the Select Committee recommended that there should be a two-month closed-circuit experiment in the period between the Christmas and Easter adjournments in 1967. (This period was chosen because outside broadcast activities become more intense from March onwards each year and the apparatus will no longer be available.) A closed-circuit experiment will, however, not be of great value in deciding whether the proceedings of the House should be televised—only a very small proportion of proceedings will be used for the final edited programme. The essential thing is for the House to have an opportunity to see the edited programmes. Further, in considering the proposal for an experiment, there are three factors which should be borne in mind:

(a) Since the experiment would be costly to both Houses and also to the broadcasting authorities because it would occupy valuable staff and apparatus, it is essential that its duration should be limited to the minimum necessary to gain full benefits from the experiments; further, so far as possible, it should cover all aspects of the proceedings of the House which are likely in the event to be comprised within programmes prepared by the broadcasting authorities. Considerable doubt exists whether it is necessary to have a closed-circuit simultaneous coverage of all the proceedings on the floor of the House of Commons for as long as eight weeks. Moreover it seems that, as far as the experiment in the House of Commons is concerned, it should include not only proceedings on the floor but also, as is proposed by the Report of the Select Committee, proceedings upstairs. (I should point out that the Opposition may oppose the extension of the experiment upstairs.) In addition to televising proceedings in a Standing Committee, it should be possible during the period of the experiment to arrange for the televising of the proceedings of a Select Committee. It is the practice of Select Committees (apart
from the Select Committee on Private Bills) to sit in private, but it is open to them, if they so wish, to sit in public. The proceedings of a Select Committee, such as the Select Committee on Nationalised Industries, while it is taking evidence would undoubtedly make excellent viewing and it would be valuable for the purposes of the experiment (particularly in the editing of programmes) if such proceedings could also be televised.

(b) Any experiment which excluded simultaneous televising of the proceedings of the House of Lords would be unrealistic. The House of Lords has gone one step further than the Commons as it decided in principle on the 15th June, 1966, on a vote (56–31) that it "would welcome the televising of some of its proceedings for an experimental period ". Following this decision a Select Committee was set up on 21st July to "consider how the Resolution of the 15th June last . . . can best be carried into effect ". This Committee is currently vigorously at work and is expected to issue an interim report some time after the Commons debate on Television and before Christmas. It is understood that this report will recommend to the House that it should co-operate with the Commons in a joint experiment and that the resultant programme should be shown on a closed circuit. When the interim report is debated, the Lord Privy Seal will have to indicate the Government's attitude. It seems to us that the experiment in televising proceedings should be an integrated one involving at least simultaneous recordings of the proceedings in both Houses. Any other experiment would be totally unrealistic and would therefore be of much less value to the Members of both Houses when attempting to judge the experiment. It is expected both that the Lords' Select Committee will recommend this joint experiment and that the House itself will endorse their recommendation to this effect.

(c) The closed circuit simultaneous transmission is designed to give Members an idea of the problem involved. But what really interests them is not this but the final programme.

5. We have, therefore, explored with the broadcasting authorities the various possibilities which are open to the House to set in motion an experiment taking into account the factors set out in the preceding paragraphs. The broadcasting authorities are very willing to mount an experiment on the lines proposed—they agree that the most important part of any experiment must involve the simultaneous recording of proceedings in both Houses—but they are in some difficulty since the duplicating of coverage which an integrated experiment makes necessary raises special problems because of the demands which it would make on their limited resources of specialist editorial, production and engineering staff and
on scarce equipment. They are understandably hesitant to agree to any experiment which could only be undertaken at the risk of producing experimental results below the standard which they would hope to be able to offer in the long run. Both broadcasting authorities have agreed, however, that an experiment might be conducted provided it is of a limited duration and, as part of the experiment, it is accepted that it will be necessary to record the proceedings on one day and present the edited version on the following day.

6. The broadcasting authorities have, therefore, suggested, in substitution for the proposals in the Report of the Select Committee a five-week experiment on the following lines:

**Weeks 1 to 4.** During this period the experiment would involve the House of Commons alone on the lines recommended in the Report of the Select Committee. The two broadcasting authorities would operate during alternate weeks during this period producing not only closed-circuit transmissions but also specimen edited programmes. It would be necessary on days of Committee coverage to suspend coverage of the main proceedings on the floor of the House. (If during the period of the experiment morning sittings were to be held, there is a possibility that these might clash with the demands of Committee coverage.)

**Week 5.** During this week both Houses would be covered. If the House of Lords were to sit from Monday to Thursday concurrently with the House of Commons, the days of simultaneous recording of both Houses would be Tuesday and Wednesday. On Tuesday one of the broadcasting organisations would direct the cameras in both Houses and record the proceedings of both; on Wednesday the same organisation would edit Tuesday's recording for inclusion in a single report for reproduction over closed-circuit at viewing times convenient to Members of both Houses on Wednesday. The other broadcasting authority would record Wednesday's proceedings in both Houses for similar treatment on Thursday. On the Monday and the Thursday of this week the opportunity would be taken for proceedings in the House of Lords to be shown alone over closed-circuit television and recorded. These tapes might then be made into edited versions of the proceedings of the House of Lords alone by one or both of the broadcasting organisations for showing at some convenient time the following week, say on the next Tuesday.

**Radio.** If the above proposals are accepted, the BBC wish also to record the proceedings of both Houses for the purpose of providing specimen edited programmes on radio as well as television which could be played back at suitable times to suit the convenience of Members of both Houses.

7. These revised proposals by the broadcasting authorities seem to us to be acceptable and we suggest that both Houses should be recommended to accept them. The five-week experiment
The proposed would take place between the Christmas and Easter Adjournments in 1967 and should provide the Government and Parliament with sufficient information to decide whether the televising of proceedings of both Houses should become a permanent feature. In view of the amount of effort involved and the cost, we do not think that we should enter upon the experiment unless it is our intention, if the experiment is a success, of making permanent arrangements for televising both Houses. If it were to be decided that proceedings should be televised, the broadcasting authorities advise us that it may take them about a year to assemble the staff and apparatus to be able to do this. Nevertheless the televising of proceedings of Parliament could become a permanent feature some time in the 1967-68 session.

8. The broadcasting authorities were asked for a revised estimate of cost of the experiment based on the view expressed in the Report of the Select Committee that only the additional cost of the experiment should be borne by the House authorities. Broadly what is involved is a Supplementary Estimate for £150,000 which would be borne on the House of Commons Vote (Civil Estimates, Class I, Vote 2) and a Supplementary Estimate for £18,000 which would be borne on the House of Lords Vote (Civil Estimates, Class I, Vote 1). It is, of course, impossible at this stage to make any estimate of the cost of any permanent arrangements which would be made since this would depend on the nature of those arrangements.

9. The supervision of the experiment in the Commons will, if the recommendation of the Select Committee is accepted, be conducted under the aegis of a new Sub-Committee of the Select Committee on House of Commons (Services). This seems a sensible suggestion since this Select Committee will be closely concerned with many aspects of the experiment—for example, with the provision of facilities and accommodation—and it is a means by which on the one hand the House can express its views through its own machinery and on the other the Lord President can, as Chairman, keep closely in touch with the arrangements for the experiment. There is no reason to believe that the proposal will be unacceptable to the Services Committee. In the case of the Lords this experiment will be carried out under the supervision of the Television and Administration Committees acting jointly.

10. We invite the agreement of our colleagues to the proposals in this Paper, and in particular for an integrated experiment involving both Houses of Parliament on the lines suggested in paragraph 6 above.

R. H. S. C.
L.

Privy Council Office, S.W.1,
I announced last March that the United Kingdom would switch to a decimal currency in February 1971, on the basis of the £-cent system. Arrangements are being made to set up a Decimal Currency Board to direct the changeover. I hope before long to be asking the Cabinet to approve a draft White Paper setting out the Government's proposals in detail. Early decisions are, however, required on the new coinage.

2. The Ministerial Committee on Decimal Currency have considered recommendations by officials, based on the recommendations of the Halsbury Committee, for the new coinage. The relevant considerations and arguments are set out in a note by the Chairman of the Official Committee on Decimal Currency, a copy of which is attached to this memorandum. The Ministerial Committee reached general agreement on the following conclusions, which I now invite the Cabinet to endorse:

(i) The new minor unit - 1/100th part of a £ - should be called a penny, not a cent. To minimise confusion during the transitional period, the unit will have to be described during that period as the "new penny". The Committee thought that, while this could cause some confusion during the transition, that would not be unmanageable, and there was a general feeling that the public would probably want to keep the penny in our currency.

(ii) The sequence of coin denominations should be $\frac{1}{2}$, 1, 2, 5, 10 and 50 new pence. This will mean the disappearance of the equivalent of the 6d coin, with nothing between the 2 new penny piece (4.8d) and the 5 new penny piece (1s.); and it will mean no coin between the 10 new penny piece (2s.) and the 50 new penny piece (10s.). The lack of the 6d coin will cause some inconvenience, but a 2½ new penny piece would have no logical place in the system. The gap between 10 new pence and 50 new pence will be little wider than the gap between 2/6 and 10/-.

If later on the need for some intermediate coin was felt, it would be possible to introduce a 20 or 25 new penny coin.

-1-
The 1/2, 1 and 2 new penny coins should be of bronze, in weight/value relationship, ranging from a 3d slightly bigger than the old silver 3d piece to a 2d coin about the size of a present halfpenny.

The 5 new penny and 10 new penny coins should be cupro-nickel coins of the same size as their present day equivalents, the 1/- and 2/- pieces.

A 50 new penny coin should be provided instead of the present 10/- note. Some of us would like to see a silver coin, but that would probably be too expensive. There are to be further studies on this, but I fear that we may have to stick to cupro-nickel. The shape and size of the new coin are for further consideration; the important consideration is that it should be readily distinguishable from the other "white" coins.

The present halfpenny should be withdrawn before decimalisation, and should not be replaced in the decimal system. To have a new quarter penny would add substantially to the difficulty and cost of the changeover. Its absence will be felt mainly in the food trades, where halfpennies feature in the prices of certain goods like bread and milk, but also in the confectionery, tobacco and petrol trades. There is some danger that dropping the halfpenny will lead to price increases, but the effect on the retail price index will be small, particularly if increases in some cases are balanced by decreases in other cases. On balance we are satisfied that the advantages of dropping the halfpenny outweigh the disadvantages.

3. The Royal Mint have announced that there will be a competition for designs for the new coinage. I attach importance to having simple and uncluttered designs, in which the numerical indicators of value feature prominently. In choosing designs we shall have the benefit of the views of the Royal Mint Advisory Committee.

L. J. C.

Treasury Chambers, S.W.1.
7th November, 1966
DECIMAL CURRENCY: COINAGE

Note by the Chairman of the Official Committee

1. The Official Committee have considered the Halsbury recommendations for the coins to be introduced under a £ - cent system of decimal currency.

The Halsbury proposals

2. The Halsbury Report proposed six coins as follows:

Bronze coins

<table>
<thead>
<tr>
<th>denomination</th>
<th>edge</th>
<th>diameter</th>
<th>weight (grains)</th>
</tr>
</thead>
<tbody>
<tr>
<td>½ cent (1.2d)</td>
<td>plain</td>
<td>0.675&quot;</td>
<td>27.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(slightly bigger than the silver 3d piece)</td>
</tr>
<tr>
<td>1 cent (2.4d)</td>
<td>plain</td>
<td>0.800&quot;</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(slightly bigger than the farthing)</td>
</tr>
<tr>
<td>2 cent (4.8d)</td>
<td>plain</td>
<td>1.020&quot;</td>
<td>110</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(slightly bigger than the halfpenny)</td>
</tr>
</tbody>
</table>

Cupro-nickel coins

<table>
<thead>
<tr>
<th>denomination</th>
<th>edge</th>
<th>diameter</th>
<th>weight (grains)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 cent (1s)</td>
<td>milled</td>
<td>0.929&quot;</td>
<td>87.27</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(shilling size and weight)</td>
</tr>
<tr>
<td>10 cent (2s)</td>
<td>milled</td>
<td>1.122&quot;</td>
<td>174.55</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(florin size and weight)</td>
</tr>
<tr>
<td>20 cent (4s)</td>
<td>milled</td>
<td>1.420&quot;</td>
<td>349.09</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(approaching crown size and weight)</td>
</tr>
</tbody>
</table>

3. The Report points out that a 50 cent (10s) coin might be desirable later, instead of a banknote.
4. The Halsbury Committee referred to the minor unit for convenience as 'cent' throughout their report. They were not implying that it should in fact be given that name. 'Cent' is an obvious name for the hundredth part of the major unit and its distinctiveness (assuming people used it) would help reduce confusion during the changeover. On the other hand there have been indications in the Press and in letters to the Treasury that it would be too transatlantic in flavour for many people. A more rational objection is that if 'penny' is not used for the minor unit it might well be popularly used for the ½ cent (close to it in value) with the consequent danger of this ½ cent becoming the unit most commonly used in ordinary speech and everyday money transactions, thus infringing the decimal principle.

5. The alternative name to 'cent' is therefore 'penny', a name with a long history and one which it would be a pity to lose. In the transition the minor unit would have to be differentiated from the present penny, which will circulate alongside it during the transitional period. This points to the name 'new penny' — more vigorous than 'decimal penny' — in the expectation that 'new' will in due course be dropped.

6. Opinion on the Official Committee, as on the Halsbury Committee, is divided. The majority view favours 'new penny'. Both names are used in the rest of this paper.

Weight/value relationship

7. In both the bronze and cupro-nickel Halsbury coinage tiers there is a weight/value relationship, e.g. the 2 cent (new penny) weighs twice as much as the 1 cent (new penny) and the 20 four times as much as the 5. The present £. s. d. cupro-nickel coins (6d., 1s., 2s., and 2s. 6d.) are in weight/value relationship but the bronze coins are not. The value of a mixed lot of coins in weight/value relationship can be checked by weighing in bulk and this feature is a great help to banks, retailers, transport undertakings and the Post Office. It is on the strong recommendation
of such interests that the Halsbury Committee decided to retain weight/value relationship for the cupro-nickel coins and to extend it to the bronze coins. This decision, which in the view of the Official Committee was right, limits the choice of coin sizes. It led Halsbury to recommend a 20 cent (new penny) coin which is almost certainly too large and heavy to be useful.

**Sequence of denominations**

8. The values proposed by Halsbury were based on two considerations: that coins and notes should be in true decimal progression and that the most economic and manageable series is that which allows one to pay any given amount, or give change to any given amount, with the smallest number of coins. This leads to the sequence \( \frac{1}{2}, 1, 2, 5, 10, 20, 50, \£1 \).

9. In the view of the Official Committee the Halsbury sequence is the right one, though three questions need to be answered:

(i) Would a 2½ cent (new penny) coin, which could be identical in value, weight and size with the popular sixpence, be preferable to a 2
cents coin?

(ii) Is it really necessary to have a coin between 10 (2s) and 50 (10s) cents (new pence)?

(iii) Would a 50 (10s) cent (new penny) coin be preferable to a 50 banknote?

**The 2 versus the 2½**

10. The argument for the sixpenny sized 2½ cent (new penny) coin is that it retains a familiar and popular coin, might thus ease the transition, and would spare the expense of altering 6d. slot machines. But a value incorporating a \( \frac{1}{2} \), i.e. in the middle of the sequence, is not in decimal progression, and experiments commissioned by Halsbury showed that people found change-giving and reckoning more difficult with such a fractional coin. The 2½ cent coin in South Africa (previously the popular 3d. bit) became unpopular after decimalisation and is being replaced by a 2 cent coin. A further argument against the 2½ is that, when eventually the \( \frac{1}{2} \) cent (new penny) itself becomes obsolete, it would remain as a distinct blemish on the system.
11. The Official Committee believe that the Halsbury decision in favour of a 2 cent (new penny) piece was the right one.

A 20 cent (new penny) piece

12. There is no coin in the 4s/5s range in general circulation now and the need for a decimal coin is thus open to doubt, a doubt strengthened by the considerable difficulty of finding a suitable size for it. The Halsbury Committee could find no solution other than to recommend a very large coin in weight/value relationship to the 5 and 10 coins. On the other hand we now have the half-crown (which at 12½ cents (new pence) is unacceptable in a decimal system) and, when it goes, a 4s. or 5s. coin of convenient size (which the crown is not) might be useful. Opinion on the Official Committee is not unanimous, but the majority view is that a 20 coin should not be provided initially, when it would add to the already considerable problems facing the Mint and the banks. A decision not to introduce such a coin at the start of decimalisation does not, of course, rule out its introduction later when the need may be clearer. It would also then be for consideration whether a 25 (5s) coin, representing the familiar concept of a quarter of the major unit, might be a more useful coin than a 20 (4s) coin, in spite of the departure it represents from the logical decimal sequence of denominations.

The 50 coin versus the 50 banknote

13. The argument for a 50 cent (new penny) coin is primarily an economic one. The production, circulation and eventual withdrawal and destruction of notes is an increasingly costly business and the lower the denomination of note issued the more costly it is in proportion to its value. The current cost of 10s. note production is about £700,000 a year. As much as 20% of resources at the Bank of England Printing Works - at present fully extended - are devoted to 10s. notes, which represent only 4% by value of total note circulation. If these resources were devoted to notes of higher denomination substantial economies would result. This would
postpone for some time the need to extend the Works with a considerable saving of capital expenditure.

14. Even at today's prices and average 10s. note life (5 months) it would cost 4s. 7d. to maintain a 50 note in circulation for 50 years - a calculation which does not take account of the high and rising costs, not involved with coins, of transporting to and from the Bank each year, under maximum security, some 500 million pieces of paper. Against this a 50 coin in a base metal - with a life of at least 50 years - might cost roughly 5d to 10d (depending on the metal), and would involve an initial investment of £3 million to £5 million. A comparison of the cost of providing 50 cent (new penny) notes with the cost of providing equivalent coins over a period of 50 years shows that the present value of the savings in changing from a note to a coin is well in excess of the present value of the likely costs. It is on this comparison that the economic case for a coin rests.

15. There is also the consideration of public convenience. A note is easier to carry than a coin but this advantage seems marginal provided the coin is not too large and heavy. The public is already showing an increasing tendency to treat the 10s. note as a coin, to be thrust into a pocket or purse (thus shortening its life) rather than preserved in a wallet. In recent years several European countries have replaced their lowest denomination notes by coins.

16. It would be possible to introduce both 50 cent (new penny) coins and notes so that, in theory, the public would have an opportunity of expressing its preference. But this would not give the coin a fair chance. People are conservative in money matters and would probably, through habit, continue to demand notes. And as long as there was a substantial demand for notes the Bank of England could not achieve the financial savings they hope for. Other countries which have introduced high-value coins have generally done so in complete replacement of notes.
17. A question for consideration is whether the 50 coin should be in silver rather than a base metal such as cupro-nickel. A silver coin might well gain public favour more quickly than a base metal one. It could be a thing of beauty and prestige value as well as utility. Most European countries now have silver high-value coins and both South Africa and Australia have their top decimal coins in silver. A silver coin would have the further advantage that it could be made more readily distinguishable from other 'white' coins - partly because of the slight difference in colour and partly because, for technical reasons concerned with the coining process, it would be easier to give it distinguishing features such as a 'dished' surface.

18. The objection to a silver coin is its high cost. If roughly half-crown size it might cost about 4s. to produce, of which about 3s. 9d. would be for the silver. This would represent a total investment of about £30 million, though even at the end of a 50 year life most of the metal content would be recoverable. Silver has to be imported, thus affecting our balance of payments. Moreover industrial demand for silver (e.g. for electronics and photography) is growing and it can be argued that the limited supplies available are most usefully devoted to these uses rather than to coinage. Further cost studies will be done on the case for a half-crown sized silver coin but it is obviously weaker than the case for a cupro-nickel or other base metal coin (14 above).

19. It would be possible to produce a much smaller and thus much cheaper silver coin if a shaped piece, e.g. a square one or one with scalloped edges, were acceptable. This is because there would be less difficulty in making such a coin readily distinguishable from other coins by sight and by touch. But the Halsbury Committee were opposed to shaped coins, and it is certainly difficult to find a shape likely to be generally acceptable. The view of the Deputy Master of the Royal Mint is that any feature, such as shaping, which might detract from the additional virtues of quality and dignity to be gained from silver, would invalidate the case for the use of the
the expensive metal. In his view the choice lies between a silver and a base metal coin, both round and both roughly half-crown size.

20. The recommendation of the Official Committee is that a 50 cent (new penny) coin should be introduced instead of a 50 note, but that further consideration should be given to its size, shape and metal content. Decisions on these latter features are not as urgent as for the other coins.

The sizes of the bronze coins

21. Few would defend the size and weight of the present pennies. They are much too big for their modest value. The question is how much smaller the decimal coins should be, bearing in mind that if weight/value relationship is introduced in the bronze tier, as Halsbury recommended, the room for manoeuvre on sizes is limited. 22. To eyes accustomed to the penny the Halsbury \(\frac{1}{2}\) appears very small and it will not be welcomed by slot machine manufacturers. But it is as big as, or bigger than, popular low value coins in many other countries - and some of these are widely used in slot machines. There is a further practical problem. If the \(\frac{1}{2}\) is made even slightly bigger it would fit into the sixpenny slot of many gas and electricity meters. Similarly the 1 cent (new penny) piece, which would also have to be bigger, would then go into many shilling slots. Even if this problem were ignored and the Gas and Electricity authorities were left to claim from customers deficiencies arising from fraud, the scope for increasing the size of the \(\frac{1}{2}\) is small. Given the weight/value relationship, the 2 cent (new penny) piece, already slightly bigger than the halfpenny, would have to be bigger still - probably unacceptably so.

23. Making the 2 a small cupro-nickel coin offers no way out. A 2 cent (new penny) cupro-nickel coin in weight/value relationship with the 5 and 10 pieces would be very close to the sixpence in size and the resulting confusion during the period when old and new coins circulate together would be intolerable.
24. In the view of the Official Committee the Halsbury bronze coin recommendations should be accepted.

The sizes of the cupro-nickel coins

25. Shillings and florins translate exactly into 5 and 10 cent (new penny) pieces. Only the design need be changed. The Halsbury Committee concluded that it was out of the question to change the sizes of these coins. Keeping familiar and popular coins at familiar values offers people a kind of psychological anchor in the changeover period. Changing these coins would add considerably to the cost of the changeover for banks, and for coin-operated machine interests. The additional cost for coin-operated machine conversion alone was estimated by Halsbury at £40 million.

26. There is nevertheless some case for reducing the sizes of 5 and 10 cent (new penny) coins. As the smallest coin in the cupro-nickel tier the shilling sized 5 is fairly big and the florin sized 10 is a heavy coin by the standards of other countries. There is virtually no complaint from the general public about the sizes of shillings and florins but there have been 'Economist' articles urging the case for smaller, lighter coins and South Africa has recently changed its complete decimal range to introduce smaller coins equivalent to shillings and florins and to leave room for handy-sized higher value coins in the same tier of metal. If the 10 is reduced considerably below florin size it would be possible to introduce a 20 piece in weight/value relationship.

27. There is some support for smaller 5 and 10 cent (new penny) pieces on the Official Committee but on balance the Halsbury arguments for shilling and florin sizes are regarded as decisive. In particular the need for "associability" of some coins during the transitional period, to which other countries have attached great importance, seems very compelling.
Recommendations on sizes
28. The Official Committee therefore recommend that the Halsbury proposals for ½, 1, 2, 5, and 10 cent (new penny) coins be accepted but that instead of a 20 coin there should be a 50 (to replace 10s. banknotes) of a specification to be determined later.

Appendix A gives a chart comparing these coins with the present ones. Consistent with Government policy on metrication, the sizes and weights of coins should be expressed not in inches and grains but in centimetres and grammes. This involves a very slight adjustment of Halsbury measurements.

Numbers of coins needed
29. Total coin requirements are estimated as follows:

<table>
<thead>
<tr>
<th>Denomination</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>½</td>
<td>2,000</td>
</tr>
<tr>
<td>1</td>
<td>2,600</td>
</tr>
<tr>
<td>2</td>
<td>1,500</td>
</tr>
<tr>
<td>5</td>
<td>1,400</td>
</tr>
<tr>
<td>10</td>
<td>1,250</td>
</tr>
<tr>
<td>50</td>
<td>150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,900</strong></td>
</tr>
</tbody>
</table>

The assumption made is that the total value of the new coinage should be the same as that of the estimated value of present coins and 10s. notes in 1971 - with some deduction for an increase in the use of £1 notes instead of a complete switch to coins. The division amongst denominations has been estimated after consultation with the banks and statistical authorities.

30. As the new decimal bronze coins will not be interchangeable with existing coins a supply aimed to satisfy 100 per cent of the demand is desirable from the outset. Assuming that the replacement coins for the 1s. and 2s. are identical with them in shape and weight, it is not essential to have 100 per cent replacement of cupro-nickel coins available, especially as replacement would add considerably to the production problems of
the Royal Mint and the coin handling problems of the banks. However it will be desirable to replace the cupro-nickel coins fairly quickly and to have at least a token issue at the start.

The current proposal is to aim at a minimum total production of about 6,500 million coins by the changeover date — including all the bronze coins and the 50 piece. It will be for the Decimal Currency Board, however, to make detailed recommendations on the phasing of the withdrawal of existing coins and the introduction of the 50.

The Halfpenny

32. The proposed decimal coin series gives a lowest value coin of 1.2d as compared with the present halfpenny. The Halsbury Committee went to great pains to satisfy itself that the halfpenny could be dispensed with and recommended its withdrawal nine months before decimalisation. A few organisations, now supported by the Confederation of British Industry, still see a need for a halfpenny equivalent. The case for and against providing it in a £ system is set out in Appendix B. In the view of the Official Committee the arguments against are very strong and Halsbury was right to conclude that retention of the £ is incompatible with retention of the halfpenny. They therefore recommend that Ministers should endorse the Halsbury proposal that the halfpenny should be withdrawn before decimalisation day.

Recommendations

33. The Official Committee therefore reach the following conclusions and recommend accordingly:

(i) that the minor unit be called not 'cent' but 'new penny' (though the Official Committee are not unanimous on this);
(ii) that the best theoretical sequence of coin and banknote denominations is - 1/2, 1, 2, 5, 10, 20, 50, £1;
(iii) that it would be wrong to depart from the above sequence in order to provide a 2½ cent (new penny) coin of sixpenny size;
(iv) that a 2 should therefore be provided from the start as well as \(\frac{1}{2}\) and 1 cent (new penny) coins;
(v) that a 20 or 25 cent (new penny) coin should not be provided initially, but its possible introduction could be considered later if a need became evident;
(vi) that a 50 cent (new penny) coin should be provided instead of a banknote;
(vii) that the \(\frac{1}{2}, 1,\) and 2 cent (new penny) coins should be of bronze and in weight/value relationship;
(viii) that the Halsbury sizes for the bronze coins should be adopted but that the specifications should be adjusted very slightly so that, consistent with declared Government policy on the metric system, diameters and weights can be expressed neatly in that system as follows:

<table>
<thead>
<tr>
<th>weight (grammes)</th>
<th>diameter (centimetres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(\frac{1}{2})</td>
<td>1.75</td>
</tr>
<tr>
<td>1</td>
<td>3.50</td>
</tr>
<tr>
<td>2</td>
<td>7.00</td>
</tr>
</tbody>
</table>
(ix) that the 5 and 10 cent (new penny) coins should be in cupro-nickel and of shilling and florin size respectively, the measurements being fractionally adjusted to provide 'round' metric figures as follows:

<table>
<thead>
<tr>
<th>weight (grammes)</th>
<th>diameter (centimetres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>5.65</td>
</tr>
<tr>
<td>10</td>
<td>11.30</td>
</tr>
</tbody>
</table>
(x) that the specification for the 50 cent (new penny) coin be reserved for later decision and that further studies be carried out into the case for a silver as opposed to a base metal coin;
that the halfpenny should be withdrawn before decimalisation day and no equivalent or roughly equivalent coin should be provided in the decimal system.

S. GOLDMAN

31st October, 1966

Treasury Chambers,
Great George Street,
LONDON, S.W.1.
COMPARISON OF THE PRESENT COINAGE WITH
PRESENT £ S D COINAGE

SQUARE BRACKETS INDICATE COINS ARE NOT IN
COMMON USE BUT ARE INCLUDED FOR THE
PURPOSE OF COMPARISON

BRONZE (PLAIN EDGES)

<table>
<thead>
<tr>
<th>Coin</th>
<th>Diameter</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/4d</td>
<td>0.795 cm</td>
<td>43.75 grains</td>
</tr>
<tr>
<td>1/2d</td>
<td>1.003 cm</td>
<td>87.5 grains</td>
</tr>
<tr>
<td>1d</td>
<td>1.215 cm</td>
<td>145.83 grains</td>
</tr>
</tbody>
</table>

DEMONETISED: 31-12-60

BRASS (TWELVE SIDED)

<table>
<thead>
<tr>
<th>Coin</th>
<th>Diameter</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>3d</td>
<td>0.865 cm</td>
<td>105 grains</td>
</tr>
</tbody>
</table>

CUPRO NICKEL MILLLED EDGES

<table>
<thead>
<tr>
<th>Coin</th>
<th>Diameter</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>3d</td>
<td>0.640 cm</td>
<td>21.82 grains</td>
</tr>
<tr>
<td>6d</td>
<td>0.764 cm</td>
<td>43.64 grains</td>
</tr>
<tr>
<td>1s</td>
<td>0.929 cm</td>
<td>87.27 grains</td>
</tr>
</tbody>
</table>

SILVER

<table>
<thead>
<tr>
<th>Coin</th>
<th>Diameter</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>2s</td>
<td>1.220 cm</td>
<td>174.55 grains</td>
</tr>
<tr>
<td>2s.6d</td>
<td>1.272 cm</td>
<td>218.1 grains</td>
</tr>
<tr>
<td>5s</td>
<td>1.520 cm</td>
<td>436.36 grains</td>
</tr>
</tbody>
</table>

COINS ARE SHOWN
**PROPOSED DECIMAL COINAGE**

### BRONZE (PLAIN EDGES)
- **½c**: 0.9 cm (0.45 grams) | Value: ½d
- **1c**: 1.7 cm (3.5 grams) | Value: 1d
- **2c**: 2.6 cm (7 grams) | Value: 2d

### CUPRO NICKEL (MILLED EDGES)
- **½c**: 2.35 cm (5.65 grams) | Value: Shilling
- **1c**: 2.85 cm (11.3 grams) | Value: Florin

### SILVER OR WHITE BASE METAL
- **50c**: 2.36 cm (5.66 grams) | Value: 50s

*The 5 & 10¢ coins are the same as present, but the decimal differs in denomination and weight, from their predecessors.*

Coins are shown at actual sizes.
COINAGE FOR A £-CENT - ₤ DECIMAL SYSTEM

ED DECIMAL COINAGE

THE 5 & 10 CENT PIECES WOULD HAVE THE SAME COMPOSITION & VALUE AS PRESENT SHILLINGS & FLORINS. THE DECIMAL COINS WOULD DIFFER IN DESIGN AND IMPERCEPTIBLY IN SIZE & WEIGHT FROM THEIR PRESENT COUNTERPARTS. THE OTHER FOUR DECIMAL COINS HAVE ENTIRELY NEW VALUES, WEIGHTS & SIZES.
In his summing up in Cabinet on 3rd November (CC(66) 54th Conclusions, Minute 4) the Prime Minister outlined a programme of action designed to obtain the information necessary to enable Her Majesty's Government to decide their future policy towards the European Economic Community (EEC). The programme proposed was as follows:

(a) After consultations with the Governments of the European Free Trade Association (EFTA), a conference of EFTA Heads of Government in London should be called for early December, to consider the steps to be followed in further approaches to the EEC.

(b) There should be an announcement, probably at the same time as the announcement of the EFTA conference, reaffirming our willingness to enter the Community on appropriate terms, and stating that the Prime Minister and I would accordingly make a series of visits to the Heads of Government of the Six to make our requirements clear and to ascertain theirs.

(c) The January meeting of the Consultative Assembly at Strasbourg might be the occasion for the Prime Minister to make a full statement of Her Majesty's Government's attitude to Europe; the terms of the statement would need to be considered by the Cabinet.

(d) Thereafter the Prime Minister and I should carry out the proposed visits both to explore conditions of membership and to press for a forthcoming attitude in the Kennedy Round. For the former purpose it would be necessary to have an agreed formula on our attitude to the Treaty of Rome, which would no doubt be on the basis of qualified acceptance.

(e) Urgent studies should be made by officials of both the "Javits" plan and also of the prospects of our continuing without any new form of association, in order to strengthen our position in any subsequent negotiations, and to consider what it should be if they failed.
(f) It would be necessary to decide the nature and timing of consultations with the Governments of the Commonwealth and of the United States in regard to our further moves towards Europe. Those consultations might, in turn, reveal further possible courses of action.

2. The above programme needs some further elaboration especially in regard to point (a) - Consultations with EFTA Governments - and (f) - the Nature and Timing of Consultations with the Governments of the Commonwealth and the United States.

3. There must be preliminary consultations with EFTA Governments, before the proposed Conference of EFTA Prime Ministers. It will be necessary to impress on EFTA Governments the need for complete secrecy as regards our intentions.

4. It may be argued that if we are to have a meeting of EFTA Heads of Government we should have a similar Commonwealth meeting. This is a matter for the Commonwealth Secretary, but in my view, the Commonwealth situation is different from that of EFTA, in that our EFTA partners are all in Europe and all potential members of an expanded European Economic Community. I therefore recommend that we should notify Commonwealth Governments, the Government of the Irish Republic, and the Government of the United States of our intentions shortly before the announcement proposed at (b) above. In doing so we shall need to make it clear to Commonwealth Governments that the policy represents a continuation, at a higher level, of that we have pursued over the last few months, that there is no question of an early negotiation for entry into the Community, and that we are not committed to such a course. Simple notification to the United States would be sufficient since we would not wish it to appear that any movement in our European policy is dependent upon permission from the United States.

5. In addition I have the following comments on points (b) and (c) above. It would be essential to make simultaneous announcements about the EFTA Conference and our projected tour. It would also be desirable for at least one of our visits to the capitals of the Six to be made before the Prime Minister speaks in Strasbourg, since the Strasbourg meeting does not begin until 23rd January.

G. B.

Foreign Office, S, W, 1.

7th November, 1966.
NOTE ON VISITS TO BE MADE TO CAPITALS OF THE EUROPEAN ECONOMIC COMMUNITY BY THE PRIME MINISTER AND FOREIGN SECRETARY

In their visits to the capitals of the Six the Prime Minister and I would be seeking on the one hand to explain the principal difficulties we see in accepting Community policies as they stand and on the other hand to obtain a clear indication of how far each of the Six would be prepared to go in meeting us on those difficulties. We would thus be continuing, in greater depth, the process of probing which began this summer. Only when this process is completed will we be in a position to judge whether or not to embark on negotiation for entry into the EEC. Whether or not the discussions had shown that a basis for negotiation existed would be for the Cabinet to decide.

2. In addition to this, we should take this opportunity, at what may well be a crucial stage in the Kennedy Round negotiations, to press for a forthcoming attitude on the part of the Six.

3. The Prime Minister and I would continue to make clear in our discussions that whatever emerges from the continued process of probing, we should only enter with a healthy economy and a strong balance of payments, and on terms which would not call in question either the strength of the economy or the value of sterling.

4. As to political questions, these are more likely to arise in the discussion with the French Government than in the discussions with the Five. French Ministers (though not General de Gaulle) have said that there is no political veto. Nevertheless General de Gaulle might well raise the question of our close involvement with the United States. If he does, we can only stand firm. Some common ground may be found with him over the question of supranationality.

TREATY OF ROME

5. The Prime Minister and I will be asked whether Her Majesty's Government accept the Treaty of Rome. It is suggested that we should say that the Treaty in itself would not be an obstacle to our joining the European Economic Community if our problems could be satisfactorily dealt with whether through adaptations of the arrangements made under the Treaty, or in any other acceptable manner. In other words, Her Majesty's Government were prepared to accept the Treaty of Rome, subject to the necessary adjustments consequent on the accession of a new member, provided that Her Majesty's Government received satisfaction on the points on which they saw difficulty.

6. The difficulties we see in accepting Community policies are principally concentrated in two particular fields: those flowing from the Common Agricultural Policy, and from the Community policy on freedom of capital movements. The Prime Minister and I will emphasise that although these are the two most important aspects there are other problems, e.g. regional policy and the ability of certain Commonwealth countries to associate with the Community.
COMMON AGRICULTURAL POLICY

7. The Community’s present policy and price structure might well in terms of aggregate income prove no less profitable to United Kingdom agriculture - perhaps in some respects even more profitable - but at the expense of unbalancing its production, e.g. as between cereals and livestock production, including dairying. Other effects of the common agricultural policy would be to increase our balance of payments burden, to damage Commonwealth trade and to increase the cost of living and, in consequence, wages and costs.

8. The Prime Minister and I would say in our discussions with the Six that the consequences of accepting the common agricultural policy unchanged would be serious. Some way of overcoming the difficulties must be found if we are to join. We would suggest that we would need arrangements to limit what would otherwise be a disproportionate burden. In any event in an enlarged Community it would be necessary to review the distribution of the burden of agricultural support. And special arrangements would have to be made for New Zealand in particular.

CAPITAL MOVEMENTS

9. A requirement to dismantle our foreign exchange controls would endanger our balance of payments in the early years of membership, even though in the longer term there would be more favourable influences at work.

10. The Prime Minister and I would explain the problem with which the United Kingdom would be confronted if we were required to liberalise portfolio and direct investment immediately - even though we would expect that our economic, and especially our balance of payments situation would be basically restored by the time of entry. We would require satisfactory provision for this problem, whether through adaptations of the arrangements under the Treaty or any other acceptable way. Meanwhile we should continue to seek through appropriate channels some long term arrangement for the sterling balances.
FURTHER SOUNDINGS OF THE SIX: CONSULTATIONS
WITH COMMONWEALTH GOVERNMENTS

Memorandum by the Secretary of State for Commonwealth Affairs

At the Cabinet Meeting on 3rd November (CC(66) 54th Conclusions, Minute 4) it was recognised that it would be necessary to decide the nature and timing of consultations with the Governments of the Commonwealth in regard to our further moves towards Europe.

2. The position as it was left after the Commonwealth Prime Ministers' Meeting in September was that we had promised Commonwealth Governments information on the progress of exploratory discussions and consultation at all stages of any negotiations. Other Commonwealth Governments continued to press for consultation even at the exploratory stage. The relevant extract from the final communique (Cmnd. 3115) is annexed.

3. If a special meeting of the European Free Trade Association (EFTA) Heads of Government is convened at short notice a few weeks after the Lisbon meeting, Commonwealth Governments may suspect that there has been a significant change in our attitude towards joining the European Economic Community, however much we assure them that our position is unchanged. Some may urge that a Commonwealth Ministerial Meeting should be held. My colleagues will probably feel that this would not suit us. In short, whatever the advantages in other directions of the proposed special EFTA meeting, it is likely to sharpen our difficulties with the Commonwealth, and to encourage them to press that essential Commonwealth interests should be given as prominent a place in the proposed approach as those of EFTA.

4. Whether or not the EFTA meeting is held, we must either beforehand or at the same time take Commonwealth Governments into our confidence and assure them that we shall seek to safeguard their essential interests.

5. As regards the line to be taken with the Six, we shall need to say to Commonwealth Governments that it is proposed to ascertain what terms are likely to be obtainable for safeguarding Commonwealth as well as British interests. I think that it will be desirable to mention to the Six in general terms that we shall need to know whether terms at least as good as those negotiated by the Conservative Government in 1962 can be assumed for Commonwealth countries in Asia, Africa and the Caribbean, as well as special safeguards for New Zealand. If these are not mentioned, there will be a risk that an alleged account of what has been said will leak from one or other of the six capitals in terms that may embarrass us in relation to Commonwealth Governments and the Opposition at Westminster.

H. W. B.
Commonwealth Office, S. W. I
7th November, 1966
"They observed that the British Government had indicated at the Trade Ministers' Meeting its readiness to seek membership in the European Economic Community provided that the essential interests of Britain and other Commonwealth countries were safeguarded. The British Government stated that they would make available the maximum information possible to other Commonwealth Governments on the progress of exploratory discussions and would consult closely with other Commonwealth Governments. The other Heads of Government noted this assurance and stressed the importance of consultations at all stages of exploratory talks, discussions and negotiations. The hope was expressed that the interests of developing countries would receive special attention during these talks."
CABINET

PRICES AND INCOMES STANDSTILL: DRAFT WHITE PAPER ON PERIOD OF SEVERE RESTRRAINT

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

I circulate herewith a draft White Paper on Criteria for Prices and Incomes in the Period of Severe Restraint. It reflects the views expressed at a meeting of the Ministerial Committee on Prices and Incomes on 4th November. I will report orally to the Cabinet on the consultations on the draft which I am having with the Confederation of British Industry and Trades Union Congress on Tuesday and Wednesday of this week.

2. It will probably be necessary to add a paragraph to the draft dealing with pay in the public services in the light of a further meeting of the Ministerial Committee on Prices and Incomes arranged for Wednesday, 9th November.

3. I recommend that consultations with other interested parties should be carried out without delay and the White Paper published early next week.

M. S.

Department of Economic Affairs, S. W. l.

8th November, 1966
PERIOD OF SEVERE RESTRAINT

I Introduction

The need for a standstill on prices and incomes was explained by the Prime Minister on 20th July 1966 and the way in which it was proposed that the standstill should be applied was set out in the White Paper, Cmnd.3073.

2. The object was to avoid increases in prices or in incomes so far as possible during the period from 20th July to the end of 1966 and to regard the first half of 1967 as a period of severe restraint by all who are concerned with determining prices and incomes. The Government undertook to consult the Confederation of British Industry, the Trades Union Congress and other interested parties on the form in which the stringent criteria for the first half of 1967 should take. These consultations have now been completed. Although the criteria set out below have not been endorsed specifically by these parties, they reflect a wide measure of agreement about the national need for exceptional restraint.

3. The national response to the call for a standstill has been extremely encouraging. Management and unions, with very few exceptions, have done their utmost to support the standstill and the public generally have shown their willingness to comply with the requirements of the standstill, even though this has entailed sacrifices by many people.

4. Although the Government has been obliged to bring Part IV of the Prices and Incomes Act into operation they hope that severe restraint will be observed on a voluntary basis, and that the same general responsible attitude which has marked the period since 20th July will continue. The Government will use their statutory powers only to ensure that the voluntary support of the majority is not undermined by the actions of a few.

5. The coming period of severe restraint is of great importance in itself because of the opportunity it offers the nation to improve its competitive position in world trade and to foster general stability of prices.

6. The six months of severe restraint will call for a continuation of personal restraint and readiness to accept some sacrifice of immediate personal benefit in the interests of the whole community. The Government are determined to see that the principles of severe restraint govern prices, employment incomes and other forms of money incomes, including professional fees and dividends. All our economic and social objectives and policies for sustained growth depend on our ability to compete vigorously in export trade and with imports from other industrial countries. This period is bound to be important also as a means of developing an effective and just policy for productivity, prices and incomes for the longer-term. During the coming months, the Government will consult the interested parties about the best way of carrying forward the productivity, prices and incomes policy after 30th June 1967.

- 1 -
II PRICES AND CHARGES

II 1. The Government recognise that there has been some concern during the standstill period about increases, particularly in retail prices and charges by the service industries and trades. It was recognised from the outset by the Government that it would not be possible to rule out limited increases in some prices and charges as a result of changes in world prices, seasonal fluctuations in supply or increased taxation. There has been considerable success in holding the general level of prices so far, but this in no way lessens the need for all concerned to strive to keep any increases to a minimum and to work continually for price reductions.

II 2. Throughout the period of severe restraint until the end of June 1967, just as in the standstill period to the end of 1966, the criteria for increases in prices or charges must necessarily be much more stringent than those set out in the White Paper on Prices and Incomes Policy (Cmnd.2639, Part I, paragraph 9). During the period of severe restraint, all enterprises both in the private and the public sectors will be expected to make as great an effort as possible to absorb increases in cost whatever the circumstances in which these arise. The Government believe that they can rely with confidence on the voluntary co-operation of the great majority of those who are in a position to determine the movement of prices and charges.

II 3. Reductions in prices wherever these can be achieved are very important both on their own grounds and in order to offset unavoidable increases elsewhere. The criteria for price reductions which were set out in paragraph 10 of Part I of the White Paper (Cmnd.2639) remain valid. These laid emphasis on the principle that reductions in costs per unit of output should normally be reflected in reduced prices.

II 4. It is recognised, however, that some increases in prices may prove unavoidable. The circumstances in which such increases may be justifiable are set out in the following paragraphs.

Criteria for Price Increases

II 5. As indicated in paragraphs 4 and 5 of Cmnd.3073, price increases may be justified where there has been a marked increase that cannot be absorbed in the costs of imported materials or in costs arising from changes in supply for seasonal or other reasons, or which are due to action by the Government, such as increased taxation; or where an enterprise finds itself faced by increased costs which it is unable to restrain, and which are too large to absorb fully, such as the cost of bought-in components forming a large part of its total costs. There may also be exceptional circumstances in which without some increase in price the receipts of an enterprise are not adequate to enable it to maintain efficiency and undertake desirable investment.

II 6. In examining proposed price increases, the Government will take into consideration, where appropriate, the relationship between particular increases in costs that have been sustained and the total costs of the enterprise concerned and the relationship between the efforts made to absorb increases in costs and the overall profitability of the enterprise.

II 7. In general, it is to be expected that restraint upon incomes, under the strict criteria set out below, will enable increases in labour costs to be absorbed and prices thereby held or reduced.
II Type of Price Covered

8. These criteria for price behaviour during the first half of 1967 will apply to all prices and charges of goods and services, whether provided by public or private enterprise. It is essential that wholesalers and retailers should apply these same criteria to their prices just as much as manufacturers.

II 9. All concerned in the negotiation of prices under individual contract during the period of severe restraint should equally have full regard to the above criteria.

II Arrangements for Notification

10. The effectiveness of the policy of severe restraint on prices, and public acceptance of the restraint which as wage and salary earners and pensioners they are expected to observe, require that the Government should have an adequate opportunity to consider in advance proposed increases in prices. It would not, however, be possible to require prior notification of every price change across the whole field of wholesale and retail trading involving a vast number of different items.

II 11. In many cases, detailed arrangements for advance notification of proposals by manufacturers to increase prices already exist by agreement between Government Departments and representatives of various industries and trades under the early warning scheme described in Cmnd.2808. It is intended that these arrangements should continue to be applied during the period of severe restraint together with similar arrangements made with other industries with which discussions are now in progress.

II 12. The Government intend that there should be sufficient flexibility in these arrangements to ensure that they adequately reflect the differing circumstances of different industries. It is envisaged that arrangements of this type agreed in accordance with paragraph 8 of Cmnd.3073 or arising out of arrangements made in accordance with paragraph 10(a) should progressively replace the general request for advance notification that was made in paragraph 9 of Cmnd.3073.

II 13. Pending the completion of such arrangements, the Government will continue to expect major manufacturing enterprises (for convenience regarded as those employing 100 or more workers) to give the appropriate Department not less than twenty-eight days' notice of any proposed increase in price. If the Department has not notified the enterprise concerned to the contrary before the end of the twenty-eight days, the enterprise will be entitled to assume that the Government have decided to take no further action in its proposals.
III RENTS AND RATES

Private Housing Rents

1. The level of rents charged by landlords for virtually the whole of the private housing sector is already determined within the statutory framework of the Rent Acts. The Government are continuing to keep the movement of rents of private housing under close scrutiny.

Local Authority Housing Rents

2. Local authorities are by law responsible for determining the rents they charge and are required by statute to balance the housing accounts year by year. Increased costs not met from rents must generally be recouped from the rates, and authorities are under a legal duty to hold the balance fairly between tenants and ratepayers. By their responsible attitude during the period of standstill they have already given significant support to the Government's policy on prices and incomes. Only 25 out of 1,600 authorities in Great Britain have found it necessary to increase rents in this period. During the period of severe restraint the Government will look to them to avoid or limit any increase as far as they can; and where rent increases prove inevitable they will expect them to protect tenants of modest means by the application of rent rebates.

Rates

3. Local rates are a form of taxation, although they also enter into the cost of living, and are necessary to finance the whole range of services to the residents of the area provided by the local authority. Local authorities have been urged to ensure all proper economies in expenditure.

Rents of Business Premises and of Land

4. Because of their effect on the prices of goods and services, it is important that increases in the rents of business premises and of land should be severely restrained up to the end of June 1967, and landlords are expected to have full regard to the need for this. Government Departments have given a lead by arranging to forgo, until the end of June 1967, rights to higher rents for business premises and for land negotiated and becoming effective during the standstill or following period of severe restraint.
The main objectives on the incomes side during the period of severe restraint are to ensure that any rise in money incomes in the first half of 1967 is kept to the minimum; and to develop arrangements for assessing claims for special treatment according to the criteria for the period of severe restraint set out below and to ensure a planned growth of money incomes in line with productivity after it has ended. The need is to secure that in future the parties concerned are influenced to a greater extent by a more objective assessment, against the wider background of the national interest, of the merits of a particular case before a final decision is reached.

Employment incomes

2. As in the case of the standstill, severe restraint will apply to increases in pay and reductions in working hours (including increases in holidays) but not to other conditions of service, except in so far as these are likely to add significantly to labour costs. Paragraphs 17 and 18 of Cmnd.3073 will continue to apply for the purpose of determining "increases in pay" during the severe restraint period.

3. During the first six months of 1967 the considerations affecting incomes policy agreed between the Government, management and unions in April 1965 and set out in the White Paper on Prices and Incomes Policy (Cmnd.2639) will continue to be in abeyance. In particular, the "norm" for the annual rate of increase in money incomes per head will be zero. Increases in incomes during this period will be justified only in exceptional cases where they can be shown to meet the following criteria for exceptions, and even then only on a severely limited scale. These criteria apply to arbitration and similar awards as well as to negotiated settlements.

Productivity

4. Agreements designed to increase productivity and efficiency have an important part to play in improving our national economic performance and will be given priority during the severe restraint period. It will be necessary to ensure, however, that increases in pay or reductions in hours which are claimed on grounds of contribution to productivity serve the national interest as well as the interests of the workers and managements concerned. This means first that the employees concerned should make a direct contribution towards increasing productivity, for example, by accepting more exacting work or a major change in working practices; secondly, that payment of increases on these grounds should, so far as possible, be directly linked to improvements in productivity achieved and not paid "on account" before any firm assessment can be made of the benefits; and, thirdly, that some of the benefit should accrue to the community as a whole in the form of lower prices or improvements in quality. For this purpose it will be necessary to ensure that the productivity increases in question are properly assessed.

Lowest paid workers

5. Improvement of the standard of living of the worst-off members of the community is a primary social objective. As in practice the needs of individual workers are largely determined by the extent of their family commitments, the Government will continue
to give a high priority to measures specifically designed to meet family needs. However, it will be necessary to secure that any pay increases during this period for lowest-paid workers in the community are genuinely confined to those whose total earnings (taking into account any excessively long hours worked) are too low to maintain a reasonable standard of life. This means that their claims for special treatment by way of pay increases will have to be recognised and accepted by other workers, since some compression of differentials in earnings is bound to follow.

Distribution of Manpower

6. During the severe restraint period only in the most exceptional cases can a pay increase be justified in order to attract or retain manpower. Such cases will be subject to the closest scrutiny in the national interest. Where there is a shortage of labour to undertake essential work, every effort must be made to meet the shortage by a more effective use of the manpower available.

Comparability

7. Similarly, pay increases will not in general be regarded as justified during the period of severe restraint on the grounds of comparison with the level of remuneration for similar work or on the grounds of narrowing of differentials. There may be exceptional circumstances in which some immediate improvement in pay is imperative to correct a gross anomaly. Such cases will have to be strictly examined to ensure that severe restraint is not undermined. It will be necessary to ensure that any such improvement is strictly confined and not used as an excuse for "catching up" increases for other groups.

8. Claims based on existing links with other groups must be considered individually on their merits against the criteria for incomes set out above.

Existing Commitments

9. Existing commitments to increase pay or reduce hours entered into on or before 20th July, 1966, which are due to be implemented in the first six months of 1967, should be deferred until 1st July, 1967 or later unless:

(i) a previous commitment for a pay increase or reduction in hours (other than a cost-of-living increase) affecting the same group of workers has already been deferred since 20th July, 1966;

(ii) it is regarded by the Government as satisfying the criteria for the period of severe restraint set out above.

As stated in the White Paper (Cmd.3073) it will also be open to the parties to existing commitments to renegotiate their agreements in order to conform with the severe restraint criteria.

10. The operative dates of pay increases which are due under cost-of-living sliding scale arrangements in the first six months of 1967 should be deferred until 1st July, 1967 or later.
Arrangements for vetting claims and proposals to increase pay

11. Under the "early warning" arrangements which were described in the White Paper: "Prices and Incomes Policy: An 'Early Warning' System" (Cmnd.2808), the Ministry of Labour receive information about claims and proposals to increase pay from the T.U.C. and C.B.I., from organisations which are not members of either of these bodies and directly from firms and employers' organisations in the case of local and company negotiations. These arrangements will continue and will be of even greater importance during the severe restraint period; if necessary, they will be extended and strengthened.

12. Information is required about claims and proposals to increase pay or reduce hours (including pay and productivity proposals) relating to national, local and company negotiations. For practical reasons, however, such information covering less than 200 employees need not be notified unless it is regarded as significant either because of the nature of the claim or because of the possible repercussions on the pay of other groups. All the parties to claims and proposals to increase pay, whether at national, local or company level, are expected to conform to the severe restraint criteria, whether or not the claim or proposal has been notified.

13. On receipt of information under these arrangements the Government will consider whether the proposals are consistent with the criteria described in paragraphs 2-6 above and will make any further inquiries that may be necessary. The object will be to ensure that any settlement reached (or pay increase awarded) is consistent with the national interest. Appropriate cases will be referred to the National Board for Prices and Incomes. Where, despite the views of the Government or the recommendations of the National Board, the parties concerned reach a settlement in clear breach of the severe restraint criteria the Government, in consultation with the T.U.C. and C.B.I., will consider action under Part IV of the Prices and Incomes Act, 1966, to ensure that the national interest prevails. It will be the aim of the Government, in consultation with the C.B.I. and the T.U.C., and with the help of the N.B.P.I., to secure the effective and consistent application of the severe restraint criteria to claims and proposals to increase pay.

Criteria after June, 1967

14. As stated in Cmnd.3073, it would defeat the intention if any attempt were made to make good in subsequent negotiations increases forgone as a result of the standstill and severe restraint. Guidance for those negotiating settlements to take effect after 30th June, 1967 will be given after consultation with the C.B.I., T.U.C. and other interested parties. This will cover the appropriate norm for increases in money incomes and any modifications in the criteria originally set out in Cmnd.2599 that experience shows to be necessary. In the meantime, however, it should be generally understood that the country cannot at present afford any further general reduction in the standard working week or general movements towards longer holidays. The economic effects of shorter hours and longer holidays can be as important as those of straight pay increases. Thus improvements in pay, hours and holidays and other conditions of service likely to add significantly to labour costs need to be considered together for the purposes of incomes policy.
recent tendency to seek improvements in pay or hours (or both) at intervals of 12 months or even less has added considerably to our economic difficulties. It should also be generally understood that if the cost of living is to be stabilised in future, there should not be increases based on automatic cost-of-living sliding scales in addition to negotiated pay increases.

15. Further consideration will also be given to the machinery and institutional arrangements which are needed to ensure that the criteria laid down are strictly observed. A more co-ordinated approach to wage and salary questions among employers and trade unions will be needed to help determine the relative economic and social priorities of competing claims on behalf of different groups and sections of the community. Both the C.B.I. and T.U.C. have undertaken to use their influence on the amount and timing of claims and offers after the end of the period of severe restraint with the object of avoiding inflationary settlements.

Other Forms of Income

16. In principle the criteria for employment incomes during the period of severe restraint should be applied to all other forms of personal income. In some cases, however, it may be more appropriate to apply the criteria for price behaviour, e.g. in relation to charges or fees of self-employed persons.

Pensions

17. Pensions form an important part of total incomes arising out of employment. They should therefore be governed by the principle of severe restraint between 1st January and 30th June, 1967 and in considering pension proposals, regard should be had to the cost of pension provision as an element in labour costs.

18. Proposals to increase existing pensions and similar benefits should take into account the same criteria to be applied to proposed increases in employment incomes. The incomes of many occupational pensioners are still small and some increases may well be justifiable within the requirements of the criteria set out in paragraph IV.1 above. It is right that such increases should be accepted as a priority by those still in employment who are being asked to exercise restraint as well as by the better-off pensioners whose claims are less urgent. In other cases, including commitments entered into on or before 20th July, 1966 to improve existing or similar benefits which were originally intended to come into effect during the first half of 1967, the increases should be deferred until after 30th June.

19. New pension schemes, or improvements to existing pension schemes, which do not involve an increase in pensions already in payment, are different in character and may be introduced during the period of severe restraint.

Dividends

20. The Government have already made it clear that the standstill will continue to apply to all company distributions in the first half of 1967 (paragraph 32 of the White Paper "Prices and Incomes Standstill"). Up to 20th July, 1967, companies should not distribute more to shareholders in respect of a financial year than in the preceding financial year, nor should they pay out more in the twelve months after 20th July, 1966 than in the twelve months before that date. If any company thinks that there might be imperative reasons for not observing this standstill, the Treasury should be consulted beforehand.

21. The Government are pledged to use their fiscal powers or other means to deal with any excessive growth in aggregate profits or dividends.
Discussions with local authorities about the level of Rate Support Grant in 1967/68 and 1968/69 are scheduled to begin at the end of this week, and cannot be delayed if the Affirmative Resolution is to be obtained for the Rate Support Grant Order before the Christmas Recess. It would in fact be possible to lay the Order before the Recess and debate it after. But if it involves substantial reductions in the expenditure estimates which local authorities have put forward, and it lies on the Table throughout the Recess, it will enable a considerable volume of opposition to it to become mobilised and we shall face a much more difficult debate afterwards.

2. The discussions with local authorities will centre on the amount of current expenditure which we are prepared to approve for grant purposes in these years. The attached paper sets out the estimates submitted by local authorities, together with proposals for limiting this expenditure. In summary, the main figures are:

<table>
<thead>
<tr>
<th></th>
<th>As submitted</th>
<th>As revised by Departments</th>
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<tbody>
<tr>
<td>£ million</td>
<td></td>
<td></td>
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<tr>
<td>(mid-1966 prices)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965/66 (actual)</td>
<td>2,196 (100)</td>
<td>2,196 (100)</td>
</tr>
<tr>
<td>1966/67</td>
<td>2,427 (110, 5)</td>
<td>(not available)</td>
</tr>
<tr>
<td>1967/68</td>
<td>2,651 (120, 7)</td>
<td>2,524 (114, 9)</td>
</tr>
<tr>
<td>1968/69</td>
<td>2,817 (128, 3)</td>
<td>2,677 (121, 9)</td>
</tr>
</tbody>
</table>
3. The estimates as revised by Departments allow for expenditure on the main services as follows:

<table>
<thead>
<tr>
<th>Service</th>
<th>1967/68</th>
<th>1968/69</th>
</tr>
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<tbody>
<tr>
<td>Education</td>
<td>1,377</td>
<td>1,457</td>
</tr>
<tr>
<td>Local Health and Welfare</td>
<td>174</td>
<td>188</td>
</tr>
<tr>
<td>Police</td>
<td>164</td>
<td>170</td>
</tr>
<tr>
<td>Fire Service, Courts and other Home Office services</td>
<td>132</td>
<td>136</td>
</tr>
<tr>
<td>Roads and Lighting</td>
<td>201</td>
<td>218</td>
</tr>
<tr>
<td>Miscellaneous Environmental Services</td>
<td>476</td>
<td>508</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,524</strong></td>
<td><strong>2,677</strong></td>
</tr>
</tbody>
</table>

4. It is proposed that the estimates for Miscellaneous Environmental Services should be further reduced by £30 million in 1967/68 and £45 million in 1968/69. Any such reductions will of course enable us to limit the restrictions on the remainder of public expenditure in these years. But local authority expenditure has been rising faster than expected and, even with these reductions, their expenditure in 1967/68 would be some £22 million higher than that in the basic public expenditure programmes. (Further reductions in specific services are referred to in paragraph 8 of the attached paper, but these can be considered separately).

5. The Committee on Public Expenditure are agreed that officials should be instructed to open discussions with the local authorities on the basis that these further reductions should be made. This will mean adopting a very tough attitude in these negotiations and Cabinet approval is sought accordingly.

L. J. C.

Treasury Chambers, S.W.1.

8th November, 1966
Departments are now concluding their examination of the estimates of current expenditure which local authorities have submitted for the purpose of determining the Rate Support Grant, etc., in 1967-68 and 1968-69. The results are most disturbing. These figures are for England and Wales only; the Scottish figures are not yet available. (All the figures in this paper are at mid-1966 prices.)

2. In our Public Expenditure figures last year we allowed for current expenditure by local authorities in England and Wales to increase from about £2,325 million in 1966-67 to £2,450 million in 1967-68. In this year's figures we have already allowed for a higher rate of spending by these local authorities - £2,350 million in 1966-67 rising by over 5 per cent. to £2,472 million in 1967-68. The estimates now submitted by the local authorities themselves, however, amount to £2,651 million in 1967-68, representing a further £179 million (i.e., 7 per cent.) more than was included in this year's basic Public Expenditure Survey figures.

3. The Departments concerned, in consultation with the Treasury, have examined the estimates submitted by local authorities, on the basis that full allowance should be made for the continued implementation of any relevant Government policies, and that the various local authority services will continue to expand much as they have in the past. On this basis it is considered that the local authorities have over-estimated by some £127 million; and that it would be reasonable to seek to persuade them that their estimates should be adjusted accordingly. However, this would still leave an excess over the PESC figures of £52 million for which there is at present no provision in any of the figures which the Committee have considered.

4. Most of this residual excess is due to the miscellaneous environmental services (sewerage, refuse collection, parks, libraries, general administration and miscellaneous services) for which the rate of growth of expenditure turned very sharply upwards in 1965-66. Expenditure in 1965-66 and 1966-67 was also above the estimates which have been used hitherto; but this does not alter the fact, with which we are now faced, that proposed local authority expenditure in 1967-68 will be £52 million higher than was hitherto thought.
5. In the circumstances with which we are dealing on public expenditure as a whole, we should ask Ministers to ensure that reductions of £127 million of local authority estimates, proposed by Departments, are obtained in full; but this is clearly not enough.

6. I propose, therefore, that the local authority estimates for the Miscellaneous Environmental Services should be reduced by a further £30 million in 1967-68. This would be in addition to the £127 million reduction for over-estimating and would reduce the excess over basic Public Expenditure figures from £52 million to £22 million.

7. Expenditure on the Miscellaneous Environmental Services increased from £374 million in 1964-65 to £411 million in 1965-66—an increase of 10 per cent. A further substantial increase is likely in 1966-67, possibly to £450-£455 million. The reduction which I propose would limit this expenditure to £441 million in 1967-68, and might therefore mean a reduction below the level of actual expenditure in 1966-67. But it would allow an average rate of growth on these services of about 3½ per cent. per annum from 1965-66 onwards, or of about 5½ per cent starting from 1964-65.

8. Some of the proposals which I put forward in PB(66)15 with the purpose of limiting the increase in basic programmes will affect local authority expenditure. In education, most of the increased charges, including those for school meals and milk, which I have proposed should apply from September next, would accrue to the local authorities and would reduce their net expenditure by £32 million (a subsequent adjustment for Rate Support Grant could be made in due course by reducing any additional amount payable because of increased prices). Other reductions which I have proposed would reduce local authority expenditure by about £1½ million (mainly in roads, police and education) and this should be reflected in the amount of relevant expenditure for the Rate Support Grant, provided that decisions are taken and announced within the next month.

9. Similar considerations apply in respect of 1968-69. The estimates submitted by local authorities amount to £214 million more than that included in the PESC basic figures. In this year's Public Expenditure figures we have increased the allowance for local authorities' current expenditure in England and Wales in 1968-69 from £2,560 million to £2,603 million — i.e. over 5 per cent. higher than for 1967-68. But the estimates submitted by local authorities amount to £2,817 million, representing a further addition of £214 million (8 per cent.). It is considered that some £140 million of this results from over-estimating; but this still leaves an excess of £74 million over basic Public Expenditure figures. I propose, therefore, that the estimates of expenditure on the Miscellaneous Environmental Services in 1968-69 should be further reduced by £45 million. This would still allow expenditure on these particular services to rise by 3½-4 per cent. compared with 1967-68, to £458 million in 1968-69; and it would reduce the overall excess over the Public Expenditure figures from £74 million to £29 million. The other reductions will, of course, also help with this year.
10. I realise that this must be unpalatable. But, as I suggested in PE(66)15, paragraph 14, and emphasised at our discussion on the 20th October, we cannot allow local authorities to pre-empt resources with excessive increases in expenditure, particularly of a kind over which we have no control. Though the local authorities' estimates of relevant expenditure are examined service by service, the Rate Support Grant itself helps to meet expenditure as a whole; it is not allocated to particular services. Thus by reducing the total amount of expenditure which we approve for grant, we make clear to them the need for economy across the whole field. Of course, if they will not or cannot achieve this economy, they will say that we have forced them to raise their rates. But in the circumstances with which we are now dealing, local authorities, like everybody else, must be invited to slow down their rate of growth.
9th November, 1966

CABINET

TERMS FOR A SETTLEMENT IN RHODESIA

Note by the Secretary of State for Commonwealth Affairs

I am circulating for the information of my colleagues the attached text of the British Government's terms for a settlement in Rhodesia which Sir Morrice James handed to Mr. Ian Smith on 15th October and the text of Mr. Smith's reply which was handed to the Head of the British High Commission Residual Staff in Salisbury on 4th November.

H.B.

Commonwealth Office, S.W. 1.

9th November, 1966
The British Government have now undertaken a review of the Rhodesian problem in the light of the recent visit of the Commonwealth Secretary and Attorney-General to Salisbury during which a statement of positions on either side was drawn up.

2. The British Government's attitude remains based on the principles which successive British Governments have insisted must govern any constitutional settlement for an independent Rhodesia. The major areas of disagreement turn on the application of these principles, and are not matters to be resolved merely by detailed constitutional modifications.

The Constitutional Settlement

3. The British Government have throughout shown their readiness to explore every possibility of reaching a settlement within these principles. They have proposed, if it would facilitate the task of working out an independence settlement within the stated principles, that there might be an entirely new constitutional approach. They have further suggested that the assistance of constitutional experts from the Commonwealth might be brought in to assist in working out such a new basis for a settlement. As a further possibility, they have also proposed that a mission of Commonwealth Prime Ministers might be invited to visit Rhodesia and to lend their good offices in devising a solution between Rhodesia and Britain. They have also declared themselves ready to enter into discussions about the possibility of an "Act of Union" between Britain and Rhodesia. All these possibilities have been rejected out of hand.

The British Government's consideration of the problem has therefore been confined to the possibility of a settlement based on the 1961 constitution with the changes necessary to give full effect to the stated principles.

4. It is the British Government's purpose that the political advancement of the Africans in Rhodesia should be brought about in a way that will preserve good government and stability in the country, and safeguard its social and economic development within the concept of a society pledged to afford equal opportunity to all, regardless of race. They accept that the pace of the political advancement of the Africans should continue to be governed by achievement and merit, i.e. through the acquisition of the economic and educational qualifications prescribed under the 1961 constitution in the belief that such arrangements, if fully safeguarded in a constitutional settlement which is demonstrated to be, acceptable and is legally enacted, would be in the best interests of the Africans, the British Government
hope that the Africans would participate fully in working them; and they renew their previous offer of assistance towards the development of educational and economic opportunities for the Africans. The British Government, however, are not prepared to agree that African advancement night after independence be arbitrarily held back through the operation of powers left in the hands of the European minority, if the latter judged at any time that the advent of African majority rule would be "premature". Such a provision would be incompatible with the principle of unimpeded progress to majority rule.

5. The British Government must therefore continue to insist that the provisions of Chapter III of the 1961 constitution (which deal with the number and delimitation of constituencies and electoral districts) must be specially entrenched in any independence constitution.

6. As regards safeguards for the specially entrenched clauses of the constitution, the British Government would accept, as part of the necessary machinery, a Senate consisting of twelve Europeans and twelve Africans, which would vote together with the Lower House. They consider however that the elected element among the Africans should be increased, to constitute an effective blocking quarter. There should therefore be not less than nine elected African members of the Senate, though the British Government would be prepared to see up to three Chiefs included: and the number of B Roll Seats in the Assembly should be increased from fifteen to seventeen.

7. The British Government have throughout insisted that any independence constitution must contain safeguards for specially entrenched clauses as effective as those provided in Section 108 of the 1961 constitution: and it is for this reason that their proposal for an external authority which would finally decide on such amendments has been put forward.

8. The British Government would be prepared to see the external authority brought into operation not by automatic reference to it of every constitutional Bill concerned with amendment of a specially entrenched clause (as envisaged in their original proposals), but by a system of appeal against such an amendment. The amendment would not come into force until the time for appeal had expired or the appeal had been finally disposed of. Such an appeal might lie in the first instance to a "Constitutional Commission" in Rhodesia, consisting of the Chief Justice and other Judges: with further appeal as of right to the Judicial Committee of the Privy Council. The grounds of appeal should be that the amendment discriminated or had the effect of discriminating unjustly between the races, or contravened any of the provisions of the declaration of rights contained in the constitution.
9. The British Government cannot accept the abolition of cross-voting, or the fade-out of B Roll Seats, since these would be incompatible with the first and third principles. The B Roll franchise would be extended to all Africans over thirty by appropriate amendment of the second schedule to the constitution.

The Fifth Principle

10. It remains the position of the British Government that any constitutional settlement for an independent Rhodesia must be demonstrated to their satisfaction by a fair and free test to be acceptable to the people of Rhodesia as a whole. Until this test has been carried out, there can be no question of inviting the British Parliament to legislate for independence.

11. If informal agreement can be reached on the form of a constitutional settlement, which meets their requirements, the British Government will be ready to stand by that as the basis for negotiation with a legal government and for the eventual testing of Rhodesian opinion. But they cannot accept that the testing of opinion should take place before there has been a return to constitutional government in Rhodesia, the censorship has been lifted, and individuals detained on political grounds released and normal political activities permitted provided they are conducted peacefully and democratically and without intimidation from any quarter.

12. They remain of the view that a Royal Commission should be appointed to test opinion in Rhodesia. They would accept that the composition of the Commission and the methods by which opinion should be tested should be agreed with the legal interim administration when it is established.

Return to Legality

13. The British Government adhere to the view that, before there can be any formal negotiation of an independence settlement, a constitutional government must be established in Rhodesia. A settlement negotiated on any other basis could not hope to secure the acceptance of the people of Rhodesia as a whole, or of the British Parliament, or of the general world community.

14. The British Government therefore require as the first step the appointment by the Governor of a broadly-based Representative Government ad interim. This must be and be seen to be a fresh start - a Government of national unity representing the widest possible range of public opinion of all races in the country.
15. The Rhodesian Parliament must be in abeyance during the interim period, since it would not be appropriate for the interim government to be responsible to the present assembly. Rhodesian Ministers would be appointed by and responsible to the Governor who would normally act on their advice in all internal matters of administration, subject to his control of the armed forces and police as described in paragraph 17 below.

16. Free expression of opinion would be assured by the removal of censorship and the assumption by the Governor of responsibility for the national broadcasting and television services.

17. The armed forces and police would come under the direct responsibility of the Governor during this period, while the Governor would normally act on the advice of members of the interim government in matters concerning the armed forces and police and law and order, the British Government would need to be satisfied that he retained powers in his discretion not only to deal with domestic disturbance and illegality but also to prevent a repetition of unconstitutional action and to protect human rights. The British Government would reserve the right to provide military assistance for these purposes if this is required by the Governor in this period. Similarly, the British Government would reserve the right, under the independence constitution, to provide such assistance if this is necessary as a further guarantee of the agreed constitution.

Racial Discrimination and Land Apportionment
18. The British Government cannot accept that there is no case for any further action to give effect to the fourth principle. They repeat their minimum requirement that, as a contribution towards this, a Royal Commission should be set up to study the problems of racial discrimination and in particular land apportionment in Rhodesia.

Conclusion
19. This statement by the British Government spells out in practical form the action necessary to give effect to the principles which the British Government has clearly and consistently stated. It is now a question whether a return to constitutional rule can be achieved and a settlement worked out. Otherwise, the consequences for Rhodesia and indeed for the whole of Central and Southern Africa will be incalculable. The British Government for their part stand firmly by the undertakings to which they are committed by the Commonwealth Prime Ministers' communique in September.
"The Rhodesian Government have examined the document headed "statement of the British Government's terms for a settlement in Rhodesia" which was delivered to the Rhodesian Prime Minister by Sir Morrice James Deputy Under Secretary at Commonwealth Office, on Saturday, 15th October 1966.

2. During the visit of the Secretary of State for Commonwealth Affairs to Rhodesia in September, the respective positions of the British and Rhodesian Governments were analysed. The analysis demonstrated that there was no prospect of a negotiated settlement unless each side were to make some move towards the other. The terms submitted by the British Government indicated disappointing inflexibility on their part and that they have scarcely moved towards the Rhodesian position.

3. The Rhodesian Government now submit their comments on the British statement.

British Paragraph 3

4. The claim is made that the British Government have throughout shown their readiness to explore every possibility of reaching a settlement. A whole year has now elapsed since Rhodesia declared her independence. In that period the British Government have made no effort to seek a negotiated settlement with the Rhodesian Government; indeed for a long time they refused even to talk with the Rhodesian Government, and when they did their communique conveyed that the talks were exploratory and without commitments. Therefore it would seem that they have never seriously contemplated a negotiated settlement with the Rhodesian Government. It is evident that they are hoping for Rhodesia's capitulation to open the way for the imposition of a new constitution fashioned to their own ends after a period of direct rule.

5. The paragraph distorts facts in a manner that serves only to aggravate feelings. The British Government's proposal that there might be an entirely new constitutional approach and their other similar suggestions were not rejected out of hand by Rhodesia. The fact is the Rhodesian Prime Minister pointed out to the Secretary of State that the exploration of any settlement not based on the 1961 constitution would take as long as one year or even two years to complete, which would, in prevailing circumstances be undesirable. Moreover, it would involve seeking a fresh mandate from the electorate with all the complications this would entail. The Secretary of State concurred with this view. The British Government have been well aware
of the desire of Rhodesians to reach a settlement on a basis of the 1961 constitution which they had been led to believe was the threshold to independence. Having regard also to the historical background to the situation and to the exclusion of Rhodesia from the Commonwealth forum long before her declaration of independence, also to the continuous malicious attacks which have been made upon Rhodesia in that forum, and also to the general distrust which the handling of Rhodesian affairs by successive British Governments have engendered in minds of Rhodesians, it is little wonder that these generalised proposals and suggestions of the British Government have not been received with any confidence.

British Paragraphs 4, 5 and 9

6. The Rhodesian Government note that it is the British Government's purpose that the political advancement of the Africans in Rhodesia should be brought about in a way that will preserve good Government stability in the country, and safeguard its social and economic development within the concept of a society pledged to afford flexible opportunity to all, regardless of race. The Rhodesians subscribed to this idea but have misgivings about the way in which the British Government propose to achieve it. Recent happenings in Africa raise serious doubts about the wisdom of forcing the pace of African political advancement. The Rhodesian approach, on the other hand, provides opportunity for the growth of respect for tradition and convention which is a cardinal feature of any well-ordered society and is essential for a truly democratic Parliamentary system. The British Government's terms seize upon every means of accelerating the pace to majority rule, to a degree which, in the Rhodesian Government's view, would not only defeat the purpose, but indicate a disregard of the principles which the British Government themselves have laid down in paragraph 4 of their statement. It is the Rhodesians not the British people, who would suffer from the consequences of the institution of ill-advised constitutional provisions.

7. It is with these general considerations in mind that the Rhodesian Government submit the following proposals:—

(a) that the B roll franchise be extended to include all male Africans over 30 years of age; providing that the cross-voting system is eliminated. The effect of this proposal would be to enfranchise at least 400,000 Africans although they will not have the minimum qualifications which even the British Government accept as necessary for measuring achievement and merit. However, to preserve this principle of maintaining standards, it is necessary to eliminate cross-voting. The cross-voting system is complicated and the effects are not readily understood by many voters and candidates. The misunderstanding of the effects will be accentuated by the addition of 400,000 voters who have not even the elementary B roll qualifications;
that the present 15 B roll electoral districts be specially entrenched. This replaces an earlier proposal for fade-out of these Seats and removes any British Government's fears of reduction of African representation in the assembly or of disenfranchisement of B roll voters;

(c) that an additional 15 Seats be reserved for Europeans in the Legislative Assembly, such Seats to be phased-in as African advancement on the A roll develops for each African elected on the A roll, one European reserved Seat would be created, until the maximum of 15 was reached.

Having regard to the existence of the 15 B roll Seats which will, in practice, be African Seats and to the British Government's sixth principle, it is logical to provide 15 reserved Seats for Europeans. These, together with the European representatives in the Senate, would form a blocking quarter. Without these additional Seats it would be possible in time for there to be no European in the Legislative Assembly, thereby frustrating the second and sixth principles.

8. The British Government continue to insist that the provisions of Chapter III of 1961 constitution must be specially entrenched. The Rhodesian Government are prepared to agree to the special entrenchment of all the provisions of Chapter III with the exception of Section 57, subject to paragraph 7(b). This section determines the number of constituencies and electoral districts. It would be unprecedented for the Assembly to be deprived of its right to increase its membership through additional constituencies when expansion and growth of the country so demands.

British Paragraph 6

9. This paragraph refers to safeguards for the specially entrenched clauses of the constitution. Here there is wide measure of agreement. Both Governments accept a Senate of 24 persons consisting of 12 Europeans and 12 Africans and that on amendments to the specially handled clauses of the constitution, the Senate would vote together with lower house, with one quarter forming an effective block. However, of the 12 Africans in the Senate, the Rhodesian Government believe there should be 6 Chiefs and 6 elected Africans, whereas the British Government believe there should be 9 elected Africans and only 3 chiefs. In last year's negotiations the Rhodesian Government had contemplated a Senate of 12 chiefs alone. The Senate is the natural and proper place for the representation of the chief's along with others, for a Senate, in contrast to a lower house, is an organ for the representation of groups, not of aggregates of individual voters, and chiefs, above all, are the spokesmen of the tribal entities with their own
internal and long established arrangements for sounding and expressing the
will of their peoples. These arrangements are realistic in the sense that
they are understood, familiar and functional. The Western device of the
ballot box, in a tribal context, is exotic, misunderstood and mistrusted
as has been only too clearly demonstrated by the events in one country after
another in Africa. The chiefs are given their positions and derive their
authority to speak for their people from complex rites of succession unique
to each tribe, and it is more accurate to consider them as social institutions
rather than individuals. As institutions they are accepted and respected
as the representatives of the great bulk of the African population. When
a chief speaks he does so as the collective voice of his people and the very
nature of his position binds him to do so in the interest of his people.
In today's context the carrying out of their traditional and public duties
involved them in expense and to suggest that the modest recompense they
receive in this connection turns them into servants of the Government is
absurd. A representation of 6 chiefs elected by an electoral college of
chiefs to the Senate is the minimum which the Rhodesian Government consider
adequate and necessary to give full and realistic communal representation
to the Africans, the vast majority of whom are tribesmen, and to do justice
to the vital and important status and role the chiefs are accorded by
their people. Whatever the British Government might feel about chiefs
belonging to a bygone age, it is to be noted that the constitutions granted
by Britain to Lesotho and Botswana make provision for senates or upper houses
of chiefs.

10. As minimum African representation in both houses under the foregoing
proposals would exceed the number required to provide an effective block to
amendment of the specially entrenched clauses, the British proposal to
increase B roll seats in the Assembly from 15 to 17 is unnecessary and
undesirable.

British Paragraphs 7 and 8

11. As regards further safeguards for specially entrenched clauses the
Rhodesian Government are prepared to consider a system of appeal to an
internal authority - possibly a constitutional commission in Rhodesia, on
the lines of British proposal, but they are not willing to accept the proposal
for a right of further appeal to an external authority. The establishment
of such an external authority would not be compatible with independence.
The proposal that the grounds of appeal should be that the amendments
discriminated unjustly between the races would be acceptable, but the
Rhodesian Government have serious doubts about the acceptability of a
provision for appeal on the grounds that the amendment had the effect of
discriminating. The proposal that the grounds of appeal should include
contravention of the provisions of the declaration of rights, would have the
effect of making the declaration of rights immutable.
British Paragraph 18

12. With regard to the British suggestion for a commission to study problems of racial discrimination and land apportionment the Rhodesian Government point out that in Rhodesia land apportionment legislation is continually being amended to meet the changing conditions while racial discrimination which is, of course, not unique to Rhodesia, is constantly being reduced in a practical manner. Accordingly, the Rhodesian Government believes such a commission would serve no purpose. However, they are prepared to discuss the suggestion.

British Paragraphs 10 to 17

13. The Rhodesian Government recognise that the British Government are entitled to satisfy themselves that any settlement, the form of which has been agreed upon beforehand by the two Governments, is acceptable to the people of Rhodesia as a whole. When the form of settlement has been agreed, the Rhodesian Government would co-operate with the British Government to determine the procedures required for testing the fifth principle. Once this stage has been completed and a new constitution has been finally determined by the Governments, the Rhodesian Government would be prepared to enter into discussions with the British Government bringing the new constitution into legal force and effect. The Rhodesian Government believes that it must be obvious to all that they could not contemplate the abandonment of the 1965 Constitution until a settlement has been arranged and secured.

Conclusions

14. It now seems clear that the differences between the two Governments regarding the changes to be made to the 1961 Constitution are not now so great that they cannot be bridged by negotiations. The Rhodesian Government therefore invite the Secretary of State to come to Salisbury with full powers to reach final agreement on the settlement."
9th November, 1966

CABINET

LOCAL AUTHORITY CURRENT EXPENDITURE
(ENGLAND AND WALES) 1967-68 AND 1968-69

Memorandum by the Minister of Housing and Local Government

The Chancellor of the Exchequer in his memorandum (C(66) 152) argues that for the purpose of fixing the rate support grant cuts of £30 million and £45 million should be made in the local authority estimates of expenditure on miscellaneous environmental services (including libraries) in 1967-68 and 1968-69, as revised by Departments. I have already agreed to propose cuts of £39 million in 1967-68 and £47 million in 1968-69 in the estimates of expenditure on these services; the cuts now proposed would be additional to these. These further cuts may not seem all that significant in the context of an expenditure of around £2,500 million, but, if made, they will change the character of the negotiations with the local authority associations and call in question the good faith of the Government in implementing the proposals outlined in last February's White Paper.

2. The cuts which have been agreed by Departments are all cuts which can be argued to be necessary to produce a realistic estimate, taking account of the economy measures announced in the summer; on this basis the negotiations with the local authorities would take the form of a reasoned examination of their estimates, as has been usual with the general grant. But it would be impossible to defend the additional cuts now proposed on this basis, as a glance at the resulting expenditure figures will show.

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure (£ million)</th>
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<tbody>
<tr>
<td>1964-65</td>
<td>374 (actual expenditure)</td>
</tr>
<tr>
<td>1965-66</td>
<td>411 (near-actual expenditure)</td>
</tr>
<tr>
<td>1966-67</td>
<td>464 (estimate)</td>
</tr>
<tr>
<td>1967-68</td>
<td>446 (&quot; )</td>
</tr>
<tr>
<td>1968-69</td>
<td>463 (&quot; )</td>
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</tbody>
</table>

The estimate for the current year is based on the rate estimates and must therefore be taken as representing what local authorities were expecting to spend, though it may be a little on the high side (say, up to 2 per cent). Allowing for this, it will be seen that the figures postulate a drop in expenditure next year, followed in 1968-69 by a recovery to approximately the 1966-67 level.

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SECRET
3. This is hardly credible, particularly after the rapid increase of the past two years. It is not merely that patterns of expenditure do not change overnight. One of the main items included in this expenditure is loan charges. The capital programme for this group of services next year is around £200 million and rather more the year after, which at today's interest rates means an increase in loan charges of about £14 million a year. (The high cost of borrowing has also been a major factor in increasing expenditure in the last year or two). Sewerage accounts for over a third of this and must go ahead if we are to build new houses, schools, factories, etc. Other major items are the acquisition of land for slum clearance and re-development and grants for the improvement of existing houses, none of them fields in which local authorities can be accused of moving too fast.

4. In short, these estimates of rising expenditure do not represent major improvements in services. They account for no more than the maintenance of essential services (e.g. sewerage and refuse collection) and the continuance of existing policies (e.g. slum clearance). There is very little scope for local authorities to reduce this expenditure next year or the following year. If the further cuts for which the Chancellor is contending are made it will mean in practice that the ratepayers must bear a higher proportion of the cost of maintaining existing standards.

5. In the longer term, no doubt, it would be open to the Government to tell local authorities that the national economy required reductions in the standards of local services or, at least, a much slower rate of improvement. This could be done provided that Ministers were prepared publicly to adjust their policies to the desired level of expenditure and sufficient time were allowed to make these adjustments. But if we impose further cuts in 1967-68 or 1968-69 we shall be accused of making quite unrealistic reductions in the estimates simply in order to reduce the Exchequer grant.

6. This is the first round of the new grant system and therefore critical for good relations between local and central government. But it is not only the local authorities we have to reckon with. We have laid great emphasis on the need to lighten the burden of rates, particularly on the domestic ratepayer. If we make unrealistic cuts in the estimates - cuts which are not going to be reflected in actual expenditure - we shall be accused of going back on our promises and shuffling off part of the burden back on to ratepayers.

7. In my view we should content ourselves with those cuts which can be defended on their merits, without imposing the additional cuts demanded by the Chancellor.

A. G.

Ministry of Housing and Local Government, S.W. 1.

9th November, 1966

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CABINET

EUROPE

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate drafts of a Parliamentary statement and supplementary answer on the position of Her Majesty's Government in relation to the European Economic Community.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

9th November, 1966
DRAFT STATEMENT BY THE PRIME MINISTER

The position of Her Majesty's Government in relation to the European Economic Community was stated in the Gracious Speech on 21st April in these terms:

"My Government will continue to promote the economic unity of Europe and to strengthen the links between the European Free Trade Association and the European Economic Community. They would be ready to enter the European Economic Community provided essential British and Commonwealth interests were safeguarded."

This policy, which was itself a reaffirmation of that laid down in the Labour Party election manifesto has also been reaffirmed on many occasions in this House, in the country and abroad, notably in the speech of my right hon. Friend the Foreign Secretary, then First Secretary, at Stockholm on 6th May.

On 21st April I informed the House that we had made certain Ministerial arrangements to ensure "that any opportunities that do present themselves in Europe can be quickly seized upon so that they can be evaluated ....", and I said that it would be our intention "to probe in a very positive sense the terms on which we would be able to enter the European Economic Community and its related organisations".

Sir, in recent weeks the Government has conducted a deep and searching review of the whole problem of Britain's relations with the EEC, including our existing special relationship with EFTA and the Commonwealth. Every aspect of the Treaty of Rome itself, of decisions taken subsequent to its signature, and all the implications and consequences which might be expected to flow from British entry, have been examined in depth.

In the light of this review the Government has decided that a new high-level approach must now be made to see whether the conditions exist - or do not exist - for fruitful negotiations, and the basis on which such negotiations could take place.

Sir, it is vital that we maintain the closest relations with our EFTA colleagues. Her Majesty's Government therefore now propose to invite the Heads of Government of the EFTA countries to attend a conference in London in the next few weeks to discuss the problems involved in a move to join the EEC.

Following that conference my right hon. Friend the Foreign Secretary and I intend to engage in a series of discussions with each of the Heads of Government of the Six, for the purpose of establishing whether it appears likely that essential British and Commonwealth interests could be safeguarded if Britain were to accept the Treaty of Rome and join EEC. In the light of these discussions the Government will then take its decision whether or not to activate the arrangements for negotiating for entry, and what the appropriate time for such negotiations would be. The House will agree that - provided the right conditions for negotiations are
established - it is vital that we should enter only when we have secured a healthy economy and a strong balance of payments, with the £ standing firm and high. Commonwealth Governments, as well as EFTA Governments have been informed and we shall maintain the closest degree of consultation with them.

Sir, I want the House, the country, and our friends abroad to know that the Government are approaching the discussions I have foreshadowed with the clear intention and determination to enter EEC if, as we hope, our essential British - and Commonwealth - interests can be safeguarded. We mean business.

It will, of course, be our intention to keep the House as fully informed as is possible in the circumstances of the progress of our discussions. If, as I would expect, there is a general desire in the House for a debate before these important meetings begin, my rt. hon. Friend the Leader of the House will be glad to arrange discussions through the usual channels to agree on a date which would meet the convenience of the House.
Draft Answer to Supplementary Question about the Treaty of Rome

I recognise, as the Rt. Hon. Gentleman has stressed, the importance of the question about our attitude to the Treaty of Rome itself. The Government take the view that, while there are anxieties on this point, the Treaty of Rome is not in itself or necessarily an impediment. There are anxieties, as I have said; but the terms of the Treaty need not be an obstacle if our problems can be satisfactorily dealt with, whether through adaptations of the arrangements made under the Treaty or in any other acceptable manner. Perhaps I could summarise by saying that Her Majesty's Government would be prepared to accept the Treaty of Rome, subject to the necessary adjustments consequent on the accession of a new member and provided that we receive satisfaction on the points on which we see difficulty.
PERIOD OF SEVERE RESTRAINT: PUBLIC SERVICE

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

At their meeting yesterday afternoon the Ministerial Committee on Prices and Incomes considered a note by the Chairman of the Prices and Incomes (Official) Committee, a copy of which is attached to this memorandum, on the treatment of the public services during the period of severe restraint.

Non-Industrial Civil Servants

2. There are pay research surveys outstanding affecting about 140,000 non-industrial civil servants, having operative dates on 1st January, 1965, or 1st January, 1966. We are agreed that there should be no payments until 1st July, 1967, except in so far as they may be justified under the criteria for the period of severe restraint. On 1st July, 1967, the grades in question should receive increases based on their pay research surveys, with retrospection to a date six months later than the original operative date. If the increases are substantial, they should be phased in two or three instalments.

Other Public Service Employees

3. We also considered cases of other public service employees, where there are commitments to review from an agreed operative date before 30th June, 1967, but for which the amount of an increase has yet to be determined. These employees fall into three groups:

(a) Those with an agreed operative date before 20th July, 1966,

(b) Those the dates of whose reviews fall between 20th July, 1966, and 31st December, 1966 (the main case being police),

(c) Those the dates of whose reviews fall between 1st January and 30th June, 1967 (the main case being schoolteachers).

4. We are agreed that those in the first group should receive payments not earlier than 1st July, 1967 (unless they qualify for earlier payment under the criteria for severe restraint), but that the increases should be retrospective to a date six months after the agreed operative date. The increase would be phased if they were substantial.
5. We are also agreed that for those the dates of whose reviews fall during the period of severe restraint (i.e., group (c) above) there should be no payment before 1st July, 1967 (except in so far as they would be justified under the criteria) and no retrospection.

6. We have not been able to agree about the treatment for those in category (b), the dates of whose reviews fall between 20th July and 31st December, 1966. Some Ministers considered that those in this group should not receive any payment before 1st July, 1967 (unless payment would be justified under the criteria for severe restraint), but that any increases given hereafter should be paid with effect from an operative date six months later than the original date. Thus the police would receive on 1st July an increase which would be backdated to 1st March, 1967. The Chancellor of the Exchequer and I considered that a general rule of this kind would be inconsistent with the treatment proposed for the private sector, and would make it very difficult for us to hold the degree of restraint proposed during the first six months of next year. We therefore considered that no retrospection should be allowed in these cases.

7. The Home Secretary took the view that neither of these proposals would be acceptable from the point of view of the police, to whom he believed that at any rate some part of their increase should be paid from 1st March. It was suggested in discussion that in practice the police might qualify for earlier payment in any case under the criteria, on grounds of acute shortage of manpower. We cannot, however, be sure of this, and it is unlikely that the police would be prepared to accept this unless there was a very firm understanding that they would in fact qualify. Moreover, if the police received payment before 1st July, on the grounds that they satisfied one of the criteria, there would be other claims for early payments under one or other of the criteria from other groups of public servants (for instance, Post Office supervisors, engineers and Post Office cleaners).

8. A further suggestion, which commanded a considerable measure of agreement, was that the general rule should be payment not earlier than 1st July, 1967, and no retrospection, but that the police should be treated exceptionally and allowed to receive payment on 1st July, 1967, with retrospection to 1st March. The Home Secretary undertook to consider whether this would be acceptable to him from the point of view of the police. One difficulty about this course was that it might be difficult to explain why exceptional treatment was being given to the police and not to the fire service, whose previous pay agreement expired on 1st August, 1966, and for whom negotiations in respect of a new agreement had reached an advanced stage on 20th July. We should have to be clear that we could hold the police as the only exception, if this course were to be followed. Subject to this, however, the Chancellor of the Exchequer and I could accept this suggestion.

Industrial Civil Service

9. We are agreed that the Government should give the unions an assurance that they accept a firm commitment that any increase for industrial civil servants should be calculated on the lines recommended by the National Board for Prices and Incomes. If this assurance can be given, it is thought that the unions will be willing to accept that in respect of date of payment and retrospection they should be treated like other public sector workers.
Conclusion

10. The Cabinet are asked to decide upon the treatment of those groups of public servants the dates of whose reviews fall between 20th July and 31st December, 1966. The alternatives are:

(i) To make no payments before 1st July, 1967 (except in so far as they are in line with the criteria) and to allow no retrospection.

(ii) To make no payments before 1st July, 1967 (except in so far as they are in line with the criteria) but to allow retrospection to a date six months later than the original review date.

(iii) To make no payments before 1st July, 1967 (except in so far as they are in line with the criteria) and to allow no retrospection (as in (i)), except for the police, who should receive from 1st July, 1967, an increase retrospective to 1st March.

11. There was general agreement that the position of the public service should be dealt with in the White Paper not by altering the criteria of manpower and comparability but by adding an extra passage. Alternative drafts for the various possible courses of action are annexed to this memorandum.

M. S.

Department of Economic Affairs, S.W.1,

10th November 1966
Public sector

Employers and employees in the public services and publicly-owned undertakings will be under the same obligations to observe the criteria for the period of severe restraint as the rest of the community. No increases in the pay of the public services will be paid in the first half of 1967 unless they can be shown to be justified under the criteria set out above. Increases, the payment of which is deferred until after 30th June, 1967, will if substantial be paid in instalments as necessary.

[continued by one of three alternatives]

Alternative A (course 1))

Where commitments existed on or before 20th July, 1966 for a pay increase or hours reduction to be operative prior to that date, but the amount had not by then been determined, the operative date of the increase should be deferred by six months. Where, however, commitments existed on or before 20th July, 1966 for pay increases to be operative from a later date, the amount of which had not been determined before 20th July, 1966, the operative date should be deferred until after 30th June, 1967, except in so far as earlier payments can be shown to be justified under the criteria for the period of severe restraint.

Alternative B (course 2))

Where commitments existed on or before 20th July, 1966 for a pay increase or hours reduction to take effect before the end of 1966, the operative date should be deferred for six months. Where such commitments were due to take effect in the first half of 1967 the operative date should be deferred until after 30th June. In either case earlier payments should be made only in so far as they can be shown to be justified under the criteria for the period of severe restraint.

Alternative C (course 3))

Discussions will be held with the representatives of the groups of staff concerned on the application of these general principles in cases where commitments for pay increases or hours reductions existed on or before 20th July, 1966 but the amount had not been determined by then.
PERIOD OF SEVERE RESTRAINT: PUBLIC SERVICE PAY

Note by the Chairman of the Prices and Incomes (Official) Committee

The Chancellor of the Exchequer and the First Secretary consider that the outstanding Civil Service pay research surveys affecting about 140,000 non-industrial Civil Servants, and having operative dates of 1st January 1965 and 1st January 1966 should be dealt with as follows. No pay increases should be given during the period of severe restraint, except in so far as they may be justified under the revised criteria for that period. On 1st July 1967 the grades in question should receive increases based on their pay research surveys, with retrospective effect to their original operative date deferred by the six months of the standstill, subject to the granting of the increases in one, two or three instalments according to the size of the percentage increase in pay involved.

2. Officials have considered, in the light of these views about the handling of non-industrial Civil Service pay, and the prospective criteria for the period of severe restraint, what arrangements should be made about reviews of pay in the other public services in the first half of 1967. This paper deals with reviews for which there is an agreed operative date but for which the amount of an increase has yet to be determined.

3. Details of the groups of public service employees coming into this category are given in the Annex to this paper. These are reviews proper, not consequentials of earlier reviews. It will be seen that they fall into three groups:

(a) those (e.g. Service Doctors and Dentists) in which there is an agreed operative date before 20th July, 1966.

(b) those (e.g. police) the dates of whose reviews fall during the standstill.

(c) those (e.g. teachers) the dates of whose reviews fall during the period of severe restraint.

The operative date of pay reviews in categories (a) and (b) must in any case be deferred for six months under Cmnd. 3073; and the possibility of further deferment in certain cases is discussed in para. 6 below.
The operative date of any increases flowing from reviews in category (c) will under the terms of the draft White Paper be deferred until 1st July 1967 unless increases are justified at an early date under the criteria for severe restraint.

The date of payment of any increases

4. Following the arrangements for the non-industrial Civil Service discussed in paragraph 4 above, we recommend -

(a) that, unless the criteria for severe restraint can be satisfied, no payments of increases should be made before 1st July 1967 to any of these categories;

(b) that where substantial payments are authorised to be made to any group of employees after 30th June, 1967, consideration should be given to phasing them.

The operative date of any increases

5. More difficult, however, is the extent, if any, to which these increases as and when they are paid after 30th June, 1967 should be given with retrospective effect. We have considered whether different treatment in this regard should be given to those cases in which there is a formal agreement as to operative date (e.g. Civil Service pay research cases and police) from those in which the commitment is moral rather than formal. In the National Health Service in particular no formal agreement about operative date is normally made in advance as it is in the Civil Service. But in such cases it will be argued strongly that there is a moral commitment and that retrospection should apply as much in these cases as in cases where a formal agreement as to date exists. We think that there is force in this argument and that different treatment in the two types of case would be difficult to justify. If this is accepted, there are a number of possible courses of action:

(i) to allow no retrospection at all. In any case it would be regarded as unfair by those groups whose original operative dates preceded 20th July, and who, but for the standstill, would have been due for substantial retrospection (e.g. Service Doctors and Dentists with a published commitment to an operative date of 1st April 1966). This would be inconsistent with the proposed treatment of the Civil Service Pay Research Surveys.
(ii) to allow retrospection only for those groups whose agreed or normal operative dates were or would have been before 20th July, 1966, but for the standstill. This would have the merit of preventing "catching-up" increases from taking effect in the period of severe restraint except in so far as the operative dates would have been before the standstill. But it would mean that other groups such as the police (whose operative date is the subject of a formal commitment) would have to wait for more than six months unless an increase during the period of severe restraint could be justified under the revised criteria.

(iii) to allow retrospection for all those groups for whom any increases due as a result of reviews are being deferred by 6 months under the standstill (i.e. categories (a) and (b) in para. 3 above).

On this basis the police, for example, could receive a general increase which was not necessarily justified under the severe restraint criteria from 1st July retrospectively to 1st March (six months later than their original operative date). On the other hand any increase paid to teachers after 1st July, 1967 would not be retrospective since in their case the deferrment would only have been for three months. The difficulty of this course is that it would be inconsistent with the treatment of the private sector. The White Paper on the prices and incomes standstill (Cmd. 3073) said: "It would clearly defeat the intention of the standstill if the parties concerned were to seek to make good in subsequent negotiations any increases foregone as a result of the standstill". This means, for example, that a firm which would normally have reviewed its staff salaries towards the end of 1966 - as we understand a good many firms do - would be expected to defer the operative date of all increments until after June 1967, except in so far as they satisfy the severe restraint criteria, and would not be expected then to pay them with retrospective effect.

Industrial Civil Service

6. The reason why the industrial Civil Service presents a particular problem is that the N.B.P.I. recommended (before the standstill was announced) a new pay structure based on comparisons with outside analogues to take effect, if possible, in April 1967 and that in the meantime there should be no review in October, 1966 under the existing system. Courses (ii) or (iii) above would require the implementation of the new pay structure to be deferred until after 30th June 1967 except in so far as earlier payment was justified under the severe restraint criteria. The Unions may argue that payment should be retrospective to 1st April (course (iii)) because they have already lost the increase that, under current agreements, should have been due from 1st October, 1966 (though the reason for this was not the standstill but the Board's recommendation). However, the main concern of the Unions is that the Government should accept a firm commitment that any increases should be calculated on the lines recommended by the Board, i.e. having regard to what is being
to paid for a 40-hour week/piece workers engaged on similar activities in outside employment, allowing, for example, for fringe benefits." If Ministers agree that this assurance can be given, the Unions would probably be willing to accept deferral of the operative date and phasing, on equivalent terms to other public and private sector workers.

Use of the N.B.P.I.

7. Ministers have already decided that some of the cases under consideration should be referred to the N.B.P.I. (fire service and local authority chief officers). Other important cases might similarly be referred to the Board for consideration in each case both of the amount of the appropriate increase and of its operative date.

Conclusion

8. We invite Ministers to endorse the recommendations about the timing of the actual payment of increases in paragraph 4 above.

9. We also invite Ministers to decide between the alternative courses about the operative date of increases to be paid discussed in paragraph 5 above. In our view course (i) would be unduly harsh on the public services generally and inconsistent with the proposals for the Civil Service. Course (ii) would make it clear that new increases could not be paid during the period of severe restraint except in so far as they satisfied the criteria for this period. This would be consistent with the criteria laid down for the private sector. It might, however, result in some public service groups (and some private sector groups) suffering a deferral of more than 6 months, and complaining that they were being treated more harshly than others. Course (iii) would avoid any deferral for more than 6 months in the public services but it would allow some new increases to be paid with retrospective effect to a date in the period of severe restraint even though they are not clearly justified under the criteria, and even though the private sector (and the nationalised industries) will be expected to avoid retrospection of this sort.

10. We suggest that a short reference to public service pay ought to be made in the proposed White Paper on the period of severe restraint. Alternative drafts for this purpose are attached.

D. W. MAUDE

Department of Economic Affairs, Storey's Gate, S. W. 1.
8th November, 1966
Public Service Pay Reviews Which Will Have to be Decided in the Period of Severe Restraint

Civil Service

Non-Industrial Civil Service Pay Agreement (520,000; no Commitment)

The 1964 Civil Service Pay Agreement provided for central pay increase of 3½, 3½ and 3½% at 1st January 1964, 1965 and 1966 respectively. These provisions of the Pay Agreement expire at the end of 1966. The National Staff Side are expected to submit a claim during the first half of 1967 for a further central pay increase as part of the general review of the Pay Agreement.

Industrial Civil Service (240,000; 1st April 1967)

The N.B.P.I. Report recommended that new pay structures should be established for industrial civil servants based on earnings of outside workers engaged in similar activities allowing for other factors such as fringe benefits. The Report also recommended that every effort should be made to bring the new pay structures into operation by April, 1967. The last increase for industries dates from 1st April, 1966 since the Report recommended that the six monthly review due in October, 1965 should not take place.

Other Public Services

Senior Probation Officers (300 staff: 1.1.66)

Earlier this year probation officers in the basic grade received pay increases of about 11 per cent effective from 1st January, 1966. Senior probation officers are covered by the same pay agreement and are entitled to receive increases from the same date. Negotiations were overtaken by the standstill. There is an anomaly in the pay scales as one result of this: the minimum of the senior probation officer's scale is less than the maximum of the basic grades scale.

University Clinical Medical Teachers (3,600; no Commitment)

These teachers have a pay link with hospital consultants in the N.H.S., who received a pay increase of about 10 per cent under the last Review Body award. There is no formal commitment to the teachers on either amount or operative date, but they were excluded from the last general pay increase for university teachers (1st April, 1965) on the grounds that their pay should follow that of the appropriate N.H.S. staff.

Armed Forces Doctors and Dentists (2,000; 1st April, 1966)

The Government promised in the White Paper on service pay that increases for these officers would have an effective date of 1st April, 1966. There is no commitment on the amount.
Local Authority and Greater London Council Chief Officers and Town and District Clerks (5,500; no Commitment)

Negotiations on pay increases for these staff were overtaken by the standstill. They would normally have been settled by reference to the increases given to the Higher Civil Service and to the local authority Administrative, Professional, Technical and Clerical grades with whom the Chief Officers have a vertical link. Ministers have decided to refer the pay and conditions of these staff to the N.B.P.I.

Local Authority Doctors and Dentists (4,200; no Commitment)

The pay of these staff normally follows that of local authority Chief Officers. There is no commitment on either date or amount.

Fire Services (20,000; 1st August, 1966*)

The two year agreement covering these staff expired on 31st July, 1966. Negotiations on a new agreement were overtaken by the standstill. Ministers have decided to refer the pay and conditions of these staff to the N.B.P.I.

Police (30,000; 1st September, 1966)

There is a formal commitment to review police pay, any resulting increases to take effect from 1st September, 1966. Both staff and employers have agreed to defer this by six months to 1st March, 1967.

N.H.S. Ancillary Staff (185,000; 1st November, 1966*)

The three-year agreement covering these staff expired on 31st October, 1966. There has been no negotiations on a new agreement. The principles determining the pay and conditions of these staff, together with those of manual workers in the gas and water supply industries and local authority manual workers, have been referred to the N.B.P.I.

N.H.S. Builders (12,000; 1st November, 1966*)

In the past these staff have received trade rates, and would expect in the normal way to continue to do so. But there is no formal commitment to this effect. Trade rates will increase in May 1967 (deferred from November, 1966).

N.H.S. Miscellaneous Groups (7,000; no Commitment)

A wide variety of staff come under this heading. In no case is there a formal commitment to a particular operative date; but in many there is what is bound to be argued to be a moral commitment (e.g. an offer of a particular date by the Management Side during the course of negotiations overtaken by the standstill).

N.H.S. and Local Authority Miscellaneous Groups (no Commitment)

The pay of a number of staff, such as the matrons of residential and children's homes, has traditionally followed that of local authority A.P.I.C. staff. There is, however, no agreement laying this down as a commitment.
University Teachers (19,000 staff; no commitment)

The Government increased salaries by 5p from 1st April, 1966 to last for a minimum of 1 year. There is no machinery for the central determination of salaries, but it is hoped to make them the subject of a standing reference to the N.B.P.I.

Nurses 300,000 staff; 1.7.67

Current rates of pay were introduced from 1st July, 1965, to run for 2 years.

Teachers (England & Wales) (280,000 staff; 1.4.67)

Current rates of pay were introduced from 1st April, 1965, to run for 2 years. A claim for very substantial increases (25-30%) has now been received. Consequential increases are given to teachers in establishments for Further Education, Farm Institutes and Colleges of Education (about 39,000).

Local Authority Engineering Craftsmen (10,000 staff; 3.9.66)

A 3-year agreement expired at the beginning of September, 1966. These workers usually follow the local authority manual workers, who have a new 2-year agreement due to come into effect as an "existing commitment" at the beginning of March, 1967.

N.H.S. Engineering Craftsmen (2,250 staff; 1.11.66)

A 3-year agreement expired at the beginning of November, 1966. These workers normally follow the local authority engineering craftsmen. A claim for a pay increase (not quantified) has been received.

Note: Figures in brackets show the numbers of staff affected, and the operative date of any commitment. The asterisk indicates that an agreement ran out the previous day so that a commitment is presumed.
I understand that the Chancellor of the Exchequer is opposed to a scheme involving increased family allowances and correspondingly reduced income tax child allowances, of the kind outlined in the recent report by the Official Committee on Social Services. While I appreciate the Chancellor's difficulties about this type of scheme, it would, in my view, be deeply unfortunate if they were held to outweigh its great merits as compared with any other course available to us at this time.

2. Publication of the findings of my Ministry's recent family circumstances survey can hardly be delayed beyond the spring or early summer. They will confirm the existence of child poverty so widespread as to call for early action. In view of our many published statements about our determination to attack this problem once the facts have been established, and the likely reaction of the Child Poverty Action Group and back-bench MPs to the report, I do not see how we could then continue to let matters drift, even if there were no proposal to raise school meal charges, etc., next year. That proposal, together with the expected rise in local authority rents in the new year and the necessary increase in the national insurance stamp when benefits are raised later on, could offset any increased wages which lower paid workers may gain if they receive some priority when the incomes freeze is relaxed. If we allow the position of lower-income families to deteriorate still further, we shall be exacerbating an already gross injustice, and we shall be inviting the strongest public and parliamentary reaction.

3. In view of current and prospective financial limitations, there are only two ways of making an early and substantial impact on child poverty (including the problem of families whose national assistance is wage-stopped). One is the family allowance/tax allowance type of scheme; the other is a new means-tested scheme to supplement the earnings of people in full-time work. What is at issue here is not merely a matter of weighing the cost and effectiveness of two alternative types of family endowment. The choice before us has social and political implications which go far beyond this. In my view we stand here at a crossroad which is crucial for our whole social security policy. If through short-term considerations we were to go down the means-tested road now, not only would this go against all we have ever preached on this subject; it would make it exceedingly difficult, if not impossible, to get back on to the other - and I believe the right - road.
4. Whatever might be said in theory, I do not believe that a means-tested scheme could be merely a temporary stop-gap. Apart from the fact that it would not seem sensible to create a new means-tested system involving special legislation, the creation of new administrative machinery and the taking on of a considerable number of extra staff - merely to bridge a short time gap, any likely subsequent family allowances increase would fall well short of the amount needed to float off from the means-tested scheme all the families who would meanwhile have come on to it - especially if the increase were limited to what could be afforded out of general taxation, with no offsetting reduction of tax child allowances.

5. But, when the time came, would any family allowances increase in fact take place? Not merely would the impetus for it be lost once the poorest were looked after by the means-tested scheme, but it would in fact give least to the poorest, since a corresponding reduction would have to be made in their means-tested payment.

6. There would be many claims on the public purse of greater urgency than a family allowances increase in such circumstances. Rather, the balance would be likely to swing the other way, and the usefulness of a restricted (and indeed, in real terms, declining) family allowances scheme would be increasingly questioned, now that the poorest were looked after by other means. The savings to be obtained by cutting family allowances expenditure would obviously be extremely tempting, and I have little doubt that in time, perhaps by stages, the scheme would be wound up. The result of this would be much larger numbers on the means-tested scheme than anything now envisaged. Even if there were some degree of "tapering" in the scheme - which would, of course, increase the numbers eligible under it - the total effect on working incentives could become serious.

7. This would be all the more deplorable because it would be so unnecessary. The family allowance/tax allowance type of scheme does not give help indiscriminately but only to those not within the standard rate tax range. By using the already existing tax system to provide an automatic test of income, it produces a considerable degree of concentration of help on the neediest families, without the need for a separate means test of any kind. For example, the scheme illustrated in the Official Committee's report would involve a net cost of about £30 million a year in a normal year, of which about half would go to the 160,000 families below the supplementary benefit level and a good part of the remainder to those in the area immediately above that level. A married couple with three children under age 11, for instance, would gain the full 20s, a week increase if their gross earnings were less than about £12 15s. 0d. a week. Above this level there would be a tapering effect up to the beginning of the standard rate range, where the break-even area would begin.

8. It is important to realise that the scheme just mentioned is illustrative only. A variety of schemes costing less can be produced, although to make a really substantial impact on the problem of child poverty would probably require not less than about £20 million a year (and rather more in the first year, depending on the type of scheme).
9. I strongly urge my colleagues to agree on a scheme of this kind in time for it to come into operation next April. This would require immediate decisions so that a Bill could be prepared and introduced before Christmas.

10. If in the event—which I do not accept—it were judged impossible, for one reason or another, to have a scheme involving tax allowance adjustments in operation before April, 1968, I am quite sure it would be disastrously short-sighted to go for a means-tested scheme on the ground that it could be brought into operation a few months earlier. Even a starting date as late as next September for such a scheme must be speculative at present, in the case of a "housing allowance" type of scheme, which has attracted some of my colleagues, a good deal of prior consultation with outside bodies might well prove necessary, since, as the Official Committee pointed out, this type of scheme might encourage rent increases and complicate rent and rate rebate schemes operated by local authorities. And, of course, if means-tested relief is thought necessary for those families who cannot afford the higher school meal charges, there is no need for a new scheme, since arrangements for the remission of such charges already exist.

11. While the implications for incomes policy are not my concern, I should have thought that a scheme of improved family allowances coupled with income tax child allowance adjustments would be much more acceptable to the trade unions, and more helpful in dealing with pressure for wage improvements based on the difficulties of low-paid workers with families, than a means-tested scheme.

12. I hope my colleagues will agree that the question of family endowment and the attack on child poverty is of such fundamental importance that it should not be determined by short-term considerations.

M.H.


11th November, 1966
CABINET

PUBLIC EXPENDITURE 1967-68

Memorandum by the Chancellor of the Exchequer

I attach a report by the Ministerial Committee on Public Expenditure on the results of the exercise which has been carried out following the Cabinet's instructions on 10th August. This report deals with 1967-68; we shall subsequently deal with expenditure in later years in the light of studies being made of the economic prospect up to 1970.

2. The starting point for our work was a paper by officials setting out a range of alternatives, with no programmes excepted, to enable us to consider how best the claims of departments could be limited to the planned rate of growth of 4½ per cent. The figures used in this paper were based on the main June PESC report since when substantial further expenditure has been approved or contemplated (Annexes A-C of the Ministerial Committee's Report). This too has had to be taken into account.

3. The Public Expenditure Committee have considered departments' programmes, item by item, at a series of meetings over the past three weeks and in the case of the major spending departments we have discussed the position with our colleagues.

4. The general approach we have taken to these questions is set out in our Report, but it may be helpful here to summarise our main guidelines. What we have tried to do is to contain the rate of increase of public expenditure. In 1966-67 public expenditure is likely to be at least 4 per cent at constant prices higher than in 1965-66; and it will rise by over 8 per cent at constant prices in 1967-68 over this year unless it is curtailed. This increase in public expenditure has been solely in civil expenditure because defence expenditure has been held; and of course the increases in civil expenditure have been much faster than outlays in the rest of the economy. It is important to recognise the shift which has already taken place in the use of resources between the private and public sectors.

5. It has seemed to us that our emphasis should now be turning from increasing public expenditure every year to deciding whether our present priorities are the best ones and those to which the Cabinet attaches the highest importance. We are financing the shift of resources by increasing taxation each year and by damping down any general increase in the level of private consumption. But we need to keep the balance here.
6. We have also to consider the consequences for our general economic policies of allowing an excessive rise in public expenditure, for if we were to permit this we should find when the time comes for reflation that we have tied our hands and limited our room for manoeuvre. We have already in the last few weeks found it necessary to take action to limit the fall in private fixed investment which has been taking place to an extent going beyond our intentions in July.

7. In August the Cabinet took the view, and this was reinforced by the decision of the Labour Party Conference, that when reflation becomes possible the first priority should be given to expenditure which will directly benefit productivity, exports and import saving. But the situation with which the Committee were confronted was an increase in programmes of public expenditure which would have amounted to a rise of over 8 per cent next year.

8. The increase programmes for 1967-68 proposed by Departments amount to £1,037 million. An increase of 4\frac{1}{2} per cent on the 1966-67 figure would mean a rise next year of £526 million. The difference between these two figures represents a reduction in the rate of increase of £511 million. This report contains agreed recommendations for reductions in proposed increases totalling about £277 million. We are now inviting the Cabinet to endorse these recommendations. In the major fields of transport, education, health and welfare and social security our proposals are made after discussion with the Ministers concerned, though I should make it clear that these Ministers are not committed by our recommendations. The other reductions which we propose have not been discussed with the Departmental Ministers responsible though our proposal that Black Arrow should be cancelled takes account of what we were told about discussion in the Ministerial Committee on Science and Technology.

9. None of us likes making these proposals. We are clear, however, that for the reasons set out in paragraph 4 to 8 of the report we cannot contemplate the rate of increase that would result if the programme went forward without change.

10. If all these reductions are approved by the Cabinet the rate of increase from 1966-67 to 1967-68 will still be of the order of 5-8 per cent at constant prices, and 9-10 per cent at current prices. We recognise that, in a year of pensions uprating it may be reasonable to go ahead a little faster than in other years; but I should not like my colleagues to under-rate the danger of adverse reactions to confidence, from a rate of increase as high as this.

11. In our figures for public expenditure in 1967-68 we have allowed £50 million for "additional programmes" which are still under examination. The candidates for inclusion in this category already total £92 million and are listed in Annex B of the Report. Once decisions on the proposals in the Public Expenditure Committee's Report have been agreed, we shall have to turn our attention to these proposals for additional expenditure. The main candidates are additional housing investment and provision for child poverty.
12. The Minister of Housing and Local Government has drawn our attention to the fact that private sector housing starts have fallen away sharply since July. Public sector starts in 1967 are expected to total 220,000 houses. If private starts in 1967 fall below 190,000 which the Minister of Housing regards as quite possible, total completions in 1968 could be no better, or even lower, than the 400,000 houses or so that are now expected to be completed in 1967. It is argued that, if we can do no better than this in 1968, our chances of achieving 500,000 houses by 1970 are small. In order to make good the shortfall in completions in the private sector in 1968 which he fears the Minister of Housing now proposes an additional 15,000 starts in the public sector in 1967-68.

13. The Ministerial Committee on Public Expenditure discussed this proposal with the Minister of Housing. It was pointed out that the 1970 target of 500,000 houses was under review, both in relation to housing needs and in relation to revised forecasts of the rate of economic growth. If that target were to be revised, the case for injecting additional starts into the public sector in 1967-68 would be diminished. Moreover, some of us thought that it would be premature to take action now on the assumption that private sector housing will not revive over the next 12 months. The prospect of the option mortgage scheme, and the easement of restrictions on credit for bridging finance, are among the factors which could well contribute to a revival in private sector housing, which all our experience shows to be highly volatile. The majority of the Committee on Public Expenditure therefore took the view that a decision on the Minister of Housing's proposal should not be taken for the time being, and that at this stage no provision should be made for additional starts in 1967-68 on public sector housing investment. This is a matter upon which further discussion outside Cabinet is unlikely to get us any further, and I ask the Cabinet to accept the majority view.

14. So far as provision for child poverty is concerned, Ministers will be aware of the comprehensive report that has been prepared by the Official Committee on Social Services. This will need to be further discussed by the Committee on Public Expenditure and by the Ministerial Committee on Social Services before a decision is taken by the Cabinet. I recognise that there is a real problem in relation to the group of about 150,000 families who for one reason and another are around or below the supplementary benefits level but do not qualify for them. I recognise that it would be easier to present increases in charges for school meals and welfare milk if at the same time we were doing something for those families. I could support proposals for a scheme, which I recognise would have to include a means test, which channelled, say, £10 million of additional benefit directly to those particular families. I do not, however, believe that it would be practicable to introduce any of the more wide-ranging schemes which have been discussed in the course of 1967-68, and I am so far unconvinced that any of these more wide-ranging schemes could be regarded as consistent with the very limited scope we have for increasing public expenditure on social benefits in the next three years. I also consider that the balance of political advantage will need careful thought. The Lord President of the Council, however, thinks that we should not queer the pitch for a comprehensive family endowment scheme later on by minor adjustments next year. He would therefore prefer not to introduce the sort of limited scheme to which I have referred, and not to raise charges for school meals or welfare milk, in the meantime. The Lord President
and the Minister without Portfolio have now set out their views on these matters in more detail in memoranda which are being circulated for consideration by the Cabinet. I remain of the view that it would not be practicable to work out and introduce any wide ranging scheme in 1967-68. I accordingly ask the Cabinet to approve these charges from September, 1967, subject to working out a satisfactory scheme costing about £10 million to help the families to which I have already referred.

15. The other proposals for additional expenditure we can pursue through the ordinary interdepartmental channels and, if necessary, in the Ministerial Committee on Public Expenditure. What we must now do very quickly, since time is running out for the preparation of estimates, is to take decisions on the proposals in the report by the Ministerial Committee on Public Expenditure which is attached to this memorandum.

16. Our public commitment has been to 4½ per cent increase over the period 1964-70: next year this would mean a rise of £526 million. The proposals put forward in the Public Expenditure Report would themselves represent an increase of £720 million i.e. 5.8 per cent. While the Cabinet will no doubt wish to consider these proposals individually I would ask my colleagues to recognise the narrow limits within which our decisions must now be reached.

L. J. C.

Treasury Chambers, S. W. 1.

11th November, 1966
PUBLIC EXPENDITURE 1967-68

Report by Public Expenditure Committee

At its meeting on August 10th (C.C.(66)435 Meeting) the Cabinet gave instructions that officials were to draw up a list of items (without making recommendations) which would have the effect of keeping the increase in expenditure in 1967-68, as compared with 1966-67, within the planned rate of 4½ per cent. The Cabinet also laid it down that no programme was to be excepted from this examination. Officials have reported and we have examined their list of possibilities; in addition we have taken into account increases of no less than £167 million in public expenditure which have been authorised since June (see Annex A). Beyond these there are still further proposals for increased expenditure in 1967-68 totalling £92 million.

2. The situation with which we started may be outlined as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>£ m.</th>
<th>1966-67</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1966-67 estimate for comparison)</td>
<td>12,372</td>
<td></td>
</tr>
<tr>
<td>1967-68 Basic programmes in main PESC Report, June 1966</td>
<td>13,233</td>
<td>+ 861</td>
</tr>
<tr>
<td>less 20th July savings</td>
<td></td>
<td>+ 7.0</td>
</tr>
<tr>
<td>Increase already agreed (Annex A)</td>
<td>13,150</td>
<td>+ 778</td>
</tr>
<tr>
<td>Further proposals under examination</td>
<td>13,217</td>
<td>+ 945</td>
</tr>
<tr>
<td></td>
<td>13,409</td>
<td>+1037</td>
</tr>
</tbody>
</table>

3. We are therefore dealing with large increases in expenditure next year, and not with "cuts". (For comparison, maintenance of a strict 4½ per cent. increase would mean a rise next year of £326 million). The central questions with which we have had to deal are, first, at what rate can public expenditure be safely increased next year, in the light of the nation's economic prospect taken as a whole; and, second, where reductions might best be made, bearing in mind the priority for increasing the nation's economic strength which was expressed in the resolution carried at the Party Conference.

Desirable level of public expenditure

4. The percentage rates of increase shown in the table do not give us any firm lead by themselves, though they have some presentational significance in relation to "4½ per cent." statements made in the Plan and on other occasions by the Prime Minister and the Chancellor. Our main guide must be the relation of the increase in public expenditure to the prospect for the economy as a whole.
5. We cannot at this stage be certain that the degree of deflation we set in train in July will prove to be right. It is fairly clear that deflation is proceeding faster than we expected, but that does not mean that it is going to run away. It is obviously possible that at some stage we shall want to relax somewhat. It would be quite wrong to conclude, however, that the way to do this is to let Government expenditure in 1967-68 rise as much as it now seems likely to do. We have said that when the time comes to moderate the deflation and prepare for an up-turn, we shall want to look first at private productive investment, that we want to avoid setting off a consumer boom and that social expenditures may temporarily have to take second place. This may mean that our first actions would be in the field of credit and investment incentives, and we should not prejudice such action by deciding now on increases in Government expenditure which would take up all the slack we are likely to be able to afford.

6. We must also remember that many decisions in the field of expenditure set in train upward trends which are not easy to reverse - the difficulties we have experienced in our attempts to restrain the growth of expenditure on various occasions over the past two years are evidence of this. This point is of particular importance at the present time, when we are facing the strong probability that the growth in the economy between now and 1970 will be very much less than we had expected. This may well mean that we shall have to phase back the rate of rise of a number of expenditure programmes, and we should not make this process more difficult by allowing substantial rises to take place now.

7. Finally there is the strong possibility that between now and the end of 1967-68 we shall have to consider further proposals for increases in expenditure, some of which may be of higher priority than existing programmes. The fact that between July and October additional expenditure of no less than £167 million was approved (see Annex A) shows what can happen.

8. For all these reasons we believe it to be necessary to adopt a cautious approach now, so as to hold back the increase in public expenditure enough to ensure that freedom of manoeuvre is left to meet these possible developments. If we fail to restrain public expenditure sufficiently now, we might well find ourselves forced to make unplanned checks of the kind we imposed in July 1965 and July 1966. We believe our colleagues will agree that this is a most unsatisfactory type of action which we must do our best to avoid.

9. The Chancellor of the Exchequer has proposed and the Committee agrees that a reduction of £50 million should be made in next year's Defence Estimates; the Secretary of State for Defence is at present considering how a reduction of this order might be achieved.

10. Civil defence. We propose a reduction of £1.7 million. Moreover, we recommend that officials be instructed to keep total civil defence expenditure (including expenditure on the Home Defence Force) within a total next year of £22 million, i.e. the same as this year, and that if possible they should secure a lower total for the whole of this expenditure.
11. **Overseas information.** A reduction of £4.5 million is proposed for next year. The balance between this and reductions in defence expenditure may need to be examined; if large reductions in the latter are secured there may be a case for not reducing expenditure on overseas information by so much.

12. **Roads.** Reductions in improvements of minor roads and car parks and in the maintenance of minor roads will make possible a reduction of £6.2 million and this we recommend (this applies to Great Britain as a whole). Adjustments in expenditure on major road programmes cannot be met at short notice without undesirable effects on the orderly progress of construction because of the long planning periods involved. This is apart from the difficulty of assessing the real economic benefits of given levels of expenditure. When public expenditure comes to be examined in the longer term, we believe that this aspect of the road programme will need to be further examined.

13. **Railway deficit.** The deficit next year will be £25 million higher than was forecast earlier, largely as a result of declines in traffic following the measures of July 20th. The total next year is likely to be over £130 million, roughly the same as in the present year. We believe that a reduction of £5 million should be possible by increasing charges after the period of severe restraint on price increases has ended.

14. **Agriculture.** A saving of £2.7 million will result from delay in the passage of the Agriculture Bill. In addition a further saving of £4.5 million expenditure on agriculture etc. can be secured by a variety of small measures, some of which depend on the delay in the Agriculture Bill. Both these savings should be adopted.

15. **Ports.** The Minister of Transport has said that a saving of £3.5 million is practicable; she would prefer this to any further reductions in road expenditure next year. We have adopted her proposal. These mean further reductions in independent ports investment and a small deferral of capital works on transport piers in Scotland.

16. **Airports.** Savings of £1.6 million can be secured by reductions in capital expenditure on air traffic control services.

17. **Other transport.** Small reductions totalling £1.4 million can be secured by a tighter control of loan sanctions for road passenger transport investment, by postponement of starts on a ship for the Highlands and Islands of Scotland, and by a small reduction in the contribution to Eurocontrol.

18. **Board of Trade.** A saving of £0.2 million can be secured from various minor reductions in Board of Trade grants in aid through the assistance of industry and trade.

19. **Aviation.** A saving of £0.1 million will follow from a revised estimate for assistance to the aircraft industry.

20. **Industrial research.** Savings of £1.8 million can be secured by a small reduction in the rate of increase in expenditure on industrial research in the Ministry of Technology’s sphere. This will still leave an increase of £10 million between the present year and next year. A reduction of £1.4 million in M.D.R. expenditure can be secured by curtailment of capital expenditure, economies in the procurement of stores, etc.; £3.5 million can be found from agreed economies and a modest change in the aeronautical research programme. In addition it is proposed that Black Arrow
should be cancelled (with a saving of £2.1 million next year) on the grounds that it has no military or economic advantages and that the possible technological advantages may be just as well secured by continued participation in ELDO.

21. Housing subsidies and grants. Total savings of £26.5 million can, we believe, be secured from the following changes. The dropping of the publicity campaign for improved grants would enable grants to be kept down to the current level, with a saving of £1.6 million next year. Postponement of the owner occupier mortgage subsidy until 1st April 1968 would lead to a saving of £1.5 million, in addition to which reductions in advances to the Housing Corporation for realism would yield savings of £6 million next year. There would also be a small reduction of £0.9 million in housing subsidies in Scotland: this would bring subsidies in line with the basic subsidies for housing investment. The Committee recommends that all these savings should be secured. The Committee are also agreed that local authority lending for house purchase should be held at £130 million.

22. Local authority "other environmental services". A reduction of £6 million can be secured by further restrictions in the rural water supply and sewerage schemes; by an embargo on all new parks, pleasure grounds, etc., and by deferment of corresponding works in Scotland. This is all capital expenditure and is separate from the reduction of £30 million in current expenditure on Miscellaneous Environmental Services referred to in paragraph 20.

23. Police and prisons. The Committee think that a reduction of £1 million is practicable here, mainly by postponement of work at the Police College and delaying the introduction of the scheme for a longer period of recruitment training, together with some other small modifications.

24. Education. The present charge for school meals is 1s., the level at which it has remained since 1957 when it was last raised; compared with this the economic cost is 2s. 6d. Meals are free for children whose parents' incomes are at or below supplementary benefit levels. An increase of 6d. in the school meals charge, which would yield £2 million next year, could be introduced beginning in September 1967, in order to bring the charges more closely in line with current prices. The majority of the Committee supported this increase in the charge of 6d. provided that some arrangement was made to improve the "endowment" of the poorer families; the situation will in any case be eased by the new rates of supplementary benefit coming into force this month. The Committee did not consider that a general charge should be made for school milk; but considered that there should be an enquiry into the possibility of making a charge in secondary schools.

25. The Committee also believes that the present levels of some fees can be raised and that some grants and awards might be reduced. It recommends a rise in fees for evening institutes and for further education (each yielding £1.4 million in 1967-68) and for overseas students at universities (£1 million). In addition we believe it should be possible to reduce grants for direct grant schools (£1 million) and to reduce the vacation grant and increase the parental contributions for students at a total saving of £8.6 million. The political aspects of such changes will need consideration, as has been pointed out by the Secretary of State for Education and Science. We also believe that a saving of £3.6 million could be made by taking advantage of the gradual decline in teaching costs per teacher per year and in local authority expenditure on administration, the Youth Service, community centres and village halls.
26. Health and Welfare. Under the present scheme, expectant mothers and children under five get one pint of milk a day at 4d., compared with the retail price of 9d.-10d. Children of families on national assistance, and some others, get the milk free. Subject to the same proviso as in the case of school meals (para. 24) we believe that an increase in the price from 4d. to 6d., yielding £13.5 million next year, could be achieved. This does no more than bring the level of subsidy per pint down to about the level which prevailed after the present price of 4d. was fixed in 1957.

27. Social security benefits. In recent years benefits have been increased in line with the rise in earnings and the Minister of Social security had proposed a rise in June 1967. The Committee thinks that the next increase should take place in November 1967. A rise in line with retail prices would mean an increase of 85. A rise in line with earnings would mean a rise of 19s. for the single pensioner (taking into account the 1s. deduction to help meet the cost of the new non-contributory benefits). Bearing in mind that the recently introduced supplementary benefits will take care of cases of hardship, the Committee considers that in the circumstances a rise of 10s. would be sound and would be defensible. This would mean a saving next year of £100 million. This we recommend.

28. Administrative and miscellaneous services. This covers a wide range of buildings of various kinds and other small adjustments. We consider that a reduction of £5.6 million is practicable next year. This would allow proposed work on Government training centres and industrial rehabilitation centres to go ahead, and some building of offices in development areas, but it would mean the postponement of purchases of land and buildings for the Bridge Street site.

29. Rate Support Grant. As explained in paragraph 8 of the note annexed to C.66)152, some of the above proposals affect expenditure by local authorities, and would be reflected in adjustments of the Rate Support Grant. In addition, as proposed in paragraph 4 of C.66)152, officials are seeking a further reduction of £30 million in the general provision in Local Authority estimates for Miscellaneous Environmental Services. This £30 million is separate from the other figures mentioned in this paper. Even if it is all achieved, local authority current expenditure would still be £22 million more than foreseen in the PESC Report.

30. These proposed reductions add up to £277 million. The total of public expenditure in 1967-68 would therefore be £13,040 million instead of the £13,317 million shown in line 4 of the table in paragraph 2. £13,040 million represents an increase of 5.4 per cent, over 1966-67.
31. We also have to consider the "additional programmes" not yet agreed, see Annex B. These total £92 million. The Chancellor of the Exchequer has proposed that a total of £50 million be set aside for all these "additional" items. The largest items are housing (£35 million) and family endowment (£30 million). The Committee saw the Minister of Housing and Local Government on housing, and family endowment is in part bound up with the consideration of school meals. The Chancellor of the Exchequer's covering note to this paper sets out the different views on these two questions.

32. The position we have reached, therefore, may be summarised as follows:

<table>
<thead>
<tr>
<th></th>
<th>1966-67</th>
<th>1967-68</th>
<th>per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m.</td>
<td>£m.</td>
<td>per cent</td>
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<tr>
<td>Basic programmes in main FESU report, June 1966, less 20th July savings (cf para.2)</td>
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<td>Increases already agreed (Annex A)</td>
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<tr>
<td></td>
<td>13,317</td>
<td>+ 945</td>
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<tr>
<td>Less savings now proposed (paras. 9-30)</td>
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<td></td>
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<tr>
<td>Civil £227 million</td>
<td>277</td>
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<tr>
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<td>Contingency (Annex B)</td>
<td>50</td>
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<tr>
<td></td>
<td>13,090</td>
<td>+ 718</td>
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</table>

33. The increase of 5.8 per cent. at constant (1966) prices will mean an increase next year of nearly 10 per cent. in current price terms. The corresponding increases implied for the Estimates are nearly 6 per cent. at constant prices and nearly 10 per cent. at current (1967) prices.

34. The estimates of total public expenditure for the current financial year are close to 4½ per cent. above the outturn for the previous year; but, as we have shown, the prospect for next year is of a percentage increase much larger than this. We shall be dealing with expenditure in later years in the light of studies being made of the economic prospect up to 1970.

11th November 1966
### PUBLIC EXPENDITURE 1967-68

**ADDITIONAL PROGRAMMES: APPROVED AND QUANTIFIED**

<table>
<thead>
<tr>
<th>Category</th>
<th>Approved Budget (£ million)</th>
<th>Survey Prices (£ million)</th>
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<tr>
<td>Shipbuilding</td>
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<td>(Geddes Report)</td>
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<tr>
<td>Export Promotion</td>
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<tr>
<td>Aviation</td>
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<td></td>
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<td>Brucellosis</td>
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<tr>
<td>(Geddes Report)</td>
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<tr>
<td>Hotel Loans</td>
<td></td>
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<td>Export Promotion</td>
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<td>Fishery Research</td>
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<tr>
<td>Shipbuilding</td>
<td></td>
<td></td>
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<tr>
<td>(Geddes Report)</td>
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<tr>
<td>Hotel Loans</td>
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<td>Redundancy Fund</td>
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<td>INDUSTRIAL RESEARCH ETC.</td>
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<tr>
<td>Expenditure at Farnborough</td>
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<td>transferred from Defence Budget</td>
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<td>HOUSING ENGLAND AND WALES</td>
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<td>S.D.D. Standards and price</td>
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<td>S.D.D. Standards and price</td>
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<td>Change</td>
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<td>Housing subsidies</td>
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<td>Cost of higher unemployment assumption</td>
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<td>ADMINISTRATION AND MISCELLANEOUS</td>
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<td>Net cost of Widgery legal aid proposals</td>
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<td>TOTAL</td>
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### Annex B

**Public Expenditure 1967-68**

**Additional Programmes: Items for Which Provision May Be Necessary**

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<tr>
<th>ROADS</th>
<th>Warboys Signs</th>
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<td></td>
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**Other Assistance to Industry, Transport and Agriculture**

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<td>Other Transport</td>
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<tr>
<td>Employment Services</td>
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<tr>
<td>Aviation Industry</td>
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<td>17.8</td>
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**Industrial Research and Research Councils**

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<tr>
<td>Expenditure on space research</td>
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<tr>
<td>research transferred from Defence Budget</td>
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<tr>
<td>GETS Satellite project</td>
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<td>3.7</td>
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<td>4.7</td>
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**Housing Investment**

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<thead>
<tr>
<th></th>
<th>£ million</th>
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<tr>
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**Police and Prisons**

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<tr>
<th></th>
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<tr>
<td></td>
<td>2.5</td>
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**Education**

<table>
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<tr>
<td>The Open University</td>
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**Child Care**

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<tr>
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**Social Security**

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<td>Provision for child poverty</td>
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<tr>
<td>(illustrative)</td>
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<td></td>
<td>92.0</td>
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The figures used in this table have not yet been agreed between the Departments concerned and the Treasury, and are included only as an indication of the order of magnitude of the provision which may be required.
<table>
<thead>
<tr>
<th>Items(1)</th>
<th>Refs. to Parrs. in P.E.Report</th>
<th>1966-67 £m.</th>
<th>1967-68 £m(2)</th>
<th>Reductions now proposed £m.</th>
<th>1967-68 after reductions £m.</th>
<th>Increase over 1966-67 %</th>
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<td>2,199.0</td>
<td>50.0</td>
<td>2,149.0</td>
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<td>Other overseas</td>
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<td>121.5</td>
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<td>Agricultural Support</td>
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<td>- Farm Structure</td>
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<td>36.2</td>
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<td>32.7</td>
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<td>Imports</td>
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<td>29.6</td>
<td>37.9</td>
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<td>46.0</td>
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<td>Aviation - Assistance to Industry</td>
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<td>Housing subsidies etc.:</td>
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<td>690.9</td>
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<td>349.4</td>
<td>347.8</td>
<td>1.5</td>
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<td>Total Reductions now proposed</td>
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(1) Only items for which there are proposed reductions
(2) Basic programmes as in the 1966 F.E.S.C., Report less 20th July cuts plus agreed additions as in Annex A to the F.E.C., Report.
CABINET

FAMILY ENDOWMENT

Memorandum by the Minister without Portfolio

The Ministerial Committee on Social Services recently discussed the problem of poverty among families with children and I undertook as Chairman to report to the Cabinet the views of the Committee on the need for early action to help the poorest families so that those views might be taken into consideration when public expenditure allocations for 1967-68 are settled.

Extent of family poverty

2. The preliminary results of a survey recently undertaken by the Ministry of Social Security show that about 160,000 families containing about 500,000 children have incomes below the new supplementary benefit (formerly national assistance) level and are unable to bring themselves up to that level because the father is in full time work or, being unemployed, cannot receive the full supplementary benefit because of the "wage stop". The figures show that the problem is not confined to the lowest wage earners, nor to the larger families. The results of the survey will have to be published some time next year. The level of income set by the new supplementary benefits may be represented as the minimum acceptable standard set by the community for its members.

Possible remedies

3. The Social Services Committee were generally agreed, because of the pressing need for the limitation of public expenditure, that any additional expenditure on families with children must be concentrated as far as possible on the families with smaller incomes. This cannot be achieved by an increase of family allowances on its own even if the increase were confined to the larger families. Two alternative methods were therefore considered, one involving an increase of family allowances associated with a reduction of income tax child allowances; the other involving the introduction of a new form of income-tested allowance.

An increase in family allowances associated with a reduction of income tax child allowances

4. The most satisfactory type of scheme of this sort appeared to the majority of the Committee to be one which concentrated the benefit of the increased family allowances on families paying no tax or tax at less than the standard rate. This could be achieved by an all-round increase in the amount of family allowances accompanied at the same...
time by a reduction in income tax child allowances. By this means
the benefit of the family allowance would be scaled down or completely
extinguished or more than extinguished according to taxable income.
The effect would be broadly similar to that of a specific income test,
but without the political and administrative objections attaching to such
a test. Those paying tax at the standard rate would gain nothing or
would lose a little. One possible example is a scheme costing (on the
latest revised estimates) £49 million net in the first year and £33
million net subsequently. These figures represent a net increase in
expenditure on family allowances of £160 million and increased taxation
of £11 million and £127 million respectively; it would be another
instance of substituting Government expenditure for tax reliefs of the
type referred to in paragraph 54 of the White Paper on Public
Expenditure: Planning and Control (Cmd, 2915). Such a scheme
would bring about 57 per cent of deficient families and 65 per cent of
the children in such families up to or above the supplementary benefit
level, and give material help to many of the remainder. Schemes of
this sort could be tailored to any given expenditure ceiling (although
the lower the expenditure the less help would be given to the deficient
families and the more the cost would fall on those with families in other
income groups).

Income tested allowance

5. This could give the greatest help to the highest proportion of the
poorest families at the lowest cost, but would require a form of means
test having familiar practical and political difficulties. If this type
of scheme were adopted, the Committee would prefer one involving
a form of "housing allowance" related to family incomes and rent which
might cost £17 million in a full year. This would entail a test of need
on the lines of supplementary benefits or an income test on the lines
of the rate-rebate scheme. Before a final decision could be taken to
introduce such a scheme, further detailed consideration would be needed,
particularly of its interaction with local authority schemes for the rebate
of rents and rates.

Views of the Social Services Committee

6. The majority of the Committee were opposed to any "means-
tested" scheme for families in this field of social provision (where
in the great majority of cases the wage-earner would be in full-time
work) and favoured the introduction of the type of scheme which com-
bined an increase of family allowances with a reduction of income tax
child allowances to take effect if possible from the beginning of the
tax year 1967-68.

7. Treasury Ministers, however, see objections on grounds of
both policy and practice to schemes of this sort. They feel that such
schemes would involve a big disturbance of the tax and family allowance
position of millions of families to meet the difficulties of a small
minority; and would concentrate the necessarily limited extra
expenditure insufficiently on the poorest families and would be
unpopular with husbands who would have to pay more tax in order to
bring a higher family allowance to the wife. Further, in their view,
the Inland Revenue with all its present difficulties should not be called
upon to operate such a scheme in 1967-68 even if it were acceptable in
principle. Incidentally, such a scheme would make the tax system bite
more deeply into the wage packet and so lessen its taxable capacity. Treasury Ministers therefore think that the only possible means of helping the poorest families next year would be through a means-tested scheme, preferably of the "housing allowance" type, analogous to the schemes of rate rebates and rent relief, which also involve income tests and have been generally accepted.

8. If on policy or practical grounds it is decided that an increase of family allowances associated with a reduction of income tax child allowances is impossible next year, some members of the Committee would reluctantly acquiesce in a means-tested housing allowance which might come into operation in September, 1967 (at the earliest), as the only available means of helping quickly and sufficiently the 160,000 families in greatest need, pending the conclusion of a comprehensive review of family endowment in cash, services and kind. Other members of the Committee, however, feared that if we adopted a means-tested scheme, even as an interim measure, we should be stuck with it and this would inevitably prejudice any reform of the present system of family allowances and income tax child allowances to which they attach major importance. They would in consequence be prepared to defer any improvement in provision, even for the poorest families, for a few months until April, 1968, if there was a firm prospect of a more radical reform by then.

For decision

9. If the Committee's first preference (for a combined scheme of increased family allowances and reduced tax allowances) is either unacceptable or could not be fulfilled in 1967-68:

(i) does the Cabinet favour a means-tested scheme to begin about September, 1967, or

(ii) would the Cabinet prefer to do nothing for 1967-68 and direct a further and urgent study to be made of the whole problem, and

(iii) if the Cabinet adopt (ii) should additional charges for school meals and welfare milk be similarly deferred?

D, H,

70, Whitehall, S.W.1.

11th November, 1966
CABINET

FAMILY ENDOWMENT - SCHOOL MEALS

Memorandum by the Lord President of the Council

The increase in school meal charges and abolition of free milk, which a majority of the Ministerial Committee on Public Expenditure favoured, would hit the larger families particularly hard (although the children from the very poorest families would continue to get free school meals on a means test). The relative position of the larger families in the lower income groups has deteriorated since 1956, while prices and other types of income have increased substantially. I would be most unwilling to agree to this increase in charges except in the context of a thorough and satisfactory reform of family endowment.

2. The Report of the Official Committee on Social Services on Family Endowment (SS(66) 27) gives an account of several schemes. Since a simple increase in family allowances large enough to make any significant impact on the position of the families with incomes below the Supplementary Benefit level would be extremely expensive, the Report considers various types of schemes which would concentrate the benefit that might be given on the poorer families.

3. Several schemes are presented which involve means tests similar to that used for Supplementary Benefit. I cannot accept that any such scheme would be a satisfactory way of dealing with the problem. Our aim has been to introduce reforms in the social security system that will reduce, not increase, the number of people who have to depend on benefits subject to such means tests. Introduction of a means tested benefit for the families of wage earners in full-time employment, some of whom would be earning wages not very much below average industrial earnings, seems to me to be socially and politically intolerable. Moreover it would make it much more difficult to introduce to a socially desirable system later on.

4. The scheme which is undoubtedly the most desirable is that outlined in paragraphs 36 and 37 of the Official Committee's report. Family allowances would be increased by 10/- a week. The benefit from this increase would be concentrated on families with low incomes (i.e. those paying no income tax and those paying tax at the reduced rates), by cutting income tax child allowances by £4.50 per annum for each child after the first. This would leave standard rate income tax payers almost exactly as well off as they are at present (4d per week per child worse off). The increase in family allowances would bring 57 per cent of the families, containing about 67 per cent of the children, who are now living
below the Supplementary Benefit standard, up to or above that standard, and would give substantial help to those who would still remain below it. The net cost to the Exchequer would be about £30 million a year (£45 million in the first year, because only 5/6ths of the year's tax reaches the Exchequer within the Financial Year. Thus this reflationary impact would come at the best possible moment). This scheme would thus deal with the major part of the problem of child poverty without using an unacceptable type of means test, and at a fairly moderate cost.

5. If one could view the proposals about school meals and milk as part of a package which included a major reform of this kind in the field of family endowments it would be possible socially as well as politically to treat them as acceptable. Presented without this reform or combined with a narrow means-tested assistance to the poorest families, the school meals and milk proposals would be regarded as a betrayal of our often asserted claim that we have not cut back our social priorities during the deflation; most important of all it would surely spell the end of any incomes and prices policy.

6. I am aware that the problem of when we can introduce reforms of family endowment is complicated by the administrative difficulties of the Inland Revenue. Decisions, I gather, have to be taken immediately for any reform to be introduced next year. Nevertheless I am told that a decision this week might still be just in time. The choice, therefore, seems to me between (a) postponing any change in our family endowment arrangements and dropping the proposals about school meals and milk and (b) making the saving on school meals and milk but combined with an unmeans-tested advance in family endowment. I should have thought there could be no doubt where the preference should lie provided the administrative difficulties could be overcome.

R.H.S.C.

Privy Council Office, S.W.1.

11th November, 1966
CABINET

SOCIAL SECURITY BENEFITS

Note by the Minister of Social Security

I would like to put to my colleagues certain considerations affecting the programme for social security benefits, which I have already brought to the attention of the Committee on Public Expenditure in the attached memorandum.

M. H.


11th November, 1966
SOCIAL SECURITY BENEFITS

Memorandum by the Minister of Social Security

It would be wrong to let my colleagues think that we could cut the social security programme as envisaged by the Chancellor of the Exchequer in his 1967 budget.

2. My programme assumed that social security benefits would be increased next June. By then, a rather longer interval would already have elapsed between pension increases than at any time since 1965, and over 7.5% might then be needed on the 80p pension (and over 11s. on the married rate) merely to restore the real value the present rates had when we brought them in last year. This shows how far pensioners will actually have slipped back before we take further action. The 1967 uprating allowed for in my basic programme looks expensive but this reflects the extent to which we have already allowed the pension to fall behind the rise in earnings.

3. There is another reason why we should not delay beyond next summer. None of us is likely to forget the storm of protest - not least from our own supporters - when we took eighteen weeks, from the date of the first announcement, to effect the last pension increases. We were hard put to it to defend ourselves even though we could, and did, lay much of the blame on the arrangements we had inherited from our predecessors. But if we were to defer the next uprating until mid-November 1967, as the Chancellor's costings imply, it would be bound to take at least as long as last time from the first announcement - since the legislation would have to be passed before Parliament rose in the summer - and I should be landed with an uprating timetable which would be impossible to justify.

4. Vital though these issues of timing are they must not distract our attention from the amounts to be given. As a result of what our predecessors did in their later years of office, and of what we ourselves have said, people have come to expect that pensions will go up in the same proportion as earnings. I have reluctantly agreed that the increase calculated on this basis should be abated by 1s. to help finance the new scheme of supplementary benefits. To make a bigger cut would put the pensioners at a quite unfair disadvantage; and, on the Chancellor's own figures, his proposals would mean a cut of 4s. rather than 1s. The standards for many of our old people are already low compared with those for the rest of the community. They must not be pushed back still further. It is not as though the generality of pensioners have much besides their pensions. From my special survey of retirement pensioners last year, it appeared that the total incomes of only about half the married couples reached
£10 a week, i.e. exceeded the basic pension rate by £3 10s. or more, while less than half the single men, and only about one-third of the single women, had even £2 a week above their rate of basic pension.

5. In 1946 we made a big increase in pensions and did nothing more until 1951. In 1964 we again started with a big increase. We must not give the impression that history is beginning to repeat itself.

M. H.

28th October, 1966.
At the meeting of the Cabinet on 10th November I was asked to circulate a report of the discussion I had had with the Chairman of the Royal Commission on English Local Government about the invitations the Commission had issued to various Ministers to give evidence to them, informally and without publication.

2. The Chairman said that the Commission had greatly valued the informal discussions they had already had with certain Ministers, which they regarded as complementing departmental evidence. Most Ministers had wide experience outside their immediate departmental responsibilities and were able to help the Commission to make a realistic assessment. Nevertheless, he and his colleagues would fully understand if Ministers, individually or collectively, felt that no further consultation of this kind with Ministers should take place. As agreed at Cabinet on 20th October (CC(66) 51st Conclusions, Minute 2) I explained to him the objections to such consultations between Ministers and the Commission. I added that I did not myself expect to appear before the Commission and that I did not expect other Ministers would wish to do so; but I hoped to continue my personal contacts with him.

A. G.

Ministry of Housing and Local Government, S. W. 1.

11th November, 1966
11th November, 1966

CABINET

PARLIAMENTARY PROCEDURE AND SPECIALIST COMMITTEES

Memorandum by the Lord President of the Council

We face in the next few weeks a debate on procedure in the House of Commons. I mention below a number of the points which are most likely to arise.

2. Financial Procedure

The Select Committee on Procedure have made 19 recommendations. (They are listed in the Appendix with comments on them.) Most are acceptable. Those that need legislation may possibly be dealt with in a Finance Bill.

3. Specialist Committees

The appointment of a Select Committee on Science and Technology would have the support of the Opposition who have suggested that it might start with a study of the annual reports of the Research Councils and the University Grants Committee policy towards science and technology. Perhaps I may be authorised to agree terms of reference with the Secretary of State for Education and Science.

The Opposition would also in addition accept, experimentally for one year, a committee on the work of a single Department. But in view of the fact that we have had difficulty in finding a suitable Ministry, it may be that we shall not be able to take up this offer. As we must soon appoint a Select Committee to supervise the work of the Parliamentary Commissioner, I fear, therefore, that for this session we must be content with a single Specialist Committee.

4. Morning Sittings

The recommendation of the Procedure Committee that for an experimental period there should be two morning sittings is on the lines of the evidence which my predecessor gave to them. There is, however, a significant difference. The Select Committee propose that the adjournment debates should take place at the end of the sitting and not in the morning. With this change it is questionable whether there would be sufficient non-controversial business to occupy the House; and the business that would be taken would be scrappy in the extreme. Two items of business might, therefore, be added to the proposals of the Select Committee thus improving the prospects of the experiment being successful.
5. First, while I have sympathy with the Select Committee's opinion that Business and major statements should be made in the afternoon, I believe that there may be a case for introducing an opportunity in the morning for statements of secondary importance. These are now often made the subject of Written Questions merely to avoid intruding on the time of the main business of the day. They could be kept to three or four a day; supplementary questions would be limited; and forward notice of them would either be given on the Order Paper or by poster in the Lobby.

6. Second, there has been agitation for more frequent debates on the adjournment "on definite matters of urgent and public importance" under Standing Order No. 9. The Select Committee are considering the scarcity of opportunities under the Standing Order and will be reporting shortly. In the meantime, we might consider introducing, again as a sessional experiment, a new class of topical debate. These would last, say, 1½ hours. They would be mounted at short notice and limited to one a week. Divisions and counts would be barred. The procedure for raising them would be the same as for applications under Standing Order No. 9, excepting that it would not be essential for them to be raised at the first opportunity. A Member would have to show that the subject was definite and of public importance, but the element of urgency as now understood would not apply. If leave were given, the debate would take place on the next available opportunity in the same week. During such debates speeches might be limited to 20 minutes for Movers and frontbench spokesmen and 10 minutes for others. (This might set the pattern for other limited debates, for example, Prayers.) These occasions might provide a useful safety valve in those quarters where the present criticism of Standing Order No. 9 is strongest. The Speaker, who in his recent evidence to the Select Committee gave a favourable opinion on a proposal of this kind, could reasonably be expected to avoid repetitious debates.

78. The proposal of the Select Committee that the two mornings should be Wednesdays and Thursdays is unattractive because of serious conflict with meetings of Standing and Ministerial Committees, including the Cabinet. Better choices would be Monday and Wednesday or Tuesday and Wednesday. The advantages of Monday over Tuesday include avoiding clashes with Committees of the House and the prospect of getting Business cheaply as often happens on Fridays now. The Monday sittings would be confined to non-controversial business recommended by the Select Committee as suitable for the mornings. Those on Wednesdays would be widened to take in the new topical debates. An experiment of two morning sittings would mean that each week late nights would be relieved by three and a half or five hours, according to whether a topical debate had been allowed. Incidentally, I hear that the Opposition are going to have a free vote on morning sittings. They say that this, like televising the House, is a domestic matter and should be left to Members to decide. However, I am assuming that the Government supporters should be whipped, even though about a hundred of our backbenchers have signed the Early Day Motion calling for a free vote on procedural changes.
9. Other matters

There remain two further recommendations from the Committee. First, that an extra quarter of an hour should be provided for Questions on Mondays to Thursdays inclusive; and second, that Friday sittings should be extended by one hour. I propose that we should deal with them by suggesting that before adopting them we should have an opportunity to judge the effect of the other changes.

10. Royal Commissions for Bills

Black Rod's interruptions to summon the Commons to the Lords for Commissions to give Royal Assent to Bills have caused considerable irritation. There have been talks on ways of reducing the number. I hope that the Parties will in due course agree that there should be only one of the present type of Commissions for Bills and that this would take place at the end of the Session. This, I think, would be an arrangement welcomed in both Houses. It may not be possible to make this amount of progress this Session and we may have to be satisfied with an interim arrangement. A change of procedure would almost certainly require a short Bill - a detailed investigation is in hand - and I am assuming that the Bill could be enacted with little inroad on Parliamentary time. I hope to make a statement about this during the procedure debate.

10. Changes on financial procedure, the appointment of Specialist Committees (at least one if not two) as well as an experiment on morning sittings, and new opportunities for topical debates should make a welcome package. I should then invite the Select Committee on Procedure to concentrate on producing as quickly as possible - say a year - a major report on all aspects of procedural reform, and at the same time excuse them from producing interim reports on specific matters. It might, however, be worth considering that the Select Committee should have authority to appoint a sub-Committee - who would report to the main Committee - to deal with any comparatively minor points on which early recommendations, not involving debate in the House, would be particularly useful.

R, H, S, C.

Privy Council Office, S. W. 1.

11th November, 1966
Select Committee’s Recommendations

1. Repeal the rule that charges must originate in Committee - Acceptable, but cannot be fully implemented without legislation.

2. Supply days should all be held in the House, sitting as such, and should include debates on substantive Motions tabled by the Opposition and adjournment debates - Acceptable. The Government would always be able to amend Opposition Motions.

3. The Chairman of Ways and Means, as Deputy Speaker, should retain his present responsibility for financial matters - Acceptable.

4. The Order Paper should note that Supply business is chosen by the Opposition - Acceptable.

5. Supply days should not be allocated to specific subjects - Acceptable.

6. A third guillotine (for Winter Supplementary Estimates) should be introduced - Acceptable. It ensures that the Winter Supply is passed in time.

7. Ensure a more even distribution of Supply days - Acceptable, but in practice unnecessary.

8. Members wishing to vote against Estimates "rolled up" in the guillotine should be required to give notice of their intention, in order to permit the unopposed Estimates to be put in one question - Acceptable.

9. The guillotine should fall at 10.00 p.m. and not at 9.30 p.m. - Acceptable.

10. There should be a standard form of putting the question on Motions to reduce Estimates - An acceptable device to enable amendments to be put without, on the same occasion, passing the Estimates.

11. The third reading stage of Consolidated Fund Bills should be undebatable, and the lost debating time replaced by Supply Days, The second reading debates should be made available entirely for private Members - Acceptable.

12. The Treasury offer to provide more information about under-provision on Service votes should be accepted - Being implemented.

13. A Defence Vote on Account should be introduced which could replace the present miscellaneous votes taken on the fourth Defence Supply day. The form of the defence estimates and the distribution of defence debates should be further examined - The Secretary of State for Defence has reservations.
14. Ways and Means Resolutions (including Budget debates) should be taken in the House sitting as such - Acceptable but requires legislation.

15. There should be a new form of provisional authorisation of taxes, with considered decisions by the House at the end of the Budget debate - Acceptable but requires legislation.

16. The practice of bringing in Consolidated Fund Bills and certain other Bills on Ways and Means Resolutions should be ended - Acceptable.

17. Money Resolutions should be taken in the House. Resolutions in connection with Bills should be allowed one hour's debate - Not attractive. It would sometimes add $\frac{1}{2}$ hour to sittings.

18. The Queen's Recommendation should be signified in writing, and the fact of its signification indicated by means of a note on the Order Paper - Acceptable. It would be a great convenient to senior Ministers.

19. The Committee make no recommendation which might tend to limit the discretion of the Chair in the exercise of the casting vote on taxking proposals - No action.
CABINET

ECGD COVER FOR ARGENTINA

Memorandum by the President of the Board of Trade

I have to ask the Cabinet to resolve a difference of view which has arisen in the Sub-Committee on External Economic Policy of the Ministerial Committee on Economic Development over the percentage of the risk on capital goods exports to Argentina which the Export Credits Guarantee Department (ECGD) should be allowed to insure. I am submitting this memorandum setting out the opposing views since, in the absence of the First Secretary of State, I acted as Chairman of the Sub-Committee when this issue was discussed.

2. ECGD cover is normally given on 90 per cent of the amount at risk on any contract. In 1958, when Argentina was a seller's market and there was considerable demand for cover, the Export Guarantees Advisory Council decided that cover for medium term transactions should be limited to 75 per cent of the amount at risk. From October 1962 until March 1965 ECGD was off cover for capital goods business with Argentina under Section 2 of the Export Guarantee Act, 1949. In March 1965 the Ministerial Sub-Committee on External Economic Policy decided in the light of some improvement in the Argentine economy that a measure of Section 2 cover should be made available, subject to a limit of £6 million on debts maturing in any one year. The percentage of cover, however, remained at 75 per cent of the amount at risk. Since March 1965 ECGD have insured virtually no Section 2 business with Argentina.

3. At their meeting of 9th November the Sub-Committee considered memoranda by the Minister of Aviation and myself recommending that the percentage of cover on Section 2 business with Argentina should be increased from 75 per cent to the normal 90 per cent. A large majority of the Sub-Committee supported this recommendation. Their reasons can be summarised as follows -

(a) Exporters were unwilling to accept as much as 25 per cent of the risk themselves, and had difficulty in raising finance on these terms. The restricted percentage of cover thus effectively excluded British exporters from the growing market for capital goods in Argentina, of which our competitors would be able to take advantage. The restriction also frustrated the Sub-Committee's decision of March 1965 to permit a limited measure of Section 2 business with Argentina. Normal terms
of cover were available for very large and expensive projects in Argentina which qualified for Financial Guarantees, and it was illogical to refuse these terms on other capital goods contracts. Normal terms of cover were also available for Section 2 business with other Latin American countries, whose economic prospects, in many cases, were no better than those of Argentina.

(b) Although on several occasions in recent years we had had to refinance a proportion of outstanding Argentine liabilities, our exports to Argentina had in general been of substantial benefit to our balance of payments. Between 1955 and 1965 ECGD covered business with Argentina worth £143 million, of which only 10 per cent had to be refinanced. With almost all contracts the value of the down payment would exceed the value of the import content of the goods, so that at no stage would there be even a temporary loss to our balance of payments.

(c) We had to consider not only the effect on the balance of payments, but also the balance of advantage to our economy as a whole. Capital goods made up an increasing proportion of our exports to Argentina, as of our exports as a whole. At a time when we could expect a downturn in industrial activity in this country we needed export markets wherever we could find them. If we did not sell our capital goods in Argentina, it would not by any means follow that we should be able to sell them in other, more credit-worthy markets.

(d) British manufacturers were currently interested in a number of substantial contracts in Argentina. They would almost certainly be unable to proceed with negotiations unless the normal percentage of cover were restored. One of these contracts was for the supply of Handley Page Herald aircraft worth £8-£9 million to the Argentine armed services. Handley Page would withdraw from the negotiations, which were very near completion, if they were required to carry 25 per cent of the risk themselves. Argentina and other Latin American countries offered promising markets for British aircraft exports. It would be inconsistent with the Government's policy of support for the aircraft industry to require aircraft manufacturers to carry excessive risks in their export business.

4. The Chief Secretary, Treasury with some support from the Minister of Overseas Development argued that the present limits on credit cover for Argentina should stand, for the following main reasons:

(a) Argentina had a bad record of economic mismanagement under successive Governments. The economic policies of the present Argentine Government were far from clear, and offered little promise of improvement. In such circumstances it was essential to maintain tight control over the total of outstanding debts. The restriction on the percentage of cover and the limit on annual maturities were both ways of exercising this control. There was no evidence to suggest that Argentina was now more credit-worthy than before; but such evidence was needed before any improvement in the terms of credit could be justified.
Further refinancing of Argentine debts remained a strong possibility. In such circumstances, the cost to our balance of payments would be correspondingly greater if, by relaxing the controls on credit, we allowed insured debts due to British suppliers to pile up. It would be extremely difficult to accommodate further refinancing for Argentina within the aid ceiling, and this could only be done at the expense of other, more aid-worthy countries and projects.

The contract for the supply of Handley Page Heralds to the Argentine armed services was at present conditional on the provision of six years' credit for three of the aircraft. Ministers had decided earlier in the year that five years should be the maximum length of credit for this type of aircraft, and there was no case for reversing the decision.

In the course of discussion the Chief Secretary proposed a compromise solution under which the percentage of cover would be raised from the present 75 per cent to 90 per cent, but at the same time the limit on annual maturities would be reduced from £6 million to £3 million. This proposal did not commend itself to the Sub-Committee.

I therefore invite the Cabinet to decide whether –

(a) ECGD should continue to cover only 75 per cent of the risk on Section 2 business with Argentina; or

(b) ECGD should, within the present limit of £6 million on annual maturities, be empowered to cover 90 per cent of the risk.

D.P.T.J.

Board of Trade, S.W.1.

11th November, 1966
12th November, 1966

CABINET

SALE OF BAC 1-11 AIRCRAFT TO THE INDIAN AIRLINES CORPORATION

Memorandum by the President of the Board of Trade

The Sub-Committee on External Economic Policy of the Ministerial Committee on Economic Development has been unable to reach agreement on a proposal by the Minister of Aviation that the present limit of £20 million on officially insured business with India on credit terms in excess of five years should be waived in order to make possible the sale of BAC 1-11 aircraft to the Indian Airlines Corporation (IAC). As I acted as Chairman of the Sub-Committee, in the absence of the First Secretary of State, when this was discussed I am submitting this memorandum to enable the Cabinet to resolve the issue.

2. The IAC will shortly need to replace its fleet of twelve Viscounts. Their choice of a replacement will probably lie between the American DC-9 and the BAC 1-11 and the indications are that the BAC 1-11 would be the IAC's first choice. The order would be worth £9.5 million.

3. The Indians have made it clear that they will want to make repayments over ten years for whatever aircraft they purchase. It was agreed earlier this year that ten year credit could be extended for BAC 1-11 aircraft. The limit of £20 million which was fixed by the previous Administration in 1963 is already fully subscribed and a sale of the BAC 1-11s could therefore only go through if the limit were lifted to accommodate this particular transaction.

4. The Minister of Aviation, supported by the Commonwealth Secretary and by the Ministers of State, Department of Economic Affairs and Board of Trade, argued that the limit should be raised for the following reasons:

(a) Even on the most pessimistic assumption about the prospects of repayment, the sale would not involve any direct cost to our balance of payments since the down payments would exceed the import content of the aircraft. There would subsequently be sales of spares which would be paid for in cash. The transaction would boost the prospects for the sales of BAC 1-11s in other markets, with further benefit to the balance of payments. It cannot be assumed that, if the sale did not take place, the manufacturing resources would be used on exports elsewhere; and, in view of declining demand in the economy at the present time, the resources might well be left under-employed.
Aircraft are precisely the kind of technologically advanced export for which we should be prepared to make credit available. Even accepting that there might be some risk of having to re-finance repayments, we shall never succeed in building up our export potential if we are not prepared to take some risks.

The Indians, however, have always been punctilious in settling commercial debts, which this would be. There is no reason to suppose that they will change their policy in this respect. If they cannot buy aircraft from us, they will certainly buy them from a competitor. It is not clear that purchase of the aircraft would affect the amount of any re-financing of India's inter-governmental debt, but even if it did there is no reason why the British share of re-financing should be higher if the Indians bought aircraft from us rather than from a competitor.

If the Indians bought elsewhere, we should lose £1 ½ million annually of exports for cash in the form of spares for their existing Viscount fleet and the cash earnings from spares would go elsewhere.

To allow credit difficulties to stand in the way of the sale would be inconsistent with our commitment to maintain a viable aircraft industry.

Special assistance is not sought for the British Aircraft Corporation but only that they should be allowed to offer the same terms as their competitors.

The sale of British aircraft would help to improve our relations with India which have been under strain since the Indo-Pakistan war.

The Chief Secretary was unable to accept these arguments. His reasons may be summarised as follows:

(a) The Advisory Council of the Export Credits Guarantee Department has not been prepared to consider accepting this credit for insurance on normal commercial terms. Any decision to provide cover for it would therefore have to be taken by the Government in the national interest.

(b) The Indian economy is in an extremely grave condition. In the current year exports will finance less than half of total imports (and there is a further deficit on invisibles and capital account). All this deficit is financed by aid. Detailed forecasts for next year suggest that the position will be no better. There is bound to be a huge gap between imports and the finance to pay for them for several years to come.
It is contrary to our policy to offer credit cover in markets where there is no reasonable chance of repayment. In the case of India it is a question not of whether there is likely to be default on this particular debt, but of her overall financial position; the Indians will certainly have to ask for re-financing of intergovernmental debt; they may possibly ask at some future time for re-financing of commercial suppliers' credits as a number of other under-developed countries have done; and even if they do not make a request in this form, they will need increased help directly or indirectly and will look to the creditor country concerned for that help. A sale of BAC 1-11s would therefore be bound to lead to an increase in India's debts to the United Kingdom and we should seek instead to sell these aircraft in a more credit-worthy market.

The Plowden Committee did not recommend that the aircraft industry should be given any special assistance by way of credit cover.

It is accepted that if the Indians do not buy British aircraft, they will buy aircraft from one of our competitors. But our competitors would treat credit cover for a ten-year term as part of their aid programme. While we can match our competitors' commercial credit terms, we cannot match their aid programmes. To extend ten-year credit cover in the present case would only be acceptable if this were done as part of our aid programme; but the Minister of Overseas Development is unable to accommodate this within the present programme.

Conclusion

6. I invite the Cabinet to decide whether the £20 million ceiling on officially insured business with India should be raised to accommodate the sale of BAC 1-11 aircraft to the Indian Airlines Corporation.

D. P. T. J.

Board of Trade, S. W. 1.

11th November, 1966
CABINET

EDUCATIONAL EXPENDITURE IN GREAT BRITAIN 1967-68

Memorandum by the Secretary of State for Education and Science

I naturally find the Chancellor of the Exchequer's proposals for education (C(66) 158) unpalatable. If accepted, they would leave spending on education in Great Britain next year only 4 per cent above this year's figure. This compares with an increase of about 6 per cent for all public expenditure - 8 per cent excluding defence - and 10 per cent both for roads and public housing investment. In the National Plan we said that educational spending would increase rather faster than the average for all services. Although the link between education and long-term economic growth is generally acknowledged, the Chancellor now proposes to reverse the priorities.

2. Between this year and next, the school population will increase by 3 per cent and the number of students in higher and further education by at least 5 per cent. If educational expenditure increases only by 4 per cent, it will barely be possible to maintain the present level of spending per pupil or student.

3. Nevertheless, I realise that education must make its contribution, and I can reluctantly accept the Chancellor's proposals with one exception mentioned below.

School Meals (£12 million)

4. I believe that this can be justified, and that with suitable remission scales (already allowed for in the estimated savings) we can protect the position of large families. No doubt in the long run we shall alter the whole system of meals subsidies as part of a major new policy for family support; but in the short run I agree that we must face an increase from 1/- to l/6d. There will, however, be a considerable outcry both in the Party and amongst the parents affected.

Miscellaneous (£7, 0 million, including £3. 2 million from increases fees)

5. I can again reluctantly accept these cuts, although I must point out that half of them will fall on local authority spending and that they come on top of the cut in Miscellaneous Environmental Services, about 10 per cent of which (£3 million) will affect public libraries etc., regarded by many as part of the education service.
Direct Grant Schools (£1.0 million)

6. A cut in the grant at this stage would look like a vindictive attack on the direct grant schools and might damage the prospect of persuading them to play their part in our plans for comprehensive education. I would therefore prefer, and can promise, to save £1 million by other means.

Student support (£8.6 million)

7. These cuts, unlike the others, I find great difficulty in accepting. I must ask that they be re-considered on three grounds:-

(i) The Chancellor’s proposed cuts in educational spending need to be scaled down at some point in order to redress the imbalance described in paragraph 1 above, i.e. in order to bring education back to the priority which it held in the National Plan. For reasons described below, this is where I should prefer the scaling-down to occur.

(ii) We shall, even without these cuts, have major rows next spring over school meals and also teachers’ salaries; this would add a third (and monumental) row with the students. The whole educational world, which hitherto has been comparatively quiet, would be simultaneously in uproar. I am prepared to face the rows, but would prefer to space them out a bit.

(iii) The proposed cuts are extremely severe on the students. (The Annex gives details). In a full year they would amount to a cut of £13 million in the present total figure of student support of £100 million — a cut of 13 per cent. Half the proposed cut (in the vacation grant) is a reduction of the order of £25 in the grant of every British student. The other half comes from an increase in the parental contribution which, on the contrary, not only the Anderson Committee in 1960 but also our own Taylor Study Group proposed to abolish; to raise contributions, and so increase the dependence of students on their parents, would provoke a severe and well-justified reaction. Moreover, following the report of the inter-departmental Working Party on Student Support, I am planning to introduce major changes in the system from September, 1968, and hope then to be able to offer the firm prospect of substantial long-term savings. The outcry caused by cuts now would make these long-term savings almost impossible to achieve.

C. A. R. C.

Department of Education and Science, W. 1.

11th November, 1966

-2-
Reducations in the Value of Student Awards

The amounts by which the value of awards would be reduced under the two proposals in paragraph 25 of the Report annexed to C(66) 158 vary according to parental income and are shown for a typical student in column (2) of the table below.

If the parent of the student wanted to compensate his child for the reduction, the amount he would have to pay from his gross income, before deduction of income tax, would be as shown in column (3).

<table>
<thead>
<tr>
<th>Parental Income (£ p. a.)</th>
<th>Reduction in Value of Award (£ p. a.)</th>
<th>Equivalent of (2) in Taxable Income (£ p. a.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 850</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>1,000</td>
<td>25</td>
<td>32</td>
</tr>
<tr>
<td>2,000</td>
<td>48</td>
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<td>98</td>
<td>154</td>
</tr>
<tr>
<td>5,000</td>
<td>25</td>
<td>39</td>
</tr>
</tbody>
</table>
14th November, 1966

CABINET

DRAFT WHITE PAPER ON PRICES AND INCOMES CRITERIA DURING THE PERIOD OF SEVERE RESTRAYOUT

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

As I reported to the Cabinet on Thursday, 10th November, discussions with the Confederation of British Industry (CBI) and Trades Union Congress (TUC) on the draft White Paper setting out the criteria for prices and incomes during the period of severe restraint have proved difficult. There were signs on both sides of a desire to minimise the role of the Government in securing the application of the criteria to individual cases, particularly in respect of claims and proposals for increased pay. I have now had further discussions with Mr. Davies of the CBI and Mr. Woodcock of the TUC as a result of which I now feel more confident that we can secure a wide measure of agreement about the national need for exceptional restraint although it is clear that we shall not be able to carry the two bodies to the point of wholly endorsing the criteria. The principal objectives which I have had in mind in these discussions have been:

(a) To involve the CBI and the TUC in securing observations of the criteria for securing restraint.

(b) At the same time to ensure that the involvement of the CBI and TUC does not unduly diminish the role of the Government.

(c) To secure that the White Paper, even if not wholly endorsed, is not wholly rejected by either the CBI or the TUC.

2. As a result of my further discussions the area of difference has been considerably reduced. The revised draft of the White Paper, annexed, reflects the progress made in these discussions as well as points made by my colleagues at the Prices and Incomes Committee on 7th November and the Cabinet on Thursday, 10th November (CC(66) 56th Conclusions).

3. The main points outstanding are the following:

   (i) Public Service Pay. This is discussed in a separate memorandum (C(66) 156).

   (ii) Private Sector Salaries. There is still a difficult issue over standing commitments to review pay and salary increases which have been deferred under the standstill. It was stated in Cmnd. 3073 that the standstill would not interfere with normal arrangements for
increasing pay "by means of regular increments of specified amounts within a pre-determined range or scale". The effect of this rule, which was devised in order to maintain a clear dividing line between regular salary increments and more general wage and salary increases, is that salary increments are free to go ahead in those employments (notably the public services) where they take the form of specified steps up a scale, whereas those employers who determine the amount of increments on the basis of individual merit at managerial discretion are prevented from paying any increments until the middle of 1967. The CBI and management generally are pressing very strongly indeed for some relaxation of this rule, which would enable these mainly salaried and managerial staffs to receive salary increases during the first half of 1967. On the other hand, the TUC strongly oppose any concession, pointing out that large numbers of manual workers will be unable to secure pay increases during the period of severe restraint. The general view of the Ministerial Prices and Incomes Committee is that we must resist making any concession on this point. The CBI in particular have, however, warned the Government that, if the White Paper is published without some relaxation of the existing restraint on salaries, they will be forced to inform their members that they find this totally unacceptable.

Subject to consideration of these outstanding points, I think that the outcome of these discussions is not unsatisfactory and I recommend that the White Paper should be published as soon as possible - probably on Monday, 21st November. We must, of course, recognise that the practical influence of both the CBI and TUC over their respective members is limited. Nevertheless, it is clear that we shall make much better progress with their co-operation than without it and I think that there is now a good prospect that co-operation during the period ahead will be forthcoming.

M.S.

Department of Economic Affairs, S.W.1.

14th November, 1966
I Introduction

The need for a standstill on prices and incomes was explained by the Prime Minister on 20th July 1966 and the way in which it was proposed that the standstill should be applied was set out in the White Paper, Cmnd. 3073.

2. The object was to avoid increases in prices or in incomes so far as possible during the period from 20th July to the end of 1966 and to regard the first half of 1967 as a period of severe restraint by all who are concerned with determining prices and incomes. The Government undertook to consult the Confederation of British Industry, the Trades Union Congress and other interested parties on the form which the stringent criteria for the first half of 1967 should take. These consultations have now been completed and have shown a wide measure of agreement about the national need for exceptional restraint although it cannot be said that the criteria as set out below have been wholly endorsed.

3. The national response to the call for a standstill has been extremely encouraging. Management and unions, with very few exceptions, have done their utmost to support the standstill and the Public generally have shown their willingness to comply with the requirements of the standstill, even though this has entailed sacrifices by many people.

4. Although the Government has been obliged to bring Part IV of the Prices and Incomes Act into operation they hope that severe restraint will be observed on a voluntary basis, and that the same general responsible attitude which has marked the period since 20th July will continue. The Government will use their statutory powers only to ensure that the voluntary support of the majority is not undermined by the actions of a few.

5. The six months of severe restraint will call for a continuation of personal restraint and readiness to accept some sacrifice of immediate personal benefit in the interests of the whole community. The guiding principle must be that of national economic and social priorities. The Government are determined to see that prices, employment incomes and other forms of money incomes, including professional fees and dividends, are subject to the conditions of severe restraint. During the coming months, the Government will consult the interested parties about the best way of carrying forward the productivity, prices and incomes policy after 30th June 1967.
II PRICES AND CHARGES

1. The Government recognise that there has been some concern during the standstill period about increases, particularly in retail prices and charges by the service industries and trades. It was recognised from the outset by the Government that it would not be possible to rule out limited increases in some prices and charges as a result of changes in world prices, seasonal fluctuations in supply or increased taxation. There has been considerable success in holding the general level of prices so far, but this in no way lessens the need for all concerned to strive to keep any increases to a minimum and to work continually for price reductions.

2. Throughout the period of severe restraint until the end of June 1967, just as in the standstill period to the end of 1966, the criteria for increases in prices or charges must necessarily be much more stringent than those set out in the White Paper on Prices and Incomes Policy (Cmd.2639, Part I, paragraph 9). During the period of severe restraint, all enterprises both in the private and the public sectors will be expected to make as great an effort as possible to absorb increases in cost whatever the circumstances in which these arise. The Government believe that they can rely with confidence on the voluntary co-operation of the great majority of those who are in a position to determine the movement of prices and charges. In appropriate cases proposals will be referred to the National Board for Prices and Incomes. Where those responsible for determining prices act in clear breach of the severe restraint criteria the Government in consultation with the C.B.I. and the T.U.C. will consider action under Part IV to ensure that the national interest prevails.

3. Reductions in prices wherever these can be achieved are very important both on their own grounds and in order to offset unavoidable increases elsewhere. The criteria for price reductions which were set out in paragraph 10 of Part I of the White Paper (Cmd.2639) remain valid. These laid emphasis on the principle that reductions in costs per unit of output should normally be reflected in reduced prices. The removal of the import surcharge at the end of November should offer scope for price reductions.

4. It is recognised, however, that some increases in prices may prove unavoidable. The circumstances in which such increases may be justifiable are set out in the following paragraphs.

Criteria for Price Increases

5. As indicated in paragraphs 4 and 5 of Cmd.3073, price increases may be justified where there has been a marked increase that cannot be absorbed in the costs of imported materials or in costs arising from changes in supply for seasonal or other reasons, or which are due to action by the Government, such as increased taxation; or where an enterprise finds itself faced by increased costs which it is unable to restrain, and which are too large to absorb fully, such as the cost of bought-in components forming a large part of its total costs. There may also be exceptional circumstances in which without some increase in price the receipts of an enterprise are not adequate to enable it to maintain efficiency and undertake necessary investment.
6. In examining proposed price increases, it will be necessary to take into consideration, where appropriate, the relationship between particular increases in costs that have been sustained and the total costs of the enterprise concerned and the relationship between the efforts made to absorb increases in costs and the overall profitability of the enterprise.

7. In general, it is to be expected that restraint upon incomes, under the strict criteria set out below, will keep down increases in labour costs. This should increase the opportunity to absorb them and thereby to hold or reduce prices.

Type of Price Covered

8. These criteria for price behaviour during the first half of 1967 will apply to all prices and charges of goods and services, whether provided by public or private enterprise. It is essential that wholesalers and retailers should apply these same criteria to their prices just as much as manufacturers.

9. All concerned in the negotiation of prices under individual contract during the period of severe restraint should equally have full regard to the above criteria.

Arrangements for Notification

10. The effectiveness of the policy of severe restraint on prices, and public acceptance of the restraint which as wage and salary earners and pensioners they are expected to observe, require that the Government should have an adequate opportunity to consider in advance proposed increases in prices. It would not, however, be possible to require prior notification of every price change across the whole field of wholesale and retail trading involving a vast number of different items.

11. In many cases, detailed arrangements for advance notification of proposals by manufacturers to increase prices already exist by agreement between Government Departments and representatives of various industries and trades under the early warning scheme described in Cmnd.2808. It is intended that these arrangements should continue to be applied during the period of severe restraint together with similar arrangements made with other industries with which discussions are now in progress.

12. The Government intend that there should be sufficient flexibility in these arrangements to ensure that they adequately reflect the differing circumstances of different industries. It is envisaged that arrangements of this type agreed in accordance with paragraph 6 of Cmnd.3073 or arising out of arrangements made in accordance with paragraph 10(a) should progressively replace the existing general request for advance notification that was made in paragraph 9 of Cmnd.3073.

Criteria after June 1967

13. Guidance for those concerned with the determination of prices and charges after 30th June 1967 will be given after consultation with the C.B.I. and the T.U.C.
III RENTS AND RATES

Private Housing Rents

III 1. The level of rents charged by landlords for virtually the whole of the private housing sector is already determined within the statutory framework of the Rent Acts. The Government are continuing to keep the movement of rents of private housing under close scrutiny.

Local Authority Housing Rents

III 2. Local authorities are by law responsible for determining the rents they charge and are required by statute to balance the housing accounts year by year. Increased costs not met from rents must generally be recouped from the rates, and authorities are under a legal duty to hold the balance fairly between tenants and ratepayers. By their responsible attitude during the period of standstill they have already given significant support to the Government's policy on prices and incomes. Only 25 out of 1,600 authorities in Great Britain have found it necessary to increase rents in this period. During the period of severe restraint the Government will look to them to avoid or limit any increase as far as they can, and where rent increases prove inevitable they will expect them to protect tenants of modest means by the application of rent rebates.

Rates

III 3. Local rates are a form of taxation, although they also enter into the cost of living, and are necessary to finance the whole range of services to the residents of the area provided by the local authority. Local authorities have been urged to ensure all proper economies in expenditure.

Rents of Business Premises and of Land

III 4. Because of their effect on the prices of goods and services, it is important that increases in the rents of business premises and of land should be severely restrained up to the end of June 1967, and Government Departments have given a lead by arranging to forgo, until the end of June 1967, negotiated rights to higher rents for business premises, and for land, which become effective during the standstill or the following period of severe restraint. Private landlords are expected to have full regard to the need for severe restraint.
IV. INCOMES

The main objectives on the incomes side during the period of severe restraint are to ensure that any rise in money incomes in the first half of 1967 is kept to the minimum; to develop arrangements for assessing claims for special treatment according to the criteria for the period of severe restraint set out below and to ensure a planned growth of money incomes in line with productivity after it has ended; and to promote social justice. The need is to secure that in future the parties concerned are influenced to a greater extent by a more objective assessment, against the wider background of the national interest, of the merits of a particular case before a final decision is reached.

Employment Incomes

IV. 2. As stated in Cmnd. 3073 it would defeat the intention if any attempt were made to make good in subsequent negotiations increases forgone as a result of the standstill and severe restraint.

IV. 3. As in the case of the standstill, severe restraint will apply to increases in pay and reductions in working hours (including increases in holidays) but not to other conditions of service, except in so far as these are likely to add significantly to labour costs. Paragraphs 17 and 18 of Cmnd. 3073 will continue to apply for the purpose of determining "increases in pay" during the severe restraint period. Reference to salaries

IV. 4. During the first six months of 1967 the considerations affecting incomes policy agreed between the Government, management and unions in April 1965 and set out in the White Paper on Prices and Incomes Policy (Cmnd. 2639) will continue to be in abeyance. In particular, the "norm" for the annual rate of increase in money incomes per head will be zero. Increases in incomes during this period will be justified only in exceptional cases where they can be shown to meet the following criteria for exceptions, and even then only on a severely limited scale. These criteria apply to private and public sectors alike. They apply equally to arbitration and similar awards and to negotiated settlements.

Productivity

IV. 5. Agreements designed to increase productivity and efficiency have an important part to play in improving our national economic performance and will be given priority during the severe restraint period. It will be necessary to ensure, however, that increases in pay or reductions in hours which are claimed on grounds of contribution to productivity serve the national interest as well as the interests of the workers and managements concerned. As stated in Cmnd. 2639, the employees concerned should make a direct contribution towards increasing productivity, for example, by accepting more exacting work or a major change in working practices and some of the benefit should accrue to the community as a whole in the form of lower prices or improvements in quality. Payment of increases on these grounds should be dependent upon the firm assessment of the improvement in production and not paid "on account".
Lowest paid workers

IV 6. Improvements of the standard of living of the worst-off members of the community is a primary social objective. As in practice the needs of individual workers are largely determined by the extent of their family commitments, the Government will continue to give a high priority to measures specifically designed to meet family needs. However, it will be necessary to ensure that any pay increases justified on these grounds are genuinely confined to the lowest paid workers and not passed on to the other workers. It will be necessary to take into account both earnings and hours worked.

Distribution of Manpower

IV 7. During the severe restraint period only in the most exceptional cases can a pay increase be justified in order to attract or retain manpower. Such cases will be subject to the closest scrutiny in the national interest. Where there is a shortage of labour to undertake essential work, every effort must be made to meet the shortage by a more effective use of the manpower available.

Comparability

IV 8. Similarly, pay increases will not in general be regarded as justified during the period of severe restraint on the grounds of comparison with the level of remuneration for similar work or on the grounds of narrowing of differentials. There may be exceptional circumstances in which some immediate improvement in pay is imperative to correct a gross anomaly. Such cases will have to be strictly examined to ensure that severe restraint is not undermined. It will be necessary to ensure that any such improvement is strictly confined and not used as an excuse for "catching up" increases for other groups.

IV 9. Claims based on existing links with other groups must be considered individually on their merits against the criteria for incomes set out above.

Existing Commitments

IV 10. The operative dates of commitments to increase pay or reduce hours by specified amounts entered into on or before 20th July 1966, which were originally due to be implemented before the end of 1966, should be deferred for six months in accordance with the White Paper (Cmd. 5073). The operative dates of such commitments which were originally due to be implemented in the first six months of 1967, should be deferred until at least 1st July 1967, unless they are regarded by the Government as satisfying the criteria for the period of severe restraint set out above. As stated in the White Paper (Cmd. 5073), it will also be open to the parties to existing commitments to renegotiate their agreements in order to conform with the severe restraint criteria.

IV 11. Where, however, a previous commitment for a pay increase or reduction in hours (other than a minor improvement or an increase under a cost-of-living sliding scale arrangement) affecting the same group of workers has already been deferred as a result of the standstill, a subsequent commitment can be implemented without deferment.
II A. Where commitments existed on or before 20th July 1966 for a pay increase or an hour's reduction to be operative prior to that date, but the amount had not by then been determined, the operative date should be deferred by six months. Where, however, commitments existed on or before 20th July for pay increases to be operative from a later date the amount of which had not by then been determined, the operative date should be deferred until at least 1st July 1967, except insofar as earlier payments can be shown to be justified against the severe restraint criteria.

IV 12. The operative dates of pay increases under cost-of-living sliding scale arrangements which were originally due before the end of 1966 should be deferred for six months in accordance with the White Paper (Cmnd.3073). The operative dates of such pay increases which were originally due in the first six months of 1967 should be deferred until at least 1st July 1967.

The Public Services

IV 12A. Employers and employees in the public services will be under the same obligations to observe the criteria for the period of severe restraint as the rest of the community.

IV 12B. Where commitments existed on or before 20th July 1966 for a pay increase or an hour's reduction to take effect before the end of 1966, but the amount had not been determined by 20th July 1966, the operative date should be deferred for six months. Where such commitments were due to take effect in the first half of 1967 the operative date should be deferred until at least 1st July. In either case, earlier payments should only be made insofar as they can be shown to be justified under the severe restraint criteria.

IV 12C. Discussions will be held with the representatives of the groups of staff concerned on the application of these general principles in cases where commitments for pay increases or hours reductions existed on or before 20th July 1966 but the amount had not been determined by then.

IV 12D. No increase in the pay of the public services will be paid in the first half of 1967 unless it can be shown to be justified under the criteria set out above. Increases, payment of which has been deferred until at least 1st July 1967 will, if substantial, be paid in instalments as necessary.

Arrangements for guidance on claims and proposals to increase pay

IV 13. Under the "early warning" arrangements which were described in the White Paper: "Prices and Incomes Policy: An 'Early Warning' System" (Cmdn.2808), the C.B.I. and the T.U.C. receive information about claims and proposals to increase pay from their own members. The Ministry of Labour receive similar information about claims and proposals to increase pay from the
T.U.C. and C.B.I., from organisations which are not members of either of these bodies and directly from firms and employers' organisations in the case of local and company negotiations. These arrangements will continue and will be of even greater importance during the severe restraint period.

IV 14. Information is required about claims and proposals to increase pay or reduce hours (including pay and productivity proposals) relating to national, local and company negotiations. For practical reasons, however, such information covering less than 200 employees need not be notified to the Ministry of Labour unless it is regarded as significant either because of the nature of the claim or because of the possible repercussions on the pay of other groups. All the parties to claims and proposals to increase pay, whether at national, local or company level, are expected to conform to the severe restraint criteria, whether or not the claim or proposal has been notified.

IV 15. On receipt of information under these arrangements the Government will consider whether the proposals are consistent with the criteria described above and will make any further enquiries that may be necessary. The object will be to ensure that any settlement reached (or pay increase awarded) is consistent with the national interest. Appropriate cases will be referred to the National Board for Prices and Incomes. If the parties concerned reach a settlement in clear breach of the severe restraint criteria, the Government, in consultation with the T.U.C. and C.B.I., will consider action under Part IV of the Prices and Incomes Act, 1966, to ensure that the national interest prevails. It will be the aim of the Government, in consultation with the C.B.I. and the T.U.C., and with the help of the N.B.P.I. in individual cases, to secure the effective and consistent application of the severe restraint criteria to claims and proposals to increase pay.

Criteria after June, 1967

IV 16. Guidance for those negotiating settlements to take effect after 30th June, 1967 will be given after consultation with the C.B.I., T.U.C. and other interested parties. In the meantime, however, it should be generally understood that the country cannot at present afford any further general reduction in the standard working week or general movements towards longer holidays. The economic effects of shorter hours and longer holidays can be as important as those of straight pay increases. Thus improvements in pay, hours and holidays and other conditions of service likely to add significantly to labour costs need to be considered together for the purposes of incomes policy. The recent tendency to seek improvements in pay or hours (or both) at intervals of 12 months or even less has added considerably to our economic difficulties. It should also be generally understood that if the cost of living is to be stabilised in future, there should not be increases based on automatic cost-of-living sliding scales in addition to negotiated pay increases. A more co-ordinated approach to wage and salary questions among employers and trade unions will be needed to help determine the relative economic and social priorities of competing claims on behalf of different groups and sections of the community.

Other Forms of Income

IV 17. The criteria for employment incomes during the period of severe restraint should be applied to all other forms of personal incomes. Those who are responsible for determining or are capable of influencing the incomes of self-employed persons should therefore be guided by these criteria. In some cases,
however, it may be more appropriate to apply the criteria for price behaviour, e.g. in relation to charges or fees of self-employed persons. Appropriate cases involving non-employment incomes will be referred to the National Board for Prices and Incomes.

Pensions

IV 18. Proposals to increase existing pensions and similar benefits should take into account the same criteria to be applied to proposed increases in employment incomes. The incomes of many occupational pensioners are still small and some increases may therefore be justifiable and accepted as a priority by those still in employment who are being asked to exercise restraint, as well as by the better-off pensioners whose claims are less urgent. These criteria do not however apply to the introduction of new pension schemes or improvements to existing pension schemes which do not involve an increase in pensions already in payment, since these are different in character. In considering any pension proposals, regard should be had to the cost of pension provision as an element in labour costs.

Profits and Dividends

IV 19. The Government are pledged to use their fiscal powers or other means to deal with any excessive growth in aggregate profits. The Government have already made it clear that the standstill will continue to apply to all company distributions in the first half of 1967 (paragraph 31 of the White Paper "Prices and Incomes Standstill"). Up to 20th July, 1967, companies should not distribute more to shareholders in respect of a financial year than in the preceding financial year, nor should they pay out more in the twelve months after 20th July, 1966 than in the twelve months before that date. If any company thinks that there might be imperative reasons for not observing this standstill, the Treasury should be consulted beforehand.

V NATIONAL BOARD FOR PRICES AND INCOMES

V 20. The National Board for Prices and Incomes has been reconstituted on a statutory basis in accordance with Part I of the Prices and Incomes Act, 1966. The Government, the Confederation of British Industry and the Trades Union Congress believe that the process of independent examination by the Board will be of particular importance during the period of severe restraint and the Government will refer to the Board appropriate cases relating to prices and incomes for examination in the light of the above criteria. The Government will also continue to refer to the Board matters of longer term significance in the field of productivity, prices and incomes.
14th November, 1966

CABINET

HOUSING PROSPECTS

Memorandum by the Minister of Housing and Local Government

I have already given my views in PE(66) 13. Since then, figures for September have become available and also the latest survey of Speculative Builders' intentions. These confirm the forecasts and analyses then made.

2. It seems to me that the salient features of the situation are -

(a) Unless action is taken now there is a considerable chance that no more than 400,000 houses will be completed in Great Britain in 1968. To do better than this, private builders will have to start more than 190,000 houses in 1967. There can be no certainty of this since they expect to start only 180,000.

(b) If this should happen, i.e. 180,000 starts only, completions in our first four years of office compared with the last year of the previous Government would be:

<table>
<thead>
<tr>
<th>Year</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>374,000</td>
</tr>
<tr>
<td>1965</td>
<td>382,000</td>
</tr>
<tr>
<td>1966</td>
<td>380,000</td>
</tr>
<tr>
<td>1967</td>
<td>396,000 to 406,000</td>
</tr>
<tr>
<td>1968</td>
<td>390,000</td>
</tr>
</tbody>
</table>

3. There is a strong demand for new houses for owner occupation. The check to private building has so far not been caused by lack of customers but by the inability of potential customers to get mortgages. Building Societies have been rationing their advances for some considerable time and when local authorities resumed lending on an appreciable scale early this summer, the demand upon them for mortgages was heavier than anyone expected (the Greater London Council have already almost exhausted their quota for the whole of the financial year).

4. As long as demand is so strong, the major uncertainty affecting the housing programme is the future course of the Government's economic policies, since these determine the availability of money for lending. If there is general reflation or if movements in interest rates make the Building Societies investment rate relatively more attractive, Building Societies are likely to attract more funds and so be able to lend on a larger scale. In the absence of general reflation, if measures of selective reflation released funds to finance mortgages, we might get the same result. Until one of these happens, private house building
will continue at about its present depressed level. In the interim we must have the increased public sector building programme for which I am asking to keep house building at a level which makes our pledges credible.

5. The Public Expenditure Committee (paragraph 21 of their report annexed to C(66) 158) propose that the option mortgage scheme for new borrowers be postponed from October, 1967, when it could be brought into operation to 1st April, 1968. The saving would only be £1.5 million, but the political consequences of yet further delay in proposals originally made in our 1964 campaign will be serious. So indeed will the effect on the confidence of private builders.

6. I cannot, therefore, accept the Chancellor's proposal in C(66) 158 that a decision on my request be postponed, since unless a decision is made now the houses will not be completed in 1968. I therefore ask my colleagues to agree to £35 million additional investment in local authority and New Town housing in England and Wales in 1967-68 and to the introduction of option mortgages for new borrowers in October, 1967.

A. G.

Ministry of Housing and Local Government, S.W.1.

14th November, 1966
CABINET

PUBLIC EXPENDITURE: SPACE POLICY

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate the attached report on space policy by the Official Committee on Science and Technology for consideration by the Cabinet at their resumed discussion on public expenditure on Thursday, 17th November.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

15th November, 1966
SPACE POLICY

Report by the Official Committee on Science and Technology

1. The issues relevant to our space policy have been summarised in an earlier report to Ministers (attached to C(65) 180). This further report seeks to reassess these issues in the light of subsequent developments so that Ministers may consider against that background:
   (a) what resources should be devoted to our space programme as a whole, having regard to expenditure on research and development in other fields of technology;
   (b) the balance of the present space programme;
   (c) the case for the continuation of the BLACK ARROW and national space technological programme;
   (d) whether we should participate in the proposed programme of the European Conference on Satellite Communications (CETS) for the collaborative development of a European communications satellite; and
   (e) whether we should participate in a United States/European advanced space project.

A. Space programmes in relation to other technological developments

2. Leaving aside defence expenditure on space (£2.7 million in 1966-7) which is mainly for participation in a world-wide military communications satellite system and which will be met from the defence budget, the present estimated expenditure by Government Departments and the Post Office on approved space programmes for 1966-7 is £18.8 million (Table 1). The total estimated expenditure on civil research and development (including space) in the public sector for 1966-7 is £292 million (Table 2). This includes expenditure in the Universities (£48 million), and by the nationalised industries and public corporations including the Post Office (£29 million).

Thus, the space programme amounts to 6.4 per cent of the total. This compares with Atomic Energy Authority programmes 17.5 per cent, Research Councils 19.5 per cent, Universities 16.5 per cent, and the Ministry of Technology programmes (excluding atomic energy) 6.3 per cent, (Table 2).

3. Our expenditure on space (about 0.065 per cent of GDP) is of course trivial in comparison with that spent by the United States (estimated £1.790 million in 1966, which is 61.4 per cent of all civil research and development expenditure paid by Federal funds and 0.8 per cent of GDP). However, although it is comparable to that estimated by France (£25.6 million 0.09 per cent GDP) and Germany (£21.30 million, 0.06 per cent) their contributions to international programmes is a much smaller proportion of their total (39 and 60 per cent respectively), than it is of ours.
(86 per cent). The stated cost of the Japanese space programme (£4,58 million in 1966) is only a quarter as much as that of the United Kingdom, but this appears to be considerably under-estimated and the real cost is unknown: nevertheless the Japanese hope to achieve a satellite capability from this modest programme.

4. About 940 qualified scientists and engineers are at present engaged on research and development on the civil space programme, of whom 350 are intramural. This compares with a total of 14,500 qualified scientists, engineers and technologists employed on research and development by the central government, nationalised industries and public corporations (including the AEA). That is, the intramural staff of the public sector working on space represent 2.4 per cent of the total. The total number of qualified scientists and engineers engaged on research and development in the manufacturing industry in 1965 was 37,000; of which 11,300 were employed by the aircraft and electronics industries; thus the extramural professional staff of 590 employed on our space programme was just over 5 per cent of those in the latter two industries. The total labour force employed on space work in British industry in 1964 was estimated at 3,000 about 1 per cent of the work force in the aircraft and electronic industries.

5. The balance of the space programmes as a whole

5. Our resources do not permit our activities in space to cover the whole field, and we seek to relate them to those particular aspects which most closely affect our national interests. Excluding military uses (where our major interest is in communications), these are scientific space research and satellite communications.

6. Our scientific space research programme consists of basic research in the Universities, work at the Radio and Space Research Station and, in collaboration with the National Aeronautic and Space Administration, the launching of a scientific satellite (UK3). We also participate in the European Space Research Organisation (ESRO) to which we are bound by its Convention to contribute a proportion (currently 25 per cent) of its expenditure which is subject to a ceiling of £110 million over eight years (until 1972). The total estimated cost for all these programmes in 1966-7 is £5.5 million, rising to £7.25 million in 1971-2. (Table 1).
On satellite communications we have no direct work in progress aimed at communications satellite technology, but our expertise has benefited over the last three years from a small basic programme on satellite technology which is virtually at an end pending a decision on the BLACK ARROW programme (see paragraph 9) and we are currently spending about £1.0 million per annum on general space technology. Most of this is intramural expenditure. We also participate in the programmes of the Interim Communications Satellite Committee (ICSC) which is an international consortium set up in 1964 with the object of developing a global system of satellite communications. Our share (7.6 per cent) is estimated to cost £1.25 million per year up to 1970 when the present interim organisation will be replaced. In addition the Post Office, as part of its normal commercial investment in communications, is extending our satellite earth station at Goonhilly Down in Cornwall at an expected cost of £2.4 million. In the launcher field, which is incidental to the preceding interests, we participate in the European Launcher Development Organisation (ELDO) whose programme includes the construction of a demonstration satellite (£11.0 million in 1966-67 dropping to £1.4 million in 1971-72) and, pending Ministerial decisions, we have holding contracts on BLACK ARROW, which if the full programmes were agreed (see Section C) would cost £3.55 million in 1966-67 rising to £5.3 million in 1971-72.

In 1966-67, 30 per cent of our space programmes (excluding BLACK ARROW) comprises scientific space research, 7 per cent relates to satellite communications, 53 per cent to launcher development and 5 per cent to general satellite technology. In 1971-72, these percentages would be 67 per cent, 11 per cent, 13 per cent and 9 per cent respectively (Table 1). Further programmes which are described in sections C-E below, and which are under consideration in the light of our interests will, if agreed, obviously affect the balance of these programmes and their effort will be discussed later (see paragraph 27).
9. This programme covers:

(i) The further development and construction of a small satellite launcher (BLACK ARROW) designed (a) so that satellite components and sub-assemblies can be proved in actual space conditions and (b) so that direct practical experience can be obtained of the problems of injecting satellites into prescribed orbits and of controlling them there and

(ii) continued research into basic technology of satellites, and their development and manufacture.

10. Both parts have been planned as a single integrated and self-contained project. The experimental components in the satellites launched by BLACK ARROW would enable us to develop an independent capability in satellite design, to demonstrate to prospective customers the viability of our components in space. The programme does not have an operational satellite, for communications or other purposes, as its end product. The total cost, including telemetry and tracking facilities, over the next eight years (1967-75) is estimated at £41.4 million (Table 3).

11. Savings could be obtained by either:

(a) reducing the number of satellite launchings from five to three in the development phase and from three to one per year in the utilisation phase as well as, at some technical risk, the ground test programme. This would afford a total saving of £15 million; or

(b) discontinuing the development of the launcher and buying foreign launchers for either the full or reduced utilisation phase. If foreign launchers are purchased there would be certain technological disadvantages. Moreover the exploration of new ideas in space technology would be dependent on the availability of such launchers and involve disclosure of our intentions to the suppliers of the launchers. This would yield a net total saving over the eight years of between £7 and £13 million depending on the type and number of launchers bought, but the element of expenditure in foreign exchange would be increased by between £4.5 million and £12 million. (Table 3).
Another option would be to discontinue the present programme completely, and continue with basic satellite technology only at an expected cost of £1.5 million a year. This would mean we should have no independent means of proving components or sub-systems in space, and the exploration of new ideas such as low thrust systems would not be possible. The level of expertise at the Royal Aircraft Establishment (RAE) would diminish and it would be difficult to keep a high-quality team in being. It would also preclude us from playing a useful part in the CETS programme (see Section D below). The technical value of such a limited programme would not justify the expenditure involved. The Department of Education and Science points out that if, as a result of restrictions in the space technology programmes, the expertise and technical facilities available in the United Kingdom were to decline, then our space scientists would increasingly have to rely on advice and technical support from abroad.

D. The proposed programmes of the European Conference on Satellite Communications (CETS)

The present CETS plan, which has still to be approved by other member Governments (see paragraph 24), has recently been revised to take account of the changed ELDO programme and consists of three stages: (i) the exploiting of any available ELDO firings to carry ad hoc communication and satellite technological payloads; (ii) the development of experimental communications satellites to serve as test vehicles for possible future technical developments, the latter being combined with certain laboratory programmes for communication and satellite technology; and (iii) design studies and experimental development of future applications for satellites, such as television broadcasting and navigational and meteorological purposes. This last stage would begin with economic and feasibility studies and associated experimental work (ending in mid-1971) to determine the extent to which it is worth proceeding with further development. The object of the whole programme is the co-operative development of a European capability over a wide range of communications satellite uses, including the possibility of a European contribution of equipment to the global system, and to meet possible future European requirements for regional satellite systems, particularly for television broadcasting but also for navigation and meteorology. (The Post Office consider that satellites are unlikely to prove economic for telecommunications within Europe, even if no account is taken of launcher and satellite development costs.) As currently planned, however, the second phase will be concerned only with the development of communications satellite technology. The cost of the programmes to mid-1971 (end of the preparatory work for the third stage) is estimated at £34 million, of which the United Kingdom share would be £8.5 million (25 per cent). If we agreed to
participate only in the second stage and the preparatory work for the third stage and as would be prudent, add a further 25 per cent contingency to the present estimated cost of the development work on the second stage, the cost to the United Kingdom would be about £29.7 million up to 1971-72 (Table 3). In its revised form the plan offers a more acceptable basis for participation as well as an end use for the ELD0 launcher development to which we are now committed. However, the utilisation of these new applications of satellites would need to be agreed with the European and international bodies concerned such as the World Meteorological Organisation and the International Telecommunication Union. This need not, however, delay the economic and feasibility studies with which the third stage is to begin.

14. The second and third stages of the plan are designed to form a continuing programme, subject to the satisfactory outcome of the studies and experimental work which open the third stage. Although it would be possible to share only in the work on the second stage, which would develop our communications satellite technology at a cost of about £30 million, there would be little point in our doing so if it were then our intention to withdraw. It would be the third stage at which we should be enabled to play a part in the other uses of satellites if we so desired. There would, however, be no commitment to the third stage beyond 1974 and the results of the economic and feasibility studies could provide a break-point at which we could withdraw if they suggested that it would be financially or technologically not in our interests to continue.

15. It should be stressed that the CETS programme has been based on the assumption that there would be supporting national programmes in member countries. Thus although, subject to the points made in paragraph 23, we could carry out the national programme and not participate at all in the CETS programme, we could not play our part in the CETS programme without at least some supporting national space programme - though it would not be essential for this to be on the scale of the full BLACK ARROW programme. Before discussing the minimal size of this supporting national programme (paragraphs 20 and 21) it will be useful to compare the objectives of the two.

16. The national space programme is a research programme designed to achieve a national space technological capability, using national launchers, which will give us the competence for a wide range of national or international activities in a field in which the potentialities may be of considerable importance to us but are still unknown. The CETS programme arises from a political desire amongst members of CETS to develop a communications satellite
capability independently of the United States. Its avowed objective is to improve European space technology and in particular to enable Europe to provide equipment for use in the global system. But some countries may well see it as leading to the establishment of a separate European sub-system either for point-to-point communications, which would in our view be doubtfully practicable on commercial and political grounds, or for television relay or other applications, which may prove of much greater importance. The two programmes would not duplicate each other technically, although there might be some slight overlapping.

E. Participation in an Advanced Space Project

On Presidential initiative the United States Government has proposed collaboration with Europe in developing a space-craft for any form of advanced scientific mission - a probe to Jupiter seemed to be the most promising - although the final choice would lie with European scientists. If it were agreed to participate Europe would be responsible for the management and control of the project: the United States would provide the launcher, launching and use of the deep space tracking network. The total cost to the United Kingdom of a project of the kind envisaged, which would start in 1968, is at present estimated to be £9.0 million (£6.0 million up to 1971 with the further £2.5 million, falling mostly in 1972) though the United States would be willing, if necessary, to defer funding until 1972. This expenditure (Table 3B) would be in addition to our present ESRO contribution (vide Table 1).

The Science Research Council, although accepting that there is a high scientific interest in the project, have stated that such expenditure could not be justified on scientific grounds alone. Nor could they find the funds for it from the resources likely to be at their disposal. Indeed, if extra money were available, they would prefer to use it to support other scientific projects which have already been deferred.

It has been strongly emphasised by the United States National Aeronautic and Space Administration (NASA) that the mounting of such a mission will necessitate many advanced technological developments in which all participants will share, and these in turn will lead to indirect technical benefits ("spin-off"), which, though not directly quantifiable, will lead to a great stimulation of the electronic and associated industries. If we decided to participate, and each country received contracts in accordance with its contribution, we could expect that about 80 to 90 per cent of our expenditure would be on contracts with United Kingdom industry, although this has not been our experience in ESRO so far. Nevertheless we consider that the BLACK ARROW and CES programmes are of greater technological importance to us. Many of our European partners have also expressed doubt about the usefulness of the project and some have clearly stated that they would not be able to provide funds for it.
P. Considerations for participation in additional space programmes

20. In deciding which of the courses open to us offers us the best advantage in relation to the expenditure involved we must also consider the effect a chosen course would have on the balance of our space programme as a whole and its relation to other technological fields. In theory the alternatives are as follows:-
<table>
<thead>
<tr>
<th>Participation in GETS together with -</th>
<th>£ million 1967-68</th>
<th>£ million (1) over 5 years (2) 1967-68</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) full BLACK ARROW and national technological programme (para. 10)</td>
<td>5.15</td>
<td>34.55</td>
<td>Participation would improve our chances in the international market (para. 16) and there are political considerations (pars. 24-25). Would ensure we were in the best position to secure a national satellite capability. Although more risky than (i) should secure us a satellite capability.</td>
</tr>
<tr>
<td>(ii) reduced national programme (para. 11(a))</td>
<td>4.1</td>
<td>26.5</td>
<td>Exploration of any new ideas dependent on availability of such launchers and we should have to divulge our intentions to the supplier. Some other technological disadvantages from use.</td>
</tr>
<tr>
<td>(iii) use foreign launchers in the national programme on a full scale (para. 11(b))</td>
<td>2.6</td>
<td>26.7</td>
<td>Unrealistic as it would not provide sufficient support for United Kingdom participation in GETS.</td>
</tr>
<tr>
<td>(iv) use foreign launchers on a reduced scale (para. 11(b))</td>
<td>2.6</td>
<td>23.0</td>
<td>Would decrease industry's ability to compete for profitable international market. There are political disadvantages (pars. 24-25).</td>
</tr>
<tr>
<td>(v) a limited national programme of basic satellite technology (para. 12)</td>
<td>2.1</td>
<td>17.2</td>
<td>Provides for the development of satellite technology on a national basis. As (i) but with more risk attached.</td>
</tr>
<tr>
<td>(1) Not participate in GETS and have -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i)</td>
<td>4.55</td>
<td>24.85</td>
<td></td>
</tr>
<tr>
<td>(ii)</td>
<td>3.5</td>
<td>16.8</td>
<td></td>
</tr>
<tr>
<td>(iii)</td>
<td>2.0</td>
<td>17.0</td>
<td></td>
</tr>
<tr>
<td>(iv)</td>
<td>2.0</td>
<td>13.3</td>
<td></td>
</tr>
<tr>
<td>(v)</td>
<td>1.5</td>
<td>7.5</td>
<td></td>
</tr>
<tr>
<td>(c) Other alternatives, such as bilateral collaboration with the French on satellite technology</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) See Table 3.
(2) Cost beyond 1972 depends on extent of agreed GETS programmes.
21. Since the courses involving the use of foreign launchers do not afford very great savings in comparison with the reduced BLACK ARROW and national technological programme and, as pointed out in the table in paragraph 20 and paragraph 11(b), they also have a number of technical disadvantages, we do not consider these alternatives are worth pursuing. Nor do we believe that in the present financial stringency we are justified in recommending the continuation of the full BLACK ARROW programme, especially as such a programme on a reduced scale should secure us a national satellite capability, albeit at some technical risk. On the assumption that the CETS programme will be undertaken by our European partners there are thus three practical courses left open to the United Kingdom —

(a) to participate in CETS supported by the reduced BLACK ARROW and national technological space programme; or
(b) to undertake the reduced BLACK ARROW and national technological space programme without participation in CETS; or
(c) to opt out of any of the alternative programmes shown in paragraph 20 and to confine our space activities to those shown in Table 1, which represent our existing commitments.

The cost of the first two of the above courses compared with our expenditure on agreed space activities are —

<table>
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<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Expenditure on agreed space activities</td>
<td>18.80</td>
<td>16.71</td>
<td>17.05</td>
<td>15.05</td>
<td>13.57</td>
<td>10.90</td>
<td>74.08</td>
</tr>
<tr>
<td>2. Additional expenditure on courses (a) above CETS and reduced BLACK ARROW programme</td>
<td>3.55</td>
<td>4.1</td>
<td>5.0</td>
<td>6.0</td>
<td>6.0</td>
<td>26.5</td>
<td></td>
</tr>
<tr>
<td>Total 1 + 2</td>
<td>22.35</td>
<td>20.81</td>
<td>22.05</td>
<td>21.25</td>
<td>19.57</td>
<td>16.90</td>
<td>100.58</td>
</tr>
<tr>
<td>3. Additional expenditure on course (b) above (reduced BLACK ARROW programme only)</td>
<td>3.55</td>
<td>3.5</td>
<td>3.6</td>
<td>3.5</td>
<td>3.1</td>
<td>3.1</td>
<td>16.8</td>
</tr>
<tr>
<td>Total 1 + 3</td>
<td>22.35</td>
<td>20.21</td>
<td>20.65</td>
<td>19.35</td>
<td>16.67</td>
<td>14.0</td>
<td>90.88</td>
</tr>
</tbody>
</table>
If we follow course (a) above, no further qualified staff would be required intramurally but about 65, rising to 110, would be employed extramurally for the development of satellites. These increases would be offset by the numbers expected to become redundant as development work on launchers for ELDO and the BLACK ARROW programme is finished. For course (b), about 35 to 60 extramural staff are required for satellite work, and these again would offset by redundancies in the launcher field. If however we pursued course (c) above and opted out of the alternative programmes shown in paragraph 20, work on the BLACK ARROW and national space programme, which is in progress under holding contracts (paragraph 7), would cease and about 200 qualified scientists and engineers now employed, of whom 85 are at the Royal Aircraft Establishment, would become redundant.
22. (i) The only certain market for communication satellites which can now be foreseen is in the later stages of the global communications system. In the longer run there may be a number of other possible uses for satellites, e.g. direct radio and television broadcasting, navigation, etc., but on existing information this would not provide a direct economic justification for the expenditure now proposed. In short, even if the chosen course resulted in our being able to develop and manufacture satellites the expenditure involved would not be justified by any likelihood of an immediate economic return.

(ii) The case for going ahead with either course (a) or (b) thus rests on unquantifiable factors. Either course would help our aerospace and electronics industry as a whole in that the experience which they would gain by working on more comprehensive space programmes would stimulate them to undertake other developments and pursue a number of technologies to the limit. Participation in such programmes might also stimulate those parts of the industries engaged on satellite technology to compete more effectively with the best European firms to obtain international contracts (e.g. for ESRO).

(iii) But those who oppose additional expenditure on space point out that the aerospace and electronic sectors of United Kingdom industry already receive substantial Government contracts in such fields as advanced computers and aircraft. Additional expenditure on space programmes, even if it did confer benefits on a particular section or sections of the aerospace and electronic industry could not be justified by its effect on improving the efficiency of United Kingdom industry as a whole. As to the possible indirect benefits to industry from programmes of this kind ("spin off") better results in the longer term could in theory be achieved by direct expenditure on research and development in the industries concerned.

(iv) On the other hand space is a field which is developing very rapidly and which may well present us with benefits and opportunities which will only be apparent in the long term. It is also a field to which the leading European nations are devoting appreciable resources and to which other major industrial countries do not think they can afford to ignore. That needs to be decided therefore is whether in the light of our economic situation, we can afford to go ahead in either of the limited ways proposed, in the hopes of future unquantifiable benefits, or whether we must opt out of these programmes altogether.

23. Consideration has been given to the best method of achieving industrial results. For this purpose officials have twice met the National Industrial Space Committee (NISC) who are industry's channel for communications with the Government on space matters, although they do not speak for the aerospace and electronic industries as a whole. The considered view of the NISC is that the primary objective in the development of United Kingdom
space technology is participation in the CETS programme or a similar European programme which would exploit the ELDO-PAS launcher. They also assert that a parallel national programme is essential to participation in a CETS type programme. The question is not therefore of relative priorities between a national programme and a CETS programme but rather to determine the minimum level of the former to make participation in CETS worthwhile. The NISC are convinced that the national programme must make provision for launching experimental satellites with a national launcher. They regard the reduced BLACK ARROW programme as the minimum fulfilment of this requirement which yet represents a significant advance. They regard a basic satellite technology programme without orbital tests under national control as providing an inadequate technical return for the expenditure involved. The logical conclusion, which the NISC accept, is that we should undertake the reduced BLACK ARROW programme and participation in CETS (course (a) in paragraph 21). NISC takes the view that if it were possible to devote more money to the national programme and increase the frequency of launchings the technological cost effectiveness would be greatly enhanced.

H. Political Interests

24. No European Government has yet declared its attitude to the CETS programme, but now that ELDO's future has been decided, decisions on participation will very shortly be required (22nd November 1966). Germany and the smaller European countries are likely, on balance, to favour a co-operative venture. France, although still undecided about the CETS programme, is now likely to view this more favourably than going it alone or co-operating on a narrower basis with Germany and possibly the United Kingdom. In whatever form, European development of satellite technology will certainly go forward and our power to influence events will depend on our participation. Our political interests lie in promoting co-operation on the broadest practicable basis.

25. Although we have no formal commitment to take part in the CETS programme we decided in July to continue our contributions to ELDO whose basic purpose is to construct a launcher which could be used for communications satellites. At the same time we agreed to take part in discussions leading to the co-ordination of the space objectives and activities now pursued independently through ELDO, ESRO and CETS. Against this background, a refusal by the United Kingdom to take part in CETS would risk being construed as a reversal of policy which, coming on top of the ELDO episode, would further harm our prospects of collaboration in other and perhaps more immediately important technological fields, civil and
military. Given the relatively modest size of our contribution to CETS (£0.6 million in 1967-68, rising to £2.9 million in 1970-71) an attempt to justify our non-participation on grounds of financial stringency might seen spurious to our partners; or, if believed, might lead them to draw unfortunate inferences about our economic situation. These political considerations should be carefully weighed against the arguments for concentrating exclusively upon a national programme or abandoning satellite technology altogether.

I. Effect of additional programmes on the balance of our civil space programme

26. Our contribution to ELD0, if we do not commit ourselves to any further programmes before 1971-72, would fall from £11.0 million in 1966-67 to £1.4 million in 1971-72, and our total expenditure on approved space programmes other than for defence purposes from £18.8 million per annum to £10.9 million per annum. The cost of the full additional programmes (BLACK ARROW, CETS but excluding Jupiter probe) outlined in this paper rises from £3.55 million in 1966-67 to £3.2 million in 1971-72. Thus, if we took part in all these additional programmes, our total expenditure on space in 1971-72 (£19.1 million) would be about 2 per cent higher than now though it would presumably represent a lower proportion of our gross national product. With regard to the consideration in the public Expenditure Committee of public expenditure as a whole, the full BLACK ARROW programme is in the basic programme for the Ministry of Aviation; if we undertake the CETS and a reduced BLACK ARROW programme there would be a reduction in cost of £0.5 million in 1967-68; the small additional total cost over five years (£1.7 million) would have to be met out of whatever allowance for additional programmes Ministers decided to make in subsequent years.

27. Since we cannot forecast the total expenditure on civil research and development in the public sector in 1972, the proportion likely to be devoted to space in that year cannot be calculated. If we undertake the extra programmes shown under course (a) in paragraph 21 (CETS plus reduced BLACK ARROW), however, the percentage of the total for space in 1972 (£16.9 million) devoted to scientific space research, satellite communications, launcher technology and general space technology would be 42.6, 35.6, 14.2 and 7.6 per cent respectively. We would then presumably have a better balance of expenditure between basic and applied research than if we did not engage in the additional programmes (see paragraph 8). Furthermore our contribution to international organisations would drop from the present 86 per cent to 57 per cent.
26. On the assumption that there will be a CETS programme (see paragraph 24) the effective choice before us, having regard to the considerations set out in paragraph 21 and the views of industry given in paragraph 23, appears to be either -

(i) to participate in the CETS programme with an associated reduced BLACK ARROW national space technological programme; or

(ii) to opt out of further additional programmes in space.

In addition Ministers have to decide -

(iii) whether to participate in a joint United States-European scientific programme such as the Jupiter probe (paragraphs 17-19).

This third is the last in our order of priority and in present economic circumstances we do not recommend participation. As to (i) and (ii) Departments are not in agreement. We are committed to participation in the programmes of ELD0 and ESRO, but in relation to the size and nature of our shares in these programmes the technological return to the United Kingdom will be comparatively small. There will be no immediate economic case nor a justification in terms of indirect "spin-off" for devoting further resources to space technology, but additional expenditure on the scale proposed may nevertheless be desirable not only as a reinforcement to our international commitments but also because of the scientific challenge which space technology affords. Such a challenge would be likely to have a fructifying influence, yielding the extra technological benefit which might have a decisive effect on the economic viability of our industries concerned with space technology and satellite communications.

Despite the magnitude and technical advancement of the United States space effort, important developments could spring from a modest national programme. On these grounds the Ministries of Aviation and Technology support the reduced BLACK ARROW programme and participation in CETS (i) above). On political grounds the Foreign Office also favour participation in the CETS programme. The Treasury and Department of Economic Affairs consider that the size of the minimum viable programme as assessed in this report, is larger than can be justified in present circumstances, given the need to limit the growth of public expenditure and the uncertainty of the benefits from this programme, would represent a misuse of scarce national resources.

29. If the CETS programme does not materialise the Ministry of Aviation and Ministry of Technology would wish to continue with the reduced BLACK ARROW and national technological space programme, but recognise that it might have to be re-examined in relation to the new situation in Europe.
## Table 1

Estimated Costs of Agreed United Kingdom Civil Space Programmes

<table>
<thead>
<tr>
<th></th>
<th>1966-7</th>
<th>1971-2</th>
<th>5 year total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ million</td>
<td>%</td>
<td>£ million</td>
</tr>
<tr>
<td><strong>Expenditure on</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Scientific space research</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Universities etc.</td>
<td>1.70</td>
<td>9.0</td>
<td>7.25</td>
</tr>
<tr>
<td>ESRO</td>
<td>3.85</td>
<td>20.5</td>
<td></td>
</tr>
<tr>
<td><strong>Satellite Communications</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICO</td>
<td>1.25</td>
<td>6.7</td>
<td>1.25(2)</td>
</tr>
<tr>
<td><strong>Launchers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESRO</td>
<td>11.0(1)</td>
<td>58.5</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>General space technology</strong></td>
<td>1.0</td>
<td>5.3</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>18.80</td>
<td>100</td>
<td>10.90</td>
</tr>
</tbody>
</table>

(1) Excludes £3.8 million payable in 1966-67 in respect of past years.

(2) Presumes that the contributions will remain at the same rate when the new communications satellite organisation comes into force in 1970.
<table>
<thead>
<tr>
<th>Category</th>
<th>£ Million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Space programmes (b)</td>
<td>18.8</td>
<td>6.4</td>
</tr>
<tr>
<td>Atomic Energy Authority</td>
<td>51.1</td>
<td>17.5</td>
</tr>
<tr>
<td>Research Councils (excluding space)</td>
<td>56.7</td>
<td>19.5</td>
</tr>
<tr>
<td>Universities (c)</td>
<td>14.8</td>
<td>16.5</td>
</tr>
<tr>
<td>Ministry of Technology (excluding atomic energy)</td>
<td>18.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Ministry of Aviation (excluding space)(d)</td>
<td>46.8</td>
<td>16.1</td>
</tr>
<tr>
<td>Other Government Departments</td>
<td>23.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Nationalised Industries (e)</td>
<td>23.0</td>
<td>7.8</td>
</tr>
<tr>
<td>Post Office (excluding space)</td>
<td>5.9</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>291.9</strong></td>
<td><strong>106.0</strong></td>
</tr>
</tbody>
</table>

(a) From Table VII of the Memorandum by the Financial Secretary to the Treasury 1966-67 (Cmnd. 2998), except where noted.
(b) See Table 1.
(e) From Appendix II "Report on Science Policy" (Cmnd. 3007).
(d) Departmental estimate.
## Table 3

**Estimated Cost to the United Kingdom of agreed and proposed civil space programmes**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure on agreed space activities</td>
<td>18.80</td>
<td>16.71</td>
<td>17.05</td>
<td>15.85</td>
<td>13.57</td>
<td>10.90</td>
<td>74.08</td>
<td>-</td>
</tr>
<tr>
<td>National technological space programmes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With BLACK ARROW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Full programme (paragraph 8)</td>
<td>3.55</td>
<td>4.55</td>
<td>5.0</td>
<td>4.9</td>
<td>5.1</td>
<td>5.3</td>
<td>24.85</td>
<td>16.5</td>
</tr>
<tr>
<td>(ii) Reduced programme (paragraph 9a)</td>
<td>3.55</td>
<td>3.5</td>
<td>3.6</td>
<td>3.5</td>
<td>3.1</td>
<td>3.1</td>
<td>16.8</td>
<td>9.5</td>
</tr>
<tr>
<td>With foreign launchers (paragraph 9b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Full programme</td>
<td>3.55</td>
<td>2.0</td>
<td>2.5</td>
<td>3.2</td>
<td>4.5</td>
<td>4.8</td>
<td>17.0</td>
<td>17.3</td>
</tr>
<tr>
<td>(ii) Reduced programme</td>
<td>3.55</td>
<td>2.0</td>
<td>2.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.3</td>
<td>13.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Basic satellite technology only (paragraph 10)</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>7.5</td>
<td>(3)</td>
</tr>
<tr>
<td>CETS programme (second stage and studies for third stage)</td>
<td>0.6</td>
<td>1.4</td>
<td>1.9</td>
<td>2.9</td>
<td>2.9</td>
<td>9.7</td>
<td>(3)</td>
<td>(3)</td>
</tr>
<tr>
<td>Advanced space project (Jupiter probe)</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>0.7</td>
<td>2.4</td>
<td>3.3</td>
<td>6.5</td>
<td>2.5</td>
</tr>
</tbody>
</table>

1. The reduced programmes to achieve these financial savings have been estimated without reference to industry.
2. No contingency for the launcher development is included (£1.25 million is suggested).
3. Dependent on continued participation in CETS and extent of agreed future programmes.
4. Increased foreign exchange expenditure, £2 million.
5. Increased foreign exchange expenditure, £4.5 million.
16th November, 1966

CABINET

PUBLIC EXPENDITURE 1967-68: FINANCE FOR CONTAINER SHIPS

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

My colleagues should be aware of a proposal approved in principle by the Ministerial Committee on Economic Development at a meeting under my chairmanship on 14th November, which may involve an addition to public expenditure in 1967-68.

2. The proposal is set out in the attached memorandum by the President of the Board of Trade. It is briefly that provision should be included in the Bill to set up the Shipbuilding Industry Board for an additional credit of £30 million to be made available to shipping firms placing orders for British ships, where the orders would enable an important development in ship design or construction to be undertaken in British yards and would contribute to the formation of groups in shipbuilding which would be to the long term advantage of the industry. This provision would be in addition to the provision for loans of up to £30 million already envisaged in the Bill for promoting structural reorganisation in the industry as recommended by the Geddes Committee.

3. The immediate purpose of this provision would be to enable British shipbuilders to compete on level credit terms with Japanese shipbuilders for orders shortly to be placed by a British consortium (Overseas Containers Limited) for container ships to the value of £27 million. The Japanese builders can offer credit to overseas buyers at 5½ per cent interest for 6½ per cent of the cost of the ships. We, however, only make similar terms available for foreign buyers. The proposed credit would enable loans to be made at the Exchequer lending rate as well as grants designed to bridge the gap between the Exchequer lending rate and the lower rate offered by our competitors abroad.

4. The Ministerial Committee on Economic Development agreed that it was important for British shipbuilding to gain a footing in the market for container ships, and that the proposal should be approved subject to agreement between the Treasury, Board of Trade and Ministry of Technology on a formula to be embodied in the legislation which would effectively confine the use of the credit to cases in line with the proposals in paragraph 2 above. It is proposed that in the event of British yards submitting tenders which are competitive in other respects with tenders from abroad, we should announce our intention before the consortium places its orders and therefore in advance of the legislation: tenders have been called for by the consortium by 17th November.
5. The loans from the proposed additional credit would be likely to be drawn in instalments over a period of two to three years and would involve additional public expenditure. Since the meeting of the Ministerial Committee on Economic Development, it has been estimated that expenditure on this account repayable over the loan period might be up to £10 million in 1967-68. The cost to the Exchequer of grants to bridge the gap between the Exchequer lending rate and the lower interest rate available from overseas competitors would amount to a maximum of about £1½ million spread over the period of the loans. The Ministry of Technology will consider whether any compensating saving for the grant could be secured elsewhere in their Estimates.

6. I invite my colleagues, having considered the financial implications, to endorse the decision of the Ministerial Committee on Economic Development.

M.S.

Department of Economic Affairs, S.W.1.

15th November, 1966
FINANCE FOR CONTAINER SHIPS

Memorandum by the President of the Board of Trade

Overseas Containers Ltd., a consortium comprising P & O, Blue Funnel and other shipping groups, has sought tenders from a number of British and foreign shipbuilders for six container ships. They are expected to cost about £27 m. and are required for a new fast service to the Far East beginning early in 1969.

2. The company insists that it must get the best credit terms available for these ships. This is understandable. The operation as a whole is a costly venture in which the consortium will be sinking £45 m., including £18 m. for containers and land-based handling facilities. The cost of the capital is likely to be a significant factor in determining whether the operation is a commercial success.

3. Japanese tenders are expected to carry the usual credit terms made available for ship exports by the Japanese Government - 80% of the contract price over 8-10 years at 5½% interest. These terms are roughly similar to those we offer for exports of such goods. But the best terms which Overseas Containers Ltd. or British shipbuilders can obtain commercially will involve an interest rate of around 8½%. In consequence, if our shipbuilders are able to match the Japanese on price and on the tight delivery date, they are still likely to lose the orders because of the disparity between Government export credit rates in Japan and the commercial rate here.

4. This disparity in interest rates affects many capital goods but it has a special and increasing importance for ships. Unlike most other capital goods, ships attract no import duty and there is little or no hidden protection because ships are built to international standards for operation on the high seas. In addition, shipowners in most countries rely to a much greater extent than most other purchasers of capital goods upon raising up to 80% or more of the cost by a mortgage on the goods purchased. Indeed, as so many foreign merchant fleets are not backed by sizeable domestic shipbuilding industries, export credit is of special importance as a source of finance for ships. Japan, the only other non-Communist country with both a big fleet and a big shipbuilding industry, provides credits for home purchasers of ships on even better terms than for export customers.

5. For all these reasons I have been pressed by British builders and owners to rectify the present anomalous position which can result in our shipbuilding industry taking foreign orders while British shipowners purchase abroad simply because of the favourable credit terms widely available for exports. I have, however, resisted this because British yards have had sufficient work to keep them occupied, and I did not wish to weaken the industry's will to make the changes in method and organisation which I believe to be essential in the long term. The special credit scheme for
home owners which our predecessors arranged did nothing to bring about these necessary changes. No doubt with these considerations in mind the Geddes Committee did not suggest any general credit scheme, though they recommended that one should be held in reserve in case it was needed to give the new shipbuilding groups a good start in 1968/70.

6. But I consider that the present case justifies a special arrangement to ensure that the order is not lost to United Kingdom yards solely on credit grounds. Over the next few years we expect the speedy development of container services on oceanic as well as short-sea routes. Japanese shipowners are expected to order 29 such ships shortly mainly for the Pacific routes with Government credit on the usual generous terms for orders placed at home. The six ships which the United Kingdom consortium is ordering are of a sophisticated type based on the latest American practice. The design provided by the consortium may not be revolutionary; but construction will present some novel and challenging problems and the experience gained in building and fitting out these ships will be of the greatest value to the industry. Moreover, I think that if we are the first or among the first to build such ships outside the subsidised and inefficient U.S. industry, it will be an important factor in our ability to obtain further orders for container ships of all types.

7. I do not think that an exceptional arrangement of this kind would be seriously open to challenge internationally; not only do the Japanese provide cheap credit for virtually all domestic ship orders, but the U.S., France, Italy and many other countries subsidise their shipbuilders directly; and many fleets including the Norwegian rely largely on the export credit facilities of other countries to finance their ship investment. At home it might be said that the arrangement was inconsistent with our current general policy on credit, but we can point out that in this case the technological and balance of payments advantages are particularly strong. I do not moreover think that other capital goods producers, whose home market is protected by tariffs, could make a good case for similar treatment. No doubt we should be pressed to extend these facilities to all domestic ship purchases. My view is that having made special provision to support major technological development and reorganisation of the shipbuilding industry, we could and should continue to resist such an extension.

8. My Department has discussed with other Departments concerned the possible machinery for implementing such an arrangement. The Industrial Reorganisation Corporation have confirmed that this is not a suitable project for them, because it does not bear directly enough on the reorganisation of an industry. It cannot be fitted into the arrangements for financing export credits; and the provision of a Bank of England guarantee would not secure a low enough interest rate.

9. I have concluded that the best arrangement would be to introduce a special and limited scheme of credit for United Kingdom shipowners placing orders in United Kingdom yards. Legislation would be necessary and this could most conveniently take the form of a provision in the legislation setting up the Shipbuilding Industry Board, which already envisages the possibility of a special and limited £30 m. credit scheme as recommended by the Geddes Committee. Because of the tight delivery requirements it is unlikely that more than part of the present order could be placed in the United Kingdom, but it is necessary to provide for other possible orders of similar importance.

For instance, it now seems that the other container consortium (which includes the Blue Star Line and Port Line, a Cunard
subsidiary) are developing plans for a container service in the Australian trade with a likelihood of issuing tenders before long and may well make an approach to the Government on broadly the same lines as O.C.L.

I propose, therefore, that we should provide for additional credit, not exceeding £30 m., to be made available only when the Minister of Technology, (who will shortly be responsible for shipbuilding) after consultation with me on shipping considerations, is satisfied that –

(a) the credit would enable work involving an important development in ship design and construction to be undertaken in British yards which have the capacity to take on additional work; and

(b) the placing of the order in British yards would contribute to the formation of groups with long term advantages for the industry.

The Minister of Technology would, no doubt, take the advice of the Shipbuilding Industry Board on the second of these criteria. In this way the new arrangements would tend to reinforce our efforts to modernise and rationalise the industry. As it is contemplated that all loans under the S.I.B. legislation will be at the Exchequer lending rate, it would be necessary for the Minister to have power to make grants calculated to reduce the effective rate of interest of that offered by competing yards.

10. This is a matter of urgency. Tenders should reach the consortium by 17th November. If the delivery schedule is to be maintained, orders will have to be placed within about a month and this will be before the new proposed legislation can be passed. This difficulty can be overcome if as soon as we know whether the British tenders match up to the Japanese on price and delivery, the Government announces its intention to take powers of the kind I have suggested in paragraph 8 and if the Ministry of Technology and the Shipbuilding Industry Board indicate their intention to approve this order. On this basis I would expect that the consortium would agree to place orders in any British yards where tenders were competitive in other material respects. It would however be necessary for Ministers to decide quickly on their policy in advance so that the necessary drafting of the legislation could be put in hand.

11. I seek the agreement of my colleagues that if and when British yards submit tenders for these container ships which are reasonably competitive with those from overseas yards, I should announce our intention to introduce a scheme on the lines suggested in paragraph 9. I also seek agreement to the procedure outlined in paragraph 10.

D.P.T.J.
10th November, 1966

Board of Trade, London, S.W.1.
CABINET

MODALITIES OF THE VISITS BY THE PRIME MINISTER AND THE FOREIGN SECRETARY TO THE CAPITOLS OF THE SIX

Memorandum by the Secretary of State for Foreign Affairs

In Cabinet on 9th November I undertook to circulate a paper on the modalities of the visits by the Prime Minister and myself to the capitals of the Six.

2. Between now and the Christmas holidays we already have the European Free Trade Association (EFTA) Prime Ministers Meeting (4th/5th December), the Meeting of the North Atlantic Council (13th - 16th/17th December) and the Ministerial Council of Western European Union (19th/20th December); though I will probably not be going to the latter myself, many of the Foreign Ministers of the Six will be doing so. In view of these commitments I do not think it practicable that the Prime Minister and myself should start this series of visits until January.

3. However, I think we should aim at visiting two capitals before the Prime Minister delivers his speech to the Consultative Assembly in Strasbourg (23rd/27th January).

4. There is therefore a little time in which to consider the order of the visits. This is a convenience because it should enable us to see how the political situation in Germany develops.

5. Meanwhile we should not leave the Community Governments without a word from us, or we may give the impression of dwindling momentum and encourage speculation about the reasons for apparent inactivity. After consulting the Prime Minister, I am therefore sending messages to the Six Foreign Ministers, as my colleagues, saying that the Prime Minister and I look forward to visiting them at mutually convenient times, but that we think that engagements already existing make this too difficult before Christmas; and that we shall be consulting them in a week or two about exact dates. This would also enable us to answer press enquiries by saying that we were already in touch with the Governments of the Six.

6. I propose to circulate a further report when the Prime Minister's and my plans have progressed further.

G. B.

Foreign Office, S. W.1.

21st November, 1966

CONFIDENTIAL
CABINET

DRAFT WHITE PAPER ON RHODESIA

Note by the Secretary of State for Commonwealth Affairs.

I circulate for the consideration of my colleagues a draft White Paper on Rhodesia.

H. W. B.

Commonwealth Office, S. W. I.,

23rd November, 1966
RHODESIA

Proposals for a Settlement
1966

LONDON
HER MAJESTY'S STATIONERY OFFICE
NET
Cmnd.
SECRET
The approach of successive British Governments towards the problem of granting independence to Rhodesia has throughout been governed by certain basic requirements. These have been formulated as five principles, to which the present Government subsequently added a sixth. These are as follows:

1. The principle and intention of unimpeded 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.

6. It would be necessary to ensure that, regardless of race, there was no oppression of majority by minority or of minority by majority.

Historical background

2. The present Constitution of the Colony of Southern Rhodesia is that granted by Order in Council in 1961. This introduced a number of important modifications in Rhodesia's position as a self-governing dependency, but it was not framed nor intended as an independence Constitution. The grant of independence can constitutionally only be made by Parliament at Westminster. In the course of negotiations in 1963–64, the then British Government made plain to the Rhodesian Government that certain conditions must be met before independence could be granted—in particular, the existence of sufficiently representative institutions: and, on the Rhodesian Government's claim for the grant of independence on the basis of the 1961 Constitution, they insisted that the British Government must be satisfied that any basis on which independence was proposed was acceptable to the people of the country as a whole. The negotiations subsequently undertaken by the present British Government explored in great detail the possible form of an independence settlement within the five principles. In the discussions in London and later in Salisbury in October 1965, Mr. Smith accepted these principles as a basis for discussion: but because he was not prepared to implement them effectively, no agreement for the grant of independence was found possible. (The relevant documents and correspondence have already been published in Cmnd. 2807.)

3. On 11 November, 1965, Mr. Smith's Government purported, on its own authority, to declare independence. As had been made clear in advance
by the British Government, an act of this kind was illegal and unconstitutional
and could not be regarded as valid. Accordingly, The Queen, through the
Governor, dismissed the Rhodesian Ministers and the Governor has since
remained the focus of constitutional authority in Rhodesia.

4. The British Government declared their intention of ending the
rebellion as soon as possible and to this end imposed sanctions against
Rhodesia in which, in accordance with the authority of resolutions passed
in the Security Council, they had the support of the vast majority of trading
nations in the world.

5. The British Government made it clear that they would be willing to
negotiate a constitutional settlement only with a legally constituted
Government in Rhodesia. When in April of this year the Governor
forwarded, with his support, a suggestion from Mr. Smith that there should
be informal exploratory talks to see whether a basis for a solution
existed, the British Government thought it right to authorise officials in
their service to take up this offer. Talks at official level were accordingly
held first in London and subsequently in Salisbury between May and
August. The understanding in these talks was that they were entirely
exploratory and without commitment. The ground was fully explored and
positions clarified: but no basis for a solution emerged.

6. At the Commonwealth Prime Ministers' Meeting in London in
September the British Government notified to the Conference their decisions
as regards a settlement of the Rhodesian problem, and stated that they
proposed to communicate their intentions through /the Governor to all
sections of opinion in Rhodesia, and to inform the illegal régime that, if
they were not prepared to take the initial and indispensable steps whereby
the rebellion was brought to an end and executive authority was vested in
the Governor, certain related consequences would ensue. These are set
out in paragraph 10 of the section of the Commonwealth Prime Ministers'
communiqué relating to Rhodesia, which is reproduced at Appendix A.

7. Accordingly the Commonwealth Secretary visited Salisbury from
13 to 28 September for the purposes explained in the communiqué. During
the course of his visit, under the aegis of the Governor he met a
cross-section of representatives of opinion in the country, including
Mr. Smith and members of the régime. In these talks, he made clear the
British Government's requirements for a settlement of the Rhodesian
problem, and what the consequences of rejection of the British proposals
would be. Mr. Smith put forward the views of his régime on the form of
a settlement and how it might be reached: and a document was exchanged
in which the respective positions were set out in parallel in the words of
each side. This is contained in Appendix B.

8. Subsequently, in the light of these discussions, the British
Government drew up a considered statement of their terms for a settlement
and this was communicated to Mr. Smith by Sir Morrice James, Deputy
Under-Secretary of State, Commonwealth Office, on 15 October. The text
of this is contained in Appendix C.

9. Mr. Smith's reply was forwarded to Mr. Hennings, the Head of the
British Residual Staff in Salisbury, on 4 November and is contained in
Appendix D.
The British Government's objectives

10. Throughout the constitutional discussions before the illegal declaration of independence on the 11 November, 1965, and the exploratory talks which have taken place since that event, the British Government have sought a solution which would be fair to Europeans and Africans alike in Rhodesia, which would win the acceptance of the people of Rhodesia as a whole, which could be commended to the British people and Parliament as a just and honourable settlement, and which would be calculated to establish Rhodesia as an independent State with the general goodwill of the world community.

The implementation of the principles

11. The British Government have, quite exceptionally and in the particular circumstances of Rhodesia, been prepared to consider the grant of independence to Rhodesia before majority rule had been reached. But they have made it plain that, if this were to happen, certain essential conditions must be met. The most important of these are as follows:

A. Any Independence Constitution on this basis must firmly establish an open road, which could not be blocked or impeded, for African political advancement to majority rule within a reasonable period of years.

B. The essential parts of the Constitution must be protected by the most stringent possible safeguards to prevent changes which could stop or impede this advancement.

C. Any Independence Constitution on these lines must be demonstrated by appropriate democratic means to be acceptable to the people of Rhodesia as a whole.

12. They have also said that the Independence Constitution should provide some immediate improvement in the political status of Africans, and that there must be progress towards ending racial discrimination.

13. On Mr. Smith's insistence, the discussions have centred round the possibility of amending and safeguarding the 1961 Constitution to meet these essential conditions. There has never on his side been any disposition to contemplate a new constitutional approach which the British Government have always been ready to consider if it appeared to offer a more hopeful path to a solution.

A. Unimpeded progress to majority rule

14. The 1961 Constitution provides 50 seats in the Legislature on a non-racial franchise for which certain qualifications are laid down (the "A" Roll). The qualifications mean that the voters for these seats are at present predominantly European. But given a genuine effort on the part of Africans and Europeans to make this Constitution work in spirit and in practice, the number of African voters could steadily increase in a way calculated to bring majority rule about within a reasonable period from the point of view of legitimate African aspirations, and in a way that would preserve good government and stability in the country and safeguard its social and economic development within the concept of a non-racial society. The British
Government have repeatedly said that majority rule could not come about immediately but should be reached through merit and achievement.

15. The 1961 Constitution also provides a starting point for African advancement by providing 15 additional seats in the Legislature on a franchise with lower qualifications (the “B” Roll). The voters on this role are predominantly African. In addition there is a system of cross-voting which enables “B” Roll voters to exercise some influence on “A” Roll elections (and “A” Roll voters on “B” Roll elections). Under this system, “B” Roll votes are allowed to count in an “A” Roll constituency up to a quarter of the total “A” Roll votes cast in that constituency.

16. In all the detailed discussion of possible constitutional arrangements which has taken place over the past two years, agreement on a settlement has been made impossible by Mr. Smith’s adamant insistence on two points:

(i) that the European minority in Rhodesia should retain a constitutional power to control the pace of African advancement; and

(ii) that the road to majority rule, as established in the 1961 Constitution as it stood, should in effect be lengthened in the Independence Constitution.

17. On the first point, Mr. Smith has consistently refused to entrench the whole of Chapter III of the 1961 Constitution, which among other things fixes the respective number of “A” Roll and “B” Roll seats. That is, he declines to make these provisions subject to the special procedures required for amendment of vital areas of the Constitution. The effect of this would be to leave the Rhodesian Legislature as at present constituted (and hence the European minority) with the power arbitrarily to increase the number of “A” Roll constituencies, which could be done simply by exercising the two-thirds majority vote which the Europeans already control (see paragraph 20 below). This power could clearly be used arbitrarily to retard the pace of advancement to majority rule. Indeed Mr. Smith has said that he regards this as “a safeguard against the premature advent of African rule”.

18. On the second point, Mr. Smith has consistently sought to abolish the cross-voting system, and thus to eliminate the influence which the “B” Roll voters can, under the 1961 Constitution, already exercise on “A” Roll elections. Another way in which he has sought to lengthen the road to majority rule has been by proposing, originally, to “fade-out” the “B” Roll seats as Africans secured “A” Roll seats, and now in his latest proposals to “phase-in” 15 European reserved seats (in addition to the 50 “A” Roll seats) as Africans secured “A” Roll seats. While the British Government have been prepared to consider provision for European reserved seats at a later stage of political progress, they could not accept their introduction in a way which would affect—and is clearly intended to affect—the length of the road towards majority rule as compared with the existing provisions of the 1961 Constitution.

19. To accept Mr. Smith’s position on these matters would therefore be incompatible with the principles that progress to majority rule should be unimpeded and that there should be an immediate improvement in the political status of the Africans.
B. Safeguarding the Constitution

20. The 1961 Constitution provides for amendment of ordinary sections of the Constitution by a two-thirds majority vote of the Rhodesian Legislature, and of specially entrenched provisions (i.e., the vital areas of the Constitution) by such a vote followed by either a referendum of the four main racial groups in Rhodesia voting separately, or alternatively The Queen’s approval given on the advice of United Kingdom Ministers.

21. The 1961 Constitution was not an Independence Constitution and these provisions for amendment of specially entrenched clauses would not be appropriate to such a Constitution. The British Government has insisted, however, that they must be replaced by provisions providing equivalent safeguards against retrogressive amendment. They have sought to do this by suggesting:

(i) an effective domestic “blocking mechanism” which, until majority rule is achieved, would ensure that consent to any amendment was secured from a broad consensus of the people of Rhodesia as a whole, of both minority and majority races; and

(ii) a system of appeal whereby any amendment which discriminated unjustly between the races or contravened human rights could be challenged.

22. On (i), the British Government have expressed their willingness to introduce a Senate of 12 Europeans and 12 Africans. This would vote together with the Lower House on any proposal to amend the specially entrenched clauses, and such amendment would require a three-quarters majority of the combined Houses. They have said that at least nine of the Africans in the Senate should be democratically elected, and have also proposed that the number of “B” Roll seats in the Lower House should be increased from 15 to 17. These proposals would give the Africans an effective blocking quarter and could therefore ensure that no retrogressive amendments could be made.

23. On (ii) the British Government have proposed that appeals should lie to a “Constitutional Commission” in Rhodesia, consisting of the Chief Justice and other judges, with further appeal as of right to the Judicial Committee of the Privy Council.

24. On these two proposals, Mr. Smith insists that at least six of the 12 Africans in the Senate should be Chiefs elected by an electoral college of Chiefs; and rejects any increase in the “B” Roll seats in the Lower House. He is “prepared to consider” an appeal to a Constitutional Commission in Rhodesia, though he would wish the grounds of appeal to be more narrowly defined than in the British proposals; but he rejects the idea of a further appeal to the Privy Council.

25. Mr. Smith’s proposals do not constitute effective safeguards against retrogressive amendment of the Constitution.

C. The testing of Rhodesian opinion and return to legality

26. The British Government, like their predecessors in office, have throughout maintained that, if a settlement were to be reached on a basis
not of majority rule as a condition precedent to independence but of unimpeded progress towards majority rule, it must be unmistakably clear that the people of Rhodesia as a whole wanted independence on this basis. There would be no independence before majority rule if the people of Rhodesia as a whole were shown to be opposed to it; and no question of inviting the British Parliament to legislate for independence unless it were clear that the proposed Constitution was acceptable to the people of Rhodesia as a whole.

27. There can be a fair test of opinion only under a constitutional government, with censorship lifted, individuals who have been detained on political grounds released, and normal political activities permitted provided they are conducted peacefully and democratically. For this reason, a return to legality must precede the testing of opinion.

28. In order to bring about a return to legality, they have proposed the appointment by the Governor of a broadly-based interim administration. This would be a Rhodesian Government of national unity. It would clearly be inappropriate for it to be responsible to the present Rhodesian Legislature, which would have to be in abeyance. Members of the interim government would be responsible to the Governor who would normally act on their advice in all internal matters of administration. The armed forces and the police, however, would come under the direct responsibility of the Governor, who would retain powers in his discretion not only to deal with domestic disturbances and illegality, but also to prevent a repetition of unconstitutional action and to protect human rights. If during the interim period the Governor needed military assistance for these purposes, the British Government reserved the right to provide it. Also, in order to provide assurance after independence to both the minority and the majority race and thus give expression to the sixth principle, the British Government reserved the right to provide similar assistance if this were necessary as a further guarantee of the agreed Constitution.

29. The course put before Mr. Smith and his régime was therefore quite clear. If they were willing to reach an informal agreement with the British Government on a constitutional settlement based on the stated terms and principles, the British Government would be ready to stand by that agreement as a basis for negotiation with a broadly-based, legal interim government representing the various races in Rhodesia, and as a basis on which the wishes of the people of the country as a whole would be ascertained.

30. Mr. Smith, however, in his reply, passed over in complete silence the British Government's proposals for a return to constitutional government, while appearing to insist that the testing of opinion must be carried out under the present illegal regime and before there could be any discussion of restoring legality. He made no comment or undertaking on the removal of censorship or the position of political detainees.

31. The reply was unsatisfactory in other respects, e.g., Mr. Smith showed no disposition to recognise that any move at all was necessary as regards racial discrimination and land apportionment.
The three fundamental issues

32. In this situation, the British Government on the 11 November addressed to Mr. Smith, through their representative in Salisbury, three elucidatory questions on the essential issues of principle on which their decision clearly turned, as follows:—

Question 1

In declining to entrench the whole of Chapter III of the 1961 Constitution, does Mr. Smith wish, as he told the Secretary of State for Commonwealth Affairs, to maintain the position that the Rhodesian Government of the day should retain the right to control the pace of African advancement?

Question 2

Does Mr. Smith reject the proposals (in paragraphs 13-17 of the British Government's statement of terms for a settlement) for a broad-based interim administration representative of all races as the means of returning to legality?

Question 3

Does Mr. Smith maintain that the testing of opinion under principle five must take place before there has been a return to constitutional government in Rhodesia and before censorship has been lifted and political detainees have been released, as proposed in paragraph 11 of the British terms?

Mr. Smith's reply to these questions was received on the 17 November and is at Appendix E.

33. Mr. Smith in his reply seeks to deny that his motive in declining to entrench the whole of Chapter III of the 1961 Constitution is to give the Rhodesian Government of the day the right to control the pace of African advancement, despite what he said in his earlier statement of position (Appendix B) about "safeguards against the premature advent of African rule". But, whatever the motive, Mr. Smith's proposals would in fact leave a braking mechanism in the hands of the European minority, because the Government of the day could at any time create as many extra "A" Roll seats as they wanted. If the provisions in the Constitution relating to the number of "A" Roll constituencies were not specially entrenched, this would be the effect whatever provisions were made elsewhere in the Constitution.

34. On the question of restoration of constitutional government, Mr. Smith declines to discuss the matter until a constitutional settlement has been reached, has passed the test of acceptability, and has been finally endorsed by the British Government.

35. In saying this, he answers the third question also, since it is clear that he is insisting on the test of acceptability being carried out before there has been a return to constitutional government. But he then seeks to cloud the issue by putting a counter-question to the British Government. That counter-question is in effect whether the British Government would undertake
in advance to impose a constitutional settlement even though the people of Rhodesia as a whole had manifestly rejected it. There is only one answer which any British Government could give to this question. Nor is Mr. Smith's implication valid that, if the result of the test was unfavourable to the constitutional settlement proposed, Rhodesia would under the British Government's proposals be left without a Constitution. There would be a legal interim government, under the 1961 Constitution appropriately modified, with whom further negotiations could in that event be undertaken.

36. Finally, Mr. Smith indicates no more than a readiness to "modify" censorship while the testing of opinion is taking place. He denies there are any purely political detainees, and gives no undertaking beyond the possibility of those in detention making their views known to the testing authority.

37. [Paragraph to be added.]

Conclusions

38. The British Government have carefully weighed the position which Mr. Smith continues to present, in the light of the thorough and repetitive exploration of all these problems which has taken place since last May. On the three vital issues:

(i) Mr. Smith's proposals would leave in the hands of the European minority a mechanism whereby progress to majority rule could be impeded. The British Government could not possibly justify recommending to Parliament the grant of independence in circumstances where the minority could arbitrarily delay the progress to majority rule.

(ii) Mr. Smith has not accepted the British Government's proposals for a broad-based Rhodesian Administration to be formed by the Governor and to be representative of all races, as a means of returning to legality. He insists that this is a matter for discussion only when a constitutional settlement has been agreed and has passed the test of acceptability. The British Government cannot negotiate a constitutional settlement with an illegal regime and must satisfy itself that any new legal administration is broadly representative of the people as a whole.

(iii) Mr. Smith insists that the testing of opinion under the fifth principle must take place before there has been a return to constitutional government. He evades any firm undertaking about the removal of censorship and is not prepared to release political detainees even against an undertaking that their political activities will be conducted peacefully and democratically. He has not accepted the British Government's proposal for a Royal Commission as the means of testing opinion. The British Government cannot agree that a fair and free test could take place under the auspices of the illegal régime, and in the circumstances contemplated by Mr. Smith: and
no test held under such circumstances of virtual duress could hope to be recognised as valid by public opinion generally in the United Kingdom or in the world at large.

39. For these reasons, the British Government have been forced to conclude that the régime are not ready to contemplate any constitutional settlement which would ensure uninterrupted progress to majority rule within a reasonable period of time: that they are not prepared to accept what must be the minimal requirements if the opinion of the people of Rhodesia as a whole is to be properly ascertained: and that they are not prepared to take the necessary steps whereby the rebellion is brought to an end. The related consequences, as set out in the final communiqué of the Commonwealth Prime Ministers' Meeting in London (see paragraph 10 of Appendix A) will therefore ensue.
APPENDIX A

EXTRACT FROM THE FINAL COMMUNIQUE OF THE COMMONWEALTH PRIME MINISTERS' MEETING IN LONDON 1966 (Cmnd. 3115)

Rhodesia

1. The Commonwealth Conference devoted a major portion of its discussions to the problem of Rhodesia.

2. As at Lagos, in January of this year, the members of the Conference reaffirmed that the authority and responsibility for guiding Rhodesia to independence rested with Britain but they acknowledged that the problem was of wider concern to Africa, the Commonwealth and the world.

3. They reaffirmed the view expressed in the communiqué issued at the end of the Lagos Conference as follows:

"The Prime Ministers declared that any political system based on racial discrimination was intolerable. It diminished the freedom alike of those who imposed it and of those who suffered under it. They considered that the imposition of discriminatory conditions of political, social, economic and educational nature upon the majority by any minority for the benefit of a privileged few was an outrageous violation of the fundamental principles of human rights. The goal of future progress in Rhodesia should be the establishment of a just society based on equality of opportunity to which all sections of the community could contribute their full potential and from which all could enjoy the benefits due to them without discrimination or unjust impediment. To this end several principles were affirmed. The first was the determination of all present that the rebellion must be brought to an end. All those detained for purely political reasons should be released. Political activities should be constitutional and free from intimidation from any quarter. Repressive and discriminatory laws should be repealed."

4. They further reaffirmed the statement made in their London Communiqué of 1965 and repeated in Lagos that "the principle of one man one vote was regarded as the very basis of democracy and this should be applied in Rhodesia".

5. They remain unanimous on the objective that the rebellion in Rhodesia must be brought to an end speedily. In order to achieve this objective, most of the Heads of Government expressed their firm opinion that force was the only sure means of bringing down the illegal régime in Rhodesia. Others, however, shared the British Government's objections to the use of force to impose a constitutional settlement, while agreeing that it was not ruled out where necessary to restore law and order.
6. Most Heads of Government urged that Britain should make a categorical declaration that independence would not be granted before majority rule is established on the basis of universal adult franchise and that this declaration should not be conditional on whether the illegal régime agreed to surrender or not. They further urged that Britain should refuse to resume discussions or to negotiate with the illegal régime.

7. The British Prime Minister stated that the British Government would not recommend to the British Parliament any constitutional settlement which did not conform with the six principles; that they attached particular importance to the fifth principle, namely that any settlement must be, and be seen to be, acceptable to the people of Rhodesia as a whole; that they regarded it as implicit in this fifth principle that the test of acceptability must enable the people of Rhodesia as a whole to indicate whether or not they were prepared to accept any settlement which provided for the grant of independence before majority rule was achieved; and that there would be no independence before majority rule if the people of Rhodesia as a whole were shown to be opposed to it.

8. The Conference noted the following decisions of the British Government:

(a) After the illegal régime is ended a legal government will be appointed by the Governor and will constitute a broadly based representative administration. During this interim period the armed forces and police will be responsible to the Governor. Those individuals who are detained or restricted on political grounds will be released and normal political activities will be permitted provided that they are conducted peacefully and democratically without intimidation from any quarter;

(b) The British Government will negotiate, with this interim administration, a constitutional settlement directed to achieving the objective of majority rule, on the basis of the six principles;

(c) This constitutional settlement will be submitted for acceptance to the people of Rhodesia as a whole by appropriate democratic means;

(d) The British Parliament and Government must be satisfied that this test of opinion is fair and free and would be acceptable to the general world community;

(e) The British Government will not consent to independence before majority rule unless the people of Rhodesia as a whole are shown to be in favour of it.

9. Most Heads of Government made it clear that in their view political leaders and others detained should be immediately and unconditionally released before an interim representative Government was formed, in which they should be adequately represented. They further expressed the view that any ascertainment of the wishes of the people of Rhodesia as a whole should be by a Referendum based on Universal Adult Suffrage, i.e., one man, one vote.
10. The Heads of Government also noted that the British Government proposed immediately to communicate its intentions as indicated above through the Governor to all sections of opinion in Rhodesia and to inform the illegal régime there that if they are not prepared to take the initial and indispensable steps whereby the rebellion is brought to an end and executive authority is vested in the Governor, the following related consequences will ensue:—

(a) The British Government will withdraw all previous proposals for a constitutional settlement which have been made; in particular they will not thereafter be prepared to submit to the British Parliament any settlement which involves independence before majority rule.

(b) Given the full support of Commonwealth representatives at the United Nations, the British Government will be prepared to join in sponsoring in the Security Council of the United Nations before the end of this year a resolution providing for effective and selective mandatory economic sanctions against Rhodesia.

11. The Conference had before it an analysis of the working of economic sanctions prepared by the Sanctions Committee set up in Lagos. It was agreed that, though sanctions had undoubtedly depressed the Rhodesian economy, they were unlikely at their present level to achieve the desired political objectives within an acceptable period of time. Accordingly, the Heads of Government were generally agreed on the need for stronger and mandatory economic sanctions under Chapter VII of the United Nations Charter. Most were convinced that mandatory sanctions of a general and comprehensive character should be applied under Chapter VII, Articles 41 and 42 of the United Nations Charter, and should cover both exports and imports. Others favoured sanctions on selected individual commodities important to the economy of Rhodesia. The Heads of Government recorded their appreciation of the work of the Sanctions Committee and requested it to continue its work.

12. There was unanimity of view that Commonwealth countries should continue to co-operate to the fullest extent possible in the pursuit of these objectives for Rhodesia notwithstanding some differences of opinion as to the most effective means of achieving them.

13. It was also agreed unanimously that assistance should be given to Zambia to produce a more complete cut-off of trade with Rhodesia and to assist her to withstand any serious effect on her economy resulting therefrom. To this end they requested that the Zambian Sub-Committee of the Sanctions Committee should continue its efforts in co-ordinating further Commonwealth assistance. Continuing consideration should also be given to the problems of Malawi.

14. The Heads of Government agreed that the problem of Rhodesia should be kept under constant review, and that they would meet again soon if the illegal régime were not brought to an end speedily.

15. The Heads of Government have had one overriding purpose in their consideration of the Rhodesian situation; a consideration which has now
extended over four meetings of Commonwealth Prime Ministers. That purpose is to end the perpetuation of power in that country in the hands of a minority, with only ineffective and inadequate guarantees of the political rights of the majority. Such a situation must be replaced by an arrangement based on a multi-racial society in which human and political rights will be vested in all the people without discrimination and in accordance with the true principles of democracy.
SECRET

APPENDIX B

STATEMENT OF POSITIONS

Statement by British Government

A. Return to Legality

(a) Before there can be formal negotiation of an independence settlement, there must be a return to legality in Rhodesia.

(b) This should be accomplished by the appointment by the Governor of a broadly-based representative government ad interim, not necessarily confined to political parties and including Africans. The composition of this government would need to be approved by Her Majesty’s Government.

(c) During this interim period, the armed forces and police to be responsible to the Governor.

(d) Individuals detained or restricted on political grounds to be released and normal political activities permitted, provided they are conducted peacefully and democratically and without intimidation from any quarter.

(e) Special provision to be made for the protection of the Kariba Dam installations.

(f) Provided there is acceptance in principle of a return to legality in the manner and on the conditions described above, informal talks will

Statement by the régime

A. Restoration of Normal Relations

(a) The Rhodesian Government has not yet determined its position in this regard and it does not believe that the question should be considered until the shape of the constitutional settlement has been agreed. However it does recognise that some steps would have to be taken at the appropriate time.

(b) This could only be carried out after the shape of the independence settlement has been mutually determined and after its acceptability to the people of Rhodesia has also been determined and its acceptability to the British Government has been declared and, then finally, after a general election has been held.

(c) There can be no deviation from the traditional practice that has always existed in the country.

(d) Those individuals who have been detained or restricted have been so detained or restricted by reason of their subversive activities. They could only be released if they gave a genuine undertaking to abide by the law.

(e) There is no need for additional or special provision to be made for the protection of the Kariba Dam installations since the protection of these is already adequately provided for by the Rhodesian Government.

(f) The talks designed to determine the shape of the constitutional settlement should be pressed forward to a conclusion. Thereafter consideration
continue for the purpose of establishing an agreed framework for a constitutional settlement, directed to achieving the objective of majority rule on the basis of the six principles.

(g) If such a framework can be agreed, formal negotiations for independence on that basis will take place with the legal interim administration.

(h) Sanctions will be lifted as soon as the new legal government has been established.

B. The Fifth Principle

(a) The constitutional settlement evolved in informal talks and subsequently negotiated with the legal government will be submitted for acceptance to the people of Rhodesia as a whole by appropriate democratic means, and the British Government and Parliament must be satisfied that this test of opinion is fair and free, and acceptable to the general world community.

(b) It would probably be decided (though other methods are not finally excluded) to set up a Royal Commission for this purpose, with authority to determine by what means the opinion of the various sections of the community in Rhodesia might best be ascertained and to carry through such ascertainment. The Commission might be entirely British. Or it might include members drawn from Commonwealth countries; or alternatively Commonwealth representatives might be associated in some way or other with the processes of ascertainment of opinion.

(g) This requirement is adequately met by the holding of a general election in Rhodesia and the formation thereafter of a new government.

B. The Fifth Principle

(a) It is accepted that the British Government needs to be assured of the acceptability of the constitutional settlement to the people of Rhodesia as a whole. This process should be completed in accordance with the steps indicated earlier in A (b) above.

(b) The manner in which the acceptability of the constitutional settlement is determined is primarily a matter for the British Government. However, the Rhodesian Government would need to be satisfied about the terms of reference and composition of the determining body and manner in which it would set about its task. Since this is a matter between Britain and Rhodesia it would seem logical that membership should be drawn from Britain. Objection would however be raised to the appointment by the British Government of persons from other Commonwealth countries which have openly declared their hostility to Rhodesia.
(c) The British Government will not consent to independence before majority rule unless the people of Rhodesia as a whole are shown to be in favour of it. On the other hand if a constitutional settlement providing for such independence, as worked out in informal talks and subsequently negotiated with the legal government, is shown by the test proposed to be approved by the people as a whole the grant of independence on this basis will be commended to the British Parliament.

C. The Constitutional Settlement

On the assumption that the 1961 Constitution, suitably amended, should provide the basis for an Independence Constitution:

(i) The special entrenchment inter alia of Chapter III of the 1961 Constitution is essential to give effect to the first principle.

(ii) To meet the second principle, there should be an effective blocking mechanism in the legislative assembly and in a Senate to control the amendment of specially entrenched clauses. In addition, there should

(i) The removal of the limited safeguards against the premature advent of African rule is objectionable, particularly as the advance to majority rule is provided for by the entrenched provisions relating to the franchise. The limited safeguards and the franchise were designed together to ensure continuance of responsible and stable government. Consideration would be given to special entrenchment of sections 36 and 38 relating to the Delimitation Commission and the criteria for delimitation; but section 37 relating to the number of constituencies and electoral districts should not be specially entrenched.

(ii) There should be a Senate of 24 members, divided in equal numbers between Africans and Europeans. Of the Europeans, six should be elected by Europeans on the “A” Roll, and six by Europeans
be an external authority which would finally govern such amendments on the criterion of whether they were in the interests of the people of Rhodesia as a whole. This could be a special committee of the Privy Council, with some flexibility in its composition and allowing for a judicial element if desired.

(iii) Provided the rest of the constitutional framework were satisfactory, the third principle might be fulfilled by extension of the “B” Roll franchise, and adequate representation of elected Africans in the new Senate.

(iv) The Rhodesian proposal for the abolition of cross-voting and the fading-out of “B” Roll seats as a quid pro quo for extending the “B” Roll franchise is not acceptable, since it would be retrogressive in terms of the first and third principles.

(v) As an expression of the sixth principle, the possibility of minimum African and European representation in the Executive, and of “phase-in” of European reserved seats in the legislative assembly at a later state of political evolution might be considered.

D. Other Issues

(i) Effect must be given to the fourth principle relating to racial discrimination. As a contribution towards this a Royal Commission should be set up to study the problems of racial discrimination and in particular land apportionment in Rhodesia.

D. Other Issues

(i) In the light of the steady progress being made in the elimination of discrimination, the Rhodesian Government believes there is no case for a Commission.
Statement by British Government

(ii) If difficulties should arise in working towards a negotiated solution of the Rhodesian problem on the lines already indicated, consideration might be given to a number of alternative approaches, e.g.:

(a) Expression might be given to the six principles through a completely new constitutional approach, rather than the 1961 Constitution.

(b) Commonwealth expertise in constitutional matters might be called in to help in working out such an approach.

(c) The suggestion of an "Act of Union" between Britain and Rhodesia could be explored.

(d) A mission of Commonwealth Prime Ministers might be invited to come to Rhodesia to lend its good offices and to assist in any way that might prove possible towards a solution of the problem.

Statement by the régime

(a) A new constitutional approach would inevitably involve considerable delay in reaching a solution, and would also require reference to the electorate and other institutions for a new mandate.

(b) The solution of the existing problem is a matter for Rhodesia and Britain alone.

(c) The suggestion of an "Act of Union" is impractical and unacceptable.
STATEMENT OF THE BRITISH GOVERNMENT'S TERMS FOR A SETTLEMENT IN RHODESIA

The British Government have now undertaken a review of the Rhodesian problem in the light of the recent visit of the Commonwealth Secretary and Attorney-General to Salisbury during which a statement of positions on either side was drawn up.

2. The British Government's attitude remains based on the principles which successive British Governments have insisted must govern any constitutional settlement for an independent Rhodesia. The major areas of disagreement turn on the application of these principles, and are not matters to be resolved merely by detailed constitutional modifications.

The constitutional settlement

3. The British Government have throughout shown their readiness to explore every possibility of reaching a settlement within these principles. They have proposed, if it would facilitate the task of working out an independence settlement within the stated principles, that there might be an entirely new constitutional approach. They have further suggested that the assistance of constitutional experts from the Commonwealth might be brought in to assist in working out such a new basis for a settlement. As a further possibility, they have also proposed that a mission of Commonwealth Prime Ministers might be invited to visit Rhodesia and to lend their good offices in devising a solution between Rhodesia and Britain. They have also declared themselves ready to enter into discussions about the possibility of an "Act of Union" between Britain and Rhodesia. All these possibilities have been rejected out of hand. The British Government's consideration of the problem has therefore been confined to the possibility of a settlement based on the 1961 Constitution with the changes necessary to give full effect to the stated principles.

4. It is the British Government's purpose that the political advancement of the Africans in Rhodesia should be brought about in a way that will preserve good government and stability in the country, and safeguard its social and economic development within the concept of a society pledged to afford equal opportunity to all, regardless of race. They accept that the pace of the political advancement of the Africans should continue to be governed by achievement and merit, i.e., through the acquisition of the economic and educational qualifications prescribed under the 1961 Constitution. In the belief that such arrangements, if fully safeguarded in a constitutional settlement which is demonstrated to be acceptable and is legally enacted, would be in the best interests of the Africans. The British Government hope that the Africans would participate fully in working them: and they renew their previous offer of assistance towards the development of educational and economic opportunities for the Africans. The British Government, however, are not prepared to agree that African advancement might after independence be arbitrarily held back through the operation of powers left in the hands of the European minority if the
latter judged at any time that the advent of African majority rule would be “premature”. Such a provision would be incompatible with the principle of unimpeded progress to majority rule.

5. The British Government must therefore continue to insist that the provisions of Chapter III of the 1961 Constitution (which deal with the number and delimitation of constituencies and electoral districts) must be specially entrenched in any Independence Constitution.

6. As regards safeguards for the specially entrenched clauses of the Constitution, the British Government would accept, as part of the necessary machinery, a Senate consisting of 12 Europeans and 12 Africans, which would vote together with the Lower House. They consider however that the elected element among the Africans should be increased, to constitute an effective blocking quarter. There should therefore be not less than nine elected African members of the Senate, though the British Government would be prepared to see up to three chiefs included: and the number of “B” Roll seats in the Assembly should be increased from 15 to 17.

7. The British Government have throughout insisted that any Independence Constitution must contain safeguards for specially entrenched clauses as effective as those provided in Section 108 of the 1961 Constitution: and it is for this reason that their proposal for an external authority which would finally decide on such amendments has been put forward.

8. The British Government would be prepared to see the external authority brought into operation not by automatic reference to it of every constitutional Bill concerned with amendment of a specially entrenched clause (as envisaged in their original proposals), but by a system of appeal against such an amendment. The amendment would not come into force until the time for appeal had expired or the appeal had been finally disposed of. Such an appeal might lie in the first instance to a “Constitutional Commission” in Rhodesia, consisting of the Chief Justice and other judges: with further appeal as of right to the Judicial Committee of the Privy Council. The grounds of appeal should be that the amendment discriminated or had the effect of discriminating unjustly between the races, or contravened any of the provisions of the Declaration of Rights contained in the Constitution.

9. The British Government cannot accept the abolition of cross-voting or the fade-out of “B” Roll seats, since these would be incompatible with the first and third principles. The “B” Roll franchise would be extended to all Africans over 30 by appropriate amendment of the Second Schedule to the Constitution.

The fifth principle

10. It remains the position of the British Government that any constitutional settlement for an independent Rhodesia must be demonstrated to their satisfaction by a fair and free test to be acceptable to the people of Rhodesia as a whole. Until this test has been carried out, there can be no question of inviting the British Parliament to legislate for independence.

11. If informal agreement can be reached on the form of a constitutional settlement, which meets their requirements, the British Government will be ready to stand by that as the basis for negotiation with a legal government and for the eventual testing of Rhodesian opinion. But they cannot accept
that the testing of opinion should take place before there has been a return to constitutional government in Rhodesia, the censorship has been lifted, and individuals detained on political grounds released and normal political activities permitted provided they are conducted peacefully and democratically and without intimidation from any quarter.

12. They remain of the view that a Royal Commission should be appointed to test opinion in Rhodesia. They would accept that the composition of the Commission and the methods by which opinion should be tested should be agreed with the legal interim administration when it is established.

Return to legality

13. The British Government adhere to the view that, before there can be any formal negotiation of an independence settlement, a constitutional government must be established in Rhodesia. A settlement negotiated on any other basis could not hope to secure the acceptance of the people of Rhodesia as a whole, or of the British Parliament, or of the general world community.

14. The British Government therefore require as the first step the appointment by the Governor of a broadly-based representative government ad interim. This must be and be seen to be a fresh start—a government of national unity representing the widest possible range of public opinion of all races in the country.

15. The Rhodesian Parliament must be in abeyance during the interim period, since it would not be appropriate for the interim government to be responsible to the present Assembly. Rhodesian Ministers would be appointed by and responsible to the Governor who would normally act on their advice in all internal matters of administration, subject to his control of the armed forces and police as described in paragraph 17 below.

16. Free expression of opinion would be assured by the removal of censorship and the assumption by the Governor of responsibility for the national broadcasting and television services.

17. The armed forces and police would come under the direct responsibility of the Governor during this period. While the Governor would normally act on the advice of members of the interim government in matters concerning the armed forces and police and law and order, the British Government would need to be satisfied that he retained powers in his discretion not only to deal with domestic disturbance and illegality but also to prevent a repetition of unconstitutional action and to protect human rights. The British Government would reserve the right to provide military assistance for these purposes if this is required by the Governor in this period. Similarly, the British Government would reserve the right, under the Independence Constitution, to provide such assistance if this is necessary as a further guarantee of the agreed Constitution.

Racial discrimination and land apportionment

18. The British Government cannot accept that there is no case for any further action to give effect to the fourth principle. They repeat their
minimum requirement that, as a contribution towards this, a Royal Commission should be set up to study the problems of racial discrimination and in particular land apportionment in Rhodesia.

Conclusion

19. This statement by the British Government spells out in practical form the action necessary to give effect to the principles which the British Government has clearly and consistently stated. It is now a question whether a return to constitutional rule can be achieved and a settlement worked out. Otherwise, the consequences for Rhodesia and indeed for the whole of Central and Southern Africa will be incalculable. The British Government for their part stand firmly by the undertakings to which they are committed by the Commonwealth Prime Ministers' Communiqué in September.

15 October, 1966.
REPLY BY THE REGIME TO THE STATEMENT OF THE BRITISH GOVERNMENT'S TERMS FOR A SETTLEMENT IN RHODESIA

1. The Rhodesian Government have examined the document headed "statement of the British Government's terms for a settlement in Rhodesia" which was delivered to the Rhodesian Prime Minister by Sir Morrice James, Deputy Under-Secretary at Commonwealth Office, on Saturday, 15 October, 1966.

2. During the visit of the Secretary of State for Commonwealth Affairs to Rhodesia in September, the respective positions of the British and Rhodesian Governments were analysed. The analysis demonstrated that there was no prospect of a negotiated settlement unless each side were to make some move towards the other. The terms submitted by the British Government indicated disappointing inflexibility on their part and that they have scarcely moved towards the Rhodesian position.

3. The Rhodesian Government now submit their comments on the British statement.

British paragraph 3

4. The claim is made that the British Government have throughout shown their readiness to explore every possibility of reaching a settlement. A whole year has now elapsed since Rhodesia declared her independence. In that period the British Government have made no effort to seek a negotiated settlement with the Rhodesian Government; indeed for a long time they refused even to talk with the Rhodesian Government, and when they did their communiqué conveyed that the talks were exploratory and without commitments. Therefore it would seem that they have never seriously contemplated a negotiated settlement with the Rhodesian Government. It is evident that they are hoping for Rhodesia's capitulation to open the way for the imposition of a new Constitution fashioned to their own ends after a period of direct rule.

5. The paragraph distorts facts in a manner that serves only to aggravate feelings. The British Government's proposal that there might be an entirely new constitutional approach and their other similar suggestions were not rejected out of hand by Rhodesia. The fact is the Rhodesian Prime Minister pointed out to the Secretary of State that the exploration of any settlement not based on the 1961 Constitution would take as long as one year or even two years to complete, which would, in prevailing circumstances be undesirable. Moreover, it would involve seeking a fresh mandate from the electorate with all the complications this would entail. The Secretary of State concurred with this view. The British Government have been well aware of the desire of Rhodesians to reach a settlement on a basis of the 1961 Constitution which they had been led to believe was the threshold to independence. Having regard also to the historical background to the situation and to the exclusion of Rhodesia from the Commonwealth forum
long before her declaration of independence, also to the continuous malicious attacks which have been made upon Rhodesia in that forum, and also to the general distrust which the handling of Rhodesian affairs by successive British Governments have engendered in minds of Rhodesians, it is little wonder that these generalised proposals and suggestions of the British Government have not been received with any confidence.

British paragraphs 4, 5 and 9

6. The Rhodesian Government note that it is the British Government's purpose that the political advancement of the Africans in Rhodesia should be brought about in a way that will preserve good Government stability in the country, and safeguard its social and economic development within the concept of a society pledged to afford flexible opportunity to all, regardless of race. The Rhodesians subscribed to this idea but have misgivings about the way in which the British Government propose to achieve it. Recent happenings in Africa raise serious doubts about the wisdom of forcing the pace of African political advancement. The Rhodesian approach, on the other hand, provides opportunity for the growth of respect for tradition and convention which is a cardinal feature of any well-ordered society and is essential for a truly democratic Parliamentary system. The British Government's terms seize upon every means of accelerating the pace to majority rule, to a degree which, in the Rhodesian Government's view, would not only defeat the purpose, but indicate a disregard of the principles which the British Government themselves have laid down in paragraph 4 of their statement. It is the Rhodesians, not the British people, who would suffer from the consequences of the institution of ill-advised constitutional provisions.

7. It is with these general considerations in mind that the Rhodesian Government submit the following proposals:

(a) that the "B" Roll franchise be extended to include all male Africans over 30 years of age; providing that the cross-voting system is eliminated. The effect of this proposal would be to enfranchise at least 400,000 Africans, although they will not have the minimum qualifications which even the British Government accept as necessary for measuring achievement and merit. However, to preserve this principle of maintaining standards, it is necessary to eliminate cross-voting. The cross-voting system is complicated and the effects are not readily understood by many voters and candidates. The misunderstanding of the effects will be accentuated by the addition of 400,000 voters who have not even the elementary "B" Roll qualifications;

(b) that the present 15 "B" Roll electoral districts be specially entrenched. This replaces an earlier proposal for fade-out of these Seats and removes any British Government's fears of reduction of African representation in the Assembly or of disenfranchisement of "B" Roll voters;

(c) that an additional 15 seats be reserved for Europeans in the Legislative Assembly, such seats to be phased-in as African advancement on the
“A” Roll develops for each African elected on the “A” Roll, one European reserved seat would be created, until the maximum of 15 was reached.

Having regard to the existence of the 15 “B” Roll seats which will, in practice, be African seats and to the British Government’s sixth principle, it is logical to provide 15 reserved seats for Europeans. These, together with the European representatives in the Senate, would form a blocking quarter. Without these additional seats it would be possible in time for there to be no European in the Legislative Assembly, thereby frustrating the second and sixth principles.

8. The British Government continue to insist that the provisions of Chapter III of 1961 Constitution must be specially entrenched. The Rhodesian Government are prepared to agree to the special entrenchment of all the provisions of Chapter III with the exception of Section 37, subject to paragraph 7 (b). This section determines the number of constituencies and electoral districts. It would be unprecedented for the Assembly to be deprived of its right to increase its membership through additional constituencies when expansion and growth of the country so demands.

British paragraph 6

9. This paragraph refers to safeguards for the specially entrenched clauses of the Constitution. Here there is wide measure of agreement. Both Governments accept a Senate of 24 persons consisting of 12 Europeans and 12 Africans and that on amendments to the specially handled clauses of the Constitution, the Senate would vote together with lower house, with one quarter forming an effective block. However, of the 12 Africans in the Senate, the Rhodesian Government believe there should be six Chiefs and six elected Africans, whereas the British Government believe there should be nine elected Africans and only three chiefs. In last year’s negotiations the Rhodesian Government had contemplated a Senate of 12 chiefs alone. The Senate is the natural and proper place for the representation of the chiefs along with others, for a Senate, in contrast to a lower house, is an organ for the representation of groups, not of aggregates of individual voters, and chiefs, above all, are the spokesmen of the tribal entities with their own internal and long-established arrangements for sounding and expressing the will of their peoples. These arrangements are realistic in the sense that they are understood, familiar and functional. The Western device of the ballot box, in a tribal context, is exotic, misunderstood and mistrusted as has been only too clearly demonstrated by the events in one country after another in Africa. The chiefs are given their positions and derive their authority to speak for their people from complex rites of succession unique to each tribe, and it is more accurate to consider them as social institutions rather than individuals. As institutions they are accepted and respected as the representatives of the great bulk of the African population. When a chief speaks he does so as the collective voice of his people and the very nature of his position binds him to do so in the interest of his people. In to-day’s context the carrying out of their traditional and public duties involved them in expense and to suggest that the modest recompense they receive in this connection turns them into servants of the Government is absurd. A representation of six chiefs elected by an electoral college of chiefs to the
Senate is the minimum which the Rhodesian Government consider adequate and necessary to give full and realistic communal representation to the Africans, the vast majority of whom are tribesmen, and to do justice to the vital and important status and role the chiefs are accorded by their people. Whatever the British Government might feel about chiefs belonging to a bygone age, it is to be noted that the Constitutions granted by Britain to Lesotho and Botswana make provision for senates or upper houses of chiefs.

10. As minimum African representation in both houses under the foregoing proposals would exceed the number required to provide an effective block to amendment of the specially entrenched clauses, the British proposal to increase “B” Roll seats in the Assembly from 15 to 17 is unnecessary and undesirable.

British paragraphs 7 and 8

11. As regards further safeguards for specially entrenched clauses the Rhodesian Government are prepared to consider a system of appeal to an internal authority—possibly a constitutional commission in Rhodesia, on the lines of British proposal. But they are not willing to accept the proposal for a right of further appeal to an external authority. The establishment of such an external authority would not be compatible with independence. The proposal that the grounds of appeal should be the amendments discriminated unjustly between the races would be acceptable, but the Rhodesian Government have serious doubts about the acceptability of a provision for appeal on the grounds that the amendment had the effect of discriminating. The proposal that the grounds of appeal should include contravention of the provisions of the declaration of rights would have the effect of making the declaration of rights immutable.

British paragraph 18

12. With regard to the British suggestion for a commission to study problems of racial discrimination and land apportionment the Rhodesian Government point out that in Rhodesia land apportionment legislation is continually being amended to meet the changing conditions while racial discrimination which is, of course, not unique to Rhodesia, is constantly being reduced in a practical manner. Accordingly, the Rhodesian Government believes such a commission would serve no purpose. However, they are prepared to discuss the suggestion.

British paragraphs 10 to 17

13. The Rhodesian Government recognise that the British Government are entitled to satisfy themselves that any settlement, the form of which has been agreed upon beforehand by the two Governments, is acceptable to the people of Rhodesia as a whole. When the form of settlement has been agreed, the Rhodesian Government would co-operate with the British Government to determine the procedures required for testing the fifth principle. Once this stage has been completed and a new Constitution has been finally determined by the Governments, the Rhodesian Government would be prepared to enter into discussions with the British Government bringing the new Constitution into legal force and effect. The Rhodesian
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Government believes that it must be obvious to all that they could not contemplate the abandonment of the 1965 Constitution until a settlement has been arranged and secured.

Conclusions

14. It now seems clear that the differences between the two Governments regarding the changes to be made to the 1961 Constitution are not now so great that they cannot be bridged by negotiations. The Rhodesian Government therefore invite the Secretary of State to come to Salisbury with full powers to reach final agreement on the settlement.

The Rhodesian Government received on Friday, 11 November, from the Head of the British High Commission residual staff in Salisbury a written request from the British Government for replies to the three questions arising from their examination of the Rhodesian Government's reply to the British statement of terms for a settlement in Rhodesia.

2. The Rhodesian Government believes that the form of the Constitution and the conditions of its acceptability must be determined as a whole and not piece-meal. They therefore regard the issues raised in the questions to be matters which cannot be resolved by distant questions and answers of a categorical nature, but only by personal negotiation. However, subject to these comments, they make the following points in clarification.

Question No. 1
No. The reason is already given in paragraph 8 of the Rhodesian Government's reply to the British Government's statement. The Rhodesian Government wishes to maintain the right of the Assembly, already implicit in the 1961 Constitution, to increase the number of constituencies to meet the needs of a young and growing country. Chapter III cannot, however, be taken in isolation from the other constitutional issues.

Question No. 2
Until the constitutional settlement has been disposed of and acknowledged by the British Government as having passed the test of acceptability, the Rhodesian Government cannot commit themselves to an operation, details of which would yet have to be settled by negotiations. A decision on this issue would be influenced by the nature of the new Constitution and by its general acceptance.

Question No. 3
Before the first part of this question is answered the Rhodesian Government would like the British Government to answer another question: In the event of the Rhodesian Government's agreeing to relinquish the 1965 Constitution, would the British Government agree to stand by the constitutional settlement previously agreed by the two Governments in order to guarantee that Rhodesia would not find herself without a Constitution in the event of the testing of opinion under Principle No. 5 going against the proposed new Constitution?

The Rhodesian Government concede the need to modify censorship during the process of testing of opinion and are prepared to discuss territorial questions with the British Government. The Rhodesian Government wish to point out, however, that the main reason for censorship in Rhodesia is to counter hostile economic and psychological action being taken against this country by Britain.
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No persons are detained on purely political grounds. Persons are detained when they constitute a threat to public security. There should be no need to remind the British Government of the dangers inherent in the link-up of external terrorists with these lawless elements, and of how this has been encouraged by subversive broadcasts beamed from adjacent territories. Has not British aid to Zambian broadcasting been given with reckless disregard of the consequences? The Rhodesian Government would have no objection to the views of those in detention being made known to the testing authority. The arrangement would be a matter for discussion by the two Governments.

3. The Rhodesian Government are confident that, once the two Governments have reached agreement on the form of the Constitution, an improvement in relations between them should pave the way for agreement upon the issues concerned with the subsequent stages. The Rhodesian Government renew their invitation to the Secretary of State to come to Salisbury to settle by negotiation the form of the new independence Constitution.

17 November, 1966.
CABINET

RHODESIA: MANDATORY SANCTIONS

Memorandum by the Secretary of State for Commonwealth Affairs

At the meeting of the Cabinet on 24th November (CC(66) 60th Conclusions, Minute 3, Conclusion (1)), I was invited to circulate a paper on the Resolution to be introduced at the United Nations for mandatory sanctions on selected Rhodesian exports and a general oil embargo and on the implications of United Nations action for the United Kingdom economy.

I attach the following report by officials.

H.B.

Commonwealth Office, S.W.1.

25th November, 1966
MANDATORY SANCTIONS AGAINST RHODESIA

Background

On 13th September the Prime Minister, in accordance with the Cabinet decision of 10th September (CC(66) 45th Conclusions), circulated on a restricted basis at the Commonwealth Prime Ministers' Conference a written statement that "the British Government, given an assurance of the full support of Commonwealth representatives at the United Nations for the proposals that follow, will be prepared to agree to the passage by the Security Council of the United Nations of Resolutions under Chapter VII of the Charter of the United Nations providing for mandatory sanctions on certain selected exports from Rhodesia and, perhaps at a somewhat later stage, on the import of oil into Rhodesia via Mozambique".

2. In considering how best to implement this undertaking, the Ministers primarily concerned had the following considerations in mind:

(i) The sanctions chosen should cause the maximum economic damage to the illegal regime in Rhodesia, subject to

(ii) the need to safeguard the economic interests of neighbouring friendly countries in Southern Africa, such as Zambia, Malawi and Botswana. (For example, a ban on Rhodesian coal exports would affect Zambia's copper output and therefore her economy. If the United Kingdom were to be deprived of Zambian copper this would have grave effects on the United Kingdom balance of payments);

(iii) The sanctions must be sufficiently credible to preserve the existence of the multi-racial Commonwealth.

(iv) The United Kingdom in its own interests must avoid being drawn into direct economic confrontation with South Africa, since this would have a most serious effect on the British economy and jeopardise our economic recovery. (An analysis of the issues involved for us in such a confrontation is attached as Annex A to this paper).

Sanctions on Selected Rhodesian Exports

3. Ministers agreed that the proposed Security Council Resolution, which Britain would co-sponsor, providing for mandatory sanctions on certain selected exports from Rhodesia, should cover asbestos, iron ore, chrome, pig-iron, sugar, tobacco, copper, meat and meat products, hides and skins and leather originating in Southern Rhodesia and exported from there.

4. In view of the possibility that British motor vehicle plants in Rhodesia (which are owned by subsidiaries of British motor-car manufacturers) may be used for the assembly of foreign cars, Ministers have considered whether to include in the proposed Resolution a sanction on the export by foreign manufacturing countries of assembly parts for Rhodesia. They are agreed that the need for this does not arise at this
stage, but that a sanction on these lines should be held in reserve; and that meanwhile we should seek assurances from the British motor-car manufacturers who have invested in plant in Rhodesia that they will reject any proposal by their Rhodesian subsidiaries to assemble motor vehicles manufactured in a country other than the United Kingdom; and that in the light of the result of these approaches the Canadian Government might be asked to take similar action to prevent foreign cars being assembled by Fords, Canada at their assembly plant in Salisbury. The Treasury are also considering whether the existing exchange control powers could be used effectively to prevent the British motor-car manufacturers concerned from selling or giving up control of their Rhodesian investments to a non-resident of the United Kingdom, and whether it would be necessary for the existing exchange control powers to be supplemented by an Order in Council. It is also proposed to seek assurances from the Governments of countries with substantial motor industries that they will not permit their manufacturers to enter into a licensing agreement for the assembly of their motor vehicles by a Rhodesian subsidiary of a British or Canadian company if such an arrangement had been legally rejected by the firm's head office; or take over any of the existing British assembly plants in Rhodesia if these had been compulsorily and illegally acquired by the regime; or establish new vehicle assembly plants in Rhodesia while the United Nations is seized of the Rhodesian problem. (The Canadian Government will be asked to take similar action). If, contrary to our expectations, any Government were not prepared to give satisfactory assurances, the United Kingdom Government should then consider in consultation with the Canadian Government the issues involved, with particular reference to the risk of confrontation with South Africa resulting from a mandatory resolution calling upon all states to prevent capital transfers to Rhodesia or prohibit the export to Rhodesia of motor vehicle components and assembly plant.

5. Consideration has likewise been given to the possibility of a mandatory sanction on new investments in Rhodesia. This would present no difficulties for the United Kingdom since all capital transactions with Rhodesia have already been stopped. But it would only be effective if all the United Nations Member States operated a comprehensive Exchange Control system. This is far from being the case and the cost of running a comprehensive Exchange Control machine to prevent a certain class of payments to Rhodesia might well seem to the Governments concerned out of proportion to the benefits to be expected from the sanctions. South Africa, Switzerland and Portugal could not be expected to co-operate in such a sanction. This would provide a large loophole, even if all other countries co-operated.

Oil Sanctions

6. The proposal for a limited embargo on oil supplies for Rhodesia through Mozambique was discussed early in November with the United States Government and certain other friendly foreign and Commonwealth powers. Their replies showed a general misgiving about the inclusion in our Resolution of oil sanctions confined to Mozambique. The United States Government doubted if we would keep the Afro-Asians with us even initially on such a limited basis. The Netherlands Government thought there was no possibility that the Security Council would rest content with the limitation of oil sanctions to
Mozambique, and the Canadian Government suggested that a limited oil sanction might be almost as unacceptable to the Afro-Asians, and others, as no reference at all to oil sanctions. The New Zealand Government suggested that confining the oil sanctions to Mozambique would be needlessly provocative to the Afro-Asians. Lord Caradon, who was also consulted, reiterated his previous advice that there would be no hope of getting agreement at the Security Council for such a limited oil embargo.

7. In the light of these replies, the Ministers primarily concerned agreed on 8th November that whether we proposed a Resolution limited to the import of oil to Rhodesia through Mozambique in the first place, or made no mention of oil at all, there was bound to be strong pressure for a general oil sanction and a strong possibility that we should in consequence be faced in the Security Council with an amendment to make the Resolution applicable to supplies of oil to Rhodesia from all sources. Accordingly, Ministers agreed that in order to secure African co-operation at the Security Council, the best procedure would be to discuss our proposals on oil in the first instance with Presidents Kenyatta and Obote, Colonel Gowan in Lagos and General Ankrah in Accra. Mr. Malcolm MacDonald was instructed to undertake these discussions.

8. Mr. MacDonald has since reported that these African statesmen consider it essential to have a mandatory embargo on oil supplies to Rhodesia and that it should not be limited to oil going to Rhodesia through Mozambique. On 21st November Ministers agreed that we should not succeed in limiting an oil embargo against Rhodesia to Mozambique and should be prepared to accept a general oil embargo although we need not commit ourselves at this stage to sponsor this. The most satisfactory way of bringing such an embargo into effect would be by way of an amendment to the Resolution (copy at Annex B) which we shall be co-sponsoring on selected exports from Rhodesia. A separate resolution on oil might in its preamble and its recommendation to non-member states set dangerous precedents, from the United Nations point of view, which we have devoted much care to avoiding in our present draft on selected exports.

9. It is suggested that the ideal wording of such an amendment to our Resolution would be one which called upon member states to prevent "the participation by their nationals or vessels under their registration in the supply of oil and oil products to Rhodesia". This wording avoids pointing the finger specifically at Portugal and South Africa, though it bites on them. Compliance by the oil business is ensured by placing the onus on the home governments of companies and others supplying oil. At the same time - and this is of basic importance to the security of oil supplies in general - we avoid establishing a precedent that oil producing states might have the right to control the destination of oil exported by the companies. The Minister of State for Commonwealth Affairs has been authorised to discuss with President Obote the possibility that Uganda might sponsor such an amendment.

10. A final decision has yet to be taken as to whether our vital reservation on oil sanctions - that we would on no account become involved in enforcement measures against South Africa - should be made openly at the United Nations or whether it should be a matter of confidential understanding between members of the Commonwealth. This matter is under urgent examination in the light of the views expressed by our representatives in New York and Pretoria, and by

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Mr. Malcolm MacDonald, and it will also be discussed at meetings between senior British and American officials which are due to take place in Washington on 30th November and 1st December. The critical nature of the question can be set out as follows. A public statement would reassure the South Africans that we were not embarking on a course of confrontation against them; but it also might well be regarded by our African Commonwealth partners as giving public notice to South Africa that South Africa could defy the United Nations Resolution with impunity. On the other hand if we make no public statement in the United Nations about our ultimate intentions, the South African Government (and commercial organisations) could well conclude that the next step would be a call for enforcement measures against South Africa, and could well doubt our intention to avoid being drawn into enforcing these measures. This would not fail to have an immediately damaging effect on our commercial and economic interests in South Africa. Finally, if we make no public statement now, it may be more difficult to resist escalation later.

Summary

11. To sum up, in drawing up our proposals for economic sanctions against Rhodesia, Ministers have included measures which, though increasing the effect of existing sanctions against the illegal regime - by applying them on a world-wide basis - ought to have little or no additional adverse effect upon our own economy, since they comprise measures which we in Britain are already applying to the best of our ability on a voluntary basis; but mandatory sanctions will make it more difficult for other countries to trade with Rhodesia. What we must avoid is the situation in which mandatory sanctions escalate into enforcement measures which would bring us into direct confrontation with South Africa, since this could do disastrous damage to our own economy.
Effect on the British economy of economic confrontation with South Africa

1. The implications for Britain of full participation in economic sanctions would be very serious. Whether or not we took the initiative in the United Nations we should be regarded by the South Africans as the chief cause of their difficulties, since these would spring from our policy towards Rhodesia.

**Exports**

2. South Africa is our fourth largest market, our exports and re-exports to which have risen from a level of about £150 million a year in 1960-62 to £265 million (on a slightly different basis of classification) in 1965. Our best estimate of South African Government purchases is that they are of the order of £30 million per annum. In the private sector, South Africa is our largest market for woven cotton fabrics, electrical machinery as a whole (including generating equipment, switchgear and telecommunications equipment), commercial vehicles and chassis and engines. She is one of our three largest markets for a considerable number of items including cotton yarn, tractors, motor cars, ships and boats, transport equipment as a whole, plastic materials, man-made fibre fabrics, tools, mechanical handling equipment, and machine tools. South Africa takes more than 10 per cent of our exports of railway vehicles, commercial vehicles, chassis and engines, switchgear, generating equipment and woven fabrics. She takes 10 per cent of our exports of man-made fibre yarn and thread, and glass. Engineering products accounted for about one-third of our exports to South Africa in 1965, and many of these are individual rather than mass-produced goods which would be difficult to divert to other markets. The search for new markets for many other goods would be difficult at a time when the exporters of other countries would also be looking for alternatives to the South African market.

**Imports**

3. If supplies from South Africa were cut off, our import bill might increase by about £100 million because of pressure of demand on alternative sources of supply and the resulting rise in prices, particularly wool. Inconvenience, price increases and some dislocation would be caused by the cutting off of supplies from South Africa of certain essential raw materials and foodstuffs which could not be easily or satisfactorily replaced: the biggest single item (raw diamonds - £65 million per annum).
might be diverted from the British market with loss only to the United Kingdom. The long-term effect on the United Kingdom Atomic Energy Authority and on the whole British nuclear energy industry of any interference with South African uranium supplies (for which we have outstanding our advance payment of £38 million) would be very serious indeed.

Invisible Income

1. We could also expect to lose something around £100 million annually of invisible income. Our investments in the Republic are estimated at about £950 million producing an annual income of well over £60 million (about 10-12 per cent of total British earnings from investment overseas other than oil). We should lose this income and the investments themselves would be at risk. The shipping contribution to the United Kingdom balance of payments would be reduced by about £16 million a year. The value of shipping services directly concerned is of the order of £43 million per annum; the interruption of existing shipping services also carries with it the risk that the trade contracts and local organisation upon which they depend will be lost, and that the advantage which British companies at present enjoy would be lost irretrievably. An interruption of the air services would cause a loss to British airlines of some £5 million. We should also lose our earnings from oil, insurance, banking, tourism, etc.

Balance of Payments and Unemployment

5. Our own balance of payments position is more vulnerable than when the possibility of sanctions against South Africa was considered (in the context of Apartheid) 18 months ago. The total loss to our balance of payments might be of the order of £300 million in the first year. Coupled with the effects on sterling of a cutting-off of the supply of monetary gold from South Africa, a loss of this order would do unacceptable further damage to Britain’s economy and prospects. The direct loss of a large part of our export trade would lead to redundancy in firms that could not readily find alternative markets. About 13,000 British seafarers would become unemployed and the effect on shipbuilding and ancillary industries in particular could jeopardise as many as 15,000 jobs. There would undoubtedly be hardship in the unemployment areas and in Northern Ireland.
Monetary Consequences

6. As a reserve currency country, the United Kingdom, like the United States, would almost certainly be affected by any fall in the sales of South African gold resulting from a reduction in South African imports which are partly paid for by sales of gold (of which she is the source of about 70 per cent of the free world's supply). The pound as well as the dollar could be seriously affected by the application of an embargo against South African gold. Even if such an embargo did not effectively prevent South Africa from moving and disposing of gold, it would set off speculation in gold, and so reduce the amounts available for monetary authorities, and would be likely to reduce confidence in sterling in particular. It is impossible to predict how serious this might become. The Gold Pool arrangements at present operated by the Bank of England through the London market would be disrupted and there might be severe pressure on the gold price.
Recalling its resolution numbers 216 of 12th November 1965, 217 of 20th November 1965 and 221 of 9th April 1966, and in particular its appeal to all states to do their utmost in order to break off economic relations with Southern Rhodesia.

Deeply concerned that his call has not brought the rebellion in Southern Rhodesia to an end.

Reaffirming that to the extent not superseded in this resolution, the measures provided for in resolution 217 of 20th November 1965 as well as those initiated by member states in implementation of that resolution shall continue in effect. [See Footnote (1)]

Affirming that the adoption of the present resolution does not prejudice or affect the need for continued implementation of the measures called for by the resolutions referred to above. [See Footnote (2)]

Acting in accordance with Articles 39 and 41 of the United Nations Charter.

1. Decides that all states members of the United Nations shall prevent:

(a) the import into their territories of asbestos, iron ore, chrome, pig-iron, sugar, tobacco, copper, meat and meat products and hides, skins and leather originating in Southern Rhodesia and exported therefrom after the date of this resolution;

(b) any activities by their nationals or in their territories calculated to promote the export of these commodities from Southern Rhodesia and any dealings by their nationals or in their territories in any of these commodities originating in Southern Rhodesia and exported therefrom after the date of this resolution including in particular any transfer of funds to Southern Rhodesia for the purposes of such activities or dealings;

(c) shipment in vessels or aircraft of their registration of any of these commodities originating in Southern Rhodesia and exported therefrom after the date of this resolution.

Notwithstanding any contracts entered into or licences granted before the date of this resolution,
2. **Calls upon all states members of the United Nations to carry out this decision of the Security Council in accordance with Article 25 of the United Nations Charter; and to report to the Secretary-General the measures each has taken to carry out this decision.**

3. **Urges having regard to the principles stated in Article 2 of the United Nations Charter states not members of the United Nations to act in accordance with the provisions of paragraphs 1 and 2 of this resolution.**

Footnote (i)

There will be discussions in New York on which of the two forms of wording is preferable.

Footnote (ii)

Following is text for an amendment imposing general oil sanctions on Rhodesia which we could if necessary accept but not sponsor. It would be inserted as a new sub-paragraph (d) in paragraph 1 above:

"the participation by their nationals or vessels under their registration in the supply of oil and oil products to Rhodesia".
28th November, 1966

CABINET

DRAFT WHITE PAPER ON DECIMAL CURRENCY

Memorandum by the Chancellor of the Exchequer

I attach a draft White Paper on Decimal Currency in the United Kingdom. It embodies the policy decisions taken by the Government, including the coinage proposals agreed on 9th November (CC(66) 55th Conclusions, Minute 3).

2. I propose to publish this White Paper on Monday, 12th December. Early publication is desirable in order to stimulate public interest and to lay a firm foundation for planning. There has been no statement of Government policy since my announcement on 1st March. Full use will need to be made of the preparatory period, particularly by the machine industry, and for this reason the proposed coinage should also be announced. I hope it may be possible to arrange a debate on the White Paper in the House early in the New Year.

L.J.C.

Treasury Chambers, S.W.1.

28th November, 1966
DECIMAL CURRENCY
IN THE
UNITED KINGDOM

Presented to Parliament by the Chancellor of the Exchequer
by Command of Her Majesty
12th December 1966
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THE CHANGE-OVER

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APPENDIX

Comparison of the present coinage with the proposed coinage for a £ - new penny system.
1. **INTRODUCTION**

**Decision in principle**

On 1st March 1966, the Chancellor of the Exchequer announced in the House of Commons the Government's decision that the United Kingdom will adopt a decimal currency system in February 1971. The £ will remain the major unit of currency but will be divided into 100 minor units instead of into twenty shillings each of twelve pence.

**Background**

This is an historic decision. Decimalisation of the currency has been a recurrent theme in public and Parliamentary debate for about a century and a half. During the last six or seven years the pace has quickened and there has been a growing acceptance of the need for a change. In 1960 a joint report by committees appointed by the British Association for the Advancement of Science and the Association of British Chambers of Commerce revealed considerable support for a change throughout industry and commerce, and in 1961 opinion was influenced by the successful change-over carried out in South Africa from an £ s. d. system very similar to our own.

**The Halsbury Committee**

In December 1961 a Committee of Inquiry on Decimal Currency was appointed under the Chairmanship of the Earl of Halsbury with these terms of reference:

(a) to advise on the most convenient and practical form which a decimal currency might take, including the major and minor units to be adopted.
(b) to advise on the timing and phasing of the change-over best calculated to minimise the cost.
(c) to estimate the probable amount and incidence of the cost to the economy of proposals based on (a) and (b).

The Committee were not asked to advise on whether decimalisation was desirable, but their Report, published in September 1963 (Cmd.2145), illustrates in striking fashion the main difficulty which has prevented an earlier decision to decimalise: that of deciding which decimal system to adopt. By a majority of four to two the Committee recommended the adoption of a £-cent-½ system. The minority recommended a 10s.-cent system.

Recent History

4. Since the publication of the Halsbury Report the case for moving to a decimal system has grown stronger. Australia, one of the few remaining countries with an £ s. d. currency system, decimalised in February this year; New Zealand follows suit in July 1967. The Republic of Ireland decided as long ago as February 1962 that a decimal system of currency should be adopted. Soon the United Kingdom will be the only major country in the world without the benefit of a decimal currency. Meanwhile, there is evidence that in industry and commerce support for the change is growing. It is against this background that the Government, after careful study of the implications of the change-over, took its decision.

2

"The Halsbury Committee used the word 'cent' as a convenient technical expression for the minor unit of account in a decimal system under which a major unit is divided into 100 minor units (as 'mil' is similarly used for the minor unit in a 'three place' decimal system). To avoid confusion it is also used in this way in the early paragraphs of this White Paper, along with the preferred expression 'new penny'. See paragraphs 20-22."
II. THE BENEFITS OF DECIMALISATION

The harmonisation of money and non-money calculations

5. Decimalising the currency will be an important aid to productivity. In ordinary arithmetic we count in tens; in £ s. d. money calculations we count in twelves, twenties and tens. Decimalisation of the currency will bring about a harmonisation of money and non-money calculations and, as a result, money calculations will be quicker, easier, and less prone to error. Savings will occur in all walks of life. All will benefit. For shoppers and shop assistants the mechanics of payment and change-giving will be streamlined. But the most obvious savings will occur in offices and in schools.

Office work and office machines

6. In offices - and of course in banks - the mental and paper work of monetary calculation will be greatly simplified. In addition, all the aids available for ordinary calculation, ranging from slide rules and log tables to adding and accounting machines, will also be usable for money calculation. Special £ s. d. monetary machines will no longer be needed and this advantage will be increased by the fact that a decimal notation is more economical than our £ s. d. system in its use of figures, making it possible to use cheaper machines of lower recording capacity. Because almost all other countries have decimal currencies, £ s. d. monetary machines are non-standard; manufacturers have to produce special models for the United Kingdom market. When we have a decimal currency most machines will be standard; this should enable our manufacturers to keep down costs and to compete more easily abroad. A wider choice of machines, of both home and foreign manufacture, should be available to the machine user.
Schools

7. The educational benefits of decimalisation have always been regarded as an important reason for making the change. Much time in primary schools is devoted to teaching children the special rules of money arithmetic. When a child has learned the basic decimal processes of addition, subtraction, multiplication and division, he has to learn different methods for dealing with money sums; the process is tedious, time-consuming and lacking in intellectual excitement. When we have a decimal currency, teaching time will be saved and text books will be simplified. Some of the early disenchantment with mathematics often experienced by school children may be avoided, and the change will fit in well with changes already taking place in mathematics teaching. Educationalists, in their evidence to the Halsbury Committee, stressed, however, that the full benefits of a decimal currency would only be obtained in conjunction with a full metric system of weights and measures.

The metric system

8. In May 1965, the President of the Board of Trade announced that the Government considered it desirable that British industries on a broadening front should adopt metric units, sector by sector, until that system can become in time the primary system of weights and measures for the country as a whole. Within the next ten years a large part of industry will therefore be making the change to the metric system. This reinforces the case for decimalisation of the currency. Indeed, each change increases the advantages of the other and, taken together, they should help exports because most of our overseas markets already use the metric system and have decimal currencies.
The benefits described in paragraphs 5 to 8 will undoubtedly lead to substantial savings of time and effort in offices, banks, shops and schools. Although these savings are important, there is no easy way of expressing them in money terms. So far as office work is concerned, the Institute of Office Management told the Halsbury Committee that they believed it likely that the cost of the change-over in offices would be recouped in savings within a year or so from the date of the change. For schools, the saving in mathematics teaching time for the 6 to 11 age group has been estimated at roughly 5% to 10% or 2% of total teaching time. But decimalisation will not reduce the number of clerks, still less the number of teachers; it will simply mean that those we have are employed more effectively. Many of the benefits of decimalisation will make themselves felt in the same way as productivity or technical changes - diffused over the economy, not always easy to identify, but none the less of great practical significance. Experience in South Africa has confirmed that the benefits expected of decimalisation can be achieved in practice. The Report for 1965/66 of the Australian Decimal Currency Board points out that, after less than five months experience, many organisations already claim to be enjoying the benefits.
III THE CHOICE OF SYSTEM

and the 10s. systems

The Government considers that it would be wrong to let controversy on the choice of system delay the introduction of a decimal currency, especially now that the advantages of the switch are generally accepted. The Report of the Halsbury Committee weighs the merits of 25 systems, four of them in detail. However, the Committee soon concluded that the final choice must lie between the 5-cent-½ and 10-cent systems. Informed opinion in the main agrees.

The Committee's analysis of the advantages and disadvantages of these rival systems is long and authoritative. It is clear from the Report itself and from the discussion which followed its publication that neither system is ideal and that there are strong arguments on both sides. In the Government's view, however, the practical advantages of retaining the familiar £ tip the scales decisively in favour of the £ system. The decision was only made after full consideration of the arguments for the 10s. system, and, subject to the final approval of Parliament, it is a firm one. No completely new evidence has come to light since the Halsbury Report, but, in view of the public interest and some continuing misunderstanding of the case for the £ system, it may be helpful to set out the arguments which led the Government to its conclusion.

2. Many people have assumed that the Government's decision for the £ system was based primarily on the 'international case'; indeed, some assume that this is the only argument for the £ system. Neither assumption is true.
3. The Government's view is that the 'international case' is important, though not in itself decisive. But there are other important arguments for retaining the £, arguments which are more obvious and concerned with sterling as the domestic currency of the United Kingdom rather than as an international currency. When added to the 'international case' these point clearly to the choice of the £ system. They are described first in this Chapter; the 'international case' is described in paragraphs 31 to 33.

4. A change in the value of the major currency unit is a much more far-reaching step than a change in the subsidiary units and carries with it certain inevitable disadvantages. The more advanced the society, the more important some of these disadvantages are. There is a sharp break in continuity with the past, and a considerable volume of financial and accounting records and statistics has to be changed. Any comparison with the past involves the conversion of past accounts and records; this is a disadvantage which is not merely transitional but stretches well into the future. During the change-over there is no doubt that the retention of the £ will be a big help to many sections of commerce and industry and that, as a result, there will be substantially lower account conversion costs than under a system with a different major unit.

A 'heavy' major unit

15. We in the United Kingdom are accustomed to an unusually high-value major unit. This 'heavy' unit has advantages in a highly developed industrial and trading economy where so many money transactions are large ones expressed wholly or mainly in major units. Other developed countries have major units of lower value but it is doubtful whether, if they were starting afresh with a new system, they would deliberately choose 'light' units. The lower the value of the major unit, the greater the proliferation of large numbers in such documents as national and company accounts. There can be little doubt that the higher the value of the units in a currency system, subject to adequate provision for small purchases, the more efficient that system is. Small numbers are easier to reckon with than large ones and enable more effective use to be made of machine capacity.
Business machine considerations

4. Business machine considerations are important in the transition well as in the long-term. Large manufacturers of some of the main types of business machines – cash registers, adding machines and accounting machines – have stressed that, because the 10s. system uses less efficient use of machine capacity, the cost of conversion to such a system would be greater than conversion to the £ system, even taking into account the need under the latter system to provide half cent (half new penny) on some machines.

Lasting system

7. It is important to introduce a decimal currency system which will endure; it must remain an efficient system if possible for a very long time, not merely for a few years or decades. The usefulness and significance of currency units change over the years. This is not merely because of price inflation. Even with stable prices the practical importance of a given unit tends to become less as standards of living rise and it represents an ever decreasing proportion of the average income. The £ system will need a half cent (half new penny) coin, which is admittedly a blemish on a decimal system. But, with growing prosperity, this coin will eventually disappear and will then be no significant respect in which the £ system can be said to be inferior to the 10s. system.

6. Given this inevitable erosion of the importance of currency units it is the Government's view that there would have to be powerful reasons to justify a switch to a major unit only half the value of the present £. The majority Report of the Halsbury Committee stresses that halving the value of the major unit by adopting a 10s. system "seems to go against the economic logic of history" and it is difficult to deny that this is so.

Naming the major unit

5. One important difficulty of the 10s. system is avoided under the £ system; that of finding a name acceptable to the public
for a new major unit. This is not a main
reason for keeping the £, but it is a useful benefit from a
decision reached on other grounds. Correspondence in the Press,
and the experience of other countries, have illustrated the lack
of any obvious name and the controversy which new names can provoke.

Naming the minor unit

20. The problem of finding a name for the minor unit arises under both £
and 10s. systems. Australia and New Zealand are calling their
minor unit a 'cent', no doubt partly because they decided to call their
major unit a dollar. The advantages of this name are that it is
short, defines its own value in relation to the major unit, and is
easily distinguishable from the present penny, thus avoiding
possible confusion during the transitional period. But there is
evidence, from letters received by the Government or published in
the Press, that 'cent' would not be a popular name in this country
and it would be a pity if, by giving the minor unit an unpopular
name, the Government made decimalisation of the currency less
acceptable.

21. The obvious alternative name is 'penny'. 'Penny' is a name
with a long history— for many years, as a silver piece, it was our
only official coin — and most people would be sorry to see it lost
as the name for a current coin. The Government proposes, therefore,
that the minor unit be called a 'new penny' during the change-over
period, to avoid confusion with the present penny, and that the
adjective 'new' should be gradually dropped thereafter.

22. In a decimal system it is neither necessary nor desirable to
give names to other coins. We want a straightforward decimal system
with a major unit of account sub-divided into a hundred minor units
of account. There is no advantage in continuing to call the florin
by that name when it becomes a 10 new penny piece, and to call
the 5 new penny piece a shilling would be confusing. We shall
therefore have a '2-new penny' system not a '2-florin-new penny'
system. Subject to this, precise methods by which amounts of money should be expressed both orally and in writing will be investigated by the Decimal Currency Board (see paragraph 60 below) and announced in due course.

'Associability': the £ as a measure of value

23. Much of the case for a 10s. system turns on the importance during the transitional period of what the Halsbury Committee called 'associability'. This refers not only to the ease with which it is possible to translate sums of money from £ s. d. to decimal and back but also to other factors which determine the readiness with which the general public and the world of commerce and industry could adapt themselves to the new system.

24. It is undeniable that the 10s. system has 'associability' advantages. These are the easy translation of shilling and penny 'shopping prices', the reduction in coinage changes, and the absence of a fraction of the minor unit. But the £ system has the very important 'associability' advantage of retaining the familiar major unit, which at present is the most important measure of our money values. The 10s. system in fact, although having an exact equivalence of shillings and tens of cents, retains not one of the present units of account; both the major unit and the minor unit would be unfamiliar and people might well find this more disturbing and confusing than a system which maintains the £ major unit as a familiar point of reference. Indeed, many might find it difficult under a 10s. system to eradicate the £ from their minds as a standard of value; there is some evidence that this has been so in countries which have changed from £ s. d. to a 10s. system. Under a £ system wages and the prices of large purchases expressed only in terms of the major unit would be unchanged.

Conversion from £ s. d. to decimal

25. It is a mistake to think that people will constantly need to convert sums mentally from £ s. d. into decimal and back again during
the change-over. Dual-price labels, with both £ s. d. and decimal prices clearly shown, will no doubt help the shopper. Moreover, people will have conversion tables to consult when they wish to check a price. Even more important, the Decimal Currency Board will investigate very thoroughly all available means of publicising the change, making full use of modern educational and public relations techniques, and will consider the special problems of particular groups: school children, the old, and those such as shop assistants and bus conductors who handle cash in small transactions all day. To the limited extent that mental conversions will be necessary, therefore, full attention to training and publicity will considerable diminish their difficulty.

Coinage changes

26. Fewer coinage changes are needed under a 10s. system, but ideally under both £ and 10s. systems four coins - the halfpenny, the penny, the threepenny bit and the half-crown - should eventually be withdrawn. Under the £ system it is also desirable to replace a fifth coin - the sixpence - since otherwise we should have a 2½ new penny coin (see paragraphs 41 and 42). Moreover, during the transition, the coins to be replaced have more 'awkward' decimal values than under a 10s. system. These disadvantages are real but 'essentially transitional. The 'awkward' coins (3d. at 1½, 6d. at 2½ and 2s. 6d. at 12½ new pence) will be withdrawn after the transition, which the Government aims to make as short as possible. Moreover, to let the avoidance of coinage changes distort the choice of system would be to let the tail wag the dog. The right policy is to choose a sound, lasting, decimal system and then to design a coinage which is appropriate to that system and which people will find convenient in their daily transactions. It is worth adding that the £ system requires only one change in our banknotes; the £1, £5 and £10 notes need not be altered.
The half new penny

27. The introduction of a half new penny is the main disadvantage of the £ system. It represents additional work when it has to be written or printed, whether it is expressed as a half or as a third decimal place. And it also means an additional non-standard column on some business machines needed for registering money values. But the half is a familiar concept to us all; no one will be puzzled by it. Moreover, it is fair to suppose that the half new penny will not stay for ever (see para. 17 above) and in much accounting work it will never be used. Even in the period immediately after the change-over, many organisations, including the banks, will ignore it for accounting purposes. It is difficult to accept that the difficulties of the half new penny are serious in planning a currency which should last for very many years.

Cost and prices

28. Two important short-term considerations in selecting a decimal system are the cost of the change-over and the likelihood of price rises springing from the replacement of currency units by others of different value. In the Government's view there would be no significant differences between the £ and 10s. systems in these respects.

29. The £ system involves greater conversion costs for slot machines and some business machines, and probably higher non-machine change-over costs for retailers and transport undertakings - those most affected by the differences in 'associability' for small amounts, including coinage changes and the use of the half new penny. The 10s. system on the other hand involves greater conversion costs for large numbers of business machines and higher non-machine costs for account and record conversion in banks and other financial undertakings.

30. It has been argued that there would be a tendency for manufacturers and retailers to round prices up further under the £ system in order to avoid the half new penny. This is difficult
to accept, if only because the inconvenient halfpenny – less than half the value of the proposed half new penny – is still used. However, every effort will be made by the Government, with the help of the Decimal Currency Board, to prevent this kind of exploitation. Under the 10s. system, on the other hand, it can be argued that there is a risk that the near equivalence of pennies and new pennies will encourage people to regard them as the same and to translate all penny amounts into the same number of new pennies.

The 'international case' for the £

31. The 'international case' is based upon the fact that the £ sterling, besides being the domestic money of the United Kingdom, is one of the two great international currencies. It is used by a large part of the world, both for the settlement of trade debts and as a reserve currency. About one third of the world's international trade is settled in sterling, and rather more than half of this covers transactions in trade between third countries; the goods concerned
Sterling is also used for pricing international rates, such as in the shipping market, while for many commodities the prices determined in the United Kingdom commodity markets represent the dominant world price. In addition, London is the world’s largest market for insurance, and many risks insured locally throughout the world are re-insured in London, the bulk of the business being expressed in sterling. All these activities, together with the banking services they involve, earn this country a large and growing ‘invisible’ income. Sterling also forms part of the national monetary reserves of a number of countries. These are mainly members of the Commonwealth, but many other countries also hold sterling in their reserves, often in substantial amounts. As a result of all this, the £ is a symbol known throughout the commercial centres of the world.

Witnesses from the City, including the Bank of England, the British Bankers’ Association, the Accepting Houses and the British Insurance Association argued before the Halsbury Committee that to change the base or value of the £ would jeopardize the goodwill that is embodied in it through long usage and an acceptable degree of stability over the years; that some of those who held or used sterling might in consequence cease to do so; and that, if this occurred when economic circumstances were otherwise unfavourable, misunderstanding of our motives would aggravate the situation so that the effect could be serious. Underlying this argument is the realisation that the international trading and financial communities are moved not only by reason but also by custom and habit.

There is no doubt that a change in the major unit would inconvenience a lot of sterling users who are not concerned with the domestic arguments for decimalisation. Equally it would be idle to claim that a change could benefit the international standing of sterling; if there were any effect at all it might prove to be an adverse one.
Summary of the arguments
34. To sum up, the choice between the £ and 10s. systems involves balancing many different considerations. To select either system is to pose for some sections of the community problems which they would not face - or would not face to the same degree - if the alternative were chosen. But the decision which the Government has taken is based on the view that the benefits of the £ system are on balance greater now, and that they are significantly so in the long term because most of the advantages of the 10s. system relate solely to the fairly short transitional period. The important thing is for all those organisations affected by the change-over, whatever their views on the choice of system, to play their full part in carrying out the plans for the change-over in the interests of the country as a whole.
IV THE COINAGE

The Halsbury Committee's views

6. The Halsbury Committee made recommendations about the nominations and specifications of coins to be used with a decimal currency based on the £-new penny system. They did this after careful consideration of all the factors and consultation with a variety of interests, including banks, retailers and others who handle cash in bulk, manufacturers of coin-operated machines, and organisations representing women, the consumer, and the blind.

6. Just as it is impossible to choose a decimal system which will please everyone, so it is impossible to design a coinage which all interests will find equally satisfactory. In the Government's view the Halsbury Committee's proposals come near to achieving the best balance. With one important exception the coins described below follow the Committee's recommendations.

Choice of denominations

7. Two considerations govern the choice of coin denominations. They should be in a simple relationship to one another so that payments may be made and change given easily for any amount. They should also be chosen to enable transactions to be conducted with the smallest practicable total number of coins in circulation. This in effect means a compromise between excessive numbers of one or two low-value coins, and an equally undesirable proliferation of denominations. The following sequence of coins or banknotes, recommended by the Halsbury Committee, comes nearest to meeting these requirements:

\[
\begin{align*}
\frac{1}{2} & \text{ new penny (1.2d)} \\
1 & \text{ new penny (2.4d)} \\
2 & \text{ new pence (4.8d)} \\
5 & \text{ new pence (1s.)} \\
10 & \text{ new pence (2s.)} \\
20 & \text{ new pence (4s.)} \\
50 & \text{ new pence (10s.)} \\
\end{align*}
\]

The Halsbury Committee recommended the provision of bronze \(\frac{1}{2}, 1\) and
2 coins and cupro-nickel 5, 10 and 20 coins; a 50 note would ultimately replace the 10 shilling note and the remaining bank notes would be unchanged.

The problems of distinguishability

There is less freedom for manoeuvre in selecting coin sizes and specifications than might at first appear. Apart from the obvious fact that there are upper and lower limits to the sizes likely to be acceptable to the public, coins of different values circulating together have to be readily distinguishable from one another by sight, by touch, and by machine (coin-sorting machines and slot machines of all types). The position is complicated by the fact that at least some of the £ s. d. coins have to circulate alongside the new decimal coins during a transitional period, even if this is short. The Halsbury Committee made two further recommendations which impose restrictions: that all coins should be round, and, more important, that the weight/value relationship within the present cupro-nickel coinage should be retained and a similar relationship provided within the bronze coinage.

38. The present twelve-sided three-penny bit is a 'shaped' coin and it has always had its critics on aesthetic grounds. A few countries have square coins or coins with scalloped edges. But round coins are traditional and popular in this country and it is difficult to select a shape which would be readily accepted as being both attractive and functional. And there are practical objections as well as aesthetic ones; it is difficult to provide efficient and economical slot machines to take shaped coins.

The weight/value relationship

40. At present the value of a mixed bag of cupro-nickel coins can be assessed by weighing because, for example, the florin weighs twice as much as the shilling and four times as much as the sixpence. This weight/value relationship is of considerable
assistance to those organisations which handle coins in bulk—banks, the Post Office, large stores, and transport undertakings. Its abandonment would involve increased costs for coin sorting. In the Government's view the Halsbury Committee were right to recommend the retention of this useful practical feature in the cupro-nickel coinage and its introduction into the bronze coinage.

The bronze coins

1. The Government accepts the Halsbury Committee recommendations for ½, 1 and 2 new penny coins in bronze, slightly larger than old silver threepenny piece, the farthing, and the halfpenny respectively. Three questions which may be asked are:

(i) Would a 2½ new penny coin, exactly the same size, weight and value as the sixpence, be preferable to a 2 new penny coin?

(ii) Would a small cupro-nickel 2 new penny coin be preferable to a fairly big bronze one?

(iii) Will a coin as small as the half new penny be acceptable?

The sixpence

2. The sixpence is a popular coin both with the general public and the slot machine industry. But a 2½ new penny coin is an awkward denomination and experiments have shown that fractional coins make change-giving slower and more prone to error. In South Africa the previously popular threepenny bit became unpopular as a decimal 2½ cent piece. Very few countries have 2½ cent pieces; many have popular 2 cent pieces.

The 2 new penny piece

3. A smaller 2 new penny piece in cupro-nickel is ruled out because in the transitional period it would have to circulate with the sixpence and would undoubtedly be confused with it if provided in weight/value relationship with other cupro-nickel coins.

Small bronze coins

4. The bronze half new penny piece will be small but no smaller than common and popular low-value coins in other countries. Indeed,
it is bigger than several such coins. One widespread criticism of our present bronze coins is that they are much too large and heavy for their modest value. They already cost more than their face value to produce. The introduction of weight/value relationship in the bronze coinage limits the choice of sizes; if the half new penny becomes bigger, so does the 2 new penny coin. There is a further practical point; even a slight increase in the size of the $\frac{1}{2}$ and 1 new penny coins would allow the dishonest to use them in most of the sixpenny and shilling slots of gas and electricity meters.

**The 5 and 10 new penny pieces**

45. The 5 and 10 new penny denominations are exact translations of the shilling and the florin, the only £ s. d. coins which fit into the decimal sequence. Shillings and florins evoke very little adverse criticism now and, if the weight/value relationship stays, there is little point in changing their specification and thereby adding considerably to slot machine conversion costs. Indeed, the retention of these familiar coins at familiar values will be a great help to the public during the change-over.

**A 20 new penny piece**

46. The Halsbury Committee recommended the provision of a cupro-nickel 20 new penny coin (4s.) in weight/value relationship to the 5 and 10 new penny pieces and thus a very large coin - the same size as the double-florin which was introduced for Queen Victoria's golden jubilee in 1887 but which never found public favour. In this recommendation the Committee were influenced by a desire on the one hand to provide a coin of higher value than 10 new pence (2s.) and on the other hand to avoid a coinage with three tiers of metal. Consider bulk coin handling organisations/three-tier systems inferior to systems with only two tiers of metal with a weight/value relationship in each tier. In the Government's view the very large 2- new penny coin would not be popular. Moreover, as there is no generally circulating coin
in this value range now it is by no means clear that one is needed under a decimal system. It is not therefore proposed to include a 20 new penny piece among the new decimal coins. If demand for it should grow, such a coin could be provided later.

A 50 new penny piece

47. The 10 shilling note is popular but its life is very short. On economic grounds there is a strong case for replacing it by a 50 new penny coin instead of a 50 new penny banknote; a coin is much more expensive to produce but has a life of at least 50 years (after which the metal is recoverable) whereas the note has a life of only about five months and the costs of distributing replacement notes and withdrawing worn ones are considerable.

48. One disadvantage of a 50 new penny coin is that it makes a three-tier coinage inescapable if we maintain weight/value relationship in each tier and keep within sensible size limits. However, it is the Government's view that an elegantly designed 50 new penny piece would be popular as well as economically sound and they propose to introduce one. It would be significantly different from the other white coins. Several countries have recently introduced high-value coins in roughly this value range, and most seem to be popular. The Government are giving further consideration to the specification of this coin and the timing of its introduction; details will be announced later.

Banknotes

49. Apart from the eventual disappearance of the 10 shilling note, no changes in the denominations, specifications or designs of our banknotes are necessary under a £-new penny decimal system.

The halfpenny

50. The decimal coinage proposed above gives a lowest value coin of 1.2d as compared with the present halfpenny. The Halsbury Committee, after considerable research into the use made of the
coin and the effect of its withdrawal, unanimously recommended that no coin equivalent or roughly equivalent to the halfpenny should be provided in a decimal system. The halfpenny is still used in the prices of some goods, including a few staple food items. But, measured by the frequency of its appearance both in price lists and in the total purchases of sample households, it has for some years been steadily declining in use. The purchasing power of the halfpenny is less than half that of the farthing in 1914 and it has a practical significance much smaller still because of the greatly increased standard of living since that date.

51. If a ½ new penny coin were introduced it would give a coin worth rather more than the halfpenny (0.6d); if a £-mil system were introduced it would give a coin worth almost the same as the old farthing (0.24d). But either the £-new penny system with a ½ or the £-mil system would present people with considerable difficulties because of the cumbersome method of expressing amounts - and would have machine disadvantages. Both are markedly inferior to the £-new penny system with a ½, and the Government considers that it would be undesirable to select either of them for introduction in 1971 when even now the halfpenny is of limited and declining use.

Withdrawal of £ s. d. coins

52. The Government's intention is to accept the recommendation of the Halsbury Committee that, to avoid confusion during the change-over, the halfpenny should be demonetised and withdrawn beforehand, probably in 1970. It has not yet been decided when the other four £ s. d. coins which do not have equivalents in the decimal coinage will be demonetised (1d, 3d, 6d and 2/6d - see paragraph 26). The Decimal Currency Board will consider the phasing of these coinage changes in consultation with the Royal Mint and other interested organisations.

Summary of coinage proposals

53. The Government therefore proposes to introduce the following decimal coins:
<table>
<thead>
<tr>
<th>Denomination</th>
<th>Value</th>
<th>Metal</th>
<th>Edge</th>
<th>Diameter (centimetres)</th>
<th>Weight (grammes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>½ new penny</td>
<td>1.2d</td>
<td>bronze</td>
<td>plain</td>
<td>1.7145</td>
<td>1.7820</td>
</tr>
<tr>
<td>1 new penny</td>
<td>2.4d</td>
<td>bronze</td>
<td>plain</td>
<td>2.0320</td>
<td>3.5640</td>
</tr>
<tr>
<td>2 new pence</td>
<td>4.8d</td>
<td>bronze</td>
<td>plain</td>
<td>2.5910</td>
<td>7.1280</td>
</tr>
<tr>
<td>5 new pence</td>
<td>1s.</td>
<td>cupro-nickel</td>
<td>milled</td>
<td>2.3595 (shilling size and weight)</td>
<td>5.6552</td>
</tr>
<tr>
<td>10 new pence</td>
<td>2s.</td>
<td>cupro-nickel</td>
<td>milled</td>
<td>2.8500 (florin size and weight)</td>
<td>11.3104</td>
</tr>
<tr>
<td>50 new pence</td>
<td>10s.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The first five of these recommended coins follow the Halsbury proposals; the 50 new penny piece is proposed in place of the large cupro-nickel Halsbury 20 new penny piece. The Appendix gives a chart comparing the sizes of these decimal coins with those of our £ s. d. coins.

*The Halsbury specifications were expressed in inches and grains; they have been expressed here in metric measurements, consistent with the Government's declared policy on the metric system.*
V THE CHANGE-OVER

Broad time-table
54. The change-over to decimal currency will take place in February 1971, almost five years from the date of the Government announcement on 1st March this year.

Change-over date
55. On a day yet to be determined in February 1971, therefore, the decimal currency will become the country's official currency. The banks will adopt decimal working, as will probably most government departments and many non-Government organisations. Decimal coins will appear for the first time and will be needed to pay for purchases in some shops. February has been selected, on the advice of the Halsbury Committee, as the slackest time of the year for banks, retailers and transport undertakings.

Transitional period
56. A clean nation-wide overnight switch from £ s. d. to decimal working is, however, impracticable. So far, when countries have made the change to a decimal system, they have found it necessary to have a transitional period of dual-currency working. It is impossible to convert or replace all business machines which record £ s. d. on one day. As they wait for their cash registers and other machines to be decimalised, therefore, some shops and offices will continue to price things in £ s. d. Both old and new coins will circulate together. This period of dual-currency working involves a lot of extra work for many organisations, particularly the banks, and may well be confusing for the public. It is clearly desirable to have as short a transitional period as possible. This is largely why the Government decided to have a long preparatory period; if this preparatory period is used to full advantage the transition can be kept short - perhaps much shorter than the two years which the Halsbury Committee considered probable. It will be one of the main tasks of the Decimal Currency Board to study ways of reducing the length and problems of the transitional period.
57. The preparatory period has already started. The first tasks have been to determine the new coinage, and to settle the organisational arrangements for the change-over. The key body in the change-over will be the Decimal Currency Board, which will be appointed shortly.

58. The two largest physical tasks of the preparatory period—tasks mainly responsible for determining its length and stretching also over the transitional period—will be, first, the minting of almost 9,000 million decimal coins to replace the £ s. d. ones, and, second, the work resulting from the need to replace or convert to decimal working between 2 and 2 ½ million business machines, mainly cash registers, adding and accounting machines, and about the same number of slot machines, including Post Office telephone coin boxes. The Royal Mint have already embarked on the preparatory work for producing the coins and have announced a public competition to find suitable designs. The business machine industry has also begun planning.

59. As the preparatory period progresses a big campaign of public education will be launched. Preparatory work, including the alteration of records, the revision of price structures, the production of new stationery, dual-price ticketing and staff training, will take up much time in shops and offices. If the precedent of other countries is followed the banks will be closed for a long weekend before the change-over to enable them to change their machines and accounting system.

Decimal Currency Board

60. All this preparatory work will be co-ordinated by the Decimal Currency Board in close consultation with Government departments. The functions of the Board will be as follows:

(1) to examine in detail the problems of the change-over including consultation as appropriate with interested parties;
(2) to promote the speedy and efficient transition to the use of decimal currency;

(3) to organise a programme of guidance to the public;

(4) to examine any claims for compensation (within the Government's broad policy on the subject), and to make recommendations thereon.

During the early months of its life the Board will be mainly advisory; it will later assume a more marked executive and co-ordinating role.

61. One major task of the Board will be to discuss with the business machine industry the problems of conversion and replacement of machines. In this they will have the specialist support of a group of engineers. The Government intends that one Board member shall be a qualified professional engineer able to give particular attention to machine problems.

62. The Government will await the advice of the Board before deciding on the precise change-over date in February 1971, the length of the transitional period, and the other difficult issues which will need to be resolved.

63. The Halsbury Committee estimated the 'measurable' cost of decimalisation in 1970 at £128 million; they made no estimate for 1971. 'Measurable' costs are those for converting or replacing business machines and slot-machines, coinage costs, the special bank costs, and the costs of publicity and central administration. Much the largest single item in the Halsbury estimate - £80 million - is for business machines.

64. The Government is satisfied that the Halsbury figures, as the Committee themselves pointed out, are too high rather than too low. The minting costs will be greater but the costs for converting business machines will be lower. The machine companies have had valuable experience in the Australian change-over and in planning the
New Zealand change-over. Government experts will collaborate with the companies in this country with the aim of taking full advantage of experience elsewhere to discover the conversion methods offering best value-for-money to machine users. The long preparatory period should also enable users to plan their machine purchases in such a way as to minimise decimalisation costs.

Compensation

65. In the Government's view those organisations which will have to incur substantial change-over costs are in the main those which stand to benefit most from the change in the long run. Compensation as a general principle is not acceptable. Indeed, it may militate against an efficient and economical change-over. If it can be shown to the Decimal Currency Board, however, that there are grounds for giving some assistance in special cases the Government will consider any recommendations the Board may care to make. But such cases, if there are any at all, will be exceptional.

Legislation

66. The Government will be bringing forward for the approval of Parliament a Bill to establish the new decimal currency units and to take certain other necessary powers.
## COMPARISON OF THE PRESENT COINAGE WITH PRESENT £S.D COINAGE

Square brackets indicate coins are not in common use but are included for the purpose of comparison.

### BRONZE (PLAIN EDGE)

<table>
<thead>
<tr>
<th>Denomination</th>
<th>Diameter</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/4d</td>
<td>0.795&quot; (2.0195 CMS)</td>
<td>43.750 grains (2.8350 grams)</td>
</tr>
<tr>
<td>1/2d</td>
<td>1.003&quot; (2.5475 CMS)</td>
<td>87.500 grains (5.6699 grams)</td>
</tr>
<tr>
<td>DEMONETISED</td>
<td>31-12-60</td>
<td></td>
</tr>
</tbody>
</table>

### BRASS (TWELVE SIDED)

<table>
<thead>
<tr>
<th>Denomination</th>
<th>Diameter</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>3d</td>
<td>0.865&quot; (2.2015 CMS)</td>
<td>105 grains (2.2905 grams)</td>
</tr>
<tr>
<td></td>
<td>0.830&quot; (2.1080 CMS)</td>
<td>210.510 grains (4.6045 grams)</td>
</tr>
</tbody>
</table>

### CUPRO NICKEL (MILLED EDGE)

<table>
<thead>
<tr>
<th>Denomination</th>
<th>Diameter</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>3d</td>
<td>0.640&quot; (1.6255 CMS)</td>
<td>21.818 grains (0.9184 grams)</td>
</tr>
<tr>
<td>6d</td>
<td>0.764&quot; (1.9405 CMS)</td>
<td>43.636 grains (1.9476 grams)</td>
</tr>
<tr>
<td>2s 6d</td>
<td>1.272&quot; (3.2310 CMS)</td>
<td>218.182 grains (9.2198 grams)</td>
</tr>
<tr>
<td></td>
<td>1.222&quot; (2.8500 CMS)</td>
<td>174.545 grains (7.8140 grams)</td>
</tr>
</tbody>
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<td>218.182 grains (9.2198 grams)</td>
</tr>
</tbody>
</table>
PROPOSED DECIMAL COINAGE

Bronze (Plain Edge)
- 1d
  - Diameter: 1.215" (3.0860 cm)
  - Weight: 145.833 grains (9.4498 g)
  - Value: 1.2d

Cupro Nickel (Milled Edge)
- 5 new pence
  - Diameter: 2.3595 cm
  - Weight: 87.273 grains (5.6552 g)
  - Value: 5 new pence

Metal and edge under investigation

5s
- Diameter: 1.520" (3.8610 cm)
- Weight: 436.364 grains (28.2759 g)
- Value: 5s

50 new pence
- Diameter: probably about 3.000 cm
- Value: 50 new pence

COINS ARE SHOWN AT ACTUAL SIZES
NEW PENNY DECIMAL SYSTEM

**NEW PENNY**
- Diameter: 2.0320 CMS
- Weight: 3.5640 GRAMS
- Value: 2.4d

**2 NEW PENCE**
- Diameter: 2.5910 CMS
- Weight: 7.1280 GRAMS
- Value: 4.8d

**10 NEW PENCE**
- Diameter: 2.8500 CMS
- Weight: 11.3104 GRAMS
- Value: FLORIN

**50 NEW PENCE**
- Diameter: 3.0000 CMS
- Value: I0S

**INVESTIGATION**

The 5 & 10 new penny pieces would have the same composition and value and, for all practical purposes, the same size and weight as present shillings & florins. The other four decimal coins would have entirely new values, weights & sizes. All decimal coins would differ in design from their present counterparts.
CABINET

HELP TOWARDS HOME OWNERSHIP

Memorandum by the Minister of Housing and Local Government

I circulate herewith a draft White Paper on the Government's "Option Mortgage" scheme, which it is proposed to publish together with the Housing Subsidies Bill on Monday next, 5th December, 1966.

A.G.

Ministry of Housing and Local Government, S.W.1.

29th November, 1966
Option Mortgages

The White Paper of November 1965 "The Housing Programme 1965-1970" (Cmnd.2638) envisaged the "stimulation of the planned growth of owner-occupation by financial measures designed to widen its economic basis". This paper describes the Government's proposals to do this. These proposals have been worked out in co-operation with the Building Societies and other lending agencies and the necessary legislative provision is contained in Part II of the Housing Subsidies Bill. This will apply throughout Great Britain.

The Scheme

House purchasers who pay income tax and have a mortgage get relief from tax on the mortgage interest paid. The relief is directly related to the rate of tax paid, so that people who pay at the standard rate of 8/3d in the £, get greater relief than those who pay at no more than the lower rates of 6/-d and 4/-d in the £; while those who pay no tax get no relief at all. The scheme, which is designed to help those in the lower income groups, provides for a new type of loan - an option mortgage - at a reduced rate of interest as described later in this paper. House purchasers will be free to choose an option mortgage with a reduced rate of interest but without tax relief or an ordinary mortgage at normal rates of interest and with tax relief. Option mortgages

\[^{1}\) Out of some 4½ million people buying houses with a mortgage, it is estimated that \(\frac{1}{2}\) of a million pay tax at a maximum rate of 6/-d in the £; \(\frac{2}{3}\) of a million at a maximum rate of 4/-d in the £, and another \(\frac{1}{2}\) million pay no tax at all.

\[^{1}\)
will be available not only to people who take out home loans after the scheme is in force but also to people who already had such home loans before the beginning of the scheme. So the entering into house purchasing and mortgage arrangements in the meantime will not debar anyone from the benefits of an option mortgage.

3. Generally mortgage arrangements provide for payments by the borrower of an annuity, i.e. equal instalments of principal and interest combined over the life of the mortgage. The scheme will apply not only to mortgage arrangements of this kind but also to certain other forms of mortgage as indicated later in this paper. The operation of the mortgage option scheme, however, may be best illustrated by reference to the annuity type of mortgage.

4. As applied to an annuity mortgage, the subsidy paid to the Building Society or other lender on the borrower's behalf will take the form of 2% interest on the capital outstanding. The borrower's repayments of principal and interest will be calculated at a rate of interest 2% less than the full rate chargeable on the mortgage for the time being (though not so as to reduce the interest charged below 4%). For example, if the rate of interest on the mortgage is 6\frac{3}{4} %, the borrower's repayments will be calculated as though the rate were 4\frac{1}{4} %.

5. One result of these methods of determining the subsidy and the repayments under the mortgage is that the amount of the subsidy payable to the lending institution in the early years of a loan will be somewhat greater than the sum by which the borrower's repayments themselves are reduced. The extra money so provided by the Government will be applied to the borrower's account in a more rapid reduction in the outstanding capital.
capital debt. Few mortgages run to full term and the borrower will get the benefit of accelerated repayments at the time of redemption because his debt will be less than it would otherwise have been.

6. The operation of the scheme is illustrated by the examples and table attached to this paper. The following exemplification relates to a £1,000 mortgage, a mortgage period of 25 years, and an interest rate of 6\%\%. Under the existing system the annuity payment by the borrower would be £\$3\$. 17. 9d a year: a person not liable to income tax would pay this amount and could of course obtain no tax relief: persons paying tax at 4/-d in the £ only would obtain tax reliefs which would result in a net cost to him ranging from £73. 7. 9d in the first year to £83. 1. 3d in the last year: for a person liable for tax in the 6/-d range, the net cost allowing for tax relief would range from £68. 2. 9d to £82. 13. 0. With an option mortgage the cost would be £69. 3. 9d every year; in addition his remaining debt will every year be less than under an ordinary mortgage. Thus for the man paying no tax, or tax at 4/-d in the £, outgoings will always be less than at present. For a man paying tax at 6/-d in the £ the payments under an option mortgage will be slightly greater initially than the net cost of an ordinary mortgage, but will very soon be less; and, taking account of the subsidy credited in repaying his capital debt, the overall benefit will be more than at present (£20 as compared with £15 in the first year - see the table). For persons paying income tax at the standard rate, the option mortgage scheme has no advantage over tax relief, and is not intended to benefit them.

7. In some cases where a borrower chooses to convert an
existing conventional mortgage into an option mortgage, the position is more complicated. Where existing mortgages have been running for some years and where the borrower has, as commonly happens, preferred to meet increasing interest charges by varying the period of the mortgage rather than the amount of his annuity payments, these annuity repayments bear no fixed relation to current rates of interest. Indeed extremely complicated calculations would be needed to ascertain just what the relationship may be. When, in these circumstances, a person who already has a mortgage chooses to change to an option mortgage, the scheme will provide for a reduction in annual repayments of one-sixth. Sample calculations have shown that this provides results roughly comparable with those which would be produced by meticulous recalculation of repayments. Any disparity will be corrected by small changes in the duration of the mortgage period, with slight lengthening of short periods, and slight shortening of long ones. Such borrowers will, if they wish, be able instead of reducing their current payments to keep them the same and use the subsidy to pay off their debt more quickly.

Fixed instalment mortgages

8. Instead of being repaid by equal periodical repayments some mortgages are repaid by equal instalments of capital together with the interest due on the outstanding debt from time to time. The interest and therefore the total payment is accordingly progressively reduced as the capital is repaid. In these cases the interest due at each payment will be calculated at a rate 2 per cent less than that provided for under the mortgage and the difference will be paid to the lending agency by the Government. This will apply to both existing and new borrowers.
Endowment mortgages

9. Where mortgages are repaid at the end of the term fixed by a single lump sum, normally provided by a policy of endowment assurance, the interest is not reduced annually but is calculated on the whole sum borrowed throughout the period of the loan. Because of their different nature the scheme cannot apply to this type of mortgage exactly as to annuity mortgages. In such cases the subsidy will be at a rate of 1²% which will provide roughly equivalent treatment between annuity and these mortgages. Subsidy will only be paid on mortgage interest; the premiums paid for the endowment assurance policy and the income tax relief which they attract will not be affected. Subsidy will not reduce the mortgage interest below 4²% to correspond with the 4% lower limit for annuity mortgages.

Mixed mortgages

10. There are some mortgages in which part of the capital is repaid with interest by equal periodical payments on an annuity basis while the remainder is repaid at the end of the mortgage by an endowment assurance and interest only is paid until then. These will be treated in effect as two separate mortgages, the first part attracting a subsidy of 2% and the remainder the subsidy of 1²% applicable to endowment mortgages.

Tenant purchase scheme

11. Some local authorities sell their houses by instalments with interest on the outstanding capital. Under these arrangements the ownership of the property does not pass until the last instalment has been paid. The scheme will apply to these transactions as if the purchaser had borrowed the purchase price from the authority on the security of the house.
Improvements

12. The scheme will apply to mortgage loans for improvements to owner-occupied houses.

How subsidy will be paid

13. Borrowers will not have to claim subsidy. Once they have chosen an option mortgage, subsidy benefit will be credited to them by the lender. The precise method and timing of payments by the Exchequer to the lending agencies will be laid down in directions to be given by the three Housing Ministers after consultation with the lenders or their representative bodies and with the approval of the Treasury. The method of crediting the borrower with the subsidy will be laid down in schemes to be made by the Ministers. Before making a scheme, they must consult with the qualifying lenders or their representative bodies. Different schemes may be made for different cases or classes of case.

Making the choice of an option mortgage

14. Every mortgagor will have one irrevocable choice between present tax relief arrangements and the new mortgage option scheme. However, if the mortgage should pass to some other person, for example upon the death of the original borrower, the person who takes over the mortgage will be able to decide within three months, whether to choose an option mortgage or tax relief.

15. Borrowers who have a mortgage before 1st September 1967 must in general make their choice before 31st December 1967. There will be some exceptions. Some building societies' financial years end at the end of September, October or November. Borrowers from these societies will, in order to make possible the large number of recalculation of payments, have to make their choice before the end of the society's
financial year. Some people will have applied for a loan before 1st September 1967 but will not have received it by that date. They will have to opt by the dates given above or by the date when the loan commences, whichever is the later.

16. Borrowers seeking a loan on or after 1st September 1967 will normally have to make their choice when applying for a loan since this choice may affect the amount of the loan which the lending society will be prepared to make. They will have to formally sign the option by the time the loan is made.

When the scheme will operate

17. Only rough estimates can be made of the number of mortgagors who may opt but the number could well be very large. There are many varieties of mortgage; consequently explanation of the scheme to individual borrowers (who will often want advice) and the adjustment of the accounts for those who opt will be a formidable task for the lending agencies. A heavy burden will fall upon Inland Revenue. For these reasons it will not be practicable to make the scheme fully operative until the 1st April 1968 and subsidy and adjusted payments under mortgage options will run from then.

Co-ownership Housing Associations

18. The subsidy will be available to co-ownership housing associations which have been approved for the purposes of S.43 of the Finance Act 1963. These associations are corporations in which the members own co-operatively the houses which they occupy and the individual co-owners are treated for tax purposes in substantially the same way as owner-occupiers.

19. There are at present few such associations. However, the application of the scheme to them presents some difficulties because the association, whose acts are those of the members collectively, is the sole mortgagor, but the advantages of opting will depend on the individual circumstances of each member.
member. The Bill empowers the Ministers to make regulations for applying the subsidy provisions to these associations with such modifications and adaptations as they consider necessary. The intention is to secure that if the association as a body opts, their members will benefit by subsidy under the Bill.

Limits on the scheme

Borrowers

20. The subsidy is intended for people borrowing to provide a house for their own occupation and consequently no person will normally be able to have more than one option mortgage at any one time. There are some occasions however, when a person may wish to help a member of his immediate family by taking out a mortgage on a house for the latter's occupation. An exception will be made enabling an option mortgage to be obtained in these circumstances.

Lenders

21. The Building Societies Association, the Life Office Association, the local authorities associations and the friendly societies have all agreed to recommend to their members that they should co-operate and join in the scheme. The scheme will apply to loans made by lenders who are prescribed by Ministerial order. It will include the main lending agencies, i.e. building societies, insurance companies, local authorities, friendly societies, new town corporations and for loans to housing societies the Housing Corporation and the Housing Ministers. The Ministers will have to consult the Chief Registrar of Friendly Societies before prescribing a building society or a friendly society and the Board of Trade before prescribing an insurance company.

22. People will be told in due course when and how to apply for option mortgages.
Guarantees for mortgages up to 100% of valuation

23. Some people who would otherwise be able to afford to buy a house on mortgage have difficulty in finding the capital needed for a deposit. Some local authorities are prepared to lend up to 100% of their valuation of a property but other lending institutions will rarely do so. Building societies have, however, well tried arrangements under which they will advance more than the sum which they would lend upon the security of the property alone where the excess advance is guaranteed by a policy of insurance to secure them against loss. The premium is commonly added to the mortgage debt. The Government consider that this well tested scheme can provide the basis for arrangements for the wider granting of mortgages of up to 100% of valuation for persons of modest means who take an option mortgage.

24. Representatives of the British Insurance Association and the Building Societies Association have agreed to co-operate with the Government in a system for guaranteeing such mortgages in suitable cases. Broadly where lending agencies are willing to make loans above the amount which they would normally advance without collateral security the Minister would join with insurance companies in guaranteeing the excess up to 100% of valuation. The risk of loss would be shared between the Government and the insurance company. The borrower would pay a premium to meet that part of the risk which would be borne by the company, but no charge would be made for that part of the risk carried by the Government.

25. While the option mortgage scheme will be operative as soon as is practicable, the Government have decided...
that the introduction of the guarantee scheme will have to be
defered until economic conditions are more favourable. The
Building Societies Association and the British Insurance
Association have for their part said that they agree that it
would not be appropriate to introduce the scheme at the
present time. Opportunity is being taken to provide the
powers needed in the Housing Subsidies Bill but the scheme
will not come into operation until a later date which will be
fixed by the Minister. In the meantime, discussions will be
held with the bodies concerned to determine the precise
details of the scheme so that it will be fully worked out and
ready to be put into operation as soon as this becomes possible.
<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Repayment</th>
<th>Net payment after tax relief*</th>
<th>Balance outstanding at end of year</th>
<th>Subsidy</th>
<th>Balance outstanding at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>s.</td>
<td>d.</td>
<td>£</td>
<td>s.</td>
</tr>
<tr>
<td>1</td>
<td>83.17</td>
<td>9</td>
<td></td>
<td>63.7.</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>83.17</td>
<td>9</td>
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*It has been assumed that income tax is being paid out of earned income.
Some examples

A new borrower who, after 1st April, 1968, takes out a mortgage with a building society for £2,000 over a period of 25 years at 6½% would make gross annual payments of £167 15s. 6d.

If he pays tax at 4/- in the pound before taking out his mortgage the maximum tax relief which he could get on his interest payments would be £20. But this would decrease as the mortgage was paid off and his interest payments fell.

If he pays tax at 6/- in the pound he could get a maximum of £31 10s. in tax relief but this again would fall as the loan was paid off.

With the Government subsidy his mortgage payments would be reduced by a constant £29 8s. 6d. throughout the life of the mortgage. In addition his capital debt would be reduced more rapidly so that at the end of 10 years he would owe only £1,461 to the building society as compared with £1,552 if he had an ordinary mortgage with tax relief and at the end of 15 years he would owe only £1,082 as compared with £1,192 if he had an ordinary mortgage.

If the same borrower took out a 25 year mortgage of £2,000 at 7½% repayable by an endowment policy at the end of the period his gross interest payments would be £140 a year.

If he paid tax at 4/- in the pound before taking the loan his maximum tax relief would be £20 and it could be less.

If he paid tax at 6/- in the pound his maximum tax relief would be £32 13s. 4d.

If he took the Government subsidy his annual interest payments would be reduced by £35 to a constant £105 throughout the mortgage.
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CABINET

LOCAL AUTHORITY CURRENT EXPENDITURE
(ENGLAND AND WALES) 1967-68 AND 1968-69

Memorandum by the Minister of Housing and
Local Government

At their meeting on 10th November (CC(66) 56th Conclusions,
Minute 6) the Cabinet approved the proposals put forward by the
Chancellor of the Exchequer in C(66) 152 for further cuts in the level
of local expenditure to be accepted for the purpose of fixing the total
of the rate support grant, on the understanding that, if the reductions
met with strenuous and well-founded objections, there would be an
opportunity for Ministers to consider the matter further.

2. Since then the estimates have been discussed in detail between
officials representing the Departments concerned and the local
authorities. Finally, to complete the process of consultation, the
Secretary of State for Education and Science, the Secretary of State
for Wales, the Minister of Health and I, supported by Ministers
representing the Home Department and the Ministry of Transport,
have today seen elected representatives to hear at first hand the views
of the local authority associations and the Greater London Council.
This memorandum records our agreed conclusions.

3. The local authorities fully accept that under present conditions
we may not be able to afford to develop services at the rate previously
envisaged and, given a lead by the Government, they are ready to play
their part in reducing the rate of growth of public expenditure. But
they are emphatic that the Government must come out into the open
and make a clear statement of policy on the need to slow the growth of
public expenditure in the light of the present economic situation. They
attach importance to this for two reasons. First, because they consider
that the Government should accept responsibility and because experience
has shown (in their view) that unless the Government publicly recognise
the need to go slow local authorities will find themselves subject to all
manner of pressures to incur extra expenditure despite the paring of
their estimates. Their second reason is that a public statement of
policy is essential if results are to be achieved. Local authorities are
already well advanced with the preparation of their estimates for next
year and, if these are to be looked at in a new light, they need to be told
so and quickly. We are agreed that such a statement needs to be made,
though its form will require consideration.
4. The local authorities' second main point is that even given an early and explicit public statement it will not be possible to realise the cuts which are demanded - if insisted on they will remain to some extent paper cuts. It is not merely that the arbitrary additional cuts of £30 million in 1967-68 and £45 million in 1968-69, though directed in the first instance at the environmental services, could only be achieved, in so far as they were achieved at all, by making further cuts on other services, in addition to the reasoned cuts already proposed. There is a more general reason why in the local authorities' view the cuts are quite unrealistic and that is that they ignore the current level of expenditure. In pressing for reductions in the estimates for 1967-68 and 1968-69 Departments have based themselves largely on the level of actual expenditure in 1965-66 and the rates of growth of expenditure for which their figures allow postulate a level of expenditure in the current year well below the local authority estimates. In effect, so the local authorities say, Departments have been arguing from a false base; the estimates for 1966-67 are the best available evidence as to the current level of expenditure and with the year two-thirds spent it is too late to change the pattern. The proposed expenditure figures for next year thus leave much less room for growth than they have been presented as doing and are the less capable of realisation. There is a lot of force in this.

5. The suggestion has in fact been made that in seeking to reduce the estimates of expenditure, the Government's only real concern is to reduce the total of Exchequer assistance to local government (under the proposals put to the local authority associations last February the total of grant for 1967-68 would be calculated as 54 per cent of the accepted estimated expenditure and for 1968-69 as 55 per cent); in other words, that after taking credit in the White Paper for reducing the burden on the ratepayer the Government were now trying surreptitiously to increase it by basing the grant on unrealistically low estimates of expenditure. This is a most damaging charge politically and one that the Opposition would be quick to take up.

6. As regards the estimates of relevant expenditure we are convinced that the cuts we are seeking are unrealistic, by which I mean that they will not be achieved and could not be in the time available without a disruption of services such as none of us contemplates. Even the reasoned cuts - without the extra £30 million and £45 million - are very much more severe than any cuts ever made in the estimates of expenditure for the purposes of the general grant. If we insist on the full cuts, there will not be a corresponding reduction in public expenditure; it is impossible to say how much of the proposed savings would be achieved but I am in no doubt - and all the associations emphasise this - that there would be an unusually sharp increase in the rates next spring. (This year's freeze in local authority rents will in any case mean higher rates next year.)

7. My colleagues and I recognise the Chancellor's difficulties and we are prepared, as we have always been prepared, to concede that local authorities should be placed under financial pressure to keep their expenditure down. But they should be given an expenditure target which, even if they cannot hit it, is not so far out of reach as to be a mockery. On this basis I would propose that we remit two-thirds
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of the arbitrary cuts for which we have been contending — in other words add £20 million and £30 million respectively to the figures which we have so far said we are prepared to accept. I have placed the salient figures in the Annex. I have given first the expenditure figures in terms of mid-1966 prices, since our previous consideration was on this basis; but it is the mid-November figures on which the total of grants would be based.

8. I invite my colleagues to agree —

(a) that there should be an early public statement on the need to slow the growth of public expenditure with particular reference to local authorities;

(b) that for the purpose of calculating the total of Exchequer grants the estimates of expenditure should be increased by £20 million in 1967-68 and £30 million in 1968-69.

A. G.

Ministry of Housing and Local Government, S. W. 1.

29th November, 1966
ANNEX

I  Estimates of expenditure at mid-1966 prices

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<td>2,662</td>
<td>2,494</td>
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<td>1968-69</td>
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II  Estimates of expenditure at mid-November 1966 prices

Expressed in terms of mid-November prices the estimates of expenditure accepted by Departments become:

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Increasing these as proposed in paragraph 8 would give:

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<td>1968-69</td>
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III  Total of Exchequer grants

The corresponding figures for the total of Exchequer grant, calculated at 54 per cent of estimated expenditure for 1967-68 and 55 per cent for 1968-69 would be:

(a) On figures so far accepted by Departments:

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<td>1968-69</td>
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(b) With the increases proposed in paragraph 8:

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<td>1967-68</td>
<td>1,386</td>
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<td>1968-69</td>
<td>1,505</td>
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2nd December, 1966

CABINET

BROADCASTING POLICY AND DRAFT WHITE PAPER

Memorandum by the Postmaster General

The Cabinet agreed (CC(66) 51st Conclusions, Minute 5) that the BBC should be asked to provide a popular music programme on an interim basis as soon as the legislation to suppress the pirate radio stations took effect, and approved in principle the proposal to establish a new broadcasting corporation, financed by advertising, to take over in due course the running of the new programme from the BBC and to provide a service of local sound broadcasting. I was invited to discuss these proposals with the BBC and the Musicians' Union.

2. After my many meetings with them I have concluded that it is extremely doubtful whether we could get the proposals, in their present form, off the ground. What has emerged clearly is that they do not provide a basis on which an interim popular music programme could be established to coincide with the disappearance of the pirate stations. A number of other bodies have made representations to me and are generally opposed to the proposals.

3. The BBC have agreed, although with some reluctance, to co-operate in interim arrangements. But the Musicians' Union are unable to support the plan, and, if we went ahead with it, would offer the strongest opposition. They have said in statements to the Press that if necessary they would carry their opposition to the point of refusing to make gramophone records.

4. The Union do not believe there is a demand for additional sound broadcasting services. They would nevertheless co-operate with the BBC in the provision of a national music programme and local sound broadcasting provided these services did not carry advertising. Both the BBC and the Union think that they could reach satisfactory agreement to that end.

5. But the Union are flatly opposed to new services financed by advertising. They believe that to make the services pay would require a much higher proportion of needle-time than that at present accorded to the BBC (about 20 per cent); that, in the absence of agreement with the Union, a commercially-based broadcasting authority would seek additional needle-time by appeal to the Performing Right Tribunal; and that any award by the Tribunal would have to be applied also to the BBC.

-COMF3 DEISTS AL
6. For these reasons, the Union reject the view that new services, however financed, must create additional work for musicians. They believe that the contrary would be true of services financed from advertising. Their attitude is not narrowly protectionist. It is part of their case that, if the opportunities for live performance are further diminished, the musical life of the country will in the longer term become impoverished.

7. I think there may very well be some substance in the Union's appraisal of the financial prospects of new services financed from advertising and of the consequent risks to their members' interests. My colleagues will recall that the estimates of income in C(66) 141 assumed 50 per cent needle-time, and even on that basis the financial viability of the new corporation was not clearly assured. A £5 million Exchequer loan was required for the new corporation, and even by the fourth year it was uncertain whether the corporation's income would match its current expenditure. As to the Union's belief that any award by the Tribunal would apply also to the BBC, it is the case that under their present needle-time agreement the BBC are entitled to terms not less favourable than those granted to any other broadcasting body in the United Kingdom.

8. I have had discussions also with representatives of the record manufacturers. They have made it quite clear to me that they have a common interest with the Musicians' Union in not wishing their products to be given too great an exposure over the air. Subject to that, their disposition is to give us all the help they can in the furtherance of our plans. But in the last resort they are dependent on recording artistes and hence on the Musicians' Union. Their own assessment is that the Union can and will block the present plan, if necessary by refusing to make records. Even a relatively short strike would inflict lasting damage on the British gramophone record industry and the important export trade would suffer.

9. It is possible to take the view that the Union would not, in the event, call a strike, and that the long-term risk can be discounted. But the balance of the opinion I have consulted is that they probably would strike. If this happened, it would probably be in 1968 or 1969 after we had passed legislation and set up the new corporation. However that may be, in the short term there is no prospect that the Union would co-operate with the BBC in arrangements for an interim music programme between the closing of the pirate stations and the time when the new corporation began to broadcast. Without their co-operation neither the BBC, nor anyone else, could provide a popular music programme at the time when the legislation against the pirate stations takes effect. In my view, this consideration is paramount. The need can only be met if we authorise the BBC to provide the music programme on a longer-term basis. This would moreover be by far the least expensive way of providing the service.

10. My colleagues will recall that if the BBC were called on to provide the music programme they would do so by arranging for the Light Programme transmission on 247 metres to continue in music whenever the long-wave transmission carried the spoken word. They would now propose to extend this arrangement to other periods when the long-wave transmission carried music of a kind unlikely to appeal to a youthful audience; and to make other changes designed to give the programme the new and popular character needed. As now planned it would provide throughout most of the day continuous music, much of it of the kind young people prefer.
Turning now to local sound broadcasting, it is clear that local stations must have an inexpensive source of music as backing material. Whether this took the form of gramophone records or a 'feed' from the music programme the Musicians' Union would be in a position to block it.

Again it is possible to take the view that we should call the Union's bluff. But my colleagues will recall that local sound broadcasting and the music programme are the only new developments to be announced in the forthcoming White Paper. They would lose much of their value, particularly during the passage of the anti-pirate Bill through the House, if their credibility were challenged by the Union.

I have therefore considered whether the local sound broadcasting service could be financed in some other way than by advertising. Subvention from the rates would be wrong from every point of view. But there are, I feel no doubt, many local bodies which would be prepared to make a financial contribution to the cost of a station by way of payment for the general promotion of their objectives. These would include the local authority, particularly for education services; the local University where there is one; the Open University; Chambers of Trade and Commerce; local Councils of Churches; arts associations; and other representative bodies active in the social and cultural life of the community. Although the local authority would no doubt be a major contributor it would be for services rendered by the station and not by way of subvention. It is only right, in my view, that stations which could make a unique contribution to the life and culture of the communities they serve should receive their financial support from these communities and not from the general body of licence-holders.

I have therefore discussed the possibilities with the Secretary of the Association of Municipal Corporations who has since taken confidential soundings of a number of local authorities. As was to be expected, the reactions of the authorities varied a good deal. But there is a good prospect of establishing stations in a number of localities, financed in this way. Time is needed to explore the possibilities more fully and to quantify the sources of income. I propose therefore that the BBC should establish a limited number of stations (say, nine) on an experimental footing, to determine among other things whether this method of financing offers a basis for a permanent service of sufficient extent. If the experience showed that local sources, without recourse to advertising, were not enough, we should have to re-examine the alternatives.

I have discussed this proposal with the BBC and they would be prepared to carry out an experiment on a footing that would afford to Local Broadcasting Councils, widely representative of the community, the maximum possible voice in the direction and performance of the stations. As part of the experiment they would explore, in consultation with the Local Broadcasting Councils, the possibilities of local self-financing for a permanent service. The experiment could get under way before the end of 1967 and would continue for a year or so. The BBC have assured me that any part of the cost of the local broadcasting experiment that cannot be financed locally could, together with the cost of the music programme, be accommodated within their plans for continuing without an increase in the licence fee until after the end of 1967.
16. As an alternative to provision by the BBC I have considered whether the local stations could be directly licensed. There are a number of objections to such a scheme but the decisive consideration is that it would establish new broadcasting bodies by administrative action. Not only would this involve a dubious use of my licensing powers but it would create a precedent for any future Government which might wish to establish commercial sound broadcasting without specific Parliamentary authority. Another alternative would be to bring the local stations under the general oversight of a new regulatory body (on the ITA pattern). This is a possibility that we may need to keep in mind for the future, but I think my colleagues would agree that it would be inappropriate to set up a body of this kind for the purposes of a limited experiment. The White Paper would in any case make it clear that, in deciding that the BBC should conduct the experiment, we implied no commitment that the Corporation should provide a permanent service, if it were decided to authorise one.

17. In sum, my recommendations are:

(i) That the BBC should provide a new music programme to come into operation when the legislation against the pirate stations takes effect.

(ii) That the BBC should be authorised to carry out a 9-station experiment in local sound broadcasting to determine, among other things, the sources of local revenue that would be available to support a permanent service in a wide range of localities.

18. I invite my colleagues to agree that the draft White Paper annexed, which has been revised to embody these recommendations, should be published as soon as possible.

E.S.


1st December, 1966
Introduction

1. The Government have had under review various major aspects of broadcasting policy. First among them was the question of the BBC's finances. Besides this, there were various proposals for the further extension of the broadcasting services; that there should be a fourth television service; that a service of local sound broadcasting should be introduced; and that there should be an extra service of sound broadcasting entirely given over to music.

2. The Government have thought it best to consider them as a comprehensive whole. For two other major questions it was however desirable for the Government to publish their views before the general review was completed. A Bill to put an end to the activities of pirate radio stations has already been introduced. And on colour television, the Postmaster General announced on 3rd March last the decision that a service using the PAL transmission system and broadcast on the 625-line standard would start towards the end of next year.

3. In reaching the conclusions announced in this review, it has of course been the Government's duty to consider both what purposes the proposals for further extending the broadcasting services should seek to serve, and what organisation would best promote those purposes. The Government have also had to consider to what extent it would be in the national economic interest to allow these extensions. It is not enough that they should be desirable in themselves. The overriding consideration is whether the country can afford them.

THE FINANCES OF THE BBC

The BBC's request for an increase in the licence fee

4. Following the report of the Pilkington Committee in 1962, the BBC were authorised:

(a) to provide an additional television service - BBC2;
(b) to provide self-contained television services for Scotland and Wales;
(c) greatly to increase the number of hours for which its Third Programme/Network Three broadcasts. It now broadcasts throughout the day;
(d) to extend the Light Programme. It now broadcasts from 5.30 a.m. until 2 a.m.;
(e) to provide more programmes of adult education on television. Both BBC and ITA have made full use of this authority; and

(f) to start colour television on BBC2.

The decision to authorise these major developments was welcomed; and, except for colour television - which is to start next year - they either have been or are being carried into effect.

5. Also, the BBC are developing stereophonic broadcasts of programmes in the very high frequency (VHF) transmission of the Third Network.

6. The understanding on which the BBC proceeded to carry out these major developments was that they would be afforded sufficient income to finance adequate services. In their Annual Report for 1962-63, the Corporation record that if they had received the full proceeds of a £5 licence from 1st April 1963, for which they had asked, they could have financed their services out of income until the end of the nineteen sixties. The Corporation's request was not granted, but from October 1963, when the Government of the day relinquished the £1 annual excise duty, an amount equal to the whole of the net proceeds of a £4 licence became payable to the Corporation.

7. In October 1964, the BBC represented to the Government that the combined television and sound licence fee should be raised from £4 to £6, and the sound-only fee from £1 to £1 5s. It was, of course, the Government's duty first to satisfy themselves that increases of this order would be justified. But it was also plain that some immediate action was called for to put the BBC in funds. The Government therefore decided that there should be a close enquiry into the Corporation's finances, but, as an interim measure, also authorised increases in the combined licence fee from £4 to £5, and in the sound-only fee from £1 to £1 5s. Both increases took effect on 1st August 1965.

The Government's enquiry

8. The Government have completed their enquiry into the BBC's finances. Practically speaking, the only possible ways of providing finance for the BBC are: by direct Government subvention, by the sale of advertising time in the Corporation's services, or by the licence-fee system.

9. A Government subvention would be liable to expose the Corporation to financial control in such detail as would prove incompatible with the BBC's independence. The money would, of course, have to be found from general taxation.

10. Under their Licence and Agreement (Cmnd.2236) the BBC are not allowed to broadcast commercial advertisements without first having sought and obtained the Postmaster General's permission. Because of the probable long-term effect on the character of their services the BBC have never sought this permission. The Government recall that the Pilkington Committee found against the financing of the BBC in any measure from advertising, and that this view commanded general acceptance.

11. The Government have decided that there should be no change at present in the arrangement whereby the BBC are financed through the licence fee system. But at a time when none may be content to rest upon present standards of efficiency and financial performance, good though they may be, the Government have thought it right to
expect of the BBC that they should set themselves even more exacting financial objectives. They have accordingly asked them whether, assuming the expenditure ceiling which would be implied if there were no increase in the licence fee for the present, the Corporation would be able to maintain their present services, and to proceed with extensions and developments either already authorised or proposed below. The BBC have reported that, by making special economies, they will - on certain assumptions - be able to do so until 1968 when they would need an increase of £1.

12. In order to make these special economies, the BBC will restrict activities which they have hitherto considered well justified but which, against the background of continued financial stringency, can be sacrificed to the overriding national need for economy. The Corporation have conducted a searching examination of all their ancillary services and operating, with a view to making the maximum retrenchment in detail. By itself, however, this will not suffice. Some larger scale projects, desirable in themselves, for enlarging and modernising the Corporation’s programme production capacity, will be forgone for the present. But the BBC will be able to maintain their present level of programme output and to proceed with extensions and developments of their services already authorised or about to be authorised.

Licence evasion

13. One assumption on which the BBC have based their undertaking to manage without an immediate increase in the licence fee is that counter measures against licence evasion will prove effective. It has been reliably estimated that, of the gross revenue amounting to some ££0m. payable in a full year, some £5m. is lost through evasion. This is far too much to be tolerated. Honest viewers and listeners are, in effect, paying for the dishonesty of the evaders.

14. Steps have already been taken by the Postmaster General to tighten up counter evasion measures, but, by themselves, they will not suffice. Further measures are required. The Government are reviewing the penalties which Magistrates may impose on convicted evaders, and are discussing with the associations representing retailers and the rental companies ways in which dealers could help in the enforcement of the licence system. The Government will announce their proposals as soon as these discussions have been completed; and legislation will be brought before Parliament in the current session.

BBC finances conclusion

15. The Government recognise the efforts which the Corporation are making to defer their request for an increase in the licence fee. The increase will be required in due course, but, given the combined effect of the special economies to be secured by the BBC and of the further measures to be taken to combat licence-evasion, the Government are satisfied that no increase in the fee will be required before 1968.

A FOURTH TELEVISION SERVICE

16. Ultimately, the frequencies now available for television could accommodate six services of near-national coverage on the 625-line definition standard: two in the very high frequency (VHF) bands; and four in the ultra-high frequency (UHF) bands. At present, the
VHF bands are occupied by BBC1 and independent television, both broadcast on 405-lines. Of the four 625-line networks possible in UHF, one is committed to BBC2. There is therefore unused frequency space in the UHF bands for three more 625-line services. Space for two of them must be reserved in case it is required in order to change over the existing 405-line services to 625-lines by the duplication method. This means that the present basis on which planning must proceed is that, for the next 10 to 15 years, frequencies will certainly be available for only one additional television service of near-national coverage, in UHF and on 625-lines.

17. When the Television Act 1963 was before Parliament, the Government of the day stated their intention to allocate this service to a second programme of independent television during 1965 unless the financial or other obstacles were insurmountable. However it were allocated, a fourth television service would make large demands on resources. The three main services of television already provide a large volume of programmes of various kinds and the Government do not consider that another television service can be afforded a high place in the order of national priorities.

18. Moreover, before deploying the last frequencies certainly available for television for many years to come, the Government would need to be satisfied that the case for committing them to any new service had been fully established.

19. The Government have decided that no allocation of frequencies to a fourth television service will be authorised for the next three years at any rate.

TELEVISION FOR THE OPEN UNIVERSITY

20. Besides the claim of independent television to the frequencies required for a fourth television service network, there is also the possibility that the network would be required for a specialised service of educational television, forming part of the structure of the Open University. The decision to reserve the fourth network would enable the requirements of the Open University to be appraised more closely in the light of practicable experience.

COLOUR TELEVISION

21. The Government have already announced the decision that colour television, using the PAL transmission system and the 625-line definition standard should be provided. The service is to start towards the end of next year on BBC2. In reaching this conclusion the Government saw as an important consideration the prospect of increasing exports - provided that an early start could be made.

22. In making this announcement, the Postmaster General stated that if the Oslo conference of the International Radio Consultative Committee were to show that another transmission system found general acceptance, the Government would take such a development into consideration. In the event, the conference did not reach a common view on any transmission system. In general, the countries of western Europe expressed a preference for the PAL system, and France and eastern Europe for the SECAM III system. Accordingly, in the United Kingdom the colour service will be provided on the PAL system.
23. It has always been recognised that the decision to provide colour television on the 625-line definition standard is closely related to the intention to change over the two 405-line services of BBC1 and independent television - to 625-lines. The Postmaster General's Television Advisory Committee has been asked to report as soon as possible on the method of changeover to be adopted. It may well be that this will involve duplicating the existing 405-line programmes on 625-line lines in UHF.

24. It is the Government's view that the cost of colour programmes, which are likely at the outset to be available only to a small minority of viewers because of the cost of receivers, should not fall upon viewers in general. Accordingly a supplementary licence fee of £5 will be required from those equipped to receive colour programmes.
The BBC broadcast three programmes - the Home Service, the Light Programme and the Third Network. Complementary planning broadly ensures that, at any given time, listeners have an effective choice between programmes of different kinds; and, between them, the three programmes cater for a wide span of tastes and interests, ranging from those which attract very large audiences to those which, being highly specialized, serve small audiences. The three programmes are widely regarded as very well suited to their function of providing a comprehensive service of sound-radio on a national basis.

A popular music programme

That there is an audience for continuous music as popular entertainment is not now. What is new is that, by appropriating wavelengths allotted to other countries and by largely disregarding copyright in gramophone records, the pirate stations have been able to exploit the fact. Legislation to end the activities of these stations has been introduced. The Government recognize that there is, however, a need for a new service devoted to the provision of a continuous popular music programme. The question is how the need can legitimately be met: legitimately in that it would be broadcast only on wavelengths available under international agreement to this country, and in that it would respect the rights of performers, composers and others in the material broadcast.

It is necessary to weigh also any implications for present services to the listening public generally; and, in particular, whether the need to provide frequencies on which to transmit a popular music programme would involve an unacceptable curtailment of the present services of sound broadcasting.

Because a popular music programme does not need to differ from place to place, the most economical way of broadcasting it will be by relatively few stations, each with a large transmission area. The characteristics of wavelengths in the Medium Wave band suit them to this objective. But, as the medium wavelengths available to this country are already intensively used, room for an extra service can only be found by redeploying them. There is not room enough in them for all the present sound-radio services and for a popular music programme with anything like sufficient coverage.

The Government have therefore discussed with the BBC what rearrangement of their services they would need to make in order to find room for the additional service. In the past, the Corporation have considered that they could best serve their various audiences by providing the Light Programme on both long and medium wavelengths, in order to attain the widest possible coverage at an acceptable standard of reception. Now, however, that the long-wave transmission of the Light Programme is reinforced by the BBC's very high frequency (VHF) transmissions, which have themselves attained virtually complete population coverage, and now that portable VHF transistor sets, at reasonable cost, are available, the Corporation feel free to devote the medium-wave channel of 247 metres to a popular music programme.

The BBC have informed the Government that, on weekdays, the programme would broadcast popular music continuously from 5.30 a.m. to 12.30 p.m., and again from 10 p.m. to 2 a.m., and on Sundays, for most of the day's broadcasting. Over six hours of music each day would be played from gramophone records. The remainder would be either live broadcasts or BBC recordings of popular music especially made for the service. The programme would provide each day a blend of output to meet the needs of the audience for popular music.
In the Government's view, the provision of a popular music programme on the medium wavelength, 247 metres, would, on an overall appraisal, provide an extension of choice to the listener. They will authorise the BBC to provide the new service at an early date.

32. No general service of local sound broadcasting, which would be available during hours of darkness as well as in daylight, can be provided only on medium wavelengths allotted to the United Kingdom. The only possibility for such a service lies in VHF. In practical terms, some 150 towns and cities could be served. Of the proposals put to the Government for the provision of a service, some advocate that it should be provided by commercial companies, others that it should be provided by the BBC.

33. In a worthwhile service of broadcasting a local station should, the Pilkington Committee concluded, transmit "for a sufficient part of the broadcasting day [material] of particular interest to the community served by that station rather than to other localities." In their White Paper of July 1962 (Cmd. 1770) the Conservative administration agreed "that the justification for local sound broadcasting would be the provision of a service genuinely 'local' in character." The Government share this view.

34. They consider that this objective would prove incompatible with the commercial objectives of companies engaging in local sound broadcasting; and that, in the result, the former would be likely to suffer. In their view it is of first importance to maintain public service principles in the further development of the broadcasting services; and accordingly they reject the view that a service of local sound radio should be provided by commercial companies.

35. Evidence of the expertise and professional enthusiasm which the BBC would bring to local sound broadcasting is to be found in the trial programmes they have prepared. They lend much support to the view that, properly organised, local radio would provide a valuable service to the local community; and, by giving a new means of expression to its particular interest and aspirations, serve to reinforce its distinctive character and sense of identity.

36. The Government believe that local radio, organised and produced as a public service, would be most likely to realise those social purposes to the full; and would at its best prove an integrating and educative force in the life of the local community. But it is, they consider, important to establish how far the claim for a local station is likely to rest on genuinely local initiative having these purposes as its objective; and how far local sources of finance are likely to be available to meet the expenditure required by such an initiative. In sum, not only is it important to establish that a local service of high quality could be maintained, month-in, month-out. There is also the question whether it would command enough support, including financial support, to justify the development of a service on a widespread and permanent footing.

37. The Government consider that more information is required before final judgments are made on the way in which this new service would be constituted and organised. Moreover, this is not the right time at which to authorise a further and large-scale extension of the country's broadcasting services. Valuable though it may be in itself, it cannot at present command a high place in the order of national priorities. The Government have therefore decided that the right way to proceed is by way of experiment.

38. In considering how an experiment should be conducted, the Government have had regard not only to the need to avoid an excessive
diversion of resources for the purpose but also to the undesirability of entering a commitment at this stage to any permanent form of constitution and organisation. They conclude that these various requirements will best be met if the experiment is conducted by the BBC as a venture in co-operation with local interests; and they have therefore decided to authorise the BBC to go ahead with a nine-station project, in VHF. The stations would offer a full-scale local service. They would come into operation after about a year; and after a year or so of operation, should have provided the information on which to found the final solution.

39. To secure co-operation with local interests, the experimental service will be provided in the closest association with them. For each station, there will be a local Broadcasting Council appointed by the Postmaster General in consultation with the BBC. Each Council will be widely representative of the community - including youth - and will play a fully formative part in the development of programme policy and content. The Government attach great importance to the need to ensure that the stations are local in character and not all moulded to a common pattern imposed from the centre; and the BBC have assured the Government that the Councils will have the maximum possible voice in the direction and performance of the stations.

40. It is the Government's hope that the stations would, wherever possible, afford local professional musicians the opportunity of contributing live performances to the programme output of the service. In this way, the stations would help to provide a wide basis on which to rest the musical culture of the country.

41. Since the essential purpose of the local station is to give expression to local interests and aspirations, it seems right that its income should derive so far as is possible from local sources; but excluding direct subvention from the rates, and income from commercial advertisements. There are in local life various bodies who might well be prepared to make a financial contribution to the costs of the station, in consideration of the general promotion through its programmes of their objectives: the local authority, particularly for its educational services; the local university, where there is one; the Open University; Chambers of Trade and Commerce; Local Councils of Churches; Arts Associations; and other representative bodies active in the social and cultural life of the community. An important purpose of the experiment will be to establish whether enough financial support will be forthcoming from these sources.

42. The Government reserve until the conclusion of the experiment any decision on the question whether a general or permanent service should be authorised, and, if so, how it should be constituted, organised and financed and by whom provided. The decision that the Corporation should conduct the experiment implies no commitment that the Corporation should provide a permanent service, if it were decided to authorise one.

PAY TV

43. The Conservative Government authorised an experiment to last three years and granted a licence which will not expire before January 1969. The Government agree with this decision but they will not allow a situation to develop in which the vast majority of viewers are denied the viewing of major sporting events. Somewhat similar issues are raised by the showing over closed circuit television of sporting events to audiences in cinemas and other public places.
HOURS OF BROADCASTING

The first White Paper (Cmnd. 1770) on the report of the Pilkington Committee stated that the Postmaster General's powers to control the hours of broadcasting would continue. In the Television Act, 1963, and in the BBC's Licence and Agreement, approved by Parliament in January 1964, these powers were re-enacted in a more detailed form.

It has been represented to the Government that, ideally, these powers should not be used, but held as a reserve power. Both the ITA and the BBC would then be free to broadcast for as many hours a day as they chose. The Government have also considered whether, instead, there might be authorised a large increase in the number of hours of broadcasting a week.

In a typical week BBC 1, independent television and BBC 2 broadcast for some 130 to 200 hours in total. The amount of television broadcast here compares favourably with that of any other Western European country and considerably exceeds that of most.

In the Government's view, the amount of broadcasting time will remain a matter of sufficient social importance to require that the Postmaster General should continue to hold and exercise his present powers of control. Nor do the Government consider that any general increase in broadcasting hours will be justified for the present. They do not, however, rule out the possibility of more time for educational programmes.

THE BROADCASTING AUTHORITIES: THEIR COMMON RESPONSIBILITIES

Both the BBC and ITA are public corporations, wholly responsible for the content of their programmes and for the day-to-day conduct of their affairs. The principles that the public corporations should be independent of the Government has been upheld by successive Administrations since the beginning of broadcasting in the United Kingdom. The Government adhere to this concept.

The Government has discussed with the broadcasting authorities, and with other parties in Parliament, the idea of establishing, subject to this governing principle, a council to consider general issues of broadcasting policy. They have concluded that additional machinery of this sort would serve little useful purpose if the independence of the two public corporations is to be maintained. Since full responsibility is required of them, they must be afforded full authority to secure that their services are conducted in the general interest.

Though Parliament has placed them in competition with each other, they have a common objective of public service. In the continuing task of realising this objective matters of common concern are bound to arise. To discuss matters of this kind, the Chairman of the BBC and the Chairman of the ITA have, the Government understand, established regular and frequent meetings. The two broadcasting authorities have now decided to put these meetings on a more formal footing and to use them as the occasion for discussing matters which either Chairman might wish to raise. The meetings will continue to be private and unpublicised.

The Government welcome this means of consultation between the two authorities and their ready recognition that they will benefit from an understanding by each authority of the other's view.
8th December, 1966

CABINET

AGRICULTURAL POLICY: BACON INDUSTRY

Memorandum by the Minister without Portfolio

I have to ask the Cabinet to resolve a difference of view which has arisen in the Ministerial Committee on Agricultural Policy about a proposal by the Minister of Agriculture, Fisheries and Food for a scheme of temporary assistance to the bacon industry.

The Problem

2. During the present financial year the price which curers have had to pay for pigs has been so high that, even with very high prices for bacon, the curers have been incurring losses on such a scale that, in the Minister's view, if immediate assistance is not given some firms will go out of business and others will cut back operations with a resulting fall in production which may well be as great as 20 per cent below recent levels. The Minister argues that the cut-back in production would not be made good for a long time, if at all, and the result would be higher prices for imported bacon and increased dependence on imported supplies. He estimates that this might mean additional balance of payments costs of some £16 million a year (though some doubts were expressed in the Committee's discussion whether the additional cost would be as high as this). Moreover higher bacon prices would be a serious matter from the point of view of prices and incomes policy during the period of severe restraint.

3. The Committee were generally agreed that the long-term solution is an increase in the supply of pigs. In view of the serious downswing in the size of the breeding herd, the Government announced in September that they intended at the next Farm Price Review to raise the level of the middle band in the flexible guarantee arrangements for pigs by 400,000. But this announcement has not so far led to any improvement in the position and in the Minister's view a principal reason for the delay in recovery is the uncertainty which pig producers feel about the future of the bacon industry as a continuing outlet for pigs; the breaking of contracts by bacon factories, which is all too likely to follow a refusal of assistance, would be a disastrous blow to confidence.
The Minister's Proposal

4. To meet the immediate problems of the curers, the Minister proposes a scheme for Exchequer advances to them to reimburse at least a substantial part of their losses during the remainder of the fatstock year - i.e., up to end March, 1967, when the situation would fall to be further examined in the light of the Farm Price Review. It is estimated that the total losses over this period would amount to about £1 million. The advances would be repayable by means of a levy on the curing industry imposed when curers were again making profits. Details of the scheme are set out in the annex. Legislation would be needed, though payment of the advances could begin straightaway, if it were decided to use the Appropriation Act for the purpose. The possibility of incorporating the necessary provision in the present Agriculture Bill should be examined.

5. In the Committee's discussion it was agreed that the industry faced a real problem in the short term, but that there was also an urgent need for more fundamental measures to secure greater efficiency in the longer term. The scheme proposed by the Minister would not and was not intended to impinge on the long-term problems of the industry and the Committee therefore agreed that a small independent enquiry should be appointed forthwith to examine the scope for increased efficiency in pig manufacturing and especially bacon curing.

The Treasury's Views

6. The Chief Secretary, Treasury, while not ruling out entirely a scheme on the lines proposed if experience between now and January confirmed the need for it, did not agree that the present situation was sufficiently serious to justify going ahead now. His reasons were -

(1) The curers' present difficulties were likely to be temporary; last year they had made excellent profits. They were unlikely to take decisions to reduce productive capacity on the basis of prospects between now and next March. There might well be some improvement in confidence after Christmas. If meanwhile some of the many small firms concerned decided to go out of business, this would only strengthen the structure of the industry.

(2) The proposed scheme was a significant departure in that for the first time it extended Government assistance beyond the field of food production into food processing. This would open the door to pressure for similar assistance every time any section of the process industry ran into temporary difficulties. The Government would not be justified in incurring this risk in order to meet a temporary difficulty.

The Chief Secretary therefore contended that we should review the situation again in January.
7. The Minister of Agriculture however considered that to postpone action until January would be leaving it too late to avert a reduction in capacity with the consequences he had indicated for bacon prices and balance of payments costs. In this he had the support of the majority of the Committee.

Conclusion

8. I invite the Cabinet to decide whether a scheme of temporary advances to bacon curing firms on the lines set out in the annex should be announced and introduced forthwith and the necessary legislation brought forward as soon as practicable thereafter.

D.H.

70, Whitehall, S.W.1.

8th December, 1966
ANNEX

A Scheme for Temporary Advances to Bacon Curers

1. Advances from the Exchequer would be made to bacon curers in order temporarily to make up at least part of the losses sustained in continuing to produce bacon.

2. The scheme would cover the period from now until end-March, 1967.

Rate of advances

3. The rate of advance would be determined by comparing on the one hand the price realised for bacon (including the price realised for offals) less the cost of curing, and on the other the cost to curers of buying pigs. If this comparison showed a loss to the curers, an advance would be made at a rate to cover that loss or a predetermined part of it.

4. Since some elements in this calculation, notably the price of bacon and the level of the guarantee payment (which affects the net cost to the curer of buying pigs on contract), may vary weekly, the rate of advance would need to be calculated each week.

Eligibility for advances

5. The advances, so calculated, would be paid on the weight of bacon (whether of Wiltshire or other types) produced by each factory.

6. A limit would be set for each factory on the total weight of bacon in respect of which it might receive advances. The limit would be related to the quantity of bacon produced by the factory in recent months. There is little risk in practice that the advances would enable bacon production to be increased above recent levels; but this provision for limitation would be essential in order to avoid criticism from other users of pigs at home and our overseas suppliers of bacon.

Payments

7. Advances, at the weekly rates determined and subject to the quota limitation, would be made on the basis of claims specifying the quantity of bacon produced each week and supported by auditors' certificates. The books of factories would be open to official audit inspection.

Repayments

8. The total sum so advanced would be recovered by levy on the curing industry in circumstances when the industry was making profits on bacon. In other words, when the comparison in paragraph (3) above showed a profit to curers a levy would become payable on the quantity of bacon produced, and would continue to be collected until the whole of the sum advanced had been recovered.
C(66) 179

9th December, 1966

CABINET

RHODESIA

Memorandum by the Secretary of State for Commonwealth Affairs

1. Introduction

At the Commonwealth Prime Ministers' Conference in September we secured two results:

(i) We gained time and obtained the acquiescence of Commonwealth Prime Ministers that we should give the regime a further chance to end the rebellion.

(ii) We made a commitment to proceed with mandatory sanctions and to declare "no independence before majority rule" (aabmr) before the end of the year if the rebellion were not ended.

Mr. Smith's rejection of the working document now leaves us no alternative but to proceed in accordance with the Commonwealth Conference agreement.

2. United Nations Action

We are proposing in the Security Council effective and selective economic mandatory sanctions against Rhodesia. It is vitally important that these sanctions should be limited in form and should not lead to the risk of escalation into economic warfare with South Africa. The Commonwealth fully understood this and accepted the position at the Commonwealth Conference, though they will undoubtedly press for the inclusion of oil in a form not limited to imports from Mozambique (as we had suggested at the Conference). We hope, however, to be able to secure a resolution in a form which should be acceptable to us - though, of course, if South Africa and Portugal do not comply with the resolution, there will subsequently arise demands for enforcement measures against them. However impracticable these may be and indeed whatever reservations we ourselves may make now, we are likely to come under embarrassing pressure. It will be a difficult operation to secure the passage of a resolution in an acceptable form in any case and it cannot be assumed that we shall necessarily be successful. The passions of the Africans
have certainly not been lessened by the knowledge of the lengths to which we were prepared to go in order to try and reach a settlement with the regime. If no agreement can be reached at the Security Council or if there should be the necessary majority for extreme measures (which we could only defeat by using the veto) the position will be a difficult one and we shall have to reconsider our policy.

On the assumption, however, that we are successful in limiting the scope of the resolution, the prospect is that mandatory sanctions will come into force and will have a substantial, but not crippling, effect on the Rhodesian economy. An assessment is contained in JIC(66) 81 which may be summarised as follows:-

The cumulative effect by September, 1967 of mandatory sanctions added to existing sanctions could be a reduction of the order of 25 per cent [5] compared with something like 15 per cent at present in the general level of economic activity in Rhodesia since before idi. Rhodesians could however at the cost of some reduction in the standard of living, continue to withstand even more severe mandatory sanctions almost indefinitely provided they could count on the support of South Africa, particularly for oil supplies. The prospect of no legal independence before majority rule would be likely to cause the great majority of white Rhodesians to rally to the regime. This attitude could well outlast the will and ability of some trading nations to implement sanctions.

Nevertheless, particularly if oil imports are included within the terms of the Security Council resolution, attention is likely to concentrate on any breaches of the embargo by South Africa and Portugal.

3. South Africa

The attitude of South Africa is crucial to the whole problem of Rhodesia and particularly to any question of economic sanctions. Rhodesia is land-locked and has always drawn the majority of her supplies or sent her exports through (or to) South Africa and Mozambique. No embargo can be fully effective if these two territories do not co-operate.

The South African attitude has consistently been that they will not interfere with "normal trade" and that they will not undertake any economic "boycotts". They have made it clear that their attitude will remain the same if mandatory sanctions were passed. With the declaration of nibmr the South Africans are likely increasingly to identify the Rhodesian cause as their own and will no longer be willing to urge on the regime that they should reach a settlement on our terms. Nevertheless they have a strong legalistic approach to problems, regard Rhodesia as a British responsibility and have never formally recognised the illegal regime. Moreover they will be very anxious not to put the spotlight on themselves by a flagrant defiance of a mandatory resolution. Any further international action over South West Africa may increase this anxiety.
On balance therefore it is most likely that South Africa will fail to comply. There would then be three courses open to us:

(i) To do nothing (in the hope of preserving our own trade with South Africa and of not shaking confidence in the British economy),

(ii) At the other extreme, to be prepared for measures leading to confrontation with South Africa.

(iii) Alternatively we could invite consultation on these matters with the South African Government. This would be in continuation of the exchanges recently between the Prime Minister and Mr. Vorster. The object would be to have a frank discussion with the South Africans and to see whether there were any practical steps which could be taken to lessen the aid and comfort at present being given to Rhodesia.

The first course would leave us open to violent attack in the United Nations and in the Commonwealth. The second course would involve unacceptable risk to the British economy and has been ruled out by Ministers. The third course is recommended, but since the South African Government are unlikely to go back on their public declarations and would only operate unobtrusively, our exchanges with them should be conducted unobtrusively and we should not be seen to be trying to exert pressure, as would be involved in a Ministerial visit.

4. Position in Rhodesia

Much will depend on reactions among Europeans as a whole to the triple factors:

(i) Smith's rejection of our offer.

(ii) Mandatory Sanctions.

(iii) nibmr.

One may hope that the rejection of our offer will cause some dissension in the ranks of the Rhodesia Front and certainly will lead some sections of European opinion to realise that the regime have placed party interests before the interests of the nation. Our propaganda must make the maximum effort to exploit these differences. But unless a change is produced immediately it may be a long time before it shows itself. In this process the continuation of sanctions should produce an increasing effect.

Nevertheless, after the failure of the talks on HMS Tiger and particularly after our undertaking on nibmr comes into force, it will be virtually impossible to reach a settlement with the present regime. The most we can hope for is that in course of time (and it may be a long time) the opposition to the regime will assert itself and we may be able to start afresh with a new team.
But in the meantime we should encourage the Governor to stay as a focus of loyalty, and fortunately he continues to remain robust and will carry on as long as he can. So long as he remains it would probably be in our interests to retain the British Residual Mission if we can to keep in contact with him. There is always a chance that it will be thrown out by the regime, in which event, of course, we would take parallel action with the Mission in London.

We undertook at the Commonwealth Conference (as one of the related consequences) to withdraw all previous proposals for a constitutional settlement and stated that we would not be prepared to submit to the British Parliament any settlement which involves independence before majority rule. It is clear that this would not become operative until the passage of a resolution by the Security Council with the full support of Commonwealth representatives at the United Nations. There is no need for any specific declaration, but it will become operative when the resolution has been passed and no doubt this will be made clear in Parliament. We should make it clear to the Europeans that, though their independence under European rule is precluded by nibmr, nevertheless they may look forward, if they return to legality, to return to something on the lines of the 1961 Constitution. That will mean possibly a long period of Government prior to majority rule during which the Africans will be prepared for their responsibilities and the general administration of the country continue much as before idi.

Whether or not the regime purports to declare a republic remains to be seen. There are powerful considerations against it even from their own point of view. If they should do so our difficulties (e.g. in retaining the Governor and the Residual Mission) will be increased and it will be impossible to negotiate a settlement with them.

In the event of a declaration of a republic we have already agreed that the British Government should advise all public servants in Rhodesia not to continue to serve the regime.

5. Alternative Courses

Before embarking on the present phase Ministers considered possible alternative courses of action, including:

(a) military invasion;
(b) mandatory sanctions against South Africa;
(c) handing over to the United Nations.

Overwhelming objections to any of these courses were seen at the time and the governing factors remain the same. Nevertheless the political scene has been changed in the new phase which we are entering and we should review our public attitudes. It was made clear on board HMS Tiger that in the event of a second udi we would reserve the right to use military force. It may be argued that we should make a similar reservation after the regime's rejection of
our offer and some of our friends (including the Americans) have urged that we should de-emphasise the categorical character of our previous statements. On the other hand, the military factors have not changed and any admission by us that the situation is one in which we considered that force could properly be used, would lead to tremendous pressure from the Afro-Asians that we should use it.

Similarly, while the idea of transfer of responsibility to the United Nations has its attractions, we have never been able to devise a way in which this could be done satisfactorily and could get us off the hook, and such action on our part would of course give the regime the justification they are looking for to declare a republic. Nevertheless, while the time has clearly not yet come for us to be able to get responsibility for Rhodesia transferred to the United Nations, if mandatory sanctions fail in their effect this may well prove the least damaging course open to us.

6. The Commonwealth

The undertakings we gave at the Conference in September were designed to save the Commonwealth and we succeeded in doing so. Our present action stems directly from the Conference decisions. Nevertheless African passions run high and we cannot be sure that we shall be able to count on their full support, still less on an absence of criticism. In any case we shall continue to have a major task to keep our relations with the Commonwealth countries in Africa in good repair, and our Special Representative in Africa, Mr. Malcolm MacDonald, will need to remain in very close contact with all the African leaders.

Much will depend on whether agreement is reached on a resolution at the Security Council and how things work out thereafter. We cannot overlook the commitment at the last Conference that "Prime Ministers would meet again soon if the illegal regime were not brought to an end speedily". We shall undoubtedly be held to this, though no doubt a period of some three months will be allowed to judge the effectiveness of the new mandatory sanctions. Presumably the Commonwealth Sanctions Committee will keep these under continuous review.

7. British Interests

The outstanding British interest is to achieve a settlement of the Rhodesian problem as speedily as possible. With Mr. Smith's rejection of our last offer, however, there seems to be no honourable way of doing so by agreement. Indeed, in addition to the direct moral responsibility which we ourselves bear, there are our specific undertakings to the Commonwealth and the commitments which we have entered at the United Nations. Both for reasons of British policy and for reasons of our external interests there is no alternative to our determination to end the rebellion.
On the other hand British economic interests must equally be taken into account and there is a point beyond which we cannot afford to be driven. The loss to the British balance of payments already incurred under the sanctions against Rhodesia is set out below:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>Nil</td>
</tr>
<tr>
<td>Exports</td>
<td>20</td>
</tr>
<tr>
<td>Current Invisibles (including shipping, civil aviation, insurance, etc)</td>
<td>12</td>
</tr>
<tr>
<td>Private Investment</td>
<td>6</td>
</tr>
<tr>
<td>Total of current and long-term capital balance of payments items</td>
<td>38</td>
</tr>
</tbody>
</table>

In addition there are the cost of assistance to Zambia, which might be put at £7 million or £8 million for the full year in balance of payments terms; and the cost of honouring Rhodesian international obligations guaranteed by the United Kingdom, which would be about £25 million in 1966 as a whole, making a total adverse effect on the balance of payments of the order of £50 million.

These figures exclude the effect of increases in the price of copper, whether Rhodesian or Zambian. This figure is very difficult to estimate but almost certainly does not exceed £20 million.

This is a sufficient strain and it will be awkward, to say the least, if it continues for any considerable length of time. But it will not be increased by the passage of mandatory sanctions, since virtually all trading between this country and Rhodesia has ceased already.

If, however, there were to be a confrontation with South Africa, there would be a loss of over £250 million of exports extremely difficult to make good elsewhere: a fall in world supplies of a number of important commodities, including copper and wool, sufficient to cause a large rise in prices and add considerably to our import bill; the loss, net, of about £60 million of investment income and over £20 million of other invisible exports. The continued effect on the United Kingdom balance of payments would be very serious.

In present circumstances - and indeed in any circumstances - this is a price which we cannot afford to pay and we must at all costs insist that we are not drawn into economic warfare with South Africa.

We therefore have to follow a middle course designed to ensure that we do not do irreparable damage either to our external political interests or to our domestic economic interests. If agreed action is taken in the Security Council in accordance with the Commonwealth Conference communique, we should be able to hold the position with other Commonwealth countries at least for a period, particularly after we have declared nibrur.

-6-
The one doubtful country is Zambia. Idi has come as a psychological shock to Zambia, particularly because of the large number of Europeans on the Copper Belt; and our relations with her have been strained. If Zambia were to break with us or there were to be instability in the country, the cost to us could be considerable. We are dependent on Zambia for 40 per cent of our copper imports costing £63.3 million in the first ten months of 1966. If Zambia's copper supplies were cut off, the additional cost would be far greater.

Though concerted action by all African countries against us is unlikely, it should be pointed out that our economic interests in Black and White Africa are about equally balanced. The figures are as follows:

**Comparative Table**

<table>
<thead>
<tr>
<th>A. Stocks</th>
<th><strong>Black Africa</strong></th>
<th><strong>South Africa and S. W. Africa</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) U. K. Investment</td>
<td>£450 m</td>
<td>£700 m</td>
</tr>
<tr>
<td>(ii) Sterling Balances</td>
<td>£450 m</td>
<td>Very Small</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. Flows</th>
<th><strong>Black Africa</strong></th>
<th><strong>South Africa and S. W. Africa</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Investment Income</td>
<td>£66 m per year</td>
<td>£60 m per year</td>
</tr>
<tr>
<td>(ii) Invisible Export Earnings</td>
<td>Somewhat less than £100 m per year</td>
<td>£20 m per year</td>
</tr>
<tr>
<td>(iii) Merchandise Exports Imports (excluding gold)</td>
<td>£300 m per year</td>
<td>£265 m per year</td>
</tr>
<tr>
<td></td>
<td>£295 m per year</td>
<td>£200 m per year</td>
</tr>
</tbody>
</table>

While it is unlikely that all our interests would be simultaneously threatened, there are many things which African Governments could do to damage them by, e.g. withdrawing sterling holdings, diversifying their imports and adopting a tough policy towards expatriate personnel.

**Conclusion**

Our policy should be to bring economic sanctions to the pitch of maximum effectiveness, only limited by the need to avoid confrontation with South Africa. We should take all steps possible in order to secure as much practical co-operation from South Africa as can be devised. At the same time, though we cannot count on early effectiveness, we should do what we can to bring home to the Europeans in Rhodesia their sense of isolation in the world, the hopelessness of any future under the present regime and what a settlement now would involve.
No-one can see at present what developments there might be, but it is not impossible that at a later stage a situation might arise in which we could look for assistance to further parties. Australia and New Zealand stand out in particular as countries which are likely to have an appeal to the Europeans in Rhodesia. Canada and the United States are also deeply concerned and would help to carry conviction with the African world. One cannot foresee in what precise form their services could be used, but we should keep in mind the possibility of taking advantage of their good offices. We should not exclude the possibility that South Africa and Portugal may also be able to help.

Failing all else it seems that we must reconcile ourselves to the prospect of a long haul. If so, we shall inevitably have to face the embarrassment of a continuous barrage of criticism in the Commonwealth and at the United Nations. But it seems unlikely that there will be an early break in morale in Rhodesia and we may have to wait for the time when, as a result of the pressures exerted by sanctions and by our propaganda, there may arise an opposition to the regime and new men with whom we could deal. But we must face the fact that this may be a considerable time ahead and that the factor of most importance - namely the degree of support from South Africa - is, if not beyond our influence, at least beyond our control. Indeed if South Africa is prepared to give sufficient support to the regime, Rhodesia may eventually fall within the South African orbit.

H.B.

Commonwealth Office, S.W. 1.

9th December, 1966
CABINET

HOME INFORMATION SERVICES

MEMORANDUM BY THE PRIME MINISTER

It may be convenient to my colleagues to have a note of the arrangements which I have approved as a result of the Cabinet’s discussion about Home Information Services on 3rd November (CC (66) 54th Conclusions, Minute 3).

2. There will be no change in the existing arrangements whereby the Prime Minister’s Press Secretary is responsible for co-ordinating the home information services at official level. At Ministerial level, however, the Lord President, in his capacity as Leader of the House of Commons, will exercise a general oversight of the public presentation of the Government’s policies as a whole and will be responsible for ensuring that all members of the Government are equipped both to reinforce the efforts of Departmental Ministers in this respect and to counter public criticism or misinterpretation. This arrangement does not imply the creation of a Minister of Information or a Government spokesman in any formal sense; and it will be without prejudice both to the responsibility of individual Ministers for presenting their own Departmental policies and to the existing arrangements for the Ministerial co-ordination, in appropriate cases, of the presentation of inter-related Departmental policies (e.g., in relation to certain aspects of economic policy).
3. For this purpose the following arrangements will now be made:

(a) All Ministers contemplating policy announcements should give the Lord President sufficient advance notice to enable him to consider whether he wishes to offer any advice on timing, method of presentation, etc. It should be the duty of Ministers' Private Secretaries to ensure that the Lord President's Office is kept informed in this respect.

(b) The Chairmen of all Ministerial Committees should ensure that, before a Committee concludes the discussion on any item on the agenda which is likely to result in a decision of policy to be announced in the near future, the Departmental Minister or Ministers concerned are reminded of their responsibility to inform the Lord President and to convey to him any views which the Committee themselves may have about the appropriate public presentation of the decision.

(c) The Lord President will be responsible for ensuring that all Ministers, particularly Junior Ministers, are kept regularly informed of forthcoming announcements on Government policy about which they are likely to have to speak or to answer questions. For this purpose arrangements will be made by the Prime Minister's Press Secretary to maintain a comprehensive forward diary of announcements, Ministerial speaking engagements, appearances on television and so forth; and on the basis of this diary the Lord President will arrange to obtain from Departments, where necessary, briefs and factual material to be supplied to Ministers for use on such occasions. Ministerial Private Offices should give the Lord President's Office full co-operation in implementing these arrangements.

(d) The Lord President will also be responsible for keeping under continuous review public comment on the Government's policies, whether in the Press or by
broadcast and television; and, if he judges that such comment requires a reply, he will advise the Minister concerned accordingly.

4. In discharging the above duties the Lord President’s Office will maintain close contact with the Press Office at No. 10 which will maintain a corresponding co-ordination with Departmental Press Offices.

5. In answer to any inquiry on this subject it should suffice to say that, as part of his responsibility for the management of Government business in the House of Commons, the Lord President exercises a general oversight of the public presentation of the Government’s policies as a whole. If so, however, it will be necessary to make it clear that this does not derogate from the responsibility of individual Ministers for presenting and defending their own Departmental policies and, in particular, that it does not imply the creation of anything resembling a Ministry of Information.

H. W.

10 Downing Street, S.W.1,
13th December, 1966.
16th December, 1966.

CABINET

FAMILY ENDOWMENT

Memorandum by the Chancellor of the Exchequer and the Minister without Portfolio

On 17th November the Cabinet invited us to give urgent consideration to an acceptable family endowment scheme (CC(66) 58th Conclusions, Minute 4(10)). This paper sets out the main factors as we see them and our conclusions at this stage.

2. In considering our approach to these issues it is important to bear in mind that the full survey by the Ministry of Social Security is not yet available; it is not expected to be completed until next year or to be published until the end of May, 1967. It is at this stage that publication takes place that public pressure is likely to build up most strongly. Clearly we will need to have a considered view on how we approach these questions before then. The fact remains that although an interim report on the survey has already been studied by officials, our Ministerial colleagues have not had the opportunity of detailed discussion of the issues involved on the basis of a full report.

3. It may nevertheless be said that there appear to be two distinct but overlapping problems here: the problem of giving help to the poorest families and the question whether family allowances should be increased and income tax child allowances reduced to achieve a redistribution of income.

4. The Report by the Social Services Committee (C(66) 159) indicated that having looked at a number of income tested and give and take schemes (a scheme for increasing family allowances with simultaneous reductions in child tax allowances), a majority of the Committee favoured the latter. This approach, while having some impact on the child poverty problem, could only provide a partial solution to it. It is perhaps fair to say (i) that the majority of the Committee regarded any scheme of supplementary benefits for able-bodied men in work as politically and socially unacceptable except as a last resort even though other schemes would be less effective in bringing relief to the poorest families and (ii) that they viewed the whole problem in somewhat broader terms than the needs of the poorest families alone. The Cabinet will need to consider whether it agrees with this approach.
5. Against this background, we agree that it is necessary for the Government to be prepared to have formed a view before the full Ministry of Social Security survey is published but at present there is doubt as to which of the schemes so far considered is the right way to proceed. There are considerable practical objections and difficulties of principle about both any income-tested scheme or any form of give and take scheme. These are brought out in the further report by officials (C(66) 182).

6. The preliminary results of the survey undertaken by the Ministry of Social Security showed that there are about 160,000 families with 500,000 children with incomes below supplementary benefits (formerly National Assistance) levels who were either unable to get such benefits at all because the father is in full time work or only in part because of the "wage stop". A "give and take" scheme is clearly not designed to deal fully with the needs of these families and these children any more than a housing allowance scheme or scheme of supplementary benefits is designed to improve the relative position of families with incomes above supplementary benefits levels.

7. Nor is it clear either that a housing allowance scheme is necessarily the best way to help the families in greatest need, or that a "give and take" scheme is the way to achieve changes if desired in relativities over a wide range of incomes. In the former case much depends on the precise circumstances of the families concerned; for instance, a family where the father is mentally or physically unable ever to earn more is a very different problem from one where the bread winner is a young married worker with reasonable future prospects. In the latter case much depends on precise objectives and wider economic and financial considerations.

Consultation and Public Discussion

8. As we have already emphasised the full Ministry of Social Security Survey is not yet available to Ministers and will not be ready for publication before the end of May, 1967. There is at present no satisfactory basis for informed public discussion or for outside consultation.

9. Whatever action is taken in the field of family endowment is likely to be controversial. If there were a consensus of informed public opinion about the nature of the problems to be tackled and the ways in which they should be dealt with this would be of great value and help to us.

10. We both feel strongly that before any firm decisions are taken on issues of this importance and complexity there should be full discussion with the TUC in particular, the CBI (who have already shown signs of alarm following recent press reports) and perhaps other representative bodies and persons.
11. Quite apart from the time needed for consultation and further detailed study there are limitations on what we could do in 1967-68. At this date it would not really be practicable to give effect in 1967-68 to a "give and take" scheme of any shape or form except as an emergency measure decided on immediately. We both agreed that this would place an almost intolerable burden on the Departments concerned and would result in a great deal of individual inequity. A straight increase in family allowance would be technically possible but would be prohibitively costly, wasteful and unpopular. (An increase of 5s. for third and subsequent children would cost £32 million in a full year and would be ineffective in dealing with any of the problems).

12. It would just about be possible to introduce with effect from August, 1967 an income-tested scheme such as a housing allowance scheme or a scheme for treating those in full employment and wage-stop cases so far as possible as if they were eligible for supplementary benefits.

13. We are not recommending any of these courses.

Our Conclusions

14. These are:-

(1) We are not in a fully satisfactory position at the moment to take firm long term decisions about the problem of family endowment. Further analysis of the nature of these problems and of possible answers to them is needed, as well as more public discussion and consultation with representative bodies. For this purpose we think that it may be desirable to publish an effective summary of the Ministry of Social Security Survey before it can be published in full in May, 1967.

(2) Provided we show that we are actively in search of an acceptable long term solution, it should be possible to avoid having to adopt a temporary or interim scheme of family support.

(3) If the Cabinet has any doubt about (2), however, we must emphasize that the scope for action during 1967-68 is already severely limited both on timetable and expenditure grounds. A decision would have to be reached immediately and without the consultations which, as we have explained above, we think should be undertaken; we do not recommend this.

15. On 17th November the Cabinet also agreed that the price of school meals and welfare milk could be raised if an acceptable family endowment scheme were introduced. In fact all families with incomes at or below supplementary benefit levels can now get school meals and welfare milk free. It might be possible to devise a scheme for lifting the income limits for this concession. We therefore think that:-

(4) A report should be prepared quickly on the possibility of extending existing concessions as and when school meals and welfare milk charges were raised.

L. J. C.
D. H.

Treasury Chambers, S. W. L.
16th December, 1966
CABINET

FAMILY ENDOWMENT

Note by the Secretary of the Cabinet

I circulate for the information of the Cabinet the attached report by officials which is referred to in the memorandum (C(66) 181) by the Chancellor of the Exchequer and the Minister without Portfolio.

(Signed) BURKE TREND

Cabinet Office, S.W. 1.

16th December, 1966
On 17th November the Cabinet considered the problem of family endowment against the background of (a) the findings of a recent Ministry of Social Security survey into family circumstances, (b) a report (S.C.(66)27) from the Social Services (Official) Committee on possible schemes of family endowment and (c) a proposal to increase charges for school meals and welfare milk. As a result of their discussion the Cabinet invited the Chancellor of the Exchequer, in consultation with the Minister without Portfolio, to arrange for urgent consideration to be given to an acceptable family endowment scheme (C.C. (66)58th Conclusions, Item 4(10)). This report by officials of the Treasury, the Cabinet Office, Inland Revenue and the Ministry of Social Security analyses for them the main possibilities.

Public Expenditure Background

The calculations by the Public Expenditure Committee on which Ministers have been basing their decisions on public expenditure in 1967-68 provided for a contingency allowance of £50m. Expenditure on a new scheme of family endowment would be a charge against this allowance. The Chancellor has indicated that, on the assumption that any such scheme could not now be introduced until some way through 1967-68, he would be prepared to contemplate a scheme costing about £10m. in that year. No guidance has been given on the acceptable cost of a scheme which did not start until 1968/9.

Possible Schemes

The objective at this stage is to improve the "endowment" of families with low incomes without necessarily improving the endowment of families with higher incomes. The problem is how to do this and where to draw the line.

In both the Social Services Committee and Cabinet, consideration of the schemes put forward in the report by the Social Services (Official) Committee tended to narrow down to support for one of two different approaches: (a) an increase in family allowances, associated with a reduction in income tax child allowances (hereafter referred
ferred to as a "give and take" scheme), designed to restrict the benefit of the increase to those paying less than the standard rate of tax, and (b) an income-tested housing allowance scheme. This paper accordingly confines its analysis to schemes of these two types.

In considering these schemes it is important to bear in mind that the Ministry of Social Security's survey referred to in para. 1 above showed that there are about 160,000 families, containing about 30,000 children, who are living below the current supplementary benefit level and unable to get their income up to that level because the father is either in full-time work or else on supplementary benefit but subject to the wage stop. A significant measure of the effectiveness of any scheme is the extent to which it would reduce the number of these "deficient" families (including wage-stop cases). Both types of scheme under consideration would reduce but not eliminate wage-stop cases. Complete elimination could only be achieved by straightforward supplementation of wages up to full supplementary benefit standards (including disregards) or by a prohibitively expensive increase of family allowances.

Principles

4. A "give and take" scheme has been advocated and resisted on grounds of principle. These arguments cannot be reconciled: they can only be stated.

1. On the one hand, it is argued that child tax relief and cash family allowances are both intended to give an advantage to people with children as against those without; that taken together they provide a flexible method for determining selectively how, and to what extent, this advantage should be given; and that accordingly they should be considered together in the light of their combined effect.

8. On the other hand, it is argued that there is an essential difference (accepted in the Beveridge Report and by the Royal Commission on Taxation reporting in 1954) between family allowances, which are a kind of State subsidy to families, and income tax child allowances, which are part of the system of tax graduation, by which the tax liability
ability is varied according to the taxpayer's family responsibilities; the fact that someone with a small income gets little or no benefit from child allowances does not give him a tax grievance; that the fact that the value of the tax allowances rises with income simply reflects the progressive nature of the tax, which means that the higher is a person's income, the higher is his marginal rate of tax; and that a major switch from tax child allowances to family allowances would tend to reduce taxable capacity and to introduce growing inflexibility into the system.

There are also two fundamentally opposed attitudes to the idea of an income-tested scheme. On the one hand, it is said that to embark on an income-tested family endowment scheme would represent a reversal of the philosophy of relying as little as possible on means testing. On the other hand, it is suggested that a more selective approach than would be achieved by a "give and take" scheme is essential in order to relate the Government's social and other policies to the necessarily limited resources available and to ensure that help is concentrated on those whose needs are greatest.

Outline Schemes

10. Outlines of schemes of both types are given in the following paragraphs. The estimates of costs and effects are approximate (and in many cases based on small samples), and the figures should be treated with caution.

4. "Give and take" Scheme

11. A straightforward increase in family allowances of 10s. a week for each child at present qualifying would cost £180m. a year gross—£160m. after allowing for consequential savings on National Insurance and Supplementary Benefits. The Report of the Social Services (Official) Committee outlined a scheme for an increase of this amount matched by a reduction in the income tax child allowance of £1.5 a year for each family allowance child (i.e. each child after the first and hereafter referred to as a FAM child). The effect of this arrangement would be to concentrate additional help on the less well-off families with inbuilt adjustment for those with higher income.
income through the normal tax machinery. The effect on some specimen families is shown in Annex 4. Families paying income tax at less than the standard rate, or not paying tax at all, would gain; those paying tax at the standard rate on earned income up to about £4,000 a year would lose under this particular scheme 4d. a week per PAM child; above this point the loss would be greater the higher the income.

12. The net cost of the scheme would be £33m. in a full year (on the basis of the Revenue's latest income statistics) but £19m. in the first year (since not all of the year's tax reaches the Exchequer in the financial year).

13. The main effects may be summarised as follows (some further details are shown in the annexed Tables):

(a) About 57% of the deficient families, containing about 65% of children in such families, would be brought up to or above the supplementary benefit level and most of the remaining deficient families would be substantially helped.

(b) In all about 2m. families would benefit, 1m. of them by 2/6d. a week or more per PAM child.

(c) About 2m. families (those paying tax at the standard rate or above) would lose; in most cases the loss would be 4d. a week per PAM child; the total loss would thus increase with the size of the family.

(d) The number of current wage-stop cases would (on a crude estimate) be reduced from about 27,000 to about 18,000.

14. If it were possible to introduce this scheme in 1967/8 (see para. 35) it would cost substantially more than the £10m. in 1967/68 mentioned by the Chancellor (see para. 2 above). No worthwhile "give and take" scheme could cost as little as £10m. in 1967/68 but it would be possible to have a "give and take" scheme within £20m. in subsequent years. An increase of 7s. in family allowances (the minimum necessary to restore the 10s., though not the 8s. allowance to the original relationship with average earnings which family allowances had when introduced in 1945) coupled with a reduction of £35 in tax child allowances for each PAM child would cost £20m. in a full /year
year but £53m. in the first year. It would leave the standard rate taxpayer worse off normally by 9d. a week per FAM child.

15. The main effects of this 7s. scheme are:
   (a) About 44% of deficient families containing 51% of the children would be brought up to or above supplementary benefit level.
   (b) In all about 13m. families would benefit, or them 3m. by 2/6d. a week or more per FAM child.
   (c) About 24m. families would lose, normally by 9d. a week per FAM child.
   (d) The number of current wage-stop cases would (on a crude estimate) be reduced from about 27,000 to about 22,000.

It will be seen that this scheme is markedly less effective in helping those whose needs are greatest and in preserving the position of standard rate taxpayers.

16. Apart from the specific points related to the two schemes considered above, there are certain general features common to virtually any such "give and take" scheme.
   (a) This approach affords a means of concentrating additional benefit on the lower income groups at moderate cost, and without the disadvantage of a new and overt income test.
   (b) Part of the benefit would go to a considerable number of families in the area immediately above the supplementary benefit level. This is arguably very desirable if they are to be adversely affected by increased charges for school meals (see para. 27 below).
   (c) It would not help deficient families with one child (estimated at about 20,000), nor would it (marginal cases apart) help the families currently receiving Supplementary Benefits or National Insurance Benefits, whose increase in family allowances would be taken fully into account, leaving them no better off.
   (d) It would increase the payment received by the mother and reduce the take-home pay of the father, in some cases quite substantially.
substantially. (For example, under the first scheme dealt with above, a married man with three children below the age of 11 earning £20 a week would have his take-home pay cut by 15s. a week, which would more than double his present tax deductions, while his wife would get an extra £1 family allowances).

(e) As a result, it would involve a major reframing of the financial circumstances of 4m. families which would benefit a much smaller number (about half in either of the two schemes quoted).

(f) The effect would be that parents with 2 or more children would begin to pay tax on earnings, or to pay tax at the standard rate, sooner than at present. E.g. under the first scheme outlined, a married man with four children, two under 11 and two between 11 and 16, would start to pay tax on earnings at less than £15 a week instead of nearly £20 a week, as at present.

17. Although both schemes considered above would leave the ordinary standard rate taxpayer slightly worse off, it would be possible to adjust either scheme to prevent this; the cost of eliminating the 4d. loss a week per FAM child under the more expensive scheme would be of the order of £6m. a year.

B. Housing Allowance Scheme

18. The purpose of a housing allowance scheme is to give low-income families a benefit to help to meet their housing costs. Those families with one child or more below the age limits used for family allowances, and whose incomes were at or below the qualifying income level, would obtain benefit equal to the actual "rent" (i.e. rent and rates – or, in the case of the owner-occupier, equivalent outgoings – if this were reasonable) or 30s. a week whichever was the higher. If income exceeded the qualifying level, the amount paid would be reduced on a tapering basis.

19. Annex 1 describes one such scheme in some detail. Its main features are qualifying income levels of £8 10s. a week (net of national insurance contribution) for a married couple...
couple (£6 10s. for a single person, e.g. a separated wife) with an additional of 17s. for each child after the first. All income except family allowances would be taken into account in full.

20. Benefit would be assessed every six months by reference to size of family, rent, "normal" earnings (using past and present earnings as a guide) and other income. The use of "normal earnings" would help to avoid the need for adjustment on account of fluctuating earnings except where there was an abnormal fluctuation. The ascertainment and checking of "normal earnings" would present difficulties in some cases; but the concept is not entirely new (it is already used for instance in wage-stop cases and legal aid determinations), and the experience of local offices in the administration of supplementary benefits, especially in relation to the temporarily unemployed, would be of value. There would also be a need for working arrangements between the Ministry of Social Security and local authorities to ensure that there was no overlapping between this scheme and their rebates of rents and rates. (Such arrangements already exist in relation to supplementary benefits).

21. The annual cost of this scheme at present rent and earnings levels is estimated at about £20m. Details of its effects are given in the annexed Tables. The main features are:

(a) About 83% of the deficient families, containing about 77% of the children, would be brought up to or above the supplementary benefit level, and most of the remaining deficient families would be substantially helped.

(b) In all about 306,000 families, containing nearly 1m. children, would benefit, 265,000 of them by 2s.6d. a week or more per child, including the first.

(c) A few, possibly 1,000-2,000 deficient families, would not benefit at all.

(d) The number of current wage-stop cases would (on a crude estimate) be reduced from about 27,000 to about 12,000.

22. The above scheme is a variant of the housing allowance scheme described in the report of the Social Services (Official) Committee.
latter had a qualifying income level of £8 a week net for a married couple with an addition of 15s. for each child after the first; the amount payable was based on actual rent or £1 a week, whichever was higher. The current cost was put at about £17m. a year. That scheme would bring 69% of deficient families up to or above supplementary benefit level, and would benefit about 235,000 families (800,000 children).

23. The essential features of any housing allowance scheme along these lines are:-

(a) It would take account of individual variations in income and rent, and for families above but not those below the qualifying income level it would also take some account of size of family.

(b) It would not be ordinary supplementation of wages but would be directly related to a necessary item of expenditure (failure to meet which may often be a major cause of family distress); and the benefit payable would automatically change if rent changed, for instance as a result of a move.

(c) The cost of this scheme would rise with a general rise in rent levels and fall with a general rise in low earnings levels (until the qualifying income levels were raised).

(d) It would involve an extension of income-testing, which public opinion might or might not find undesirable.

(e) For those affected by the taper arrangements there would be a reduced financial incentive to increase or maintain their earnings; there would also be a disincentive to accept short periods of higher paid employment for fear of increasing the assessment of "normal" earnings.

(f) Even with maximum publicity a proportion of families qualified to receive the allowance would fail to claim it through unwillingness or ignorance.

(g) Private landlords might put up rents in the knowledge that they would be paid in full, and that there would therefore be no incentive for the tenant to appeal although of course such increases would not necessarily be provided for under the scheme; the Rent Act is however available to prevent abuse.
Staffing

2h. Both the "give and take" scheme and the housing allowance scheme would require a permanent increase in staff as well as extra staff-hours initially, from overtime or extra temporary staff, in order to get them properly launched. Approximate estimates of additional initial staff-hours to launch the schemes are:

"Give and take":
- Inland Revenue: 900,000
- Ministry of Social Security: 500,000
Total: 1,400,000

Housing allowance:
- Ministry of Social Security: 600,000
Estimates of permanent extra staff are:

"Give and take":
- Inland Revenue: 600
- Ministry of Social Security: 30
Total: 630

Housing allowance: Ministry of Social Security: 500

*Twice this number if scheme launched part way through a financial year.

†Because of extra complications and the many families brought within the tax range.

‡This assumes a case load of about 270,000, i.e. about 90% uptake.

These figures show that on staffing grounds there is not much to choose between the two schemes, after the initial launching period.

Future adjustments

25. The effectiveness of the two schemes in bringing "deficient" families up to the minimum standard has been measured by reference to the current supplementary benefit rates. The effect of the two schemes in relation to supplementary benefit standards would however be different at any future date. In the first place, the supplementary benefit rates will probably go up at the end of October 1967, and this factor, by itself, would diminish the
effectiveness of either scheme measured by this yardstick. Increases in rents would not reduce the effectiveness of a housing allowance scheme, because the allowance goes up as rent increases, but they would increase the cost of the scheme; rent increases would mean that without further adjustment, which would similarly increase the cost, a give and take scheme would be less effective, because rent is added to the supplementary benefit scale to determine the "guaranteed" minimum income for supplementary benefit purposes (see Annex 7 for examples). In the opposite direction, increases in the earnings of the families concerned would by themselves reduce the deficiencies of families by supplementary benefit standards and would thus make both schemes more effective; they would reduce the cost of a housing allowance scheme and also of a give and take scheme because the tax yield would be greater.

26. The longer the interval between the working out of a scheme and its introduction, the more speculative are the estimates of its cost and effectiveness because of the effects of movements in rent and earnings. If a housing allowance scheme were introduced in Summer 1967 (see following section) decisions would have to be based on present estimates; if a give and take scheme were to be introduced in April 1968, a public announcement of the details would have to be made not later than next Autumn; in either case not less than 6 months could elapse between the decision on and implementation of a scheme.

School Meals and Welfare Milk

27. In summing up the Cabinet discussion on 17th November, the Prime Minister said that the Cabinet would be prepared to agree that the charge for school meals and the price of welfare milk should be increased in the Autumn of 1967, conditionally on the working out
of an acceptable family endowment scheme which would, amongst other things, help to reduce the impact of these increases on families less well able to afford them.

28. Under existing arrangements all families with incomes at or below supplementary benefit levels (i.e. whether or not actually receiving supplementary benefits) can get school meals free on application subject to the necessary income test. The question is therefore whether and if so to what extent those with incomes above these levels who at present pay the charge for school meals in full should get relief if charges are raised. (Annex 5 illustrates supplementary benefit levels of income.)

29. There are two possible approaches to this. First it could be left that such relief should be regarded as covered fully by whatever net benefit a "give and take" scheme or a housing allowance scheme provided for those with incomes above supplementary benefit levels. Secondly relief could be given by building more generous relief into the school meals scheme.

30. On the first approach it is not easy to quantify the respective net benefits under each type of scheme. There is no doubt that the give and take type would benefit more people with higher incomes - some net benefit would go to all families with two or more children with earnings of up to £20 per week - but the £33m. net cost scheme would also mean a loss of normally 4d. per week per FAM child for all standard rate taxpayers, and the £20m. net cost scheme a loss for them of normally 9d. a week per FAM child. A housing allowance scheme would be more concentrated on "deficient" families though even so the £20m. scheme outlined above would benefit nearly as many "non-deficient" families (i.e. those above the supplementary benefit level) as deficient ones. The effect of the taper would be to give some benefit to those earning up to £4
or more above the qualifying limit for full benefit. (This cannot be expressed in terms of gross income because the qualifying levels are net of national insurance contributions, fares, etc., and also of rent itself.)

31. On the second approach there seems no technical reason why the school meals scheme of relief should not be improved in whatever way seemed called for in the light of decisions taken on a give and take or housing allowance scheme. A longer taper would increase the number of families eligible for remission subject to means testing by the local authority; it is possible, that better off families would be less unwilling to apply for income tested remission of charges than those at present eligible.

32. The situation is therefore that if no arrangements were made to taper relief for the cost of school meals for those above supplementary benefit levels, the "give and take" scheme by itself would be likely in general to place those with incomes above supplementary benefit levels and paying less than the standard rates of tax in a better position than would a housing allowance scheme but would place those paying standard rates of tax in a worse position.

Incomes Policy

33. The White Paper on Prices and Incomes Standstill: Period of Income Restraint (Cmnd.3150) stated that "improvement of the standard of living of the worst-off members of the community is a primary social objective". Either a "give and take" or a housing allowance scheme would achieve this effect and both would therefore be broadly consistent with the objective. It has been argued that a "give and take" scheme would be more acceptable to the Trade Unions than an income-tested scheme, and more helpful in dealing with pressure for wage improvements based on the difficulties of low paid workers with families: such a scheme would thus be of
assistance to the incomes policy. But, as has been shown earlier, the benefits of a "give and take" scheme would be spread more widely than those of an income-tested scheme and would help more people with incomes above supplementary benefit levels. It can be argued, therefore, that a means-tested scheme, by concentrating help only on low income families, would be more consistent with the policy of incomes restraint than a "give and take" scheme.

**Timing**

34. Problems of timing arise both on a "give and take" and on a housing allowance scheme.

35. A "give and take" scheme should be introduced at the beginning of a tax year with PAYE recodings prepared in the preceding months on the basis of the new allowances. It is not now practicable to do this with effect from April 1967. It is assumed that Ministers accept that it would not be practicable either to introduce a "give and take" scheme part way through 1967-68, because of administrative complexities and the burden on the I.R. and on employers and of the effects on individual taxpayers. If a "give and take" scheme were introduced in April 1968, firm details would have to be announced by early Autumn (i.e. in time for the annual recoding operation), to be followed by legislation with Royal Assent preferably by the end of the year.

36. In the case of a housing allowance scheme the view of the Ministry of Social Security is that:

(1) A launching period of about 13 weeks would need to be allowed (as in the case of the new supplementary benefits scheme) for claims to be made and dealt with - something like 400,000 could be expected - before the operative date for payment of benefit.

(2) The launching of the scheme would require an estimated 600,000 extra man hours of work in the Ministry of Social Security's local offices over a 13-week period mainly before but partly after the operative date.

(3) Because of (2), the launching period must be timed so that the new scheme involved no risk of disturbance of the three months or so of preparatory work required in the
local offices for the general uprating of benefits planned for the end of October, 1967.

(4) Also because of (2), the launching period must not occur in the winter months, when the strain on the Ministry's local offices is heaviest and over-burdening could readily lead to breakdown.

These considerations, together with the need to prepare and carry through the necessary legislation and make administrative preparations (including the recruitment and training of extra staff for the local offices) before claims could be invited, lead to the conclusion that the only time at which such a scheme could possibly be introduced in the 1967/68 financial year would be July or August 1967, provided this could be done without imperilling the general uprating due to follow shortly afterwards (the date of which once fixed could not be postponed if the initial Housing Allowance work proved unexpectedly heavy or protracted). At this stage the Ministry of Social Security consider that while a risk to the uprating arrangements would be unavoidable, it might be reduced to an acceptable level if - but only if - either the operative date for the Housing Allowance could be made no later than the end of July, or, if it had to be later, the general uprating of benefits could be correspondingly deferred into November. In either case this would require:

(a) a decision by Ministers before Christmas to go ahead with a Housing Allowance Scheme; and
(b) the necessary legislation to be at least through the Commons by Easter - and Royal Assent by Easter if the general uprating were not to be postponed.

Furthermore, the practicability of the operation in 1967 is dependent on no further substantial load of extra work being imposed on the Ministry's local offices during 1967. If the above conditions could not be satisfied, the Ministry consider that a Housing Allowance Scheme could not be introduced before May 1968, as an operative date.
37. In summary, subject to the necessary speed on legislation, there may just be a possibility of a Housing Allowance Scheme with effect from July/August 1967. Otherwise, neither type of scheme could be introduced before April/May 1968.

The Longer Term

38. The question arises whether as a matter of practical politics and as a matter of technique the introduction of a "give and take" scheme or a housing allowance scheme would necessarily limit the Government's freedom of manoeuvre thereafter.

39. As a matter of technique there is no reason why a "give and take" scheme which is a device for securing a particular relationship between family allowances and child tax allowances at a given moment of time, either must be repeated or must preclude an income tested scheme as well or could not be superseded by some other type of scheme. The same is true mutatis mutandis of a housing allowance scheme.

40. As a practical matter, the Government's freedom of action after introducing either type of scheme would depend a good deal on the nature of the decision taken and on how it was publicly presented. If the Government decided that one or other course was right in principle and said so, this could well determine the general line of policy at least for some years ahead. If however a scheme was introduced and explained on the basis that it was intended simply and solely to deal with the immediate problem and must not be taken as implying anything about the way in which further problems in this field would be tackled, then future freedom of action would be less likely to be affected.

Further analysis of the longer term consequences of introducing either type of scheme is needed and a further report will be made within a few days.
A Housing Allowance Scheme

1. A possible approach to the problem of low wage earners with families would be to introduce a housing allowance scheme under which families with one or more children whose incomes are at or below a qualifying income level would obtain benefit equal to their rent.

The income test

2. The housing allowance scheme illustrated in the Social Services Official Committee's Report (SS(66)27) had qualifying income limits of £8 (net of national insurance contribution) for a married couple (£6 per week for a single person, e.g. a separated wife) with an addition of 15s. for each child after the first. All income (except family allowances) over the qualifying limits was taken into account at the rate of 6d. per 1s. for the first £2, 9d. per 1s. for the second £2 and 1s. per 1s. thereafter, so as to give some incentive to earn more where earnings were up to £4 above. Where income was below the qualifying level, full benefit would be paid equal to the family's rent, providing this was reasonable, or £1 a week, if this was higher.

3. A wider coverage than given by the illustrative scheme could be achieved by raising the qualifying income limits or by making the taper less steep. The former would be more attractive because more families would qualify for a full housing allowance; extending the taper would mean that more families would qualify for a reduced housing allowance.

4. The improved qualifying limits suggested are £8 10s. net for a married couple (£6 10s. single) with an addition of 17s. for each child after the first. The rates at which income over the qualifying limits is taken into account would remain unchanged, but the minimum rent level would be £1 10s. a week.

- "Rent" means rent and rates or, in the case of the owner-occupier, equivalent outgoings.
- "Child" means a child under 16 or continuing his full-time secondary education up to age 19.
"Disregards" There would be no other "disregards", as there are in supplementary benefits, for certain kinds of income. To allow them would enlarge the field of beneficiaries and so add to cost - and the extra cost would not necessarily benefit the poorest families. Two kinds of income in particular - war pensions and a wife's part-time earnings - should be especially mentioned in this context, however, because each is disregarded up to £2 per week for supplementary benefit purposes and it could be expected to prompt criticism of the housing allowance if different treatment were afforded. A war pension disregard of £2 per week might be conceded as defensible on the general principle of preference for the war disabled, as being different in kind from all other income, and inexpensive in its effects since few cases are concerned; but one concession might encourage pressure for others. The wife's earnings are in a different category - a large number of families would be made eligible by a £2 disregard here (some 60,000 more families, over and above the 160,000 deficient families, would have been deficient but for the wife's earnings), so a concession would be expensive. On the point of principle, moreover, it can be shown that the effect of the tapering provision in paragraph 2 is to give a disregard of up to 30s. a week on earnings just above the qualifying limit, whether of husband or wife, so that the departure from supplementary benefit practice would be defensible.

Operation of the income-test

Assessment of benefit would be based on half-yearly statements by the husband (or single parent) as to size of family, rent and normal earnings. Since earnings fluctuate they would be taken into account (as under current supplementary benefits practice where part-time earnings are being supplemented) on the basis of "normal" earnings, using past and present earnings as a guide; benefit would therefore need to be adjusted on account of fluctuating earnings.
only where there was an abnormal fluctuation. Appropriate verification would be required, e.g. by reference to the family allowance book, rent-book and statements of earnings, either at the local office of the Ministry of Social Security, by a visit to the home or (in the case of earnings) by confirmation from the employer.

7. **Rent and rates rebates** The assessment of benefit would need to be adjusted in respect of rebates of rents and rates payable by the Local Authority. This could be done:

- **(1)** by providing that the unrebated rent and rates are to be met by way of housing allowance, and that in consequence no rebate would be payable by the Local Authority (this follows the legislative provision of the Ministry of Social Security Act in respect of supplementary benefits and rate rebates and what has evolved in common practice as regards supplementary benefits and rent rebates);
- **(2)** by providing that housing allowance is to meet the rent after rebates of rent and rates have been afforded and therefore, to be ignored by Local Authority in affording rent and rate rebates.

Either course would require working arrangements between the Ministry and Local Authorities similar to those now in operation in respect of rent or rates rebates and supplementary benefits.

8. **Payment** Payment of benefit would probably be by order-book of six months' duration, for weekly encashment at the Post Office.

9. **Reviews** Renewal of the benefit would normally take place after six months on a further statement by the claimant (with appropriate verification), with any necessary adjustment e.g. to take account of a rent increase. The benefit would be reviewed in the interim only to take account of significant changes, e.g. removal or a change of job leading to a substantial change of earnings. Periods of temporary sickness or unemployment would not affect title to (or the amount of)
housing allowance, since the benefit would be calculated on "normal earnings", i.e. ignoring sickness or unemployment.

Effect of the scheme

10. The following table compares the effect of the improved scheme (with qualifying income limits as in paragraph 4) with that of the earlier scheme (income limits as in paragraph 2):

<table>
<thead>
<tr>
<th></th>
<th>Improved Scheme</th>
<th>Original Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of deficient families who benefit</td>
<td>158,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Number of families with incomes above current supplementary benefit standards who also benefit</td>
<td>148,000</td>
<td>85,000</td>
</tr>
<tr>
<td>Total families who benefit</td>
<td>306,000</td>
<td>235,000</td>
</tr>
<tr>
<td>Number of children in families who benefit</td>
<td>1,000,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Proportion of deficient families whose deficiency is met -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) in full</td>
<td>83%</td>
<td>69%</td>
</tr>
<tr>
<td>(b) in full or within 10s. a week</td>
<td>88%</td>
<td>82%</td>
</tr>
</tbody>
</table>

11. The effect of the improved scheme on income deficiencies (on basis of 100% uptake) is as follows:

<table>
<thead>
<tr>
<th>Families %</th>
<th>Children %</th>
<th>Per adult equivalent (1 child = % adult)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of families where deficiency cleared</td>
<td>83</td>
<td>77</td>
</tr>
<tr>
<td>Proportion left with deficiency of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 - 9.9s.</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>10 - 19.9s.</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>20 - 39.9s.</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>40 - 59.9s.</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>60 - 79.9s.</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

12. The redistributive effect of the improved scheme is illustrated by the following table which shows how much families benefit per child under the housing allowance scheme; it also indicates, within a wider margin of error, the number of children involved:
<table>
<thead>
<tr>
<th>Amount of allowance per child</th>
<th>Families%</th>
<th>Children%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 2s. 5d.</td>
<td>40,000</td>
<td>153,000</td>
</tr>
<tr>
<td>2s. 6d. - 4s. 11d.</td>
<td>31,000</td>
<td>126,000</td>
</tr>
<tr>
<td>5s. 0d. - 9s. 11d.</td>
<td>82,000</td>
<td>288,000</td>
</tr>
<tr>
<td>10s. 0d. - 14s. 11d.</td>
<td>82,000</td>
<td>189,000</td>
</tr>
<tr>
<td>15s. 0d. - 19s. 11d.</td>
<td>31,000</td>
<td>63,000</td>
</tr>
<tr>
<td>20s. and over</td>
<td>40,000</td>
<td>81,000</td>
</tr>
</tbody>
</table>

| Total                        | 306,000    | 900,000    |

All figures are based on data from families with two or more children, but the total includes one-child families.

Cost

13. The cost of the improved scheme assuming a 90% uptake would be of the order of £21½ million in a full year, made up as follows:

- For 160,000 "deficient" families (2,000 of whom do not benefit) £17.0
- For 148,000 "surplus" families £6.9

Total cost £23.9

90% uptake £21.4

For comparison, the cost of the original scheme was estimated at about £17 million in a full year.

14. On the basis of carrying out the necessary interviews mainly at local offices, and verification either at the office or by post and with little home visiting, the cost would be 160 units per 100,000 cases, i.e. on a case-load of 306,000 (see paragraph 10) the manpower cost would be of the order of 500 staff units.

15. The figure of £21½ million in paragraph 13 above makes no allowance for (a) any savings to the Exchequer on the rate and rent rebate schemes; (b) savings from not meeting rents in full because they are unreasonable; (c) the likely overestimate of the cost of helping one-child families whose income deficiencies have been assumed to be the average of all families; (d) savings from
sub-tenancies and boarders and possible savings from rent contributed from earning non-dependent members of the family; (e) understatement of income in the family circumstances survey. Nor, on the other hand, does it allow for the extra cost of Northern Ireland, which may be about £3 million, or for administrative costs since these depend on decisions on the precise operation of the income-test. For practical purposes, therefore, the effective cost might be taken as about £20 million; in so far as earnings rose faster than rents, the cost of the scheme would tend to be less (and contrariwise).

Future adjustments

16. The qualifying income levels could be raised hereafter as the supplementary benefit rates were adjusted as they will be in October 1967. Thus, in so far as the low-income families' earnings might not in the event be improved under the incomes policy sufficiently to lift them above supplementary benefit standards, the housing allowance would continue to meet the deficiency in the great bulk of cases at correspondingly increased cost. Rent increases would, of course, be taken into account automatically at correspondingly increased cost.
### EFFECT AND COST OF FAMILY ENDOWMENT SCHEMES

**ON FAMILIES WHOSE INCOME IS NOW DEFICIENT**

<table>
<thead>
<tr>
<th></th>
<th>FAM Increase</th>
<th>Housing Allowances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7/-d</td>
<td>10/-d</td>
</tr>
<tr>
<td>Proportion of cases</td>
<td>44%</td>
<td>57%</td>
</tr>
<tr>
<td>where deficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>cleared.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of cases</td>
<td>89,000</td>
<td>69,000</td>
</tr>
<tr>
<td>where deficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>not cleared.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion (of 2 or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>more child families)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>left with deficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>per adult member</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1 child = 1/6 adult)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of 0 - 9.9</td>
<td>34%</td>
<td>21%</td>
</tr>
<tr>
<td>10 - 19.9</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>20 - 29.9</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Cost</td>
<td>£20m.</td>
<td>£33m.</td>
</tr>
</tbody>
</table>

### Annex 3

**Relative effects on Families of improved housing allowance scheme (£20m.) and 'Give and Take'schemes**

<table>
<thead>
<tr>
<th></th>
<th>Housing allowance</th>
<th>Give and Take (to nearest 250,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£20m.</td>
<td>£33m. scheme</td>
</tr>
<tr>
<td>Total number of</td>
<td>306,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td>families affected</td>
<td></td>
<td>4,000,000</td>
</tr>
<tr>
<td>(including one child</td>
<td></td>
<td></td>
</tr>
<tr>
<td>families)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of families</td>
<td>266,000</td>
<td>750,000</td>
</tr>
<tr>
<td>benefitting by</td>
<td></td>
<td>1,250,000</td>
</tr>
<tr>
<td>more than 2s. 6d.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>per child (housing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>allowance) or per FAM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>child (give and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>take)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of families</td>
<td>40,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>benefitting by</td>
<td></td>
<td>750,000</td>
</tr>
<tr>
<td>less than 2s. 6d.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>as above</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of families</td>
<td>None</td>
<td>2,250,000</td>
</tr>
<tr>
<td>losing (the majority,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>standard rate payers,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>by 4d. per week per</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAM child)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,000,000</td>
</tr>
</tbody>
</table>
Financial Effect on Specimen families of improved housing allowances scheme (£20m)

And "give and take" scheme (£33m)

<table>
<thead>
<tr>
<th>Housing allowance benefit in FAM</th>
<th>Give and take</th>
<th>Net Increase</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>£ s. d.</td>
<td>£ s. d.</td>
<td>£ s. d.</td>
<td>£ s. d.</td>
</tr>
</tbody>
</table>

Married with 2 children, one under 11, one 11-15, rent £3

<table>
<thead>
<tr>
<th>Gross income a week: £</th>
<th>2</th>
<th>3</th>
<th>6</th>
<th>10</th>
<th>0</th>
<th>10</th>
<th>0</th>
<th>-</th>
</tr>
</thead>
<tbody>
<tr>
<td>£12</td>
<td>2</td>
<td>3</td>
<td>6</td>
<td>10</td>
<td>0</td>
<td>10</td>
<td>0</td>
<td>-</td>
</tr>
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Married with 4 children, two under 11, two 11-15, rent £3

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<td>1</td>
<td>9</td>
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<td>1</td>
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<td>0</td>
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<td>0</td>
<td>1</td>
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</table>

*Further examples are given in Annex 6

Supplementary benefits

"Guaranteed" minimum income, excluding disregard, of

(a) Married couple with 2 children, one aged 5-10, one aged 11-15, paying £3 rent £12 16 0*

(b) Married couple with 4 children, two aged 5-10, two aged 11-15, paying £3 rent £15 19 0*

*Further examples are given in Annex 7

*Including family allowances payable
ANNEX 6

Financial effect on specimen families of the give and take scheme

Note to Tables

The tables compare the family allowance at present received and the tax at present paid per week, with what would be received and paid if the family allowance were increased by £10/- per week and the child allowance cut by £45 per annum for all second and subsequent children.

It is assumed that the husband's earnings are the only source of income for the family. The occasional small difference in the increase in tax paid per week, in cases where the increase would be expected to be the same, is due to rounding of the earned income relief and to the fact that the tax figures have all been rounded to the nearest 1d. per week.

Symbols used:

\( M_x \) indicates that the taxpayer is a married man with \( x \) children all under eleven (and hence with \( x \) child allowances of £115).

\( M_{x+25} \) and \( M_{x+50} \) indicate that one and two child supplements of £25 are given (e.g. \( M_{x+25} \) means there are two children, one over and one under eleven, and so there are child allowances of £140 for the first child and £115 for the second).
<table>
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<tr>
<th>Present FAM</th>
<th>Present Tax</th>
<th>New FAM</th>
<th>New Tax</th>
<th>Increase in FAM</th>
<th>Increase in Tax</th>
<th>Net Effect</th>
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<td>£ s. d.</td>
<td>£ s. d.</td>
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<td></td>
<td>100</td>
<td>+ 100</td>
<td></td>
</tr>
<tr>
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<td></td>
<td>100</td>
<td>+ 100</td>
<td></td>
</tr>
<tr>
<td>180</td>
<td></td>
<td>2180</td>
<td></td>
<td>1100</td>
<td>+ 1100</td>
<td></td>
</tr>
<tr>
<td>180</td>
<td></td>
<td>2180</td>
<td></td>
<td>1100</td>
<td>+ 1100</td>
<td></td>
</tr>
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<td></td>
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## Earnings £15 per week

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<th>Increase in Tax</th>
<th>Net Effect</th>
</tr>
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### Earnings 825 per week

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<th>Net effect</th>
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Earnings £30 per wk

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<td>1 11 0 - 1 0</td>
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### Earnings £40 per wk

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<th>Increase in Tax</th>
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<tr>
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<td>N3</td>
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<tr>
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<tr>
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<td>£ 6 8 10</td>
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<td>£ 7 9 7</td>
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<tr>
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## Supplementary Benefits

### Symbols

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### Requirements

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### Resources

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</table>

### Notes

1. The above table shows the amounts of supplementary benefit payable at current (Ministry of Social Security Act) rates to families of different size.
2. The symbols indicate the size of the family (e.g. $M_2 = \text{man, wife and 2 children}$).
3. Requirements are the level of income (including rent and rates) up to which each family is to be brought by supplementary benefit paid.
4. Children's additions vary with the age of the child. For this table it has been assumed that:
   - (1) For the first four examples, the first child is aged between 5 and 11 and subsequent children between 11 and 16.
   - (2) For the last example, the first two children are aged between 5 and 11, and the others are between 11 and 16.
5. Rent and rates are assumed to be £3 per week throughout. Benefit paid will, of course, vary according to actual rent and rates paid.
6. Resources: it is assumed that the family has no other income apart from family allowances, which are deducted from requirements to assess supplementary benefit payable; family allowances are payable separately in addition to supplementary benefit.
CABINET

FAMILY ENDOWMENT

Memorandum by the Minister of Social Security

Pressure is growing for us to declare our intentions for dealing with child poverty. As my colleagues know from my earlier paper (C(66) 157), my strongly held view is that our solution to the present problem of family endowment should not be any type of means-tested scheme but should take the form of a "give and take" scheme - that is, a substantial increase in family allowances together with simultaneous reduction of the corresponding income tax child allowances. The combined effect would be to leave most families paying tax at the standard rate with approximately the same net income as before, while those below the standard rate level would gain anything up to the full amount of the family allowance increase.

The objective

2. While clearly the poorest families are those "deficient" by supplementary benefit standards, I must strongly emphasise that it would be quite wrong to think that the problem of family endowment consists solely of finding a way to help these 160,000 families. Of the two types of means-tested scheme which have been proposed for consideration, straight supplementation of wages up to the supplementary benefit level would do nothing whatever for the many families in the area just above that level, who are very far from well off. A housing allowance would do something for them, but not nearly as much as a give and take scheme (which is, of course, why the latter is correspondingly more expensive). I would regard help for this whole area of low income families as highly desirable on merit in any event, but the case for it is strengthened by the increase in prospect in rents during 1967, in national insurance contributions next October, and, when they take place, in the charges for school meals and welfare milk.

Objections to a means-tested scheme

3. My reasons for opposing a means-tested scheme and advocating a give and take scheme are, in brief -

(a) A new means-tested scheme for people in full-time work would represent a radical departure from our avowed philosophy on social security benefits, which has always been one of minimal reliance on means tests.
A give and take scheme would provide, at moderate cost, a considerable degree of concentration of help on poorer families; and this would be given automatically, through the present family allowances, without the need for a new and continuing means test of any kind. Under a means-tested scheme, on the other hand, people would have to make a special new claim. Some of those eligible would fail to claim; and I believe that many men in full-time work would strongly resent having to subject themselves to a means test in order to have their earnings supplemented by a social security payment.

If we were to have a means-tested scheme and little or no improvement in family allowances, the pattern of State support for families would be most unfair. Those at the bottom of the income range would get means-tested benefit, while those at the top would continue to get substantial help from their income tax child allowances (as well as family allowances). But over an area beginning just above the means-tested level there would be many families, very far from well off, who would have only the inadequate family allowances and little or no help from the tax child allowances.

Any means-tested scheme must involve a reduced financial incentive for its beneficiaries to increase or even maintain their earnings. There would be accusations of deliberate slacking, whether well founded or not, and there would be considerable feeling between the responsible man, who worked hard enough to be independent, and the man who, for example, refused overtime because he preferred to rely on means-tested benefit. Already there is concern and criticism, among some of our most loyal supporters about the "malingering".

Under either type of means-tested scheme, it would be necessary to base benefit on a man's "normal" earnings. In many cases this would be an extremely difficult and unsatisfactory concept to apply to people in full-time work. My own Ministry's experience in the administration of special hardship allowance under the Industrial Injuries Act indicates that this problem would cause widespread argument and dissatisfaction, as well as many troublesome enquiries of employers.

4. I can understand the difficulties of introducing a give and take scheme before April, 1968, but I am as yet unconvinced that they are insubstantial. If they are, it may be suggested that we should introduce a means-tested scheme in 1967 solely as an urgent interim measure, in the form of either a housing allowance or straight supplementation, and that further study could then be given to what might be done in the longer term. I must make it quite clear to my colleagues that a means-tested scheme, of either form, could not be temporary. Once introduced, it would be with us indefinitely. This is simply because, as the figures show, no foreseeable subsequent increase of family
allowances, even as part of a give and take scheme, would be anywhere near large enough to float off from the means-tested scheme all the families who would meanwhile have come on to it. Clearly, we could not wind up a scheme, once introduced, if this meant depriving even a small number of beneficiaries of the help they were receiving from it.

Timing for a means-tested scheme

5. On the question of timing for a means-tested scheme, the continuing severe strain on my Ministry's local offices in the period ahead will be such that, if the general up-rating of benefits planned for next October is not to be imperilled, the only possible operative date before May, 1968 for either a housing allowance or a scheme of straight supplementation would be at the end of next July. This would require Royal Assent for the legislation by Easter.

6. It might be thought that the introduction of a scheme of straight supplementation should be simple and straightforward, both in legislative and in administrative preparation, on the basis that it would mean no more than an extension of the already available provisions and machinery of the present supplementary benefits scheme to people in full-time work, by simply removing the present statutory bar to their qualifying under this scheme. This is however not so. There would be a number of awkward problems to settle, including the method and frequency of assessing entitlement (in particular the calculation of "normal earnings", for which new and distinctive rules would be needed), the extent to which the present rules for "disregards" would apply (they could not be left unaltered) and whether benefit, once in payment, would be withdrawn during a trade dispute (which, even considered solely as a matter of mechanics, would not be easy). In terms of legislation, therefore, straight supplementation would probably require little less than a housing allowance. On the practical side, new rules and new administrative procedures would need to be worked out and to be ready for application when the load of new claims began. There is the further important point, on either type of means-tested scheme, that the TUC's reaction would have to be ascertained before any announcement could be made. Judging by past form, they will need some time before being able to give it, and it is likely to be unfavourable. I must therefore make it clear that at this point of time it cannot be assumed that either a housing allowance or a scheme of straight supplementation could be brought into operation before May, 1968.

Conclusion

7. My firm view is that we should not prejudice the future by introducing a means-tested scheme (which, as explained above, might in any case not be practicable before May, 1968) but should decide in favour of a give and take scheme to start as soon as possible. I still believe this could be in 1967. But if this were shown to be impracticable, I suggest that we should decide - and at the appropriate moment announce that we had done so - to introduce such a scheme from April, 1968, and make in the interim a limited straightforward increase of family allowances for the largest families, since it is among these that poverty is liable to be most severe. This increase would be subsumed in the general give and
take operation in April, 1968, so that the only resulting extra cost
would be in the period until then. Within the £10 million limit which
the Chancellor of the Exchequer has previously indicated for any
family endowment expenditure in 1967-68, we could, for example,
manage an increase of 5s. a week for the fourth and subsequent
children in a family, operative from a date in the early summer;
if more money were available, a better increase could be given.
Provided there was at the same time a firm public commitment to a
major improvement in April, 1968, I think this would help to hold
the position until then.

M. H.


16th December, 1966
19th December, 1966

CABINET

SERVICE DOCTORS AND DENTISTS; AMOUNT OF PAY INCREASE

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

The Ministerial Committee on Prices and Incomes have been unable to reach an agreed conclusion on the amount of pay increase for service doctors and dentists.

2. The pay of service doctors and dentists has normally been reviewed at the same time as that of other serving officers. In the White Paper on Service Pay and Pensions at the beginning of this year (Cmd 2903), which announced general increases in service pay to take effect from 1st April, 1966, there were no proposals for increases in the pay of service doctors and dentists, but the Government undertook to take account of increases awarded to civilian doctors and dentists engaged in the National Health Service in reaching decisions about the pay of service doctors and dentists.

3. The background to the problem, and the range of possible offers considered by the Ministerial Committee on Prices and Incomes, are set out in the attached note by officials which was before the Ministerial Committee at a meeting to-day.

4. The majority of the Committee inclined to the view that an offer of 18 or 20 per cent would be impossible to justify in terms of prices and incomes policy, particularly for people at this sort of salary level. Most Ministers present shared the view of the Chancellor of the Exchequer that service doctors and dentists should be offered an increase of 10 per cent in basic pay (7 1/2 per cent in total emoluments); they agreed that an increase of 10 per cent need not be paid in instalments, but could be paid in full from 1st July, 1967 with effect from 1st October, 1966.

5. The following were the main additional points made in the discussion -

(a) The Minister of Health doubted whether the British Medical Association (BMA) would in practice carry out their threat of blacklisting service medical appointments, even for an offer as low as 10 per cent. The Secretary of State for Defence pointed out, however, that, even if there were no formal blacklisting, an offer which was regarded as manifestly inequitable could have a serious effect on the staffing of medical appointments in the armed services.
The BMA have accepted an increase of 10 per cent in the pay of university clinical teachers, who represent a more delicate problem. (On the other hand, this is not conclusive evidence that they would accept 10 per cent for service doctors, because the university clinical teachers' traditional analogue is the senior hospital doctor whose increase in the last Kindersley review was only 10 per cent.)

6. The Secretary of State for Defence would be prepared to settle for an increase of 18 per cent and to justify it to the BMA on the grounds suggested in paragraphs 9 to 12 of the note by officials. He was not, however, able to accept the view of other members of the Committee that the increase should be limited to 10 per cent.

7. As Chairman of the Ministerial Committee on Prices and Incomes, I am therefore putting this matter to the Cabinet for a decision.

M. S.

Department of Economic Affairs, S. W. 1.

19th December, 1966
When the Ministerial Committee on Prices and Incomes discussed Service doctors' and dentists' pay on 12th December (PI(66) 15th Meeting, Minute 1), Ministers decided to defer a decision until there had been further study and discussion of the possible bases of compromise. Officials of the Treasury, the Department of Economic Affairs and the Ministry of Defence have accordingly met for a further examination of the problem. It has not been possible to reach agreement on a definite recommendation to Ministers; officials have, however, agreed upon this note as a statement of the possible bases of offers to the British Medical Association (BMA), and the arguments for and against each.

Background

2. In considering possible offers the following points have to be borne in mind:

(a) Ministers are committed by the White Paper on Service Pay and Pensions (Cmnd. 2903) to take account of increases awarded to civilian doctors and dentists engaged in the National Health Service (NHS) in reaching decisions about the pay of Service doctors and dentists.

(b) In 1962 the pay of Service doctors and dentists was specifically established in terms of a 16 per cent lead over the average net career income of the NHS general medical practitioner. The same pattern was followed in 1964.

The analogy that holds the field is thus that of the NHS general practitioner; if that is to be abandoned, the Government should be in a position to justify any offer by reference to an analogy with remuneration of other NHS doctors — which means in practice hospital doctors.

3. It is also relevant that in April 1966, as the result of a report by the National Board for Prices and Incomes, other Service officers received increases, mainly over 18 per cent in basic pay (13½ per cent in emoluments).
4. Since the pay of Service doctors and dentists was last reviewed in 1964, NHS general practitioners have received the following increases:

(i) about 9 per cent on 1st April 1965, primarily on account of increased workload and loss of doctors;

(ii) increases amounting to about 32 per cent on total net income payments, again with the object of rewarding increasing workload, improving the attractiveness of general practice and stemming the loss of doctors, in a new system of remuneration which abandoned the concept of average net income and included new forms of special payments which remunerate features of civilian practice which have no counterpart or are otherwise rewarded in Service life (e.g. seniority and merit payments, allowances for group practice and practice in designated areas, and sickness payments). These increases were phased, the first half being paid with effect from 1st April 1966 (subsequently deferred to 1st October 1966) and the second half from 1st April 1967.

5. Strict adherence to the general practitioner analogy would point to an increase of 44 per cent for Service doctors and dentists. That is not in question; indeed, given the reasons for the large increase for general practitioners, it would be indefensible. But it has to be recognised that no offer in the range between 10 and 20 per cent (the extreme positions considered at the meeting of the Ministerial Committee) could be justified on the basis of the policy, accepted since 1962, of settling the pay of Service doctors by reference to the maintenance of a 16 per cent lead over the career earnings of the NHS general medical practitioner. Even an increase of 20 per cent would wipe out this lead, and would be accepted by the BMA only as a pragmatic settlement in the light of the needs of incomes policy.

6. The figures considered at the last meeting of the Ministerial Committee were 20 per cent, 18 per cent, 13½ per cent and 10 per cent. The following are the arguments for and against each figure.

20 per cent on basic pay (15 per cent on emoluments)

7. While this cannot be precisely justified in relation to the increase for general practitioners, it has the practical advantage that the BMA would accept an offer of 20 per cent, though they have hitherto said that acceptance would be conditional upon a further increase later on corresponding to the second instalment of the general practitioners' increases. If Ministers decided to offer 20 per cent, it would have to be on the accepted condition that it was a final offer and that there would be no question of a second instalment. If the BMA accepted that, then the offer would assure their continued co-operation in recruiting doctors to the Services. In the view of the Ministry of Defence this would maintain a reasonable relationship between the pay of Service doctors and that of other officers.
8. The main objection to an offer of 20 per cent is its size. It would be difficult to justify in terms of prices and incomes policy, and would tend to revive former suspicions that incomes policy was in practice being applied less rigorously to the higher paid than to the lower paid. It is larger than could be justified by reference to the increases recommended earlier this year for NHS general medical practitioners, after excluding from the reckoning additional payments which remunerate features of general practice which have no counterpart or are otherwise rewarded in Service life (cf. paragraph 9). Finally, the increases for general practitioners were intended to stem the loss of doctors from general practice by improving its attractiveness; their efficacy for this purpose will be diminished if increases for other groups of doctors are too great.

9. This figure can be derived from the increases for NHS general practitioners by excluding from the reckoning additional payments under the new system of remuneration that relate to features of civilian general practice that have no counterpart or are otherwise rewarded in Service life (see annex for detailed calculation). It could therefore be defended as maintaining the analogy with general practitioners, mutatis mutandis; and, as it relates to the total effect of the recent increases for general practitioners (i.e. the whole of the Kindersley recommendations), it would provide good ground for refusing to contemplate a second instalment.

10. 18 per cent is about the same figure as other Service officers received last April. For this reason it would be unacceptable to the BMA, who set great store by the analogy with other doctors. They have stated that they could not accept a figure which would treat the Service doctor exactly the same as his fellow officers. We do not know whether the BMA would carry this attitude to the point of refusing an offer of 18 per cent (supposing that Ministers were prepared to go to this figure), if it were clear that there was no prospect of a higher offer. The Ministry of Defence believe, however, that no lower figure would have any chance of securing acceptance.

11. From the point of view of prices and incomes policy 18 per cent is not much of an improvement on 20 per cent: the objections to 20 per cent (paragraph 8 above) apply with little less force to 18 per cent. Moreover in negotiation with the BMA it would be difficult to argue that the difference between 18 and 20 per cent was of such critical significance that an offer of 20 per cent was out of the question.
12. It can also be argued that, even when payments for features peculiar to civilian practice have been excluded, the 18 per cent derived from the Kindersley increases for general practitioners still reflects factors such as increased workload and loss of doctors to a greater extent than is appropriate for Service doctors; but there is no basis for saying what further deduction should be made to take account of these differences, except by reference to a different analogue: the increases for hospital doctors.

13½ per cent on basic pay (10 per cent on emoluments)

13. 13½ per cent is the amount of the increase in the salary bill for all NHS hospital doctors, following the Kindersley recommendations. The case for adopting this figure (or 10 per cent) is that the changes in the system of remuneration for general practitioners are so fundamental that that analogy cannot be used at all as the basis for settling Service doctors' pay on this occasion, and that the best way of deciding what the Kindersley Review Body thought appropriate for medical remuneration in the absence of the special considerations applying to general practitioners is to look at the average increase for hospital doctors. It could be argued that, while the Service doctor's work approximates more closely to that of the general practitioner than to the hospital doctor, his conditions more closely resemble those of a hospital doctor in that the State pays him a salary and itself provides (rather than reimburses him for) premises and equipment.

14. To turn to the analogy of the hospital doctor presents its own risks. The hospital doctors (particularly in the middle and upper grades) are dissatisfied with their recent increases, by comparison with those for general practitioners, and will be presenting a case for substantial increases themselves in 1968 (if not before). The Review Body may not accept the case; but, if the Government argue for the analogy of the hospital doctor on this occasion, they may find themselves hoist with their own petard if it is in the BMA's interest at the next review of Service doctors' pay to base their case on an analogy with the hospital doctor.

15. Moreover it is difficult to argue that the features of general practice which led the Review Body to recommend large increases for general practitioners are totally irrelevant to Service doctors. Thus a proposal to turn to the analogy of the hospital doctor would not be easy to justify, except on the negative ground that the general practitioner analogy was on this occasion completely unusable because of the changes in the system of remuneration.
It is certain that the BMA would accept neither the analogy of the hospital doctor nor the resulting figure; and it would be bitterly resented by Service doctors. If no offer which they can countenance is made, the BMA will probably feel bound to withdraw their co-operation in recruitment and to blacklist advertisements for Service medical appointments. This, and the loss of manpower from the armed forces medical services to which an offer regarded as inadequate could give rise, could lead very quickly to a most serious and probably unmanageable shortage of doctors in the Services, which could be very expensive to remedy, whatever changes of organisation of medical care could be contrived.

10 per cent on basic pay (7½ per cent on emoluments)

17. 10 per cent is the approximate increase for consultants and senior hospital medical officers following the Kindersley recommendations. As a basis for settling Service doctors' pay this would have the advantage of excluding the large increases for junior hospital doctors which are included in the average increase of 13½ per cent for all hospital doctors; it could be argued that 10 per cent represents the amount by which the Kindersley Review Body thought medical remuneration should be increased where no special factors applied.

18. This figure would clearly be the easiest of the four to defend in terms of prices and incomes policy. But it can be argued that it is an unfair interpretation of the Review Body's recommendations for hospital doctors: their insistence on the importance of looking at career earnings suggests that — though they did not say so in so many words — they held back at the top in order to be able to do more for the junior doctors. Moreover, if the BMA are unlikely to accept 13½ per cent, they are a fortiori still more unlikely to accept 10 per cent: with all the risks described in paragraph 16.

Other possible bases

19. We have considered whether there is any basis for compromise in some other figure between 13½ and 18 per cent. Nothing greater than 13½ per cent could be justified on the hospital doctor analogy; and (as has been pointed out in paragraph 12), while it might be argued that some figure less than 18 per cent would represent a fairer application of the general practitioner analogy to the Service doctor, we can see no basis for saying precisely what that figure should be. We cannot therefore suggest any basis for a compromise offer of, say, 15 or 16 per cent, in terms of analogy with NHS remuneration.
Service dentists

20. Service dentists have since 1962 been paid at the same rates as Service doctors, because target average net income of civilian general dental practitioners has not until now been very different from average net income of civilian general medical practitioners. By direct reference to the NHS analogy it would be difficult to justify increases as high as 20 per cent or as low as 10 per cent for Service dentists. An increase anywhere between 13 and 18 per cent could, however, be approximately reconciled with the Kindersley increases for dentists, and would thus make it possible to retain the present parity between Service doctors and dentists, to which the Ministry of Defence attach importance.

Presentation

21. The figures discussed in this note have been in terms of basic pay. It has to be borne in mind that Service doctors, like other officers, receive other emoluments (free board and lodging or marriage and ration allowances). Since civilian analogues have to pay for board and lodging out of net income, it is not unreasonable to express increases in Service pay as percentages of total emoluments, as was done when the 1st April 1966 increase for the Services generally were announced at the beginning of this year. On this basis the increases discussed in this note become:

<table>
<thead>
<tr>
<th>Basic pay</th>
<th>Total emoluments</th>
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<tbody>
<tr>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>13½</td>
<td>10</td>
</tr>
<tr>
<td>10</td>
<td>7½</td>
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</tbody>
</table>

Phasing

22. It is agreed that any increase would be retrospective to 1st October 1966 but not paid before 1st July 1967. It is also agreed in principle that an increase of the order considered in this note should be paid in instalments. The precise phasing will depend to some extent on the decision on total amount, and we have not therefore considered it. In making any offer to the BMA it would be necessary, but at this stage sufficient, to make it clear that the principle of phasing, as laid down in Cmd. 3150, would apply.

15th December 1966
<table>
<thead>
<tr>
<th>Description</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Old system and rates of remuneration</strong></td>
<td></td>
</tr>
<tr>
<td>1. Estimated total payments</td>
<td>100.4</td>
</tr>
<tr>
<td>2. Less practice expenses</td>
<td>38.6</td>
</tr>
<tr>
<td>3. Total net income payments</td>
<td>61.8</td>
</tr>
<tr>
<td><strong>New system and rates of remuneration recommended by Review Body</strong></td>
<td></td>
</tr>
<tr>
<td>4. Estimated total payments</td>
<td>126.5</td>
</tr>
<tr>
<td>5. Less practice expenses</td>
<td>40.7</td>
</tr>
<tr>
<td>6. Total net income payments</td>
<td>85.8</td>
</tr>
<tr>
<td>7. Deduct: Additional capitation fees for patients over 65</td>
<td>2.6</td>
</tr>
<tr>
<td>8. Seniority payments</td>
<td>5.4</td>
</tr>
<tr>
<td>9. Distinction awards</td>
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<tr>
<td>10. Payments for group practice</td>
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</tr>
<tr>
<td>11. Payments for service in &quot;designated&quot; areas</td>
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</tr>
<tr>
<td>12. Payments for pre-entry and postgraduate training</td>
<td>0.5</td>
</tr>
<tr>
<td>13. Sickness payments</td>
<td>0.5</td>
</tr>
<tr>
<td>14. Net income payments less deduction for special factors</td>
<td>73.0</td>
</tr>
</tbody>
</table>

Percentage increase, item 14 over item 3: 18.1 per cent
CABINET

P. 1127

Note by the Prime Minister

We have to take a decision by the end of the year on whether or not we should continue with the P. 1127. In discussion in the Defence and Oversea Policy Committee there was a division of view and, although preponderant opinion was in favour of continuation, the decision is one which the Cabinet will wish to take.

I attach a note by officials setting out the considerations on either side.

H. W.

10, Downing Street, S. W. 1.

20th December, 1966
P1127

Note by Officials

Introduction

The P1127 is an aircraft intended to provide close support for our ground forces. It is a major advance in this field through the exploitation of its unique ability to operate from very short rough strips in the forward area (short take off and landing capability or STOL) and to operate from small landing sites in the vertical take off and landing (VTOL) mode with a bomb or rocket load. At the time of the Defence Review it was hoped that the VTOL performance, which is limited in range and load, could be appreciably improved through incorporating plenum chamber burning, but further studies have established that this is not the answer and the most likely alternative would be costly in both development and production. There are, however, indications that engine thrust increases can be achieved in the normal course of development which will lead to worth while improvements in aircraft performance.

There is no aircraft which can replace the special V/STOL characteristics of the P1127, but it is possible - admittedly with some detriment to the operational efficiency of our forces - to provide close support for the Army by means of different combinations of the Spey-Phantom and of the Anglo-French Jaguar. The latter course would be cheaper, but would involve additional expenditure in foreign currency and would have industrial implications for the future of the United Kingdom aircraft industry. The question is the degree of priority to be accorded to the gain in operational efficiency.

Defence Requirements

The Defence Review made provision for the purchase of 110 P1127 aircraft (93 solos and 17 duals). In considering the Review in February (CC(66) 9th Conclusions) the Cabinet agreed that the P1127 was important for United Kingdom industrial reasons and that at that stage we should plan on the assumption that it would be developed. The Cabinet, however, reserved the right to take a different decision should technical developments or the escalation of costs make it desirable to do so. Following their discussion, the Defence and Oversea Policy Committee agreed in March (OPD(66) 15th Meeting, Item 1) that an order should be placed for 60 aircraft, with an option for a further 40, and that the issue should be further considered in the autumn in the light of feasibility studies, the cost of production and the prospect of export orders.

The present position is that the programme is going well, the first two aircraft are flying and development should be completed within the estimate of last March. Our commitments to the end of December in respect of both research and development and production will total about £45 million, which is over one-third of the estimated cost of the development and production of the first 60 aircraft (£120 million to £125 million) and 13 per cent of the total ten year programme cost of £336 million. In addition, we have spent, including contributions from the United States and German Governments to the Kestrel programme and payments on the cancelled P1154, a further £70 million on the technology of vectored thrust.
The further defence studies might call also for a review of the number of P1127 (or alternative aircraft) which will be required. These studies will not be completed until July, 1967 and, theoretically, the decision on the future of the P1127 should be taken then in the light of the cost and implications of the alternative courses. By then, however, a further £26 million will have been committed on the P1127 and effectively deferral now would be equivalent to a decision to continue with the aircraft. The choice on whether to continue or cancel the P1127 is therefore open to us only until the end of the year.

The argument for cancellation

The argument for cancelling the P1127 is its cost and its low defence priority. Pressure on the Defence Budget has increased. There is still the problem of attaining the Defence Review target of £2,000 million at 1964 prices in 1969-70; and further defence studies are being undertaken to consider the possibility of substantial additional savings by 1970-71. To provide the total 110 P1127 aircraft which would be necessary for the defence commitments envisaged in the Defence Review would cost £130 million more over a ten-year period than a likely alternative. Such an alternative, although cheaper in budgetary terms, could, however, involve expenditure of £40 million in dollars, plus perhaps a further £25 million for the foreign currency element of the additional Anglo-French Jaguars. (Until the further defence studies are completed it is uncertain whether this requirement for a number of P1127, or alternative aircraft, can be reduced: it is therefore impossible to calculate with any precision the additional budgetary cost of the P1127 and the cost in foreign exchange of the alternative.)

Although the P1127 is desirable on grounds of operational efficiency the priority to be accorded to it on defence grounds alone is not such as to justify its continuation in view of the pressure on the Defence Budget. The incidence of expenditure on the P1127 would moreover give rise to awkward budgetary problems in 1969-70 and 1970-71 and although alternatives to it, giving us a similar capability, could also do this, there would be greater room for manoeuvre. If the continuation of the P1127 is approved, then the Defence Budget will be higher than the total to which it could otherwise be reduced in consequence of the Defence Review and the further defence studies.

The argument for continuation

The argument for continuing with the P1127, apart from the gain in operational efficiency and the saving in foreign currency, is that it is the only advanced military aircraft at present under development in the United Kingdom and the only major national aircraft project this Government has initiated. Its adoption as a part replacement for the Hunter was intended to mitigate the cancellation of the TSR 2, P1154 and HS681. If it were to be cancelled now the effect on the aircraft industry could be disastrous, particularly in the context of the uncertainty of the future of the Anglo-French variable geometry (VG) aircraft. Although the balance of probability is that the French will agree to the continuation of the latter, this is not certain, and if they withdrew we should then have to consider whether or not to continue with the development of a somewhat simpler form of this aircraft in the United Kingdom alone. This uncertainty is relevant to the future of the United Kingdom industry.
Although the main work for a design team in the immediate future would
be on a VG aircraft and not on the P1127, the loss of confidence from the
abandonment of the P1127 alone would be such that it is doubtful if men
of the right industrial, scientific and technological standing could be
retained in the industry. In particular, this is the major project in
the programme for Hawker Siddeley. It is around this firm, and its
management, that the Government’s proposals for reorganising the
airframe industry are built. If this project were now cancelled,
Hawker Siddeley’s willingness to remain in the industry could evaporate:
in that event any prospect of an effective United Kingdom aircraft
industry on the basis of the Government’s proposals would disappear.

Furthermore, the development of the VTOL and STOL capability
is the only part of aircraft technology in which at present the
United Kingdom is in advance of the rest of the world. To abandon the
P1127 would be permanently to throw away that lead, with wider
consequences for our technological capacity.

Export Prospects

The export prospects of the aircraft are necessarily uncertain
until it is clear whether or not the Government intend to go ahead with
production, since we cannot expect to sell military aircraft unless the
RAF order them. However, a number of countries have shown interest.
The most promising prospects so far appear to be Israel, India and
Finland. In general, the Head of Defence Sales considers the export
prospects are good but of course there can be no certainty of them.

Numbers to be ordered

If a decision were taken in favour of the continuation of the
programme there would then be a choice between ordering now 60 single
and ten dual aircraft (essential for training purposes) at a programme cost
of £242 million while keeping an option open for a further purchase, the
cost of which cannot be quantified until the end of the defence studies, or
ordering now the full number of 110 (including 17 duals) at a programme
cost of £336 million. The advantage of the former course is that it
would leave options open if the defence studies showed either a
requirement for fewer than 110, or that alternative cheaper aircraft
should be provided for the full remaining requirement. The advantage
of ordering the full 110 now is that if this number is required it would be
marginally cheaper and that it would give greater industrial certainty
and enhance exports prospects.

The Choice

The choice lies between:

(1) cancelling the P1127 and
(2) continuing the programme, in which case the choice is between:
   (a) ordering 70 aircraft now and keeping the option open on the
       remainder until mid-1967; and
   (b) ordering the full 110 now.