C(68) 101 - White Paper on the Basle Facility and the Sterling Area. Note by the Chancellor of the Exchequer

102 - Legislative Programme 1968-69. Memorandum by the Lord Privy Seal

103 - London Transport Reorganisation. Memorandum by the Minister of Transport

104 - The Queen's Speech on the Prorogation of Parliament. Note by the Lord Privy Seal

105 - The Queen's Speech on the Opening of Parliament. Note by the Lord Privy Seal

106 - Earnings-Related Pension Scheme. Memorandum by the Lord President of the Council

107 - Rhodesia: Discussions on HMS Fearless, 10th-13th October, 1968. Note by the Prime Minister and the Secretary of State for Commonwealth Affairs

108 - London Transport Reorganisation. Memorandum by the Chancellor of the Exchequer

109 - The Concorde Criteria: The Next Step. Memorandum by the Minister of Technology

110 - Frequency of Reviews under the Earnings-Related Pension Scheme. Memorandum by the Chancellor of the Exchequer

111 - House of Lords Reform. Memorandum by the Lord Chancellor

112 - Effect of Earnings-Related Pensions Scheme on Pensions Entitlement of Public Service Employees. Memorandum by the Chancellor of the Exchequer

113 - European Policy. Note by the Secretary of State for Foreign Affairs

114 - The Concorde Criteria: The Next Step. Memorandum by the Attorney-General

115 - The Queen's Speech on the Prorogation of Parliament. Note by the Secretary of the Cabinet

116 - The Queen's Speech on the Opening of Parliament. Note by the Secretary of the Cabinet

117 - Earnings-Related Pensions Scheme. Note by the Chancellor of the Exchequer

118 - Rhodesia. Note by the Secretary of the Cabinet

119 - Commission on the Constitution. Memorandum by the Secretary of State for the Home Department

120 - Commission on the Constitution. Note by the Secretary of State for the Home Department

121 - Earnings-Related Pensions Scheme. Note by the Chancellor of the Exchequer
C(68) 122 - Race Relations - The Police. Memorandum by the Secretary of State for the Home Department

123 - NATO and Our Policy towards Europe. Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

124 - Nuclear Energy: Civil Applications. Gas Centrifuge Development and Collaboration. Memorandum by the Minister of Technology and the Minister of State for Foreign and Commonwealth Affairs

125 - House of Lords Reform. Note by the Lord Chancellor

126 - Nigeria. Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

127 - Concorde. Note by the Minister of Technology

128 - National Superannuation and Social Insurance: Draft White Paper. Note by the Secretary of State for Social Services

129 - Central Lancashire New Town. Note by the Chancellor of the Duchy of Lancaster

130 - United Kingdom Passport Holders in Kenya and Uganda. Memorandum by the Secretary of State for the Home Department

131 - A Policy for Industrial Relations: Draft White Paper. Memorandum by the First Secretary of State and Secretary of State for Employment and Productivity

132 - United Nations Convention on Racial Discrimination. Memorandum by the Secretary of State for the Home Department

133 - United Kingdom Passport Holders in Kenya and Uganda. Note by the Secretary of State for Foreign and Commonwealth Affairs
CABINET

WHITE PAPER ON THE BASLE FACILITY AND THE STERLING AREA

Note by the Chancellor of the Exchequer

My colleagues will wish to see the text of the White Paper on the Basle Facility and the Sterling Area which I propose to present to Parliament on 14th October. The text of the attached draft has been cleared at official level with the Departments mainly concerned. If there are any further comments, they should be with my office by noon on Thursday, 10th October.

R.H.J.

Treasury Chambers, S.W.1.

8th October, 1968
WHITE PAPER
THE BASLE FACILITY AND THE STERLING AREA

The $2,000 million facility to offset fluctuations in the sterling balances of the sterling area countries which was announced at Basle on 9th September, and the related agreements which have been negotiated with sterling area countries, are a milestone in the evolution of the sterling area and a major contribution to world monetary stability.

The Sterling Balances

2. The overseas-held sterling balances have been in existence for a long time. They first came into being because of the major part which the United Kingdom played in the development of international trade in the 19th Century. Overseas traders found it convenient to hold working balances in sterling and, later on, the monetary authorities in some overseas countries came to hold part of their international reserves in sterling to meet the requirements of their traders. This holding of reserves in sterling was encouraged by the range of banking and investment facilities available in London, which also attracted interest-seeking funds, both official and private.

3. Until the beginning of the Second World War, however, the balances were relatively small. The main increase occurred during the war, when the United Kingdom had to make large payments overseas to meet the costs of wartime operations and the Governments concerned were credited with sterling in London. For many years thereafter the total remained broadly what it was in the early post-war period, despite big changes in ownership within the total. In recent years, however, the total reserves of the overseas sterling area have risen so that sterling came to represent a smaller proportion of those reserves, and indeed a smaller proportion of total world reserves.

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The sterling balances fall into three main categories:

(a) Balances held by residents of non-sterling area countries. The greater part of these are now privately-held. Over the years there has been no very strong trend upwards or downwards in the total but there have been marked short-term fluctuations, reflecting confidence in sterling and interest rate differentials.

(b) Privately-held sterling area balances. These have risen with little interruption since the war, particularly during the 1960s. They show little sign of sensitivity to confidence and the rising trend is mainly a reflection of the strong balance of payments positions of certain overseas sterling area countries and the growing value of trade done in sterling. On the other hand, the rise in these balances, on a gross basis, has been largely matched in recent years by increases in United Kingdom claims on the sterling area reflecting in the main the growth of export credit, so that on a net basis there has been little overall change.

(c) Sterling area official balances. The composition of this part of the balances has changed greatly since the war, as some countries have run down their sterling reserves and others have built them up. But until the early 1960's the total was relatively stable and the sterling proportion of the total reserves of sterling area countries remained high and relatively constant. During the 1960's an increase in sterling area countries' trading and political links with the non-sterling world and their growing reliance on non-sterling sources for investment and aid, led to a diversification of their reserves. To begin with, however, this took the form simply of an accumulation of non-sterling assets when total reserves were rising, and for the sterling area as a whole there was no significant fall in officially-held sterling.
Thus, for many years a number of divergent forces were at work which prevented either an upward or downward trend in the total sterling balances. But at times there were marked short run fluctuations, especially in the balances of non-sterling area holders, which could make heavy demand on the reserves of the United Kingdom. These fluctuations were rarely independent of the balance of payments position in the United Kingdom; but frequently they reflected movements in the United Kingdom balance of payments in an exaggerated way. The strains which could be set up by such fluctuations were widely recognised as a potential source of instability to the international monetary system as a whole.

The arrangements of June 1966

In June 1966 the first positive steps were taken through international co-operation to deal with this problem. A facility was made available by a number of central banks to offset the effect on the United Kingdom's reserves of fluctuations in the sterling balances. In contrast to earlier types of central bank assistance, this facility was specifically intended not to help finance deficits in the United Kingdom balance of payments, but solely to relieve stresses arising from the international use of sterling. Swap arrangements were made available to the Bank of England on a short term basis, on which drawings could be made when the balances fell below a fixed starting level. The facility was limited in size and was clearly intended not to finance a permanent reduction in the sterling balances but only to offset fluctuations. In practice, it has proved very helpful in doing this. Since it was set up there have been both increases and decreases in the sterling balances. The facility was renewed from June 1967 for a further year and again in 1968.

Devaluation and After

The devaluation of the pound in November 1967 was, of course, a shock to the sterling system. In sharp contrast to what happened
in 1949, when all the currencies of the sterling area, together with many other major currencies, followed sterling in devaluing against the U.S. dollar, in 1967 the great majority of sterling area countries made no move. Thus, devaluation meant for them not only loss in terms of dollar purchasing power but, in the majority of cases, in terms of their own currency also. The financial links between the United Kingdom and the rest of the sterling area were felt to have been loosened still further. Moreover, the devaluation of the pound was followed by a period of general uncertainty in the international monetary system. Diversification of reserves by sterling area countries increased and, in contrast to earlier periods there was a significant fall in the total of officially held sterling balances as considerable sums were switched into other forms of reserves. This movement was particularly marked in the second quarter of 1968, when holdings of sterling by central monetary institutions of the sterling area were depleted by £230 million.

8. In the early part of this year, therefore, it became clear that there was a need for new and far-reaching arrangements to give greater stability to the sterling system. It no longer seemed likely that the United Kingdom, acting alone, would be able to contain the situation in traditional ways. The achievement of a balance of payments surplus by the United Kingdom was more necessary than ever, but it could no longer be assumed that, even with such a surplus, sterling area countries would wish to hold as much sterling in their reserves as in the past.

9. At the same time, there was never any possibility that the reserve role of sterling could simply be abandoned. For the United Kingdom to attempt to "pay off" the balances in some form would have been quite impracticable and harmful to the world monetary system; in any case there was no sign that this was desired by sterling area countries. Although there has been much academic discussion
of schemes by which some of the functions of sterling might be taken over by some new international asset, no practical possibilities of this kind exist for the time being. It was therefore clear that new means had to be found to accommodate unavoidable reductions in the reserve balances; but at the same time to ensure that sterling would be willingly held in reserves at levels not significantly below the present.

A new step forward

10. In the Spring of this year discussions began in Basle amongst the representatives of the central banks which participated in the arrangements of June 1966, together with the Bank for International Settlements. Early in July this group indicated its willingness to provide a facility for $2,000 million, on which drawings could be made over three years and repayments would be due within ten years. At the same time the British government proposed to undertake consultations with the governments of the sterling area and the offer made by the Basle group was subject to the satisfactory outcome of these consultations. The Basle countries were concerned that the $2,000 million facility should be amply sufficient to cover any prospective rundown of the area's sterling balances during the next three to five years; and they were also anxious that the sterling area itself should make a contribution to the financing of the facility.

11. Her Majesty's Government, for their part, regarded the offer by the Basle group as providing a unique opportunity to give sterling anew stability. It was highly desirable that both the United Kingdom and overseas sterling area countries should make a contribution to the same end. The British government therefore proposed to all sterling area governments that a series of formal agreements should be concluded under which the United Kingdom would guarantee the value,

*With the exception of South Africa which, although a sterling area country, traditionally holds most of its reserves in gold, and only a very small proportion in sterling.*
in terms of the U.S. dollar, of the greater part of the official sterling reserves held by these countries; and in return, each country would undertake to maintain not less than an agreed proportion of its reserves in sterling.

12. These proposals were the subject of consultations during July, August and September, when teams of officials from London visited all sterling area countries. By early September sufficient progress had been made to make it possible for the Basle group to announce, on 9th September, their final decision to set up the $2,000 million facility.

The Nature of the Basle Facility

13. The countries participating in the Basle facility together with the B.I.S. are: Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland and the United States of America. Under the facility, which became available after the announcement of 9th September 1968, the United Kingdom is able to draw U.S. dollars or other foreign currencies from the Bank for International Settlements as and to the extent that the sterling balances of the overseas sterling area fall below an agreed starting level. The facility will be usable to meet falls in both official and private balances, but, whereas the facility of June 1966 covered both sterling area and non-sterling area balances, the new facility relates only to those held by residents of sterling area countries. Like its predecessor it will not be available to finance any deficit in the balance of payments of the United Kingdom.

14. The facility has a ten year life and the net amount ultimately drawn under it will have to be repaid between the sixth and tenth years. Drawings under it may be made during the first three years of its life.

15. The facility will be administered by the Bank for International Settlements which will be able to draw on three sources of finance to meet any U.K. drawings, namely:

(i) Borrowings at short and medium term in international markets.
(ii) Deposits placed with the B.I.S. by overseas sterling area central banks. The countries subscribing to the facility asked that sterling area countries should agree to deposit some part of their reserves of non-sterling currencies with the B.I.S., on normal banking terms. The use by the B.I.S. of such funds to meet U.K. drawings will in no way restrict the freedom of those countries to withdraw their deposits as and when they wish. The total will no doubt vary from time to time. A number of countries have already indicated their readiness to make such deposits.

(iii) Stand-by facilities with the twelve countries, totalling, together with a contribution by the B.I.S. itself, £2,000 million.

While it is to be expected that there will be a sizeable contribution from the first two sources to the financing of the facility, the twelve lending countries and the B.I.S. will carry the ultimate liability to provide funds for drawings by the Bank of England under the arrangement, up to the total of £2,000 million.

16. As was announced on 9th September, the earlier arrangement of June 1966 will be progressively liquidated and terminated by 1971.

17. The texts of the Agreements containing the undertakings of Her Majesty's Government and other Governments in the sterling area will be presented to Parliament separately. The main elements in these Agreements are uniform for all sterling area countries, with the exception of Kuwait, with whom separate and parallel arrangements have been made.
although there are certain differences of form. The United Kingdom's guarantee to maintain the dollar value of eligible official sterling reserves of sterling area countries is matched by undertakings by those countries to maintain not less than an agreed proportion of their total reserves in sterling, during the life of the Agreements.

18. The guarantee applies to that part of each country's official sterling reserves which exceeds 16 per cent of its total reserves; that is to say, 10 per cent of each country's total reserves will be held in the form of unguaranteed sterling. The guarantee in terms of U.S. dollars means that in the event of any devaluation of sterling against the U.S. dollar, the United Kingdom would make a payment in sterling to each country to restore the dollar value of the guaranteed portion of its sterling reserves. The guarantee does not extend to private holdings or to equities held in official reserves.

19. The guarantee is conditional on each country maintaining at all times a Minimum Sterling Proportion in its reserves. The precise proportions have been arrived at in bilateral consultation with each country and in most cases do not appear in the Agreements. These proportions vary but broadly reflect the sterling proportions at the time when negotiations began. Although sterling proportions vary from country to country, the arrangements, combined with the guarantee arrangements, mean that sterling area countries will hold 90 per cent of their reserves in the form of guaranteed sterling, non-sterling currencies or gold.

20. Sterling area countries have, naturally, to take account of the probability of fluctuations in their reserves from time to time. Countries which intend that such fluctuations should occur in the sterling component of their reserves will naturally have to hold, on average, more than the agreed Minimum Sterling Proportion.
Some countries have in any case indicated their intention to maintain substantially higher sterling proportions in practice.

21. The Agreements, which are in the form of exchanges of letters, came into force on 25th September 1968, and will remain in force for three years with a provision for extension for a further two years by mutual agreement; except for a few governments which have chosen instead an Agreement remaining in force for five years. It is provided that the Agreements may be reviewed at any time by agreement between both parties and they will be reviewed during the last six months of a three year period from the date of entry into force (whether the Agreements run for three or five years) i.e. between March and September 1971.

22. In the cases of Australia, Ireland and New Zealand, where the Voluntary Programme of restraint on investment from the United Kingdom applies, an additional provision has been included. This is that if during the operation of the Agreements, the United Kingdom imposes further restrictions on the flow of capital from the United Kingdom to these countries, there will be immediate consultation between the parties.

The Significance of the Arrangements

23. Sterling's role in the international monetary system has not expanded over recent years. In proportion to world reserves and world trade it has indeed contracted, and in 1968 it has contracted in absolute terms also. But it will continue in the future as a major part of the international monetary system. By ensuring the smooth functioning of the sterling system the new arrangements are thus a contribution to world monetary stability. They will benefit sterling area countries who, although they have accepted certain limitations on their freedom as regards the disposition of their reserves, now have a guarantee and will benefit from the strengthening of confidence in sterling which the arrangements as a whole should bring. The United Kingdom too will gain. The
arrangements do not make any direct contribution to the problem of the balance of payments, nor do they in any way lessen the need for the United Kingdom to earn substantial surpluses. But they do mean that the U.K. reserves will not be vulnerable to demands resulting from large scale movements out of sterling by countries which hold their reserves in our currency.
It is desirable for the Cabinet, before approving The Queen's Speech on the Opening of Parliament, to look again at the legislative programme for 1968-69 and to confirm, with amendments arising from developments during the summer, the provisional programme approved in June (CC(68) 31st Conclusions, Minute 4).

2. The Annex to this paper sets out the programme, as approved. Since then it has become necessary to add some Bills to that programme, the need for which was not foreseen in June. I propose that New Towns (Finance) should be added to List A1. The Bill will raise the limits of advances to Development Corporations and the Commission and is needed if the development of the new towns is not to be interrupted. Similar financial considerations may make Shipbuilding Industry Act (Amendment), which would raise the limit for guarantees issued in respect of home ship orders, essential; it should be put in List A2. Local Government Act (Amendment), is necessary to enable the urban programme for areas of special need to be launched; I suggest that it should be added to List B. It is also agreed that there should be legislation to permit the Industrial Reorganisation Corporation to borrow in foreign currencies but I propose that this be included in the Miscellaneous Financial Provisions Bill.

3. I was invited by the Cabinet in June to arrange for the Ministerial Committee on Parliamentary Procedure to consider in due course recommendations of the Select Committee on Procedure about the length and number of recesses, and the proposals made in the Cabinet's discussion for saving Parliamentary time. The Select Committee have now reported and this Ministerial Committee will shortly be considering their recommendations, and the proposals made by the Cabinet in discussion. However, there does not seem to be any prospect, arising from the Select Committee's recommendations, of additional time being available for legislation; in particular, the proposed changes in the dates of the Session would not affect the overall length of the Session. Nor do I think it wise, for reasons I can develop if desired, to reckon on obtaining any additional legislative time by other means, e.g. curtailing the debate on the Address gives no new time, and time gained on the Defence Estimates accrues to the Opposition.
4. On the basis that it will not be possible to find any extra legislative time in 1968-69, I do not think there is any scope for further additions to the programme. We are already pressing hard on available Parliamentary time and drafting resources to complete a heavy programme, especially after adding the Bills mentioned in paragraph 2; and we agreed in June to leave ourselves time in the second half of the Session in case we decided to introduce a Bill on Industrial Relations. We left open, pending further consideration of the policy by the Home Affairs Committee, the question whether we should include a Bill to limit expenditure on Cigarette Advertising. Even if these are not put in, however, there are Bills which the Cabinet has already agreed should fill the gap: Air Corporations and Industrial Development Act (Amendment) - (Atomic Energy Authority Act (Amendment) is now unlikely to be needed this Session but its loss will be more than balanced by the additional Bills mentioned in paragraph 2.)

5. Above all, we must not hamper our freedom of manoeuvre in the 1969-70 Session by committing ourselves to more than we can manage in 1968-69. I am at present in touch with Ministers about their preliminary proposals for 1969-70 and, while the results of my enquiries are not yet complete, it is clear that once again there will be very considerable pressure in that Session on Parliamentary time and drafting resources.

6. I ask the Cabinet to confirm their approval of the provisional legislative programme for 1968-69 with the addition of New Towns (Finance), Shipbuilding Industry Act (Amendment) and Local Government Act (Amendment); and to authorise me to keep the programme under review in the light of developments during the Session.

T. F. P.

72, Whitehall, S. W. 1.

10th October, 1968
ANNEX

Legislative Programme 1968-69

Provisional programme approved by the Cabinet in June, 1968

LIST A: ESSENTIAL BILLS

Expiring Laws Continuance
Suspended Workers (Guarantee Provisions)
Decimal Currency
Finance

LIST A2: CONTINGENCY BILLS

Tanzania (Consequential Provisions)
British North American Act (Amendment)
British Honduras Independence
Southern Rhodesia (Constitution)
Extension of Army General Reserve
European Communities (Membership)
Overseas Aid
Steel (Financial Provisions)
International Monetary Fund (General Arrangements to Borrow)
Prices and Incomes IV

LIST B: MAIN PROGRAMME BILLS

Fisheries
Immigration Appeals
 Representation of the People
* Administration of Justice
* Law Reform (Miscellaneous Provisions)
* Post Office
* Transport in London
* Vehicle and Drivers Licensing
* Foreign Compensation (previously known as Baltic Claims)
* Parliament (previously known as House of Lords)
Miscellaneous Financial Provisions (previously known as Civil Contingencies Fund/Financial Relations with Northern Ireland)
Children
Housing
Pensions (Increase)
National Insurance (Uprating)
Tourism
/Industrial Relations/

Bills to be introduced if time available

Atomic Energy Authority Act (Amendment)
Air Corporations
Industrial Development Act (Amendment)

* Carried over from 1967-68 Session
LIST C: BILLS IN RESERVE

- Gas
- Drugs

For possible late introduction and re-introduction in 1969-70:

- Merchant Shipping
- Ports Reorganisation

LIST B(S): BILLS SUITABLE FOR SCOTTISH GRAND COMMITTEE

- Town and Country Planning (Scotland)
- Education (Scotland)
- Electricity (Borrowing Powers) (Scotland)
- Heritable Securities (Scotland) (previously known as Law Reform (Halliday) (Scotland)
- Housing (Scotland)
- Sheriff Courts Reorganisation (Scotland)
- Gin Traps (Scotland)
- Law Reform (Miscellaneous Provisions) (Scotland)
- Slaughterhouses and Slaughter of Animals
- Building Standards

LIST S: SECOND READING COMMITTEE BILLS

- Genocide
- Smallholdings
- National Theatre
- Redundant Churches and other Religious Buildings
- Animals (Civil Liability)
- Mines and Quarries Act 1954 (Amendment)
- School leaving date
- Juries
- Land Obligations
- Medical Act 1956 (Amendment)
- Petroleum Exploration (Safety)
- Education for sub-normal children
- Radiological Protection Service
- Matrimonial Causes
- Nuclear Installations (Miscellaneous Provisions)
- Oil Pollution (which replaces Water Resources (Amendment))

$ May be suitable for Private Member
11th October, 1968

CABINET

LONDON TRANSPORT REORGANISATION

Memorandum by the Minister of Transport

At a meeting of the Ministerial Steering Committee on Economic Policy on 19th September it was decided that the First Secretary should consult the Chairman of the National Board for Prices and Incomes (NBPI) about his attitude towards the proposals for increases in London Transport Board (LTB) fares next year. I have also since talked informally to Sir Reginald Goodwin the Leader of the Labour Group on the Greater London Council (GLC).

2. It is worth noting that Sir Reginald informed me that in his view "all hell would break out" if we seek to increase fares in this way and that we can expect considerable opposition from our own people on the GLC.

3. At the request of the Chairman of the NBPI I have provided him with detailed information. He has now considered it and written to me and a copy of the reply is attached.

4. I am extremely disturbed by the position we now find ourselves in:

(a) The Chairman says that the figure of £8 million to achieve viability may be too low.

(b) An examination into the realism of this figure would take up to the end of the year at least. My officials believe it may take longer.

(c) The pattern of fares increases required to achieve the overall figure would take until the spring of 1969.

The problem is all too clear.

5. I do not see how we can maintain any credibility for the Prices and Incomes Policy if we impose the largest fares increase in the history of London Transport having first taken the precaution of abolishing the Transport Tribunal, and refuse to put it to the NBPI.
6. On the other hand, to take a Hybrid Bill which is dependent on a substantial price increase through second reading without being able to say what the increase will be or how it will be applied would place the Minister concerned in a near impossible position.

7. In these circumstances I see only two real alternatives:

(i) to abandon the Bill and substitute a short Bill providing for the continuance of Exchequer deficit financing for London Transport;

or

(ii) to go ahead with it but to give explicit assurances that the increase in fares will not exceed the £4 million already agreed by the NBPI but turned down by the Transport Tribunal. The shortfall in revenue to be underwritten by the Government.

8. Neither of these courses are easy. Even if we write off most of the capital debt, we will still need a fares increase. And we shall still be faced with a large and increasing deficit to be met by the Exchequer. With a 90 per cent write off and a fares increase of £4 million it could rise to at least £7 million by 1971. And we shall still be in the hands of the Transport Tribunal to get a fares increase. In short, London, unlike the other conurbations, will continue to be subsidised by the Exchequer.

9. The alternative means we get the LTB transferred - probably without the need to go to the NBPI (who have in effect already agreed the £4 million increase) - and that we cease to be responsible for continuing deficit. But obviously since we cannot put the fares up enough to meet the whole deficit we would have to capitalise the £4 million balance. This means giving the GLC a capital sum of around £50 million. The GLC would not accept a continuing subsidy (which could be stopped at any time) and I am advised that they would not accept a tapering subsidy on the lines proposed for the other conurbation rail services.

Conclusion

10. Either course is difficult. But my own preference is for the second:

(a) it means going on with the policy in the White Paper;

(b) it puts London's transportation problems into one pair of hands;

(c) it puts the inevitable fares increase in the right context;

(d) it gets the Exchequer out of deficit financing.

I therefore seek my colleagues' support going on with the Bill on the understanding that I shall be authorised to guarantee viability by a combined fares increase and capitalisation of the remaining £4 million of annual deficit.

R, W, M.

Ministry of Transport, S. E. 1.

7th October, 1968
Dear Dick,

You asked me for a reply by the end of this week to your letter of 27th September about the London Transport Board.

If a reference were made to us we would accept the fact that 'viability' is a condition of transfer to the Greater London Council.

We could not, however, without further examination, accept that the finding of £8 million would ensure viability. We suspect that this figure is an under-estimate. We base this suspicion on at least two grounds; first, that the projected wage costs appear to us to be on the low side; secondly, that the projected revenues could be over-stated.

An examination into the realism of this figure could be completed by December or January and it would be up to you to decide whether this should be done by your department or whether we should be asked to do it.

The figure, when arrived at, would then need to be translated into terms of fares increases. I understand that the intention of the London Transport Board is to arrange not for a uniform increase in fares but for selected increases. An examination of the pattern of increases could be done by the spring of next year and would be necessary for the implementation of the increases in the late summer or early autumn, which I gather is the London Transport Board's intention.

It is for you to decide whether the contents of this letter enable you to carry out your plan of introducing the bill in the second half of November. If you decide to introduce the bill then my own view would be that, while proclaiming the principle of viability, it would be advisable for you to state that work is still proceeding on the assessment of the increases in revenue required to make the organisation viable as well as the translation of this figure into specific fares increases. You could state that the first part of this examination could be finished by the end of this year, the second part by the spring. It would also be advisable in my view not to commit yourself irrevocably to any specific figure by way of write-off of capital or other means of Government assistance.

I should be very happy to talk to you about this.

Yours ever,

(Signed) Aubrey Jones

The Rt. Hon. Richard Marsh, MP
11th October, 1968

CABINET

THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

Note by the Lord Privy Seal

I circulate, for the consideration of the Cabinet, a draft of The Queen's Speech on the Prorogation of Parliament.

T. F. P.

70, Whitehall, S.W.1.

11th October, 1968
THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS -

1. My Husband and I were glad to welcome to this country the President of the Republic of Turkey.

2. My Government have contributed positively to the wide-ranging work of the United Nations. They have been active in seeking a settlement to the dispute between the Arab States and Israel. They tabled the Security Council Resolution on the Middle East which was unanimously adopted in November, 1967.

3. My Ministers have welcomed the opening of discussions in Paris which they hope will lead to the end of the Vietnam conflict.

4. My Ministers played a leading part in negotiations which led to the successful conclusion of the treaty on the Non-Proliferation of Nuclear Weapons, and have made proposals for further measures of disarmament.

5. My Government have maintained their application for membership of the European Communities and regret that the attitude adopted by one of the present members of the Communities has so far prevented the opening of negotiations.

6. My Government have announced their intention of withdrawing British forces from Malaysia, Singapore and the Persian Gulf by the end of 1971. They intend that over the next few years there should be a measure of redeployment of national resources and that Britain's defence effort should in future be concentrated mainly in Europe and the North Atlantic area. My Ministers took part in a successful conference with Ministers of Australia, New Zealand, Malaysia and Singapore in Kuala Lumpur, where the problems arising from that decision were considered.

7. My Government have continued to play their full part in the North Atlantic Alliance. They expressed their condemnation of the invasion of Czechoslovakia by the Soviet Union and some of its allies in violation of international law and the Charter of the United Nations.

8. My Government worked for and welcomed the restoration of diplomatic relations with the United Arab Republic, the Somali Republic, Sudan, Guinea, Algeria, Mali, Mauritania, the Democratic Republic of the Congo (Brazzaville), Iraq and Tanzania.

9. My Government have continued to seek by all practicable means to bring about a return to constitutional rule in Rhodesia in accordance with the multi-racial principles approved by Parliament. To this end legislation has been passed giving effect to the Security Council's Resolution of 29th May.
10. Three of our overseas territories became independent in the last 12 months - Mauritius, Swaziland and Aden (as part of the People's Republic of Southern Yemen). Both Mauritius and Swaziland remained in the Commonwealth. A revised constitution was introduced in Seychelles.

11. Last November, at the invitation of My Government in Malta, My Husband and I visited Malta and renewed our happy memories of My People in Malta and Gozo. In April of this year My Government in the United Kingdom welcomed the successful settlement, to which they made an important contribution, of the Malta Dockyard ownership problem.

12. My Government welcome the improvement in relations between the parties to the Cyprus dispute.

13. Despite economic difficulties, My Government have sustained our programme of aid to less developed countries.

14. The announced reductions in the size of the Services will mean the retirement of some officers and men and lead to the disappearance of some famous regiments. I am deeply grateful to all those concerned for their distinguished and selfless service. The need for recruits for the Forces, however, remains as pressing as ever, and My Government will not relax their efforts in this field.

MEMBERS OF THE HOUSE OF COMMONS

15. I thank you for the provision which you have made for the public services.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

16. Following the devaluation of sterling in November 1967, My Government have taken the measures necessary to ensure a progressive improvement in the balance of payments and to maintain the strength of sterling at its new parity.

17. My Government have taken an active part in international discussions about reform of the international monetary system. Agreement has been reached with members of the Sterling Area and members of the Bank of International Settlements on arrangements to consolidate the stability of sterling.

18. A further Act has been passed to provide support for the productivity, prices and incomes policy.

19. The growth of industry in the development areas has been encouraged and special measures have been taken to reduce the impact of colliery closures in these areas.

20. An Act has been passed to provide for a better integration of road and rail transport and to promote higher standards in the road transport industry. The Act will also enable improvements to be made in traffic management and the financial and other arrangements for the railways and nationalised inland waterways.
21. An Act has been passed to promote industrial expansion by enabling My Government to assist projects likely to benefit the economy.

22. Legislation has been passed to assist the exploitation of natural gas from the North Sea.

23. Major new developments have been promoted in the United Kingdom aluminium smelting industry.

24. Legislation has been passed to strengthen the law on misleading trade descriptions and on restrictive trade practices.

25. Legislation has been passed to clarify the law in its application to hovercraft; and to enable further measures to be taken to control aircraft noise and supersonic flight.

26. An Act has been passed enabling provisional action in accordance with international agreement to be taken against dumping.

27. My Government took steps to stamp out the very serious epidemic of foot and mouth disease and to ensure that the farms affected could resume production on a sound basis.

28. An Act has been passed to enable additional payments to be made to tenant farmers whose land is needed for development, to safeguard the welfare of farm animals, and for other agricultural purposes.

29. My Government have taken steps to protect the most vulnerable members of the community from the effects of price increases by improving supplementary benefits, rate rebates and family allowances.

30. Legislation has been passed to promote the better provision and development of health and welfare services; and to make new comprehensive arrangements for controlling the safety, quality and description of medicines.

31. Legislation has been passed to establish a comprehensive social work service in Scotland; and appropriate provision has been made wherever necessary in other Acts to meet distinctive Scottish needs.

32. An Act has been passed to improve the government of colleges and special schools.

33. My Ministers have continued the revision of the machinery of government to meet the changing requirements which are placed upon it. The Foreign Office and Commonwealth Office have been merged. An Order has been made for proposals have been laid before you for the amalgamation of the Ministry of Health and the Ministry of Social Security. My Government have welcomed the report of the Fulton Committee on the Civil Service; and an Order has been laid before you for the transfer of the necessary functions to a new Civil Service Department which will be closely engaged in the reshaping of the Civil Service following the recommendations of the Committee.
34. An Act has been passed providing for more effective planning control of development in England and Wales and for increased public participation in local planning.

35. Legislation has been passed to establish a Countryside Commission, to provide for the conservation of the countryside and for greater opportunities for leisure and recreation there; and for the appointment of a Welsh Committee of the Commission.

36. An Act has been passed strengthening control over immigration from other parts of the Commonwealth.

37. An Act has been passed to make discrimination on racial grounds unlawful in employment, housing and the provision of goods, facilities and services and to encourage the development of harmonious community relations.

38. An Act has been passed to reform the law on gaming and to strengthen control over commercial gaming clubs and gaming machines.

39. Further progress has been made in the systematic reform of the law, including that relating to theft, evidence and justices of the peace in England and Wales and to succession and evidence in Scotland.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may attend you.
CABINET

THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

Note by the Lord Privy Seal

I circulate, for the consideration of the Cabinet, a draft of The Queen's Speech on the Opening of Parliament.

T.F.P.

70, Whitehall, S.W.1.

11th October, 1968
THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS —

1. My Husband and I look forward with pleasure to the State Visit of the President of the Republic of Italy and to our own visit to Brazil and Chile.

2. My Government will continue to play an active part in the efforts of the United Nations to ensure peace and to assist the advancement of the developing world.

3. My Government will continue to work through the United Nations for a just and lasting peace in the Middle East. They will take every opportunity open to them to help the two sides achieve a negotiated settlement of the Vietnam conflict.


5. My Ministers will continue to work actively for further progress on measures of arms control and disarmament in both the nuclear and non-nuclear fields. To this end they will vigorously pursue the proposals they have put forward to advance the negotiations.

6. My Government will maintain their application for membership of the European Communities and will promote other measures of co-operation in Europe in keeping with this.
7. My Government will continue to support Britain’s alliances for collective defence and will play an active part in the North Atlantic Alliance as an essential factor for European security. The development of My Government’s relations with the countries of Eastern Europe which took part in the invasion of Czechoslovakia has necessarily been set back, but it remains their aim to work for genuine East-West understanding.

8. My Government will continue to take the necessary steps to withdraw British forces from Malaysia, Singapore and the Persian Gulf by the end of 1971. Furthermore, in consultation with the Governments concerned, My Ministers will maintain their efforts to promote conditions favourable to peace and security in the areas concerned.

9. My Government will continue to seek a return to constitutional rule in Rhodesia in accordance with the multi-racial principles approved by Parliament.

MEMBERS OF THE HOUSE OF COMMONS

10. Estimates for the public service will be laid before you.
My Lords and Members of the House of Commons

11. My Government will press forward their policies for strengthening the economy so as to achieve a continuing balance of payments surplus. This will enable us to meet our international obligations, rebuild the reserves, develop the economy and safeguard employment.

12. My Government will work closely with other Governments to maintain the smooth working of the international monetary system. They look forward to the early entry into force of the Special Drawing Rights scheme.

13. My Government will develop policies to encourage a better distribution of resources in industry and employment and to make fuller use of resources in the Regions.

14. Legislation will be brought before you to convert the Post Office from a Department of State to a public corporation.

15. Legislation will be introduced to integrate transport in London under local government control; and to establish a central system of vehicle registration and licensing.

16. Legislation will be introduced to help the development of tourism in Great Britain.

17. A Bill will be introduced to effect the change to a decimal currency.
18. Legislation will be introduced for assistance to the deep sea fishing industry and for the policing and conservation of fisheries.

19. My Government will lay before you proposals for action on the Report of the Royal Commission on Trade Unions and Employers' Associations. They will also bring forward proposals for amending the Merchant Shipping Acts in accordance with the recommendations of the Court of Inquiry on the Shipping Industry.

20. My Ministers will submit for consideration a proposal to enable the United Kingdom to give effect to the United Nations Convention on Genocide.

21. Legislation will be introduced on the composition and powers of the House of Lords.

22. A Bill will be brought before you to reduce to eighteen the age for voting and to make other reforms in electoral law.

23. Legislation will be laid before you to reduce the age of majority to eighteen.

24. A Bill will be introduced to reform the law for England and Wales relating to children and young persons.

25. Our social security schemes will be kept under close review. My Government will publish for public discussion proposals for a new scheme of national insurance founded on earnings-related benefits and contributions.
26. Legislation will be brought before you to increase the pensions of retired members of the public services and their dependants.

27. My Government will give special attention to the form of administration of the health and welfare services.

28. Measures will be introduced to modernise the town and country planning system in Scotland; and to bring the law relating to education in Scotland into line with current developments.

29. Steps will be taken to extend nursery school provision in deprived areas.

30. Legislation will be introduced to give rights of appeal against decisions taken in the administration of immigration control.

31. A measure will be laid before you to provide for a specific grant towards a programme of additional local authority expenditure in urban areas of special social need.

32. Proposals will be brought forward for implementing the recommendations of the Tribunal appointed to enquire into the tragic disaster at Aberfan.

33. Legislation will be introduced to give greater encouragement to the repair and improvement of older houses and their environment.

34. My Ministers will examine with interested parties how teachers could best be given greater control over their own professional affairs.
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33. Legislation will be introduced to give greater encouragement to the repair and improvement of older houses and their environment.

34. My Ministers will examine with interested parties how teachers could best be given greater control over their own professional affairs.
35. My Ministers will submit for consideration a proposal to raise the existing limit on Government expenditure on the construction of the National Theatre.

36. Legislation will be introduced to make reforms in the administration of justice. My Government will carry forward their comprehensive programme for the reform of the law. In particular, Bills will be laid before you to extend in England and Wales the rights of succession to property by persons who are illegitimate and to amend the law of heritable securities in Scotland.

37. Other measures will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may rest upon your counsels.
The Cabinet will recall that our plan for moving from flat rate to earnings-related retirement pensions was set out in "National Superannuation" and approved at the Labour Party Conference in 1957, and was supplemented in 1963 by proposals in the policy document "New Frontiers for Social Security" for applying the same principles to short-term benefits. The pledge to fulfil this combined social security plan formed an important plank in our election programmes of 1964 and 1966. I now seek the Cabinet's approval to proposals to implement this pledge and to their publication in the form of a White Paper. Part II of this memorandum summarises the proposals, while Part III discusses the more important features in greater detail. Parts IV and V assess respectively the financial and economic implications of the new scheme.

2. It may be of convenience if I preface these lengthy and complex proposals for reconstructing national insurance with a brief account of the political and economic background against which they must be judged.

3. First, it should be realised that even if we were not committed as a Government to the reform of pensions the state of our national insurance system as modified by the Conservative Government in 1961 would compel us to undertake a radical reform.

4. The element of earnings-related contribution which they then grafted on to the flat-rate scheme has helped to relieve the Treasury's burden. But since the earnings-related benefit is not dynamised, this scheme will always keep the level of national insurance pension well below that of supplementary pension and so compel a substantial minority of pensioners to submit to a means test in order to obtain supplementary benefit. Even more serious the need to finance successive increases of benefit by jacking-up flat-rate contribution already places an intolerable burden on lower-paid workers. Since this process cannot be taken very much further we are now faced with the choice either of financing pensions increasingly out of taxation or of recasting the whole structure of benefits and contributions.

5. In choosing the second alternative we can be fortified by the recognition that our own plan for earnings-related pensions has stood the test of time and criticism. The two assumptions on which it was based still hold good:
(a) That, whatever the merit of financing education and health out of taxes, contributions which enable the contributor to claim entitlement by right are essential to social insurance. This principle applies equally, but in rather different ways, both to the short-term risks of unemployment and sickness and to the long-term provision for retirement. Real social security can only be achieved with real social insurance.

(b) That the test of any social security system is whether it enables the citizen in the course of his working life to acquire pension rights which make it unnecessary for him to apply to the State for supplementary relief. Since the Conservative scheme was introduced the insurance principle in social security has been steadily corroded while private pensions schemes have continued to multiply. The aim of the proposals in this paper is to create a State system of earnings-related benefits compatible with the continued existence of a healthy private sector in the field of superannuation.

6. It is essential that contributors should be in no doubt whatsoever that their contributions really are contributions to an insurance fund and not merely taxation under another name. Inevitably, therefore, our future State pension scheme, like all the present private occupational pension schemes, will pre-empt resources otherwise available to the Chancellor for taxation. If there is no such pre-emption then contributions and taxes become indistinguishable; the insurance principle is further corroded and contributors cover the costs of their contributions by putting in wage claims. In fact, if contributions are regarded merely as taxation under another guise, it would be simpler to scrap the whole contributory system and finance pensions, as is done in some countries, out of taxation and make our present supplementary benefit the sole benefit in a selective pension scheme. Since, however, we reject this solution we must be prepared to accept certain rigidities in taxable capacity in order to convince contributors that the contribution they pay in week by week does finally win them a benefit related to their personal rate of contribution.

7. It is sometimes suggested that success depends on building a sound economic basis and then making sure that the presentational aspects are correct. But in the case of a State pension scheme the so-called presentational aspects are the essence of the matter. The main factor in making a scheme a genuine savings scheme is to convince the contributors that it is genuine. Indeed, their conviction that they are really saving is a major factor in making the savings real. The extremely elaborate methods of assessing pension rights which are outlined in the second part of this paper can only be justified, despite the administrative burden they impose, if they do persuade the working population that they are not merely paying taxes but earning week by week entitlement to a decent pension in old age.
(1) **Contribution and benefit formula**

8. Both contributions and benefits for employees will reflect earnings up to a ceiling which should be set and maintained at about £1,700 a year or about £33 a week in 1968 values. The initial rate of contribution should be 6½ per cent for employees, including the National Health Service and Industrial Injuries elements; the corresponding employer's contribution would be 6½ per cent plus his contribution to the Redundancy Fund (at present equivalent to about ½ per cent), on the assumption that the employer's percentage will be assessed on his whole payroll, although this question has still to be settled. Some adjustment to the employers' contribution would be needed if responsibility for the early weeks of sickness is transferred to them.

9. Pensions would be based on earnings averaged over a whole working life, each year's earnings being revalued in line with increases in national average earnings. The rate of pension will be calculated according to a formula which will divide reckonable earnings into two bands, of which the lower band will carry a preferential rate of benefit return. It is proposed that the formula should give a pension of 60 per cent of a claimant's average reckonable earnings up to a point equal to half the national average earnings (i.e., up to £11 a week in 1968 values) and 25 per cent thereafter up to the ceiling of 1½ times national average earnings.

10. The following table shows at various levels of earnings what reductions or increases the proposed contributions would entail for male employees as compared with their current contribution—that is, on the notional assumption that the scheme had been introduced this year—compared with their eventual pension entitlement at present earnings levels:
Weekly earnings

<table>
<thead>
<tr>
<th></th>
<th>£11</th>
<th>£15</th>
<th>£18</th>
<th>£22</th>
<th>£26</th>
<th>£30</th>
<th>£33</th>
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</tr>
<tr>
<td>Present employee's contribution</td>
<td>18, 10</td>
<td>22, 7</td>
<td>25, 4</td>
<td>25, 8</td>
<td>26, -</td>
<td>26, 5</td>
<td>26, 5</td>
</tr>
<tr>
<td>(for man not contracted out) including I.L. and NHS elements</td>
<td>14, 10</td>
<td>20, 3</td>
<td>24, 4</td>
<td>29, 8</td>
<td>35, 1</td>
<td>40, 5</td>
<td>44, 7</td>
</tr>
<tr>
<td>Total new scheme employee's contribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Present scheme flat rate pension:
- single: £4. 10s.
- married: £7. 6s.

Present average supplementary benefit level for pensions (including rent):
- single: £6. 5s.
- married: £9. 0s.

Eventual new scheme pension at 1968 prices and earnings levels:
- single: £6. 12 7. 12 8. 7 9. 7 10. 7 11. 7 12. 2
- married: 9. 8 10. 8 11. 3 12. 3 13. 3 14. 3 14. 18

It is not possible to forecast in cash terms the increases or reductions in contribution rates at various levels of earning that will actually occur when the new scheme is introduced since, between now and then, contributions under the present scheme will have to be increased to finance benefit upratings. To the extent that we can finance such upratings by increasing the present graduated contribution, we should mitigate the increases or reductions that will be necessary at the point of time at which the new scheme is introduced.

Additionally, benefit accrues in respect of the present graduated contribution; it would, however, be misleading to include this element in comparing rates of pension obtainable under the present and the new schemes, since the graduated element under the present scheme is undynamised and will steadily lose its value.

Assuming average earnings of the amount stated.
(2) Exchequer contribution and National Health Service contribution

11. A contribution to the National Health Service should continue to be collected along with the National Insurance contribution to raise for the Health Service approximately the same amount of money as does the present flat-rate Health Service contribution, but it should in future be shared equally between employer and employee and would represent about \( \frac{1}{3} \) per cent a side out of the contribution percentages proposed above. We should retain an Exchequer contribution to National Insurance benefits, bearing the same proportionate relationship (about 16 per cent) as at present to the income of the National Insurance Funds (other than interest income).

(3) Pension age and retirement condition

12. Minimum pension age will remain at 65 for men and 60 for women, and during the ensuing five years title to pension will, as now, be conditional upon retirement and subject to an earnings rule, with increments payable for deferred retirement.

(4) Maturity

13. The scheme will mature over a twenty-year period. Awards in the transitional period will show a gradual progression from the old-scheme to the new-scheme benefit rates.

(5) Post-award dynamism

14. We should undertake in the White Paper to review benefit rates in the light of specified general factors (such as the movement of prices and earnings and the economic situation), but should undertake no absolute commitment beyond at least inflation proofing on each occasion. If our commitment is limited in this way, however, we should promise to review pension rates annually; we should also, in presenting the scheme’s finances, show that the contribution rates proposed are capable of accommodating increases in benefit rates in line with the movement of earnings (“earnings dynamism”).

(6) Contracting-out

15. Complete contracting-out of the new scheme pensions would not be feasible and any facility for contracting-out would have to take the form of partial “abatement”, whereby the percentage of earnings paid by members of approved occupational schemes and their employers would be reduced with a related reduction in the employees’ State pension which the employer would undertake to make good from his occupational scheme.

(7) Preservation of pensions

16. The legislation should include provision for preservation of pension rights in occupational schemes on change of employment, subject to an option whereby employees could retain their present right to withdraw their contributions instead.
Widows

17. The present structure of widows' allowances during the first six months of widowhood, followed by either widowed mothers' allowances to widows with dependent children or widows' pensions, will be continued except that some widows' pension would be payable to women widowed over 40 instead of the present all or nothing age 50 rule. The widow's allowance will be calculated similarly to other short-term benefits, but based on the husband's earnings; widowed mother's allowance and widow's pension will be calculated by applying the retirement pension formula to the husband's life record of earnings, filled in with credits if necessary for the years until he would have reached age 65. A widowed mother will also receive flat-rate increases for her dependent children. Contributions paid after widowhood but before age 60 will enable a widow to qualify at that age for retirement pension at a higher rate than her previous widow's benefit. A woman widowed between ages 40 and 49 without dependent children will get a pension similarly based on her husband's record, but scaled down by reference to her age at widowhood or when she ceased to have dependent children (if later), subject to a minimum pension of £1. 10s. The benefit payable to a woman widowed under 50 will continue when she reaches retirement age, augmented by any pension earned by her post-widowhood contributions. She would be allowed in the alternative (where this gave a better result) to build up her record for retirement pension purposes by taking over her husband's record for the years up to widowhood and relying on her own thereafter.

Married women

18. Married women will continue to qualify for a flat-rate pension on their husband's records (at the rate then payable under the flat-rate scheme - at present £2. 16s. a week) and will receive an addition related to their own earnings, if any, at the upper band rate; alternatively, where this gives a better result, they may qualify for a pension solely on their own record. The present contribution option for working wives and widows will be abolished.

Social Insurance benefits

19. Discussions with both sides of industry will be necessary before the details of these benefits can be finally settled. As with the present earnings-related supplements to sickness and unemployment benefits, however, the new benefits will be related to earnings in the previous tax year. Sickness and unemployment benefits will continue for six months at the full rate. In the case of sickness, this will be followed by a new long-term benefit, calculated in a similar way to retirement pension, with credits given for the remaining period up to pension age. Unemployment benefit will continue for a further six months at the old scheme standard flat rate.

20. The White Paper should, however, indicate that there will be an attendance allowance for the very severely disabled (including the wives of insured persons) to be financed from the national insurance contribution, but that the amount and precise scope of the allowance and the question whether it should operate in advance of the new scheme cannot be determined until the results of a current survey are available.
A separate National Superannuation Fund

21. In order to mark the distinction between the new earnings-related pension and other national insurance benefits which are in the nature of accident insurance, retirement and widows’ pensions should be financed through a separate National Superannuation Fund, the other benefits being financed from a Social Insurance Fund.

Other features

22. Self-employed. Since it has not been found practicable for the self-employed to pay earnings-related contributions, they will pay flat-rate contributions counting for pension at an appropriate point on the employed person’s earnings scale, probably at half average earnings - £11 a week in current terms. The amount of the contribution will be broadly the same as that paid jointly by employees and their employers for the same amount of pension, but arrangements will be made to exclude the lowest paid self-employed from compulsory liability.

23. Non-employed. Contributions will be voluntary for the non-employed (and for employed people with earnings below the PAYE limit) up to a “standard” level each year, which will correspond to the old-scheme standard rate pension. Employed and self-employed people with an earnings record for any year below the standard level will also be able to contribute voluntarily up to this level each year.

24. Credits. Contributors will be credited with earnings at a flat-rate, equal to half national average earnings, during periods of sickness and unemployment (except that they will be limited to an individual’s reckonable earnings where these were below that level, and contributions and credits together will not operate to take anyone’s reckonable earnings above the scheme’s ceiling in any year).
25. The new pension scheme must be financed basically on pay-as-you-go principles but, if too frequent increases in contribution rates are to be avoided, the initial level of contributions must be set rather higher than would strictly be required by the initial level of expenditure after taking account of the Exchequer contribution and investment income. Apart from this necessity it will be important that the new scheme should gain general acceptance as equitable by the middle and higher wage earners who will receive a lower marginal return by way of pension on the upper band of their reckonable earnings than that given on the lower band. We must, therefore, avoid too steep an increase at the outset in the level of contribution which they have to pay. On the other hand, while the lower paid worker must be given some reduction in order to relieve him of the excessive burden of the present flat-rate contribution, we must not lower his contribution so far below its present level as to invite complaint from existing pensioners and pressure for improvement in their pensions to match those obtainable for a lower rate of contribution by contributors to the new scheme.

26. Similarly, in regard to the pension formula, while we must adhere to our primary objective of raising the level of future pensions for all but the lowest wage earners progressively above the supplementary benefit level (which necessarily involves a two-banded formula offering a preferential return on the lower tranche of earnings, if the scheme is not to be unduly costly and to result in over-pensioning of the higher paid), we must also as far as possible seek to offer the middle and higher paid contributor a return which will be regarded by him as fair. Alternative formulae can be devised offering different pension returns up to different levels of earnings. But within the fairly narrow limits set by the above considerations the variation in the amount of pension given by the different formulae must be smaller at the upper than at the lower end of the earnings scale where it would have a disproportionate impact on the standard of living without yielding an improvement for the higher paid sufficient to influence his attitude to the scheme. * We must recognise that a substantial element of redistribution in the pension formula is needed if the scheme is satisfactorily to fulfil its primary object, and

*Consider, for example, the pension given by two alternative formulae providing a pension of (a) 60 per cent of reckonable earnings up to \( \frac{2}{3} \) national average earnings plus 25 per cent of reckonable earnings above that level up to a ceiling of \( \frac{1}{3} \) times average earnings and (b) 55 per cent of reckonable earnings up to \( \frac{1}{2} \) average earnings plus 27\% per cent on earnings between \( \frac{1}{3} \) and \( \frac{1}{2} \) times average earnings:

<table>
<thead>
<tr>
<th>Reckonable earnings</th>
<th>Pension under:-</th>
<th>(a) 60/25% formula</th>
<th>(b) 55/27% formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>£11 (half average earnings)</td>
<td>£6 12s.</td>
<td>£6 1s.</td>
<td></td>
</tr>
<tr>
<td>£22 (average earnings)</td>
<td>£9 7s.</td>
<td>£9 1s. 6d.</td>
<td></td>
</tr>
<tr>
<td>£33 (ceiling) or more</td>
<td>£12 2s.</td>
<td>£12 2s.</td>
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</tbody>
</table>

Thus, as compared with formula (a), formula (b) would give the £11 a week earner 11s. less and the £33 a week earner the same. Expressed in terms of the percentage contribution rate required on a pay-as-you-go basis the extra cost of (a) as compared with (b) is -

After 10 years - insufficient to affect the contribution rate
After 20 years - about 0.1% a side
After 30 years - between 0.1% and 0.2% a side

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that the adoption of a two-banded formula itself makes it impossible to offer a marginal return on the upper band of earnings which will of itself fully satisfy the higher paid. The main attraction for the latter will lie in the prospect of post-award dynamism with accelerated maturity, the provision for wife/widow, and a firm foundation for further saving with preservation of occupational pension rights on change of employment.

27. On balance of considerations, it is proposed that the pension formula should give a pension of 60 per cent of reckonable earnings up to about half average earnings plus 25 per cent of earnings above that level up to a ceiling of about \( \frac{3}{4} \) times average earnings. It is also proposed that the level of the total contribution should initially be set at 6\( \frac{4}{5} \) per cent a side for employees up to a ceiling of about \( \frac{3}{4} \) times national average earnings. On the employees' side this would include his contribution for all national insurance benefits, including Industrial Injuries and the National Health Service contribution, as proposed below. On the employer's side we should charge 6\( \frac{4}{5} \) per cent for National Insurance, National Health Service and Industrial Injuries, the element for National Insurance being \( \frac{3}{4} \) per cent less than that of the employee. This, however, is on the assumption that the employer's contribution would be paid as a percentage of all earnings without a ceiling, i.e. as a percentage of his total payroll, although this is a question which has still to be settled\(^*\); in addition, the employer would pay his contribution to the Redundancy Fund, at present equivalent to \( \frac{3}{4} \) per cent, which would make his total percentage contribution the same as, or close to, the employee's 6\( \frac{4}{5} \) per cent.

\(^*\)As given by the figure of the average earnings of adult male manual workers in manufacturing industries and certain non-manufacturing industries and services, obtained in the Department of Employment and Productivity's half-yearly enquiry. The latest available figure (for April 1968) is £22.5s. a week.

\(^*\)This question has still to be considered against the possibility that Selective Employment Tax as a payroll tax may have to be collected in association with the employer's national insurance contribution when the earnings-related scheme is introduced, since a decision to dispense with a ceiling would have implications for that tax. There would, however, be considerable administrative advantages in calculating both the employer's contribution and SET as a percentage of the gross pay of all employees within the PAYE system, as recorded on their tax deduction documents without applying an earnings ceiling. But if there is no ceiling, the total payments which employers will have to make to the national insurance scheme will thereby be increased, and for that reason it is proposed that their percentage contribution to the national insurance scheme should be a \( \frac{3}{4} \) per cent less than that paid by employees, although their total contribution, including the Redundancy Fund contribution, will be identical with, or close to, the employee's. A further adjustment to the employer's contribution would also be required if we were to decide to transfer to employers responsibility for the early weeks of sickness; this possibility is currently under discussion with the TUC and the CBI, but will require very close consideration.
28. The table in paragraph 10 above sets out the total contributions that would be payable at present earnings levels by employees together with the eventual new scheme pension for which they would qualify on these proposals. It compares the contribution increases or decreases in cash terms with the present rate of contributions, since it is not possible to predict what will be the level of the existing scheme contribution on the eve of the introduction of the new scheme - before then we shall probably increase national insurance benefits twice. Even if benefits are increased in 1969 only in line with prices and in 1971 only in line with earnings increases since 1969, benefit costs, and therefore the general level of contributions needed to sustain them, will have to increase faster than earnings because of the growth in the number of pensioners. If the contribution increases are confined to the flat rate, the contribution for employed men and their employers might need to go up by about 4s. a side, which would fall particularly heavily on those with low or modest earnings. However, there would be strong advantage in financing upratings in the interim, at least partly, by increasing the existing graduated contribution, as may be politically possible once the White Paper on the new scheme is published. Apart from mitigating the weight of flat-rate contribution on the lower paid in the interim, this would also bring the existing scheme contribution structure rather nearer to that of the new scheme and so soften the impact of the contribution changes of the new scheme, especially on those with earnings above the average.

29. As indicated in table 1 in Part IV of this memorandum, with a contribution of 6½ per cent a side as proposed and a pension formula giving a 60/25 per cent return on reckonable earnings, the income of the Fund might be expected to continue to exceed its outgo for about eleven years on the other assumptions there set out. As explained in paragraph 37 below, it has been assumed for illustrative purposes in this table that benefits will be increased biennially after award in line with the movement of earnings ("post-award earnings dynamism"). The actual period during which the scheme would in practice remain in surplus could be substantially affected if experience diverges from the assumptions on which the financial forecasts in Part IV are based - for example, in relation to the degree of dynamism actually given, to the numbers contracted-out, to the effect on sickness benefit claims of abolishing the married woman's option, and to the extent to which contributions are paid voluntarily by those entitled to pay them. The figures would also be affected if it were decided to maintain the married woman's option.

(2) The Exchequer supplement and the National Health Service contribution

30. At present the Exchequer supplements the contributions of insured people and employers towards the cost of the national insurance and industrial injuries schemes. The Exchequer contributions to those schemes are running at about £360 million a year or nearly 1½ per cent of the income of the National Insurance Fund other than interest. The present size of the Exchequer supplement is more a matter of historical accident than a reflection of long-standing principle, but an Exchequer contribution has always been a feature of national insurance and the Labour Movement would regard the continuance of a substantial Exchequer payment as a matter of principle. But the supplement will also serve a useful presentational purpose in support of the insurance principle, since it can be used to justify the incorporation in an insurance scheme of redistributive features, such as early maturity
and weighting of benefit in favour of those with dependants and of the
lowly paid. Alternatively and increasingly as time went on, it could
be presented as helping to finance the real improvement of the benefits
of old scheme pensioners so that the cost of these does not fall entirely
on the new earnings-related contribution. This is an aspect to which
the TUC attach major importance and my colleagues will recall that
one of our main criticisms of the Tory graded pension scheme in 1959
was that the earnings-related contributions were devoted to payment of
existing pensions and that the Exchequer was in consequence relieved
of its responsibilities to the National Insurance scheme at the expense
of the contributor. There is thus a strong political and presentation
case for retaining an Exchequer supplement bearing the same pro-
portionate relationship to the Fund's contribution income as it does at
present. However, this matter has to be considered along with the
future of the National Health Service contribution.

31. The present flat-rate National Health Service contribution is
collected as part of the weekly stamp. For a man, the employer pays
8d. a week and the employee 3s. 2d. The yield is about £180 million
a year (i.e. about half the amount of the present Exchequer supplement).
This money is hypothecated to the cost of running the National Health
Service, thereby reducing the amount to be found from other taxation.
If such a contribution were to be retained along with the new earnings-
related contribution, it too must for practical reasons be earnings-
related, and would absorb, at its present level, about \( \frac{1}{8} \) per cent a side
out of the contribution of 8½ per cent a side, which I have suggested
above as the maximum total contribution which we should seek to impose.

32. It can be argued that the National Health Service contribution
finances a relatively small part of that Service and that its association
with the National Insurance contribution has always been somewhat
anomalous and a source of misunderstanding about the finances of the
Health Service. It can also be argued that it would be difficult to
present an earnings-related Health Service contribution as in any
sense an insurance contribution towards Health Service benefits, and
its collection, as a tax, along with the National Insurance contribution,
might prejudice the extent to which the latter is regarded as a genuine
insurance contribution with an element of saving. Its abolition would
lead to some simplification of accounting procedures.

33. On the other hand the National Health Service contribution on
an earnings-related basis would provide a built-in dynamic source of
income which would help finance expansion of that Service or offer it
some protection at any time when Government expenditure was being
cut back. Further, to the extent that it relieves the Exchequer of its
liability for that Service and reduces the proportion of the total
employee's contribution which is attributable to pension, it both makes
room for a higher Exchequer supplement to be paid to the National
Insurance Fund and enables the contributor to be given better value for
money for the pension element in his contribution. The higher the
Exchequer contribution, the more convincingly can it be presented as
fulfilling the functions suggested in paragraph 30 above.
34. The balance of advantage seems to lie strongly in favour of retaining at about their present levels both the Exchequer contribution and the National Health Service contribution (though on an earnings-related basis and shared equally between employer and employee). It is therefore proposed that the Exchequer contribution should continue to represent about 16 per cent of the contribution income of the National Insurance Fund and that a contribution of \( \frac{1}{3} \) per cent a side from employers and employees should be included in the total contribution of \( \frac{1}{4} \) per cent a side proposed above.

(3) Post-award dynamism

35. We are committed, as a minimum, to "inflation proving" or price-dynamism, that is, to regular increases in existing and new-scheme pensions at least in step with increases in prices. But pensions under the present scheme have, as a matter of history, been given a very much greater degree of dynamism and have for many years increased rather faster than earnings so that pensioners have been accorded a greater improvement in their living standards than the working population - between October, 1951 and October, 1967 benefit rates increased by 200 per cent compared with an increase of 157 per cent in earnings and of 67.5 per cent in prices, the increase in the real value of benefits thus averaging 3.6 per cent per annum. The same degree of post-award dynamism must apply to both old scheme and new scheme pensioners. Unless therefore it can offer something more than price-dynamism the new scheme would stand condemned from the start as offering existing pensioners in particular a worse prospect than past experience will have led them to expect. The TUC have expressed deep concern that, whereas the new scheme offers a prospect to its contributors of a steady improvement in pension levels which will carry all but the lowest earners above supplementary benefit level, it has nothing comparable to offer existing pensioners. And they have not been slow to point out that, if post-award dynamism is below earnings-dynamism, the disparity between existing pensioners and new-scheme pensioners will become still greater, since the new-scheme contributions of the latter will be revalued for pension purposes in line with the movement of earnings - "pre-award dynamism".

36. However, it must be recognised that no Chancellor of the Exchequer would wish to accept an unqualified commitment that benefits should be increased on each and every occasion in line with the increase in earnings irrespective of the economic situation. In presenting our scheme in the White Paper, therefore, it is proposed that we should undertake to review benefit rates in the light of specified general factors (such as the movement of prices and earnings and the economic situation), but with no absolute commitment beyond at least inflation proving on each occasion. If our commitment is limited to inflation proving, however, and if the new scheme is to be made acceptable to existing pensioners, we should, despite the drawbacks of such a course, promise annual reviews so that pension rates will not lose their purchasing power as indicated by the new pensioner index now being prepared. It will also be essential, if we are to meet the TUC points and if the scheme is not to appear to worsen the prospects of existing pensioners, that we should demonstrate that its finances are capable at least of accommodating earnings dynamism. There is, however, difficulty in postulating any
particular rate of increase in prices and earnings, and it is therefore proposed that the scheme’s future income and outgo should be illustrated in the White Paper at constant prices and earnings. This basis would give rates of contribution which, broadly, would be appropriate to full pre- and post-award earnings-dynamism at whatever rate earnings may increase in future.

37. Similarly, for the purpose of illustrating to our colleagues the possible cost of the proposals, it has, in view of past history, seemed no more than realistic to base the forecast in Part IV of this memorandum on the assumption that, over the years, benefits will in practice be dynamised in line with earnings. For this purpose, the same assumptions have been adopted as for the Public Expenditure forecasts, i.e. constant prices and an increase in real earnings of 3 per cent a year, with biennial increases in pension rates. It is hardly possible to make any meaningful comparison with the possible future growth of expenditure on benefits if the existing scheme had continued since the present contribution structure will not much longer be tenable - as already noted we shall probably have to increase the present graded contribution to finance increases in flat-rate benefits in the period before the new scheme is introduced - but if the benefits of the present scheme were to be dynamised in the future to the same degree as they have been since 1951 ("historic dynamism") the cost of that scheme would up to 1990 have exceeded the present cost of the new scheme given in Part IV on the assumption of post-award earnings-dynamism.

(4) Contributions for married women

38. The question whether working wives should continue to be allowed to choose whether to pay contributions is a difficult one. Married women have been able to opt out of contributions liability since 1948, and this right has been widely and increasingly used. A change to compulsory liability is likely to be unpopular among many women, especially the higher earners for whom the sudden contribution increase would be heavy. The effect on the willingness of married women to remain in or to enter employment is very hard to assess. It hardly seems likely, however, that any substantial number of women in employment will give up work completely when the new scheme begins (especially as those with earnings below £5. 5s. a week will not become liable for a new-scheme contribution). Single women who marry after the new scheme begins will simply continue to pay the same contribution on a given level of earnings as they did before. As for married women, considering whether to re-enter employment, there are many factors likely to be influencing a woman’s decision besides the level of the statutory deductions from her pay. Married women would also become compulsorily insured for short-term unemployment and sickness benefit and this would not only intensify the already difficult problems of controlling married women’s claims to these benefits but would increase the cost of them by some £75 million a year at the start of the new scheme. (However, the extra expenditure on benefits for married women on their own insurance would for a good many years be outweighed by the additional contributions paid by the women concerned.)
39. Not to include married women in the new scheme on a compulsory basis would, however, run counter to the general insurance principle of universal cover. Once the present heavy flat-rate contributions are replaced by fully earnings-related contributions (except for the self-employed) working wives, whether high or low earners, can afford to pay contributions on the same basis as everyone else. The pension proposals for married women will ensure that a wife gets a return for her own contributions, in addition to her pension on her husband's insurance, as she does not do at present. Indeed, ending the option will mean that more and more married women will be able to "stand on their own feet" for pension purposes and build up a substantial entitlement on their own records which is independent of their rights on their husband's insurance. There will also be substantial administrative savings for employers, the Inland Revenue and the Ministry of Social Security if all women are treated alike for contribution purposes.

40. On balance it seems appropriate that married women should be required to pay contributions under the new scheme on the same terms as other employees.

41. It will be important that the White Paper should indicate that we accept in principle the case for introducing special provision for the very seriously disabled. The White Paper will be promising substantially improved benefits for widows and ultimately for retirement pensioners and those of the long term sick who are already provided for by sickness benefit. Public and Parliamentary opinion is now seriously concerned about the gap in our social services which results from the absence of any special recognition of the needs which stem from serious disablement, other than that in the schemes for war and industrial pensioners. The TUC have also made strong representations on this point. We must, at a time when we are promising other major improvements in other benefits, indicate that we attach at least as high a priority to the introduction of some special provision for the very seriously disabled. There is at present, however, a lack of firm information about the potential size of the field and hence about the cost and the practical problems involved, and we must await the information which we expect to get next year from a survey now in hand before we can settle the scope of the new provision, the amount of the benefit and its starting date, though it would seem appropriate that it should be financed from the insurance contribution like the other benefits.

42. The White Paper should therefore indicate that there will be an attendance allowance for the very severely disabled (including the wives of insured persons), but that the amount and precise scope of the allowance and the question whether it should operate in advance of the new scheme cannot be determined until we see the results of the Government's Survey. As an indication of its possible order of magnitude at the outset, a figure of £15 million a year has been included in the tables in Part IV of this memorandum in respect of the cost of this allowance, although it may be expected to grow in subsequent years faster than indicated by the figures which reflect only earnings-dynamism and takes no account of likely extension of the allowance itself.
43. It is accepted that the earnings-related payments for the new scheme will have to be levied in a single operation, i.e., one mechanism (PAYE) and one deduction from pay at the end of each pay period. What is by no means so clear is whether this deduction should then be paid into a single fund financing all National Insurance benefits indiscriminately or split between two funds - a "National Superannuation Fund" for pension benefits and a separate "Social Insurance Fund" for benefits to meet short-term contingencies - and this split recorded on the individual’s pay slip.

44. One view is that it would be wise to keep to a single fund. Supporters of this view advance the following reasons:

(a) Accounting and administration would be simpler both for Government and for employers.

(b) The establishment of a single fund with a wide variety of benefits not found together in private schemes would make it difficult for would-be critics to single out any individual benefit as offering a poorer return than does a private commercial scheme.

(c) Since the new scheme is bound to be financed mainly on "pay-as-you-go" basis, there can be no advantage in trying to specify the precise purposes to which individuals’ contributions would be applied.

(d) Even if there were intensive and sustained publicity, there might be little general appreciation of the distinction between the two Funds.

45. An alternative view is that whether the contribution is split between two distinct funds depends on how seriously we take the idea of distinguishing pensions from other forms of benefit. Our own National Superannuation scheme (involving a modest investment in equities) was of course launched as a public life insurance scheme of this kind; the short-term benefits were grafted on to the scheme later. The benefits provided under the new scheme are themselves of two essentially different kinds. On the one hand is the retirement pension with which widows’ pensions might be associated. Provision for retirement is of the nature of superannuation or even, perhaps, endowment insurance; it is akin to compulsory saving, not for a contingency which may, or may not, occur, but for a state which is expected sooner or later. On the other hand, provision against periods of unemployment or sickness is of the nature of insurance against accidents. To the man in the street conducting his own affairs this is a very real distinction, and there would be great advantages in encouraging him to make this same distinction when the new scheme is presented. The more clearly it is seen, the more readily will the contributor feel he understands the purposes of the scheme. The greater his understanding, the more likely he will be to welcome the scheme and to pay what he is required to pay without suspicion or reluctance. The more ready he is to pay, the less will the new level of contributions impinge on total taxable capacity and compete with other desirable objects of public expenditure.
46. A way to mark the distinction would be to divide the contribution into two parts: one to be paid into a fund financing benefits paid as a matter of "accident insurance" and the other to be paid into a separate fund financing "superannuation" and widows' pensions. The needs of the "accident insurance" fund would, of course, fluctuate with the level of unemployment and the incidence of epidemics, whereas the needs of the "superannuation" fund would continue, or perhaps rather grow, on a steady trend. Situations would therefore arise from time to time when one fund was threatened with a deficiency when the other was in surplus. But this fact, far from being an obstacle, could be turned to advantage, despite its disadvantage of more frequent changes in the level of contribution and some loss of flexibility. The concept of the contribution element for "superannuation" as saving for old age and widowhood would be reinforced if the Government pledged itself never to divert resources from the "superannuation" fund in order to meet the ups and downs of the other fund.

47. Very roughly, within a total combined contribution of 13\% per cent, as proposed (i.e. 6\% per cent a side for employer and employee), and after allowing for the Health Service, Redundancy Fund and Industrial Injuries elements, and assuming that the contribution for the Social Insurance Fund would be no more than required to finance the forecast current outgo of that Fund (so that if expenditure was more than forecast it would have to be met by increasing the contribution or by running down balances taken over from the existing National Insurance Fund) the initial joint employer/employee contribution to the National Superannuation Fund might be 9-9\% per cent. This assumes also that the Exchequer contribution would be divided pro rata between the two Funds.

48. While the adoption of a basically "pay-as-you-go" approach to the financing of pensions to some extent weakens the argument for setting up a separate Superannuation Fund, there would still in the initial years and on the contribution proposed, be a limited element of funding. There would seem to be a strong balance of advantage in setting up a separate Superannuation Fund and it is therefore proposed that this should be done. In the interests of simplicity, however, the tables in Part IV of this memorandum illustrate the finances of the new scheme on the basis of a single Fund.
PART IV FINANCIAL IMPLICATIONS OF THE PROPOSALS

Progress of a combined National Insurance Fund on the assumptions set out below:

Starting date: April 1972

Prices: constant at April 1968 level.

Earnings: increasing at 3 per cent per annum.

Pension formula: 60 per cent of earnings to $\frac{1}{2}$ times average earnings; 25 per cent from $\frac{1}{2}$ to $\frac{3}{4}$ times average earnings.

Pensions: in step with earnings, before and after award; biennial upratings in October.

Short-term benefits: as in the present scheme except that the married women's benefit rate is at the full standard rate.

Contributions:

Employed persons - 63.4 per cent of earnings below a ceiling of $1\frac{1}{2}$ times average earnings.

Employers - 64 per cent payable on all earnings.

If which a contribution of 2 per cent a side is assumed to be required for Industrial Injuries and the National Health Service and a contribution of 2 per cent out of the employer's contribution for the Redundancy Fund.

Exchequer Supplement: the same proportion of contributions as under the present scheme.

Contracting-out: 1 per cent a side abatement of contributions for the same proportion of employees as are contracted out of the present scheme.

Married women's contributions: allowance has been made for the abolition of the option not to contribute.

Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Total output (a)</th>
<th>Contributions from insured persons and employers (b)</th>
<th>Exchequer Supplement (c)</th>
<th>Interest (d)</th>
<th>Excess of income over outgo (e)</th>
<th>Fund at beginning of year (f)</th>
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<tr>
<td>1972-73</td>
<td>2,651</td>
<td>2,504</td>
<td>468</td>
<td>66</td>
<td>387</td>
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<td>1973-74</td>
<td>2,862</td>
<td>2,592</td>
<td>405</td>
<td>84</td>
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<td>2,948</td>
<td>551</td>
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<td>1982-83</td>
<td>4,511</td>
<td>3,548</td>
<td>663</td>
<td>167</td>
<td>67</td>
<td>2,178</td>
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<td>1987-88</td>
<td>5,530</td>
<td>4,289</td>
<td>802</td>
<td>138</td>
<td>-301</td>
<td>1,770</td>
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</table>

The extra fund built up under the new scheme would reach a peak of about £2,250 million after about eleven years and if rates of contribution were not increased would fall rapidly thereafter.

Notes:

(a) Expenditure on benefits, costs of administration and transfer to the existing National Insurance Fund.

(b) Including contributions from self-employed and non-employed contributors.

(c) Assuming 5.5 per cent interest and including £57 million p.a. interest on the existing National Insurance Fund.

(d) In addition to the existing fund of about £1,300 million.
### Table 2

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<td>2,633</td>
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<td>115</td>
<td>184</td>
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<td>Extra cost (before contracting-out abatement)</td>
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<td>253</td>
<td>651</td>
<td>1,266</td>
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<td>3,922</td>
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<td>73</td>
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<td>Total</td>
<td>181</td>
<td>207</td>
<td>252</td>
<td>301</td>
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<td>Present scheme</td>
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<td>761</td>
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<td>Extra cost</td>
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<td>131</td>
<td>187</td>
<td>259</td>
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<tr>
<td>Total</td>
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<tr>
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<td>139</td>
<td>167</td>
<td>203</td>
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<td>Extra cost</td>
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<td>32</td>
<td>41</td>
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<td>171</td>
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<td>252</td>
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<td>79</td>
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<td>123</td>
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<td>20</td>
<td>23</td>
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<td>36</td>
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<tr>
<td><strong>Total cost of benefits</strong></td>
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<td>3,936</td>
<td>3,716</td>
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<td>Extra cost</td>
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<td>952</td>
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<td>2,556</td>
<td>3,964</td>
<td>4,687</td>
<td>5,400</td>
<td>7,149</td>
<td>8,841</td>
<td>10,971</td>
</tr>
</tbody>
</table>

**Cost of new scheme as % of G.N.P.**

<table>
<thead>
<tr>
<th>All benefits - total</th>
<th>5.3</th>
<th>5.7</th>
<th>6.0</th>
<th>6.4</th>
<th>6.8</th>
<th>7.1</th>
<th>7.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extra cost</td>
<td>0.1</td>
<td>0.4</td>
<td>0.7</td>
<td>1.1</td>
<td>1.6</td>
<td>2.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Retirement - total</td>
<td>3.8</td>
<td>4.0</td>
<td>4.2</td>
<td>4.6</td>
<td>5.1</td>
<td>5.3</td>
<td>5.4</td>
</tr>
<tr>
<td>Extra cost</td>
<td>-</td>
<td>0.1</td>
<td>0.3</td>
<td>0.7</td>
<td>1.2</td>
<td>1.6</td>
<td>1.8</td>
</tr>
</tbody>
</table>
Cost of graduated pensions based on rising earnings but not dynamised.

Contributions from married women opted out under the present scheme are assumed not to give them title to sickness or unemployment benefit until the second year of the new scheme.

Gross National Product (at market prices). Very rough estimates based on Medium Term Assessment Committee's projection to 1972: increased thereafter by 3 per cent per annum per head of working population.
51. This section describes the main effects on the medium term development of the economy of replacing the existing national insurance scheme by the new earnings-related scheme. (1)

(1) The Standard of Living and the Distribution of Income

52. The new scheme will reduce the incidence of serious poverty among people who are off work for long periods through sickness, widowhood and retirement. The largest section of the population whose standard of living will substantially improve gradually as the scheme matures are pensioners. The Family Expenditure Survey showed that, in 1966, the average income (net of direct taxes, including direct benefits in cash and kind) of 2-adult households whose income is mainly derived from state pensions was about £530 per annum, and of single pensioners was about £320, whereas the average incomes of non-pensioner households in 1966 was about £1,190 (2 adults) and about £650 (one adult). The same survey showed that the bulk of families with very low incomes live mainly on state pensions. (2)

53. On the extreme assumption that the whole of their income is spent on consumption and none of it saved, pensioners account at present (according to rough estimates) for roughly 9 per cent of consumers' expenditure, whereas they form about 14 per cent of the population (counting each child under 16 as half an adult). National insurance pensions account for just over half the total income of pensioners and could therefore account for about 4½ per cent of total consumers' expenditure.

54. These figures suggest that the proposed increases in pension rates will substantially narrow the gap between the standards of living of pensioners and of the rest of the population. The recent and continued growth of occupational pension schemes, though likely to be reduced by the impact of the new scheme, will help to narrow the gap; but, by comparison with occupational schemes, the new scheme would favour the less well off pensioners.

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(1) The conclusions depend largely on estimates and forecasts which inevitably involve a good many assumptions. While they take account of relevant information obtained from departments, some of these assumptions, e.g. about the impact of the new scheme on occupational pension schemes, are little better than guesses. The conclusions are subject to revision when more up to date figures and estimates become available.

(2) See "The incidence of taxes and social service benefits, particularly among households with low incomes", (Economic Trends, July, 1968, Tables 1 and 3.)
55. The additional (gross) cost of all benefits under the new scheme, compared with the likely growth under the present scheme, will amount very roughly to 1 per cent of the gross national product by 1987 and perhaps 2½ per cent by 2002. Additional (gross) expenditure on retirement pensions will amount to roughly 0.7 per cent of the GNP by 1987 and perhaps 1.3 per cent by 2002. The increase in pensioners' total income (before tax) will be less than this because some of the increased pension would partly replace occupational pensions and supplementary benefits.

56. Under the new scheme, the standard of living of pensioners would be protected against rising prices and pensioners could also expect to share in the growth of national prosperity. Occupational pension schemes do not provide full protection against rising prices and the purchasing power of pensions provided by these and other private schemes gradually declines in the years following retirement; the faster prices rise, the more older pensioners in particular suffer. Thus, the new state scheme would in two respects (age and income level) lead in the long run to more equitable standards of living among different pensioner families than private schemes.

57. The new scheme will affect inequality in several ways. First, earnings-related contributions (up to maximum) will spread the burden on employees more fairly than the present flat-rate (plus graduated) contributions. Secondly, the fact that pensioners will receive higher incomes will reduce the differences between the incomes of retired people as a whole and those of the working population and will, in effect, spread a person's income more evenly over his life time. Thirdly, compared with benefits which are exactly proportional to incomes the weighting of the benefit formula in favour of the lower paid will have an equalising influence, though not as much as flat-rate benefits. In addition, the dynamic element protecting the various national insurance benefits at least against inflation will help all people for whom such benefits are the principal source of income and should thus help to reduce inequalities.

58. Rough estimates have been made of the various economic effects of the new national insurance scheme by comparing them with the effects of continuing present policies under the existing scheme, (assuming that the cost of benefits continues to be met in full from increased contributions, with the Exchequer paying the same proportion as at present). Because of the difficulties in making substantial increases in contributions (either flat rate or graduated), the present method of meeting the cost of benefits - which is bound to grow if only because the proportion of pensioners in the population is rising - will not in fact remain viable for much longer. The estimates quoted in this and subsequent sections take into account, if only roughly, the impact which the proposed changes in benefits and contributions are likely to have on: personal savings, occupational pension schemes, imports and exports, payments in income tax and indirect taxes, and savings on Supplementary Benefits. The estimates are all expressed in 1968 prices.
59. It is estimated that the new scheme will cause a reduction in aggregate demand and a net release of resources of somewhat less than £200 million in the first year 1972-73, declining to some £50 million in 1977-78. The new scheme looks like causing an increase in demand and a net claim on resources some ten years after it begins, or a little earlier if account were taken of the resources needed to offset the adverse effect of the scheme on the balance of payments. (see below.) The prospect of an adverse balance in the National Insurance Fund would, in any case, make it necessary to raise contributions after about 10 years.

60. The reduction in demand will bring some savings on imports but the general rise in prices resulting from higher employers' contributions will at the same time cause some loss of earnings from exports. The scheme is likely, on balance, to produce a small adverse effect on the balance of payments, amounting possibly to about £20 million in 1972-73, and rising possibly to around £30 million five years later and to around £50 million in 1982-83. But any estimate of the effects of price changes on exports must be very uncertain.

61. The resources released by the new scheme could be used to restore and improve the balance of payments and/or to raise the levels of public and private investment or consumption. In the present estimates, no allowance has been made for the increase in the Exchequer's contribution to the National Insurance Fund although it is proposed that the Exchequer should share the cost of the increased expenditure under the new scheme.

(3) Public Authorities' borrowing requirements and the capital market

62. The effects of the new scheme on borrowing requirements are much less important than the effects on resources. In the early years of the new scheme, total contributions will exceed expenditure on all benefits and the National Insurance Fund will build up a substantial surplus (see Table 1, Part IV). On a rough estimate, the new scheme would reduce the borrowing requirement of public authorities by some £300 million in 1972-73, by some £250 million five years later and by somewhat less than £200 million in 1982-83. The reduction in the borrowing requirement will decline as expenditure on benefits gradually builds up.

*The effects differ because resources are affected (whereas borrowing requirements are not affected) by any influence the new scheme may have on savings, including contributions to occupational pension schemes.

†These estimates include interest on the surplus in the National Insurance Fund which is assumed to be invested in government securities.
63. The reduction in the borrowing requirement of public authorities will reduce the total demand for funds on the capital market. On the other hand, the probable reduction in the growth of occupational pension schemes would, in itself, reduce the volume of funds available. As the latter effect is likely to be much smaller than the former, there should be a substantial net increase in funds available for private industry during the first ten years or so of the new scheme.

4 Costs and Prices

64. The increase in employers' contributions would on average raise labour costs by about half of one per cent and would raise prices by about a third of one per cent. At a later stage, the increase in prices would probably lead to some additional pressure for raising wages.

65. The increase in employees' contributions would reduce the take-home pay of higher earners, but for those earning 1½ times average earnings or more, the reduction would be less than the normal annual increase in earnings. This could conceivably lead to further pressure for compensating wage increases, although such a reaction does not seem to have followed previous increases in graduated employees' contributions. The new scheme would reduce the contributions of lower paid workers and so their needs could not be used to justify wage demands and there might even be less pressure on their behalf.

5 Taxable capacity and tax revenue

66. A national insurance scheme involves the pre-emption of economic resources and the hypothecation of contributions towards specified benefits. Because there is a general understanding of the close link between contributions and benefits, national insurance contributions probably enable us to raise more revenue in total than would be tolerable if we sought to raise the same total by taxation alone. An expansion of national insurance, depending on the degree of hypothecation which is embodied in the new scheme, should therefore lead to some increase in total taxable capacity; alternatively, it should make the total burden of taxation that much more tolerable. Because of the substantial improvements in benefits with which they are directly associated, increases in contributions are likely, in fact, to be more acceptable at present than an equivalent increase in general taxation.

67. Though the overall increase in taxable capacity is generated essentially by psychological factors it is nevertheless very real. Much depends on the way in which the scheme is presented. The more contributors are made aware that their contributions involve the accumulation of an unquestionable entitlement to benefits, the greater the increase in taxable capacity. Separate accounts or funds for pensions and other benefits would help in this respect.
The transfer of income from contributors to beneficiaries will increase total tax payments. This is because the increases in contributions will not reduce employees' taxable income, while the taxable income of pensioners and other beneficiaries will actually be increased. (This is allowed for in the calculations).

Personal Savings and the Impact on Occupational Pensions Schemes

Changes in employers' contributions will not affect savings as they are passed on in higher prices. The reduction in the contributions of lower-paid workers might lead to a modest increase in their savings. The increase in the contributions of higher-paid workers may cause their savings to be reduced, though certainly by less than the increase in contributions. It is indeed conceivable that the emphasis on savings associated with the presentation of the scheme, might be favourable for private savings. There is evidence that old people and others with low incomes dis-save considerably at present and the higher rates of benefit might increase their savings and/or reduce their dis-savings.

At least there would be one segment of the population which would have a positive incentive to save more. These people for whom personal savings can have only a small effect on their standard of living in retirement, because any saving beyond a certain point reduces their need to apply for supplementary benefit. As the plan provides for the vast majority of contributors to expect a pension substantially above supplementary benefit level, the whole of any extra savings will contribute to ultimate living standards in old age.

In the above calculations, allowance has been made for some reduction in the development of occupational pension scheme which at present make an important contribution to national savings. The extent of this reduction depends to a considerable extent upon the reception of the scheme by employers and their pension advisers. Much therefore depends on the presentation of the scheme. It is proposed to stress the important role which will still remain for occupational pension schemes working in partnership with the State scheme to provide supplementary provisions for higher paid workers and to meet the special requirements of particular industries and occupations. The somewhat slower rate of development of these schemes in recent years may be partly the result of the uncertainty generated by our major review of national insurance. If our proposals are accepted as reasonable by the industry and if we can communicate to the industry our genuine concern that occupational schemes should continue to expand to supplement the State scheme, the cut back in these schemes may be less than we have assumed for the present calculations.

R. H. S. C.

Privy Council Office, S.W.1.

11th October, 1968
RHODESIA: DISCUSSIONS ON HMS FEARLESS,
10th-13th OCTOBER, 1968

Note by the Prime Minister and the Secretary of State for
Commonwealth Affairs

Attached at Annex A is the text of the Press statement issued
from HMS Fearless at Gibraltar at 10.45 p.m. on Sunday, 13th October,
1968.

2. At Annex B is the text of the document which was produced by
the British delegation during the course of the discussions. It was given
to Mr. Smith and his colleagues as the basis on which we would be
prepared to commend to the Cabinet a Rhodesian independence settlement.

H. W.,
G. M. T.

10 Downing Street, S.W.1.

14th October, 1968
JOINT PRESS STATEMENT ISSUED AT 2245 HOURS, SUNDAY 13TH OCTOBER 1968
AT THE END OF THE WILSON-SMITH TALKS

The British and Rhodesian Delegations have ended their Gibraltar talks after four days of intensive discussion.

Both sides came to Gibraltar fully aware of the deep differences that existed between them, deriving from fundamental disagreement on major issues of principle. Nevertheless, both sides came determined to see whether it was possible to reach agreement on a just, honourable and lasting settlement of the problems of Rhodesia.

In the course of over 32 hours of discussions some progress was made, but disagreement on fundamental issues still remains.

The Prime Minister and his colleagues therefore gave to Mr. Smith a document setting out a basis on which, subject to the approval of the British Cabinet, a Rhodesian Independence Settlement would be introduced in Parliament.

Mr. Smith and his colleagues have taken the document away for consideration with their colleagues in Salisbury.

It was agreed that adequate time should be allowed for this consideration.

At the end of talks, both sides recognized that a very wide gulf still remains between them on certain issues.

The Prime Minister said that the Commonwealth Secretary would be available to fly out to Salisbury if it was felt by Mr. Smith and his colleagues that this would assist them in their consideration of the document.
STATEMENT OF BRITISH PROPOSALS FOR A SETTLEMENT

I. THE CONSTITUTION

The 1961 Constitution (as amended before November 1965) with the changes outlined below to meet the first, second, third and sixth principles. Details to be worked out by a joint working party of officials as soon as possible.

1. The Governor
   Governor-General to be appointed on the advice of the Rhodesian Government.

2. The Legislature
   The Composition to be:

   **Legislative Assembly**
   - 33 "A" Roll seats
   - 17 "B" Roll seats
   - 17 Reserved European seats
   Each block of seats to cover the whole country

   **Senate**
   The composition to be:
   - 12 European seats (elected by Europeans on the "A" Roll. Six members to represent Mashonaland, six members to represent Matabeleland).
   - 8 African (elected by Africans on "A" and "B" Rolls voting together. Four members to represent Mashonaland and four members to represent Matabeleland).
   - 6 Chiefs (elected by the Chief's Councils - three to represent Mashonaland and three Matabeleland elected on a Provincial basis).

(The British Government are prepared to consider variations in the composition of the Legislature, including increased Chiefly representation, provided that it secures at all times a "blocking quarter" of directly and popularly elected Africans.)

The qualifications for Senators will be higher than those for members of the Legislative Assembly.

Ministers may be members of either House. A Minister shall have the right to speak but not vote in the House of which he is not a member.

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SECRET
3. Franchise
The "B" Roll franchise to be extended to include all Africans over 30 who satisfy the citizenship and residence qualifications.

Reserved European seats - to be elected by the European electorate.

Cross voting to be retained at 25 per cent and applied to all seats on Legislative Assembly filled by "A" and "B" Roll elections.

4. Delimitation
Alteration in the composition of both Houses and in number of seats to be effected by special entrenchment procedure. But the terms of reference of the Delimitation Commission are to incorporate a formula as follows:

The overriding objective of the Commission is to so divide the constituencies that the proportion of those with a majority of African voters on the "A" Roll at the time of delimitation is the same as the proportion of African voters then on the "A" Roll for the country as a whole.

Subject to this, the Commission is to take into account the factors specified in Section 38.

5. Terms of Office of Senators
20 Elected members - as for Legislative Assembly.
6 Chiefs - as for Legislative Assembly although a Chief will vacate his office as a Senator if he ceases to be a Chief.

Chiefs are only to be removed from office on the recommendation of an impartial judicial tribunal.

6. Powers of the Senate
The powers of the Senate will be:
(a) Review of legislation (but no veto).
(b) Power equally with the Legislative Assembly to initiate legislation, but only in respect of Tribal Land, Law and Custom.

Delaying powers for up to six months in respect of Bills on Tribal Land, Law and Custom sent to it by the Legislative Assembly.
(c) Amendment of Constitution - see below.

7. Executive Powers
The Governor-General will act on Ministers' advice in all matters.
8. Amendment of the Constitution

Ordinary amendments of the Constitution will require, as now, a vote of two-thirds of the total membership of the Legislative Assembly.

A Bill to amend one of the specially entrenched provisions of the Constitution will require a vote of at least three-quarters of the total membership of both Houses voting together. In addition there will be a system of appeal against such an amendment either on the ground that it discriminates unjustly, or has the effect of discriminating unjustly between the races, or on the ground that it derogates from the principles of the Declaration of Rights contained in the Constitution. Where the Bill has been adversely reported on by the Constitutional Council on either of these grounds, it will be referred by that Council to the Judicial Committee of the Privy Council and will not come into effect unless and until the Judicial Committee rejects the appeal. Where the Constitutional Council has not made an adverse report, any person who is a citizen of Rhodesia may, within a specified time, ask for a certificate from the Constitutional Council that there is a case for consideration by the Judicial Committee. If the Constitutional Council grants him a certificate, he may himself appeal to the Judicial Committee within a specified time and again the Bill will not come into effect unless and until the Judicial Committee rejects the appeal. If, however, the Constitutional Council refuses to grant a certificate, there can be no appeal to the Judicial Committee unless the Committee itself grants an application for special leave to appeal. In that case the Bill may be brought into effect without waiting for the appeal to be determined. This system of appeal will be unamendable for fifteen years from the commencement of the new Constitution, thereafter it can be modified in the same way as the other special entrenched provisions.

II. FOURTH PRINCIPLE (PROGRESS TOWARDS ENDING RACIAL DISCRIMINATION)

1. To give effect to the Fourth Principle, a Commission of the necessary independence and high standing will be set up under existing Rhodesian legislation. Terms of Reference of this Commission will be agreed with the British Government, who will be consulted on its composition. It will be the Commission's task to study and make recommendations on the problems of racial discrimination, including the Land Apportionment Act, and the possibility of extending the competence of the Constitutional Council to embrace pre-1961 legislation. Thereafter a Standing Commission will be appointed to keep the problems of racial discrimination under regular review.

2. The Commission will start work as soon as possible after the test of acceptability has been completed and the appropriate legislation passed through the British Parliament (See IV and V below).
III. AFRICAN EDUCATION

Vigorous further action will be taken to provide such additional facilities for the education and training of Africans in Rhodesia as will enable them to develop their capabilities. This will equip them to take up the greater employment opportunities that will be in prospect and to raise their earning capacities and standards of living, and will enable them to play an increased part in the life and progress of their country. The British Government will provide for this purpose funds of up to £5 million a year for a period of ten years, to be matched against equal sums to be provided by the Rhodesian Government in addition to currently planned annual expenditure for these purposes. These additional funds will be available for capital and/or current expenditure and will be used for the improvement of facilities for Africans in the field of agricultural and technical training, teacher training and training in administration, and of other facilities for primary, secondary and higher education to be agreed upon between the two Governments. There will be early discussions on the ways and means of giving effect to this offer.

IV. FIFTH PRINCIPLE (TEST OF ACCEPTABILITY)

The British Government will establish a Royal Commission as soon as possible for the purpose of testing the acceptability to the people of Rhodesia as a whole of a new Independence Constitution based on any agreement to be reached.

2. In the period before and during the test there will be no renewal of censorship, normal political activities, provided they are conducted peacefully and democratically and without intimidation from any quarter, will be permitted. The Commissioners and their staff will enjoy personal inviolability and freedom of movement. There will be complete immunity for the witnesses heard by them. Radio and TV facilities will be provided for opposition opinion to the satisfaction of the Commission.

3. Continued detention and restriction will not be authorised unless the reviewing authorities (see 4 and 5 below) are affirmatively satisfied, having full regard to past activities, that the persons concerned are likely to commit, or incite or conspire to commit, acts of violence or intimidation.

4. A review of such cases will be completed in the shortest possible time. In the first instance each case will be reviewed in chambers by a judge of the Rhodesian High Court. The Judge's decision that a person should be released will be final and the person will be released forthwith.
5. Cases in which release is not recommended by the judge will be referred to an impartial Judicial Tribunal. This will consist of three members, of whom one will be nominated by the Lord Chancellor and two will be Rhodesian nominees. The Tribunal will establish its own procedures and will have the power to secure the orderly conduct of its proceedings. In addition it will have the power to sit in camera where it is satisfied that this is necessary on the ground of security of evidence and, though the person concerned or his legal representative will normally be present, the Tribunal may, where there are security considerations, decide to take evidence from witnesses in his absence and that of his legal representative.

6. Persons released from detention and restriction will have full liberty to engage in normal political activities on the same conditions as other persons. The Commissioners carrying out the test of acceptability will have access to those not released.

7. Rhodesian Africans living abroad may apply to the Royal Commission if they wish to return to Rhodesia during the period of the test. The Commission will put these cases to the Rhodesian authorities, who will either provide safe conducts or refer them to the Judicial Tribunal for a decision on whether entry should be allowed. The Tribunal will treat these cases on the same basis as cases of detention or restriction inside Rhodesia.

8. Where a detention or restriction order has been made against a person after the establishment of the Tribunal, his case will be referred to the Tribunal within fourteen days and considered with all possible speed.

9. As an additional task the Royal Commission will examine the practical working of the existing arrangements for registration of voters, and will make such recommendations as it judges necessary for improving those arrangements, so that as many qualified persons as possible are in fact registered.

V. SUBSEQUENT STEPS

1. If in the light of the report of the Royal Commission it is established that the proposed Constitutional settlement is acceptable to the people of Rhodesia as a whole, the following steps will be taken. The British Government will legislate to introduce the Rhodesian Independence Constitution. Complementary measures will be taken in Rhodesia. On the coming into effect of this legislation the British
Government will take all action in their power to bring about an immediate discontinuance of the economic and other sanctions at present in force. Arrangements will be put in hand to settle outstanding financial and other issues and to regularise relations between the two sides. Rhodesian public servants, who have been accepted under the British Government scheme and who wish to return, will be reinstated in Rhodesia.

2. If in the light of the Royal Commission's report on the arrangements for the registration of voters it is established that improvements in those arrangements are desirable, the Rhodesian authorities will take urgent steps to effect them, having regard to the Royal Commission's recommendations.

VI. INTERIM ARRANGEMENTS

Mr. Smith will form a broad-based administration as soon as possible, including Africans. This will remain in office until the new Constitution has been introduced, elections held under it and a new Parliament convened.
14th October, 1968

CABINET

LONDON TRANSPORT REORGANISATION

Memorandum by the Chancellor of the Exchequer

I see great objection to either of the courses suggested by the Minister of Transport in paragraph 7 of C(68) 103.

2. Dropping the London Bill would mean abandoning our basic principle, repeated in successive White Papers, that urban transport should be a responsibility of local rather than central Government. If this principle is abandoned in London there will be little prospect of implementing it in other parts of the country.

3. The alternative course suggested by the Minister (a limited rise in fares coupled with a large capital payment to the Greater London Council (GLC)) would represent a serious addition to Supply Votes. These attract a great deal of public attention, both at home and abroad, as was shown by our trouble over the Vote on Account last February. In addition, it could entail a sizeable addition to the central Government's borrowing requirement in 1969-70.

4. Either course would have serious and continuing consequences for public expenditure. Even with a fares increase yielding £4 million, the initial deficit on London Transport (after allowing for a write-off of capital debt) would be at least £4 million a year and this could be expected to rise. In addition, there could be consequential demands for Government subventions to public transport in other parts of the country.

5. In my view neither of these courses is necessary. I see no reason why we should aim at less than full viability for the London Transport Board (LTB) through fares increases. Important factors seem to me to be as follows.

(i) It is wrong in principle that transport for Londoners should continue to be subsidised at the expense of taxpayers throughout the country. This point was made very strongly in Cmd. 3686 "Transport in London".
(ii) Despite this principle, we have already agreed that 90 per cent of London Transport's capital debt to the Minister should be written-off prior to transfer. But to add to this a capital payment, or a continuing deficit grant, would in my view be indefensible.

(iii) The only way in which a deficit could be accommodated within the public expenditure limits we have just agreed would be if compensating reductions were made in other expenditures e.g. roads. But this would be a distortion of priorities.

(iv) The attitude of the Chairman of the NBPI seems reasonably helpful. In debating the Bill it would seem possible, as he suggests, to accept the principle of viability, while stating that the implications of this for fares increases were still under consideration (by the NBPI).

(v) I am not convinced that the volume of opposition will be greatly reduced if we go for a yield of £4 million rather than one of £8 million. In either case we should presumably have a 6d. minimum fare (which the NBPI have already endorsed) and a greater or lesser increase in other fares.

(vi) Finally, I cannot see how either of the Minister's proposals can be reconciled with recent expressions of the Government's policy. I attach as an annex to this paper a selection of such statements.

6. In short, I believe that our policy requires us to go ahead with the London Bill and to achieve viability for the LTB by means of an adequate fares increase. We have already narrowed the gap by deciding on a generous write-off of capital debt, the result of which is a loss of interest paid into the Exchequer. Any further Government subvention would, in my view, be quite unacceptable. Apart from the direct cost in London, it would be impossible to implement our policy in other parts of the country, except at the cost of similar subventions which would in aggregate impose a quite excessive burden on taxpayers generally.

7. I therefore ask my colleagues to agree

(i) that the London Bill should be introduced as planned;

(ii) that the fares increases necessary to achieve viability will be endorsed before the Bill is put into effect;

(iii) that the NBPI should be asked to make recommendations on the fares increases required to achieve viability.

R. H. J.

Treasury Chambers, S. W. 1.

14th October, 1968
Extracts from Government Statements

"The basic planning of local public transport must clearly be a function of local rather than central government. Local authorities are responsible for the planning of their areas and the development of their local road networks, and they cannot do these jobs effectively unless they also have a broad responsibility for public transport.

That is why the Government has rejected the idea of establishing nationalised Area Passenger Transport Boards .... organising local transport services independently of the local authorities in their area." (Cmdd. 3481 "Public Transport and Traffic", paragraphs 8-9).

"The fact that large Exchequer deficit grants are now needed for the London Transport Board has naturally increased the urgency of measures to improve the whole transport system in London. The Government do not think it right that transport for Londoners should continue to be subsidised at the expense of taxpayers throughout the country - many of them faced themselves with heavy charges for their transport ....

London has a local government structure which makes possible .... the fullest integration of all forms of public transport, traffic measures, and development of the most important roads .... In the Government's view, these are matters where the primary responsibility should be local .... Within Greater London the right place for the main policy responsibilities is with the major local authority - the Greater London Council ...." (Cmd. 3686 "Transport in London", paragraphs 7-8).

"The Government believe that urban transport is essentially a local rather than a national matter. Local people should be the best judges of the standard and quality of services they want and are prepared to pay for. In London, the Greater London Council can appropriately take on this major task." (IBID, paragraph 36).

"Fares, though often criticised, are lower than in many foreign undertakings. They have gone up less, compared with pre-war, than prices in many industries which do not face the same combination of adverse circumstances." (IBID, paragraph 66).
CABINET

THE CONCORDE CRITERIA; THE NEXT STEP

Memorandum by the Minister of Technology

At its meeting on 1st August (CC(68) 37th Conclusions, Minute 3) the Cabinet invited me, in consultation with the Foreign Secretary, the President of the Board of Trade, the Chief Secretary, Treasury, and the Attorney-General, to prepare criteria in the light of which the future of the Concorde project would be determined, and to seek the agreement of the French to such criteria.

The two criteria adopted

2. The two criteria subsequently agreed with my colleagues were:

(i) An upper limit of £600 million (1966 prices) on development cost which if it looked like being exceeded would call into question the wisdom of continuing with the project and would free either Government from an automatic obligation to continue; and

(ii) firm orders by 31st December, 1969 from four major airlines of which one must be an American airline.

We considered a third criterion relating to engine noise, but for a number of reasons based on difficulties of definition and of tactics vis-à-vis the French, decided not to pursue it.

Negotiations with the French

3. I met M. Chamant in London on 24th September. Our discussions occupied eight hours and were devoted entirely to the question of the criteria. The atmosphere throughout was cordial.

4. He stressed that the French Government had never regarded Concorde simply as a prestige project but nevertheless hoped that it will be a source of pride. It must in their view be a useful operation justifying itself on commercial and economic grounds. He agreed that the time had come to establish criteria. But went on to say that until we had had the results of flight trials at sustained supersonic speeds we would not know the truth about performance and whether the aircraft would be acceptable to the airlines. The crunch would probably come at about
the end of 1969. If then the airlines did not order the aircraft it would be evident that the project could not be pursued. He agreed therefore that it would be sensible to establish now a criterion based on airline orders and tabled a document (translated as Annex A) proposing that a decision on the continuation of the project should be taken before the end of 1969, on the basis of its commercial prospects, as follows:

(a) Orders from four major airlines, of which at least one to be an American airline: the project to be continued.
(b) No hope of orders: the project to be stopped.
(c) Hope of orders, but at the price of modifications to the aircraft involving additional development cost and a further delay to the programme; the Ministers to discuss the continuance of the project on the basis of a comparison between the hope of orders and the increases in costs and timescales.

This was a good start but his proposal contained no reference to our first criterion (development cost).

5. We discussed development cost as a criterion at great length. M. Chamant was not easily persuaded of its validity. He argued that there were too many uncertainties for it to be possible validly to determine now a figure of cost which, if it looked like being exceeded, would automatically halt the project; any such figure could only be arbitrary. Everything would depend on the aircraft's performance and sales prospects. I think I finally convinced him of the validity of our argument for setting a limit to the development cost on the basis that a point could be reached at which it was clear that a major measure of redesign would be necessary to make the aircraft's performance acceptable to airline customers and that, if this happened we should be confronted with a new situation. I agreed that it was not possible to forecast with precision at what level of cost this would arise, but he accepted £600 million (at 1966 prices) as a reasonable estimate of the probabilities. He could not however agree that this figure (or any other) should be set as a limit which, if it looked like being exceeded, would free either Government from any automatic obligation to continue with the project. He made it clear that it was beyond his authority to make such an agreement since it would be a major change in the Concorde Treaty. Nevertheless, he accepted the force of my argument and wished to be as helpful as he could. After lengthy discussion of possible ways of expressing a development cost criterion, he finally proposed that if (at the end of 1969) he and I agreed that the development cost would probably exceed £600 million (1966 prices), we would each propose to our respective Governments that the two Governments should free each other from all automatic obligations to pursue the project. It would then be for the two Governments to consider the situation and decide whether extra resources should be made available or the project stopped.

6. We argued at length about the date at which the development cost criterion should come into play. I pointed out that the question could arise before the end of 1969. He agreed but claimed that this possibility was covered by paragraph 3 of his proposal (Annex A) in which he was prepared to incorporate a reference to development cost. He was, however, insistent, for the reasons already given about the need to have the results of supersonic flight trials, that the special provision for an agreed Ministerial recommendation to the two Governments should not apply until the end of 1969.
7. At the end of the day, therefore, although we had moved closer together, what he was offering fell short in certain significant respects, which I discuss below, of what the Cabinet had instructed me to seek. He made it clear that he could offer no more. I therefore proposed, and he agreed, that we should each report to our colleagues. He has since sent me the letter at Annex B, to which he attached a draft based on his original document amended in the sense of our discussions (Annex C).

Comparison of French proposal with our suggested criteria

8. Our tactics were governed by two somewhat conflicting aims viz-

(i) to seek agreement on criteria in the light of which the future of the project could be determined; and

(ii) to establish a strategy of withdrawal while at the same time minimising the risk of damages in the International Court in the event of unilateral withdrawal by ensuring that the proposals we put forward could not be construed as a breach of the Treaty but rather as a reasonable way of implementing it while setting reasonable limits to the commitments under it, having regard to the cost escalation and delays that had already occurred and to the continuing risks and uncertainties (technical, financial, and commercial) of the project.

9. It was to meet the second of these objectives that (i) we framed our ordering criterion in precise terms and related it to a specific date (31st December, 1969) and (ii) described the cost criterion as setting a figure which "if it looked like being exceeded would call into question the wisdom of continuing with the project and would free either Government from an automatic obligation to continue".

10. We failed to reach agreement with the French on these two aspects because the French may not be concerned to establish for themselves the possibility of unilateral withdrawal. They may reckon that there is no need for them to do so; believing that if they wanted to withdraw they would have no difficulty in persuading us to agree. Their proposals are therefore directed solely to showing their reasonableness in agreeing to the establishment of criteria in the light of which the future of the project should be determined. They proceeded on the assumption (which I did not and could not challenge) that both Governments would wish to carry the project to completion if it showed reasonable prospects of success. The essential criterion for them is therefore airline orders and this is put forward (reasonably enough) not in precise terms of automatic obligation but in terms of the recognition of a need for judgment of the possibilities when the data necessary to judgment is available. A judgment will have to be made of the worthwhileness of proceeding in the light of probability of sales and the extra cost in time and effort likely to be involved in realising them.
11. M. Chamant's proposals therefore fall short of our objective of establishing a strategy of withdrawal under which, in agreement with the French, if certain criteria were not met, we would be free to withdraw unilaterally. The next question we have to consider is whether acceptance of M. Chamant's proposals would improve our position, worsen it, or leave things much as they are. This is best considered by examining the courses open to us.

Possible courses

12. The possible courses open to us are:

(i) to seek further discussions with the French with the aim of securing our original objectives

I am satisfied that M. Chamant has gone both to the limit of his authority and as far as he is prepared to recommend his Government to go. I think therefore that further talks would have to be put on a more formal Government-to-Government basis to seek through diplomatic channels a negotiated amendment to the Treaty. In my view such talks would not be likely to succeed. The French Government would I am convinced stand firm on the line of M. Chamant's proposal and we should be confronted, more formally and finally than we are now, with a choice between accepting or rejecting this proposal. Whatever disadvantages there may be in accepting it now, would be increased if we were unable to obtain any concession in more formal negotiations and were forced to accept it nevertheless.

(ii) Immediate unilateral cancellation

We ruled this out before and should do so now. To withdraw unilaterally now would aggravate the breach in the eyes of the International Court, firstly because of the apparent reasonableness of the French response to our request for criteria and secondly because it would look as though my discussions with M. Chamant had not been undertaken in good faith.

I rule this course out.

(iii) For me to reply to M. Chamant restating our position and the reasoning on which it is based and to say that if the French Government cannot accept it, rather than agree to M. Chamant's proposal, we would prefer to leave his proposal and ours on the record as indicating the views of the two Governments

(iv) To accept M. Chamant's proposal but in doing so to restate our position and to make clear how we would interpret this situation in practice, i.e. that if it became clear to us that the criteria could not be met, we should feel free to withdraw, after further consultations.
I consider (iii) and (iv) together as (iv) is only a modified version of (iii). If we were to proceed in this way, I would prefer (iii) as the stronger course. If we adopted course (iv), the French would be bound to react and would probably themselves take the line that, in that event, they would withdraw their proposal and reaffirm their reliance on the Treaty. Courses (iii) or (iv) have the disadvantage that they preclude the possibility offered by M. Chamant's proposal of proceeding in agreement with the French to keep the programme under review by reference to agreed criteria as the basis for judgment. Having ruled out immediate unilateral withdrawal it would be necessary to continue with the project until our criteria came into play and then decide whether or not to withdraw unilaterally. Moreover these courses have considerable political risks. I cannot recommend them. They would not save money, nor strengthen our hand at the International Court but would destroy the measure of agreement already reached.

(v) Agree on the basis of the position now reached

Although the compromise falls short of securing all that we sought, the French have been drawn a long way towards our view. For the first time we have got them to agree to criteria by which the continuing validity of the project is to be judged. Should the eventuality (of the estimated development cost exceeding £600 million at 1966 prices) arise and should we then decide unilaterally to withdraw, we would be in a strong position in the International Court as we could show that the responsible French Minister had recommended, or had agreed to recommend, to his Government that in that eventuality we should be freed from our obligation to continue.

In my judgment, having ruled out immediate unilateral withdrawal, the difference in practical terms between our criteria and the compromise is marginal. We would not in any event expect the development cost criterion (£600 million at 1966 prices) to be invocable before the summer of 1969, if at all. But in the discussion by the Working Group of Ministers the view was expressed that at the end of 1969, by which time we should have spent some £200 million on development, £25 million on production and would face cancellation charges of up to £50 million, the political pressure to continue would be virtually impossible to resist. Accordingly we considered the possibility of seeking to establish a position whereby the provisions of paragraph 2(d) of the compromise proposal might be invoked at some earlier time if the estimate for development exceeded £600 million at 1966 prices.

Attention concentrated upon paragraph 3 of the French proposal which had been amended by M. Chamant during the course of discussion so as to include a reference to the cost criterion in order, as he said, to meet my point about the cost estimate exceeding £600 million at 1966 prices before the end of 1969. A comparison between Annex A and Annex B shows the amendment that was made. Although M. Chamant said this amendment should meet our point it does not bind him to recommend to his Government before the end of 1969, that each Government should release the other from its automatic obligations under the Treaty if the estimate exceeds £600 million at 1966 prices as provided in paragraph 2(d). It simply provides that in that event the CDC will report to Ministers and that they will consider the situation.
M. Chamant made it clear at our meeting that he would not accept any further amendment to paragraph 3. The only remaining way by which we might secure at least part of our objective would be for me, in accepting the compromise proposal, to write placing on record our understanding of how we should proceed if the estimated development cost rose above £600 million at 1966 prices during 1969. I have prepared a draft letter in the sense which is attached at Annex D.

The draft in effect says two things: first, that if the cost criterion comes into play before the end of 1969 then we would expect M. Chamant to consider whether we should not act as provided in paragraph 2(d), and second, that we regard our acceptance of the compromise as without prejudice to such freedom of unilateral action as we already possess. At one point during our meeting M. Chamant went so far as to imply that he could certainly envisage circumstances under which a very steep rise in development costs could lead to his recommending to his Government before the end of 1969 that the project should be cancelled. But M. Chamant was nevertheless adamant in refusing to include a reference to this possibility in the compromise proposal itself, and I have no doubt that part of the price the French intended to exact for agreeing to the criteria was to ensure that we reaffirmed our commitment to the project up to the end of 1969.

There is thus a real risk that the French will not accept a letter in the terms of Annex D without comment. There are three possibilities:

(i) M. Chamant might reply merely noting our views. We should then have preserved our freedom of action, such as it is, but this will be as clear to Mr. Chamant as it is to us and from his clear rejection at our meeting of my attempt to amend paragraph 3 along these lines, I am sure he would not allow the letter to pass unchallenged.

(ii) M. Chamant might reply saying that he regarded the letter as a disguised attempt to achieve by correspondence what we had failed to achieve at the Conference table, and that if we insisted on this interpretation of paragraph 3 he would have no alternative but to withdraw the compromise proposal. Since, however, the letter does not go as far as the amendment we sought to paragraph 3 the French would probably not regard this as so good a tactical position as possibility (iii) would give them. I therefore think it is unlikely that M. Chamant will do this.

(iii) He might reply rejecting my interpretation of paragraph 3 and restating his views. Unless we chose then to withdraw our acceptance of the compromise proposal (in which case we would be back in the position of proceeding without agreed criteria) our position in relation to possible further unilateral withdrawal, before the agreed criteria came into operation, would be worse than if we accepted the compromise now without raising the question of the interpretation to be put on paragraph 3.
I regard (iii) as the most probable outcome. In other words, by writing in the terms of the draft at Annex D we would run a serious risk of ending up in a worse case than we would if we simply accept the compromise without comment, and some risk of our being forced back into the position of proceeding with the project without any agreed criteria and no better prospect of being able to withdraw unilaterally, without paying damages, than we have had in the past.

I do not regard the limited potential gain of my writing as at Annex D as sufficient to outweigh the very real danger that we may lose some or all of the gains which an unqualified acceptance of Course (v) now offers. In short, the compromise proposal, with its agreed criteria, is extremely valuable and should not be put at risk without a clear prospect of further advantage which in my judgment a letter on the lines of Annex D would not offer.

Conclusion and Recommendation

13. I therefore recommend that we adopt Course (v) without qualification. In my judgment, unless we do so it will be impossible for me to work effectively with M. Chamant as being jointly responsible with him for the project, and this mutual Ministerial distrust will reflect itself in all official contacts, thus destroying the joint management operation which has to be maintained while the two Governments continue to finance this project. A Ministerial and inter-Government deadlock cannot seriously be contemplated. Only in this way can I discharge the Cabinet's decision that I should be seen to be working for the success of the project, a situation that must continue until it is cancelled, if that happens.

A. W. B.

Ministry of Technology, S. W. I.

14th October, 1968
At their meeting on the 24th September 1968 in London, Mr. Anthony Wedgwood Benn, British Minister of Technology, and Monsieur Jean Chamant, French Minister of Transport, arrived at the following agreement in regard to the Concorde project.

1. The project to be pursued vigorously until the second half of 1969, by which date the flights at Mach 2 will have provided the necessary information on the actual performance of Concorde.

2. A decision on the continuance of the project to be taken before the end of 1969, based on the commercial prospects.
   (a) Orders from 4 major airlines, of which at least one to be an American airline: the project to be continued.
   (b) No hope of orders: the project to be stopped.
   (c) Hope of orders, but at the price of modifications to the aircraft involving additional development cost and a further delay to the programme: the Ministers to discuss the continuance of the project on the basis of a comparison between the hope (of orders) and the increases in costs and timescales.

3. Of course, if meanwhile the Concorde Directing Committee considers that there is no longer any hope of sales, it will report this to the Ministers who will then examine the situation, but the Ministers do not require to follow step by step the development of sales prospects between now and the end of 1969.
Translation of a letter from M. Chamant dated 27th September.

Following our meeting on the 24th September I should like to tell you again how pleased my colleagues and I were at the atmosphere of frankness and understanding in which our conversations took place.

We have not so far arrived at a complete identity of views, but I am confident that our respective attitudes are so close that we shall not be long in arriving at identical viewpoints and that we shall very quickly reach full agreement.

The attached note is a summary of my views and the concessions which I can accept. I should be glad to know your feeling in this matter.

(Sgd) Jean CHAMANT
Mr. Anthony Wedgwood Benn, British Minister of Technology and M. Jean Chamant, French Minister of Transport have arrived at the following understanding in regard to the Concorde:

1. Active continuation of the project until the second half of 1969, by which date the Mach 2 flights of the aircraft will have provided the necessary information on the actual performance of the Concorde.

2. At the end of 1969, a decision to be taken on the continuation of the project based on commercial prospects:
   a. Orders from 4 major airlines, including at least one American airline: project to be continued.
   b. No prospect of orders: project to be terminated.
   c. Prospect of orders but at the price of modifications to the aircraft involving increased development costs and a further delay in the programme: Ministers to discuss the continuance of the project based on a comparison of prospects and increased cost and time-scales.
   d. In the event of the estimated development costs at that date being more than £600M (8,300MF) in January 1966 conditions, each of the two Ministers to propose to their respective Governments an amendment to the Memorandum of Understanding of 1962 releasing each Government from any automatic obligation to continue the project jointly.

3. If in the meanwhile the Concorde Directing Committee considers that there is no longer any hope of sales or of maintaining the development costs below the limit of £600M (8,300MF) in January 1966 conditions, it will, of course, report to the Ministers who will then consider the situation but will not require to be informed step by step of the development of sales prospects between now and the end of 1969.
Thank you for your letter of September 27th and its attachment. I think your note reflects very fairly the sense of our discussion, and after consultation with my colleagues I am for my part content to accept it without further amendment as a record of the agreement which was reached between us.

You will recall that during our discussion we considered the problem of what would happen if the CDC reported before the end of 1969 that the development cost was likely to exceed the criterion figure. You took the view that this possibility was covered by paragraph 3 of your proposal, and that to go further and stipulate that in this event the two Ministers should recommend to their Governments that they should release each other from their obligations under the 1962 Memorandum of Understanding was unnecessary and could be prejudicial to our continuing efforts to make the project a success. We for our part feel that we can accept your wording because it seemed clear from our discussion that there was no difference between us as to what would happen in practice. But since it is not self-evident from the wording of your proposal as now agreed, it would, I think, be well if I could spell out our understanding of how we would proceed in this eventuality.
If estimated development costs were to rise above £600M (1966 prices) it would imply that a major re-design would be necessary. It would therefore be necessary to decide quickly whether such re-design should be put in hand or whether the project should be cancelled. In this event we would I am sure wish to consult together, and we would have to consider, in the light of our agreement over the significance of the figure of £600M (1966 prices) whether we should not then recommend to our Governments that the 1962 Understanding should be amended in the sense of para 2(d). This is I know a remote contingency, which we all hope and believe will not come to pass. But, as you yourself recognised at our meeting, our agreement on your proposal should not be taken to imply that, if faced with such a radically new situation, we would not consider terminating the project before the end of 1969, and I think it important that this should be clearly understood between us.
FREQUENCY OF REVIEWS UNDER THE EARNINGS-RELATED PENSION SCHEME

Memorandum by the Chancellor of the Exchequer

The Treasury were asked by the Social Services Committee to prepare a paper on the cost and implications of annual, as opposed to biennial, pension reviews.

The main considerations affecting the choice fall under three headings:

(a) The financial cost, direct and indirect, in terms of higher payments by the public sector.

(b) The impact on the economy.

(c) The administrative problems.

Cost

3. The direct cost would depend on the degree of post-award dynamism given under the new scheme. On the assumption of an average increase in money earnings of 6 per cent a year associated with an increase of 3 per cent a year in prices, the extra cost of annual, rather than biennial, upratings would amount to about 5 per cent of the total outlay under the scheme every second year with earnings-dynamism and 2½ per cent with price-dynamism. At 1968 prices this would average out under full earnings-dynamism to about £150 million every other year after 5 years and about £550 million after 30 years. With price-dynamism the extra cost would be about £70 million every other year after 5 years, rising to about £250 million after 30 years.

4. Moreover, commitment to annual upratings in the White Paper in 1968 would lead to pressure for this promised feature of the new arrangements to be adopted for the remaining years of the present scheme, with consequent additional cost of the order of £150 million a year in the off-years between upratings in the near future.

5. If there are annual upratings for national insurance benefits, there must inevitably be the same for supplementary benefits. Because of the inter-action between the supplementary benefit rates and the rising level of pensions as the scheme moves to maturity, it is difficult to estimate the extra cost of annual upratings of supplementary benefits with any degree of precision. At the beginning of the new scheme it seems likely to be about £20 million every other year.
6. Whatever is decided in the national insurance field will have repercussions on Government expenditure in other fields. The Government could hardly treat its own pensioners much worse than it is treating the mass of the population under the national insurance scheme. The present cost of public service and armed forces pensions is about £316 million a year; assuming that they are increased only in line with prices, the amount at stake at present is, with prices increasing at 3 per cent a year, about £10 million every second year. To the extent that the cost of public service pensions increases apart from the effect of post-award dynamism (as it is bound to do, e.g. because the NHS scheme is not yet fully mature), and to the extent that increases more nearly in line with those in the national insurance field come to be conceded, the amount could be much greater, although the "modifications" in the public sector schemes to take account of the new national insurance scheme would be an offsetting factor.

7. There would be a similar impact in the field of armed services pay, which is at present reviewed every two years. The extra cost of annual reviews - which would have to be enough to keep armed forces pay in line with earnings elsewhere - would be £15-20 million every second year (assuming, as with national insurance, that money earnings increase by 6 per cent a year). Civil Service pay as such would not be directly affected; the Pay Research Unit could not carry out its surveys for each of the main classes more frequently than every third year, and the precedent has already been set of having central pay increases in the meanwhile. But there can be no doubt that the practice of annual reviews elsewhere in the public sector would make it much more difficult to withhold any part of central pay settlements until a later date, as was done recently.

The general economic background

8. In incomes policy terms any arrangement providing for automatic annual increases based on changes in the cost of living or in earnings elsewhere is in conflict with a policy which denies automatic increases in pay on similar grounds. Annual reviews would for this reason be more awkward than biennial. At the same time they would tend to accelerate the pace of wage settlements. While the relationship between amount and frequency of increases, and the value of a long interval between wage settlements should not be overstated, it is generally true that the more frequent the adjustment the larger the total of increases. Moreover, a settlement lasting for more than a year gives employers some assurance about the level of future costs and makes a contribution in a movement towards greater stability of contracts. In the longer run the entrenched privilege of annual reviews in the Government field could seriously prejudice the acceptance by employers of longer contracts and so deny United Kingdom industry the benefits in terms of stable costs and better planning of future production such contracts might bring.

Administrative savings

9. The frequency of reviews also has an important effect on administrative costs. Each review is a major exercise which requires extensive overtime working and costs in all about £1 million.
10. Moreover upratings in the autumn (the period of the year so far preferred for social reasons and as more convenient for the Ministry of Social Security) are much more difficult for Inland Revenue to cope with and inconvenience those pensioners who come within the PAYE system because of their other income (at present about £½ million). With annual upratings in the autumn their coding would never be right; with a biennial system it would be right every other year. The unpopularity of such an arrangement coupled with the difficulties for Inland Revenue if upratings were to be made annually would force reconsideration of the case for doing them in the spring.

Summary

11. The extra cost of annual, as compared with biennial, reviews would be very substantial within the new scheme itself. There would also be quite significant additional costs in terms of public sector pay and pensions. All these extra commitments would limit our room for manoeuvre in the management of the economy. It is important to retain as much flexibility as possible in the new scheme, especially at the outset. If later it were found possible to accommodate them, we could always move towards annual reviews, whereas to go back to a biennial pattern once annual upratings were established would be virtually impossible.

R. H. J.

Treasury Chambers, S. W. 1.

15th October, 1968
NOTE

The attached paper is circulated only to members of the Cabinet and the Chief Whip for their personal use.

Annex B (draft White Paper) and Annex C (Explanatory memorandum) will be circulated later.
15th October, 1968

CABINET

HOUSE OF LORDS REFORM

Memorandum by the Lord Chancellor

The Cabinet decided on 18th July (CC(68) 36th Conclusions, Minute 5 (Confidential Annex)) that, so far as could then be judged, the best course open to the Government on House of Lords reform was to seek to implement the proposals in the draft White Paper and that work should go forward on the preparation of the necessary Bill. The position was to be reviewed in the autumn. Our commitment to early legislation had been reaffirmed in the Prime Minister's statement in the House of Commons on 20th June.

2. The Ministerial Committee on the House of Lords has carefully considered the various alternatives which are now open to us, and we have agreed that the best course would still be to proceed with the existing proposals. We recommend that the Government should announce in the debate on the Address our intention to proceed with a reform on this basis, and make clear our intention to go ahead even if the Opposition do not agree; but that we should also give the Opposition leaders an opportunity to see and comment on a draft White Paper and a draft Bill. The draft White Paper would contain the same proposals as those on which the Inter-Party Conference had been working, but it would be in the form of a 'unilateral' document for presentation by the Government alone. The White Paper has been revised for this purpose and the new draft is attached as Annex B, while Annex A summarises the main changes from the draft circulated with C(68) 87; a draft Bill together with an explanatory memorandum are attached as Annex C. If the Opposition suggest that there should be further inter-Party talks we could accept the suggestion but only on the basis that those matters of policy which had already been exhaustively explored and agreed by the Inter-Party Conference would not be re-opened, and that agreement on the text of a White Paper and of a Bill must be reached quickly.

3. A solution imposed in this way would be more welcome to our own backbenchers than a formal invitation to resume talks, and if the Opposition were to decide to co-operate, we should achieve the principal advantages of an agreed scheme; we would secure an easier passage for the Bill and for our legislative programme generally and at the same time make it more difficult for any future Conservative government to make unilateral changes in the agreed scheme in ways unacceptable to us.
Agreement would have the further advantage of committing the Opposition to those parts of the scheme which must depend not on statute but on constitutional convention, e.g. the voting strength of the Parties in the reformed House. On the other hand, if the Opposition decided not to co-operate, we should have the advantage that our own backbenchers would give us added support for the very reason that we should be in conflict with the Conservatives. As for public reaction, an offer to show the Opposition the draft White Paper and consult them on the draft Bill should meet the likely demand that we should make an effort to reach a formally agreed solution.

4. This course should not present serious difficulty if, as there is now reason to hope, the Conservatives in the Lords co-operate on the Transport Bill and the order to continue the Southern Rhodesia Act, 1965. It might still be the best course if they do not; but in that event feeling amongst our own supporters might make it desirable for us to modify the scheme, for example by removing at once the existing peers by succession, instead of allowing them to fade out gradually as speaking peers. Much would however depend on the climate of Party and public opinion at the time and we do not think it would be sensible to reach any final conclusions at this stage.

5. I therefore invite my colleagues to agree that we should proceed as proposed in paragraph 2 above.

G.

House of Lords, S.W.1.

15th October, 1968
1. The language has been revised to make the White Paper more suitable for unilateral presentation, less emphasis being placed on the advantages of the House of Lords. Some changes of order have also been made to improve the argument; in particular the material on previous attempts at reform is now in Appendix I.

2. The main changes of substance are as follows:
   (i) the introductory paragraphs have been revised to give less prominence to the Inter-Party Conference and to include a clear statement of the Government's objectives;
   (ii) paragraph 8 gives a fuller treatment of the functions of the House of Lords;
   (iii) in paragraphs 9 to 14 the statistical material on the composition of the House has been revised and expanded;
   (iv) paragraph 29 deals with the problem of patronage in greater detail than the previous draft.

3. The following have been omitted from the new draft as not appropriate to a unilateral document:
   (i) the suggestion that peers who have disclaimed their titles might be enabled to recover them (paragraph 66 of the previous draft);
   (ii) the suggestion that the Inter-Party Conference might remain in being to keep the working of the reforms under review (previously paragraph 68);
   (iii) the discussion of the date of commencement (paragraphs 71 to 74 of the previous draft).
HOUSE OF LORDS

REFORM

Presented to Parliament by the Prime Minister
by Command of Her Majesty

November 1968

LONDON
HER MAJESTY'S STATIONERY OFFICE
Os. Od. net

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HOUSE OF LORDS REFORM

I. The Background to the Reform

Introduction

It was announced in the Queen's Speech at the opening of Parliament on 30th October that legislation would be introduced to reform the composition and powers of the House of Lords.

2. A Conference of representatives of the three main parties was convened a year ago, on the initiative of the Government, in the hope that an all-party consensus could be reached about the place, powers and composition of the second chamber in the present day. Its discussions were based on the proposition that the powers of the House of Lords should be reduced and its present hereditary basis eliminated, and that it should thereby be enabled to develop within the framework of a modern parliamentary system. The Conference met first in November 1967 and continued its discussions until June 1968, when they were suspended following the Lords' rejection by 193 votes to 184 of the Southern Rhodesia (United Nations Sanctions) Order 1968.

3. The Inter-Party Conference had by that time reached agreement on the main outlines of a comprehensive scheme for reform, covering both the powers and the composition of the House of Lords, and much constructive work had been done on the details of its implementation. The Government has continued and completed the work from the point at which the talks came to an end, and proposes shortly to introduce the legislation necessary to bring the scheme into effect.

4. The Government believes that any reform should achieve the following objectives:

(a) The hereditary basis for membership should be eliminated;
(b) No one party should possess a permanent majority;
(c) In normal circumstances the government of the day should be able to secure a reasonable working majority;

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The powers of the House of Lords to delay legislation should be restricted; and
its absolute power to withhold consent to subordinate legislation against the will of the Commons should be abolished.

The Government also considers that any reform should be based on the following propositions:

(a) in the framework of a modern parliamentary system the second chamber has an essential role to play, complementary to but not rivalling that of the Commons;
(b) its present composition and powers prevent the House of Lords from performing that role as effectively as it should;
(c) the reform should therefore be directed towards promoting the more efficient working of Parliament as a whole; and
(d) once the reform has been completed the work of the two Houses should become more closely co-ordinated and integrated, and the functions of the House of Lords should be reviewed.

The scheme which the Government proposes meets all these objectives and satisfies all these requirements. Its main features are a two-tier House with 'voting' members who would be entitled to speak and vote, and 'speaking' members who would be entitled to speak but not generally to vote. Membership would for the future be by nomination alone and succession to a hereditary peerage would no longer carry the right to a seat in the House; but existing members who sit by right of succession would lose their voting rights but would be able to remain as speaking members for the remainder of their lives. Some of the more politically active peers by succession would be granted life peerages and so become entitled to membership of the voting nucleus. The government of the day would be entitled to secure for itself an adequate working majority over the opposition parties, although not a majority of the House as a whole when members who accept no party allegiance are included. The present powers of the House to delay public bills would be reduced to a power to impose a period of delay of six months from the date of disagreement between the two Houses; and its power to reject subordinate
legislation would be replaced by a power sufficient only to require the House of Commons to consider it again. There would remain a place in the reformed House for law lords and bishops, but the number of bishops would be gradually reduced from 26 to 16. The reform would not affect the judicial functions of the House or the rights of the peerage as an order, since these questions are outside the scope of a reform which is concerned with the position of the House of Lords as the second chamber of Parliament.

7. The following paragraphs of this part of the paper give an account of the present functions of the House of Lords and of its composition and powers; set out the reasons why a comprehensive reform of its composition and powers is now required; and describe a number of schemes which have been considered and rejected. Finally an explanation is given of the reasons for which the Government adopted the scheme now proposed. Part II of the paper gives the proposals in detail.

Appendix I gives an account of some of the previous attempts at reform and Appendix II offers some ideas for developments in functions and procedure.

**Functions of the House of Lords**

8. Apart from providing the supreme court of appeal, the House of Lords at present performs the following main functions:

(a) the provision of a forum for full and free debate on matters of public interest;
(b) the revision of public bills brought from the House of Commons;
(c) the initiation of public legislation, including in particular those government bills which are not controversial in party political terms and private members’ bills;
(d) the consideration of delegated legislation;
(e) the scrutiny of the activities of the Executive; and
(f) the scrutiny of private legislation.

All these functions must be performed by Parliament, whether by the
House of Lords or by the House of Commons, and in all of them except the last the House of Lords has in recent years made an increasing contribution and the volume of its work has expanded. Over the years it has evolved from a chamber which provided a check on the executive by its power to challenge legislation to one which can still act as a check on the executive but does so through the detailed consideration of legislation and its scrutiny of administrative decisions. The House is however prevented from developing its full effectiveness by the problems of composition and powers which have bedevilled all discussions of the functions of the House of Lords in recent years. Once these problems of composition and powers have been solved the functions of the House of Lords should also be reviewed and developed, but such a review could not be profitably made until that time and it would in any event be more appropriately undertaken by the two Houses themselves. In making its present proposals, the Government has assumed that the functions of the House will remain broadly those set out above, but it has borne in mind that they might be extended and developed later. The Government sees this possibility of developing the functions of Parliament as a whole as the most positive ground for reform.

The present House of Lords - Composition

9. In May 1968 the House consisted of:

(a) 742 hereditary peers by succession
(b) 122 hereditary peers of first creation
(c) 143 life peers
(d) 23 serving or retired law lords
(e) 26 bishops

Total 1,056

In this paper, peers who sit by right of succession to a hereditary title are described as peers by succession; all other members of the House, that is categories (b) - (e) above, are described as nominated peers.

(1) Created under the Life Peerages Act 1958
(2) Peers qualified to sit judicially under the Appellate Jurisdiction Act 1876
(3) Consisting of the two archbishops, the Bishops of London, Durham and Winchester, and 21 diocesan bishops of the established church in England. Bishops are not, strictly speaking, peers but are lords spiritual and lords of Parliament. They leave the House on retirement.
The membership of the House of Lords has increased steadily since 1900, when it was 590, because frequent new creations have been made and because until the introduction of life peerages in 1958 all newly created members of the House, except Lords of Appeal in Ordinary and bishops, were hereditary peers. The increase in the total size of the House has been accompanied by an increase in the number of its totally inactive members.

Of its present potential membership of over 1000, between 350 and 400 did not attend the House at all during the session for 1967-68 up to 1st August: most of these were either on leave of absence or had not received a writ of summons. Of the 678 peers who did attend, rather less than 300 attended reasonably often - 32½ per cent or more of the sittings of the House or of its committees; rather more than 200 attended from time to time - between 5 per cent and 33⅓ per cent of the sittings; and 175 attended very rarely indeed - 5 per cent or less of the sittings. Of the 320 or so nominated peers about 250 attended the House, and of those about 150 attended reasonably often, about 65 attended from time to time and about 50 attended very rarely indeed. The average daily attendance for 1967-68 up to 1st August was about 230; this figure compares with 140 in 1963 and 92 in 1955. These figures are shown in the table on page 7.

The table also shows that there is a striking difference between the party political composition of the whole House on the one hand and of those peers who attend regularly on the other. On 1st August 1968 a total of about 350 peers took the Conservative whip, about 115 took the Labour whip and about 40 took the Liberal whip. The remainder, including those who did not attend, took no party whip. On the other hand, of those who attended more than 33⅓ per cent of the sittings during the session for 1967-68 up to 1st August, about 125 took the Conservative whip, about 95 took the Labour whip, about 20 took the Liberal whip and about 50 took no party whip. Amongst nominated peers the figures for the whole House were 94 Labour,
Conservative, 13 Liberal and 140 without a party whip, giving a total of 3,2; for those who attended 33½ per cent of the sittings the figures were 31 Labour, 38 Conservative, eight Liberal and 26 without a party whip, giving a total of 153.

13. The frequency with which peers of each party attend the House is also illustrated by the chart on page 8. The information is again based on figures for the session 1967-68 up to 1st August.

14. Since those peers who attend regularly but take no party whip usually sit on the cross benches, they are commonly known as 'cross benchers'. They are a special feature of the House of Lords and include men and women with a wide range of backgrounds who for one reason or another prefer not to accept any party allegiance. The evidence shows that in speech and vote they do not adhere regularly to any party. Many have full-time occupations outside the House and for this reason they tend to come infrequently until they retire from their regular occupation; but after retirement many give a period of regular service to the House. Some of the most influential speeches by cross benchers have been made by those who come rarely. The evidence indicates that they do not possess any sense of corporate identity or act in any way as an organised group, and they resist any tendency for them to be regarded as such.

The present House of Lords - Powers

15. The House of Lords has the same right to initiate and to delay or revise legislation as the House of Commons (subject to the Commons' financial privilege), except for the restrictions imposed by the Parliament Acts of 1911 and 1949. These are described in detail in Appendix I; their effect in practice is that a bill to which the Lords are opposed can never be passed in less than 13 months from the original second reading of the bill in the House of Commons and in some circumstances the period could well be substantially longer. The effective delay which the House of Lords can cause is however much shorter than this, since the period of 13 months includes the time needed for the bill to pass through all its stages in the
ATTENDANCE AT THE HOUSE OF LORDS
by those who were members on 1 August 1968
for the period 31 October 1967 to 1 August 1968

<table>
<thead>
<tr>
<th>Party</th>
<th>Peers who attended more than 33⅓% ('working House')</th>
<th>Peers who attended more than 3% but less than 33⅓%</th>
<th>Peers who attended up to 3%</th>
<th>Peers who did not attend*</th>
<th>TOTALS</th>
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<td></td>
<td>N</td>
<td>S</td>
<td>Total</td>
<td>N</td>
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<td>Conservative</td>
<td>38</td>
<td>87</td>
<td>125</td>
<td>24</td>
<td>85</td>
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<td>7</td>
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<td>8</td>
<td>11</td>
<td>19</td>
<td>2</td>
<td>5</td>
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<tr>
<td>Peers not in receipt of a party whip</td>
<td>26</td>
<td>26</td>
<td>52</td>
<td>61</td>
<td>24</td>
</tr>
<tr>
<td>TOTAL</td>
<td>153</td>
<td>138</td>
<td>291</td>
<td>94</td>
<td>120</td>
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N = Nominated peers
S = Peers by succession
Attendance at committees of the House (other than the Appellate Committee) has been taken into account
* including 192 peers with leave of absence
81 peers without writs of summons
THE PARTY BALANCE IN THE HOUSE OF LORDS

The whole House and the nominated peers

- peers who attend more than 33 1/3% (regular attenders)
- peers who attend more than 5% but less than 33 1/3%
- peers who attend up to 5%
- peers who do not attend (including those on leave of absence or without writs of summons)

THE PARTY BALANCE IN THE HOUSE OF LORDS

The whole House and the regular attenders

- nominated peers
- peers by succession
House of Commons after second reading and also the time which the House of Lords takes to consider the bill up to the point of disagreement. Nevertheless, dislocation of the parliamentary timetable can be caused at any time and, if a bill is not introduced until towards the end of a parliament, it may be lost altogether. Subordinate legislation, private bills and bills to confirm provisional orders do not come within the limitations of the Parliament Acts.

The result of the increase in the use of subordinate legislation is that the theoretical scope for the Lords to use their powers in order to override the Commons has in fact grown considerably since the passage of the Parliament Act 1911. Over a wide area, which tends to expand as the processes of legislation and government become more complex, provisions supplementary to legislation are left to be made by subordinate legislation, that is by Order in Council or departmental order or regulation. The enactments conferring these powers normally include provision for Parliament to supervise their use, the substance of which is either that an instrument made under the power may be annulled by resolution of either House or that such an instrument cannot come into force (or remain in force) unless approved by resolution of each House. Except in the fields of taxation and other financial matters, these provisions give parallel powers to both Houses. The Parliament Acts do not apply, and the House of Commons has no means of overriding a decision of the House of Lords which conflicts with its own.

The case for reform

17. The present composition of the House of Lords gives it some qualities which are particularly valuable to it in performing the functions set out in paragraph 8 above. The detailed consideration of legislation and

(1) including confirmation bills under the Private Legislation Procedure (Scotland) Act 1936
the scrutiny of administrative decisions demand the presence of a nucleus of experienced parliamentarians who are able to devote a substantial part of their time to the business of the House; but its function as a forum for wide-ranging debate makes desirable in addition the presence of men and women who have expert knowledge of or a special interest in the subject under discussion. Nevertheless the House has two main features which are inappropriate to modern conditions: first, the right to vote can still be derived from succession to a hereditary peerage and second, the House still contains a permanent majority for one political party. The unsatisfactory situation which these features have produced is seen most clearly in the way in which the House of Lords has made use of its powers: although its formal powers are considerable, and have increased in scope with the wider use of subordinate legislation, in practice its final powers of delay over public legislation and of rejection of subordinate legislation have remained almost wholly unused. These powers cannot however be disregarded since they give the Lords considerable influence, of which they make effective use in amending bills brought to them in the course of the ordinary legislative process of scrutiny and revision. Governments are naturally more ready to accept amendments on matters which do not involve major party political controversy,
and the Lords’ influence has therefore most frequently affected private
members’ bills and those government bills which have been less controversial
in party political terms; but the Lords have nevertheless made their
influence felt on party political issues, by governments both of the right
and of the left.

8. Since the permanent majority has been for the Conservatives, however,
the Lords’ influence, and the threat of the use of their final powers, have
always had a more important bearing on the major legislative proposals of
governments of the left – for example, the delays forced upon the Labour
Government on the Iron and Steel Bill 1949 – although for the same reason the
threat to a government of the left cannot easily be brought into play without
the risk of involving Parliament in a constitutional crisis. As regards
subordinate legislation, mention has already been made of the Lords’
rejection of the Southern Rhodesia (United Nations Sanctions) Order on
18th June 1968; and there have been a few occasions on which orders have
not been proceeded with because of known opposition in the House of Lords.
But the fact remains that since 1914 the only bill actually passed into law
against the continuing opposition of the Lords was the Parliament Bill of
1947, and on the single occasion since the Second World War when the Lords
have rejected an item of subordinate legislation they did not persist in
their opposition when an equivalent Order was subsequently introduced. The
reason is clear: the composition of the House is such that the Lords cannot
persist in their opposition to a measure upon which the Commons are determined
without the risk of provoking a constitutional crisis. Nevertheless, the
possibility that the Lords might use their formal powers remains a political
fact with which every non-Conservative government must reckon, particularly
after its third year in office and which tends to undermine the effectiveness
of the popular vote at an election. A situation in which the House of Lords
is prevented by its composition from making use of its powers cannot be
satisfactory or even respectable at the present time, when increasing demands
are being made on Parliament and there is widespread public concern that our
parliamentary institutions should be made more effective.

19. To solve these problems some would favour a remedy which would abolish the House of Lords altogether, or alternatively would strip it so radically of its powers and functions that the House of Commons would become in effect the sole organ of parliamentary government. To adopt a system of single-chamber government would however be contrary to the practice of every other parliamentary democracy which has to legislate for a large population. More important, the case for two-chamber government in this country has been strengthened since the end of the Second World War by the growth in the volume and complexity of legislation, and also by the increase in the activity and power of the executive and in its use of subordinate legislation.

Moreover, in terms of this country's experience, abolition of the second chamber would subject the House of Commons to severe strain, and paradoxically would result in less procedural flexibility and speed because of the need to guard against the overhasty passage of legislation.

20. Another remedy has been suggested which would leave the composition of the House unchanged but would reduce its powers. Such a remedy would transform the upper House into little more than a debating chamber, and at least some of its functions would have to be performed exclusively by the House of Commons. Again, additional burdens would be imposed upon the Commons which would be difficult for them to sustain. Furthermore, if the House had no worthwhile function to perform, distinguished men and women would be reluctant to become members.

Possible schemes of reform

21. For these reasons the Government believes that there is no sensible alternative to a comprehensive reform both of the composition and of the powers of the House of Lords. It therefore examined a number of well-known proposals which have been made at various times. One group relies on the principle that a modern second chamber should derive its authority from the popular vote - for example, that the membership should be directly
elected by the electorate which chooses the Commons. An obvious method of making such a change would be to follow the example of Norway where some of the members elected in a general election go to the lower house and the remainder to the upper house. Alternatively, the upper House could be elected indirectly, or by larger and different constituencies and for longer (or shorter) periods than the House of Commons.

22. There are of course strong arguments for an elected second chamber; it seems both radical and rational since it would both make clear the source of the political authority of the upper House, and it would also successfully prevent the maintenance of a permanent majority for any one party. Whether or not a House of Lords reformed in this way became a senior and influential chamber, like the Senate of the United States of America, would largely depend upon the system by which its members were elected and upon the powers it possessed. But whatever the system of election and whatever its powers, a directly elected second chamber would inevitably become a rival to the House of Commons. The second chamber would then also possess a mandate from the people, and it might therefore be inclined to make a claim for greater or even equal powers, and in particular to challenge the present control by the Commons of finance and supply. A directly elected second chamber fits well enough into a constitution based on a division of powers between two chambers (most often found in connexion with a federal system of government) but it would violate the central principle of the present British parliamentary system by which it has been recognised, at least since the beginning of the nineteenth century, that the government stands or falls in the House of Commons.

23. A second possibility would be an upper House constituted on a regional basis: for example, indirectly elected or nominated by local authorities. But a House composed on this principle would still be open to the dangers resulting from the probability of rivalry between the Houses, although possibly not in such an acute form as if it were directly elected. The Government
certainly thinks it essential to include in the reformed House members from Scotland, Wales and Northern Ireland, and also from the regions of England, but while recognising the current demands for national or regional government it does not think that a response which sought to establish a reformed second chamber on a purely regional basis would be practicable at this stage. There do not at present exist the national or regional institutions which could provide the machinery for selection for such a chamber, and it is difficult to see how the selection could be made through the existing system of local government. Local government elections take place at different times from general elections, and a government with a majority in the House of Commons could well find itself in a minority in the House of Lords. Many believe that a radical reconstruction of local government is in any event long overdue and two Royal Commissions are subjecting the present system to detailed and comprehensive inquiry. It is relevant that in countries where there is an effective upper house based on some form of regional or local representation - for example in Australia or in the United States of America - it is usually part of a federal system of government which does not exist in this country. Finally, a chamber which was based on any form of regional representation would inevitably alter the relationships which at present exist between members of Parliament and their constituents.

24. Another suggestion was that the reformed House should consist solely of peers nominated for the life of one parliament. The party membership of the House of Lords in each parliament would then be arranged broadly to reflect the balance of parties in the lower House. The main attraction of this proposal is that without recourse to elections it would remove the permanent majority for a single party and would replace it by an assured majority for the government of the day; but this attraction is more than outweighed by the reduction in the independence of the individual peer and of the House as a whole which the change would inevitably bring with it. A House composed in
this way would in effect reproduce the composition of the House of Commons and reflect its opinions and decisions; it would therefore be incapable of carrying out effectively the complementary functions which the reformed second chamber should perform. Further, if members of the House of Lords were appointed afresh after each general election, powers of patronage would inevitably be greatly increased since in order to be re-selected a peer would have to remain acceptable to the party managers. Under the present system a peer having once become a peer cannot be deprived of his seat in the House, and the Government believes that this feature should be preserved in the reformed House.

Principles of reform

25. Two main principles emerge from the examination of these suggestions. The first is that if a reformed House is to have the authority which an effective second chamber requires, it must possess a degree of genuine independence. The present House has three characteristics on which such an independence could be founded. The first is the fact already mentioned that once created a peer cannot be deprived of his seat; the second is the participation of a considerable number of part-time members with wide interests and experience who can make contributions of high quality from time to time; and the third is the presence of a number of cross benchers who owe no allegiance to any party. It is however prevented from developing their potential by the unsatisfactory features of its composition which have already been described - the hereditary principle and the permanent majority for one political party.

The Government considers that these three characteristics should be preserved to give the reformed House the independence it needs, and that the reform should seek to remove those unsatisfactory features of the present House which prevent it from taking full advantage of them.

The second principle is that the government of the day, of whatever party it might be, should be able to make the fullest use of those qualities and opportunities which the reformed House would offer. No government could however be expected to do so, or to encourage the development of its functions, without a reasonable expectation that its measures would normally be passed without undue delay. It is therefore important that the government of the day should have a majority of the party membership of the working House which
would be sufficient for this purpose. These two principles must inevitably conflict to some extent and it is essential that any proposals for reform should attempt to reconcile them so far as possible.

A 'two-tier' scheme

27. The need to reconcile these two principles led to the suggestion of a 'two-tier' scheme which would divide the membership of the reformed House into two groups, 'voting' peers and 'speaking' peers. For the future, all new members of the House would sit by right of nomination and not by right of succession to a hereditary peerage. Voting peers would constitute a 'working House' in whom the effective power of decision would reside. In particular they would be responsible for the bulk of the work arising from the legislative functions of the House: as indicated above, these duties require regular attendance and would not be appropriate for those who can attend only occasionally. Voting peers would include every nominated peer who was prepared to accept, for the term of a parliament at a time, the responsibilities of regular attendance; in the first instance the number of nominated peers available to serve in the working House would be increased, to the extent necessary to create a viable House and to achieve political balance, by conferring life peerages on a number of active peers by succession. The government of the day would have a majority of the party membership but, in order to preserve the measure of independence to which the Government attaches importance and to avoid the need for large numbers of new peers to be created at every change of government, it would not have a majority of the working House as a whole when those without party allegiance were also taken into account. It follows that the government's majority over the other parties would be small, perhaps ten per cent of the total of the opposition parties, and that it would not vary with the size of the government's majority in the House of Commons. It might be thought that the peers without party allegiance - the cross benchers - would thus hold the balance of power and would come to represent a new constitutional force; but it was pointed out in paragraph 14 above that they have no sense of corporate identity at present.
An incoming government would achieve its majority over the other parties by means of a suitable number of new creations during its first months of office: this practice, combined with a voting freehold, could theoretically produce an indefinite increase in the size of the voting House, but studies have indicated that in almost any foreseeable circumstances the voting House could be kept, or soon restored, to an acceptable size if the older members retired as voting peers at the end of each parliament under a retirement rule (they would remain in the House for life as speaking peers).

28. The 'second tier' would be composed of speaking peers who would comprise all the other members of the House of Lords at the time of the reform. The existence of this second tier would make it possible to bring into the House nominated peers who could not attend regularly but who would be able to make valuable contributions from time to time; they would include representatives of the professions, scientists, industrialists, trade union leaders and other leading members of the community whose presence would enable the House to consider and discuss with authority all aspects of national life, together with those experienced parliamentarians who were too old to be expected to attend regularly. In order to preserve continuity and to limit the extent to which any individual's rights were taken from him, this second tier would also include, at first, those existing peers by succession who wished to remain in the House; but since they would not be entitled to vote, all connexion between the hereditary principle and the power to vote would be severed immediately.

29. The Government proposes to retain the arrangements by which new members are admitted to the House of Lords and they would therefore continue to be admitted when created peers by the Crown on the recommendation of the Prime Minister. Alternative proposals such as nomination for the duration of a parliament have been rejected on the grounds that they would represent an unacceptable extension of the Prime Minister's powers of patronage. On the other hand, the Government has felt obliged to reject as impracticable a number of schemes which would replace the system of nomination altogether; and various methods have therefore been considered.
by which the amount of patronage implicit in the Government's proposals might be limited or controlled. One suggestion was that the power of nomination should lie not with the Prime Minister but with some form of constitutional committee; apart however from the traditional objection that such a committee would hamper the Prime Minister's discretion, the members of a committee which possessed such a power of nomination would be placed in an extremely embarrassing situation and would be open to pressures and representations of a kind which would make it very difficult for them to do their work effectively. The Government does however see attraction in the possibility of a committee which, while holding no power of nomination in its own hands, would review periodically the composition of the reformed House and report, either to the Prime Minister or to Parliament itself, on any deficiencies in the balance and range of its membership which it might have found. Its chairman would be a person of national standing but without party political affiliations; its members would include representatives of the political parties and persons without party political affiliations in roughly equal numbers. Its reports would enable Parliament and the country as a whole to satisfy themselves that the powers of patronage were not being abused. The Government believes that with this addition the present system of nomination provides the most satisfactory method of selection which can be devised in present circumstances.

30. The Government takes the view that a two-tier chamber, organised and chosen in the way proposed, provides a sensible method of transition from a largely hereditary to a wholly nominated House; it also maintains that blend of the active parliamentarian and the independent expert which gives the present House its special distinction and special qualifications for performing the functions assigned to it. It would otherwise be impossible to reconcile the two principles described in paragraphs 25 and 26 above, or to achieve a second chamber which would at once be strong enough for its legislative functions, and for the other functions which may be placed upon it in due course, and at the same time have amongst its members a sufficient range of knowledge to enable it to debate with authority
any subject of public importance.

**Powers of the reformed House**

31. The Government considers that, in exercising the six main functions listed in paragraph 8 above, the reformed House must possess a real, if limited, power of delay whose use should not, as it would with the present composition of the House, risk precipitating a constitutional crisis. Since the government of the day would normally have a working majority, the actual use of this power would continue to be a rare event; but on public legislation generally a reformed second chamber should have a power of delay sufficient to cause the Commons and the government of the day to think seriously before proceeding with a proposal against the opposition of the Lords, and to encourage a government to seek agreement on any point of dispute which might arise between the House of Commons and the reformed House. On the other hand, it would not be right for a nominated House to be able to frustrate the legislative proposals of a government responsible to an elected House; and even if the House of Lords pressed its objections, it should be possible, provided the government had been warned of the objections and had considered its proposals again, for the House of Commons to carry them into law within a reasonable period of time.

32. With these principles in mind the Government proposes that if the Lords reject a bill it should be possible to present it for Royal Assent at the end of a period of six months from the point of disagreement between the two Houses, provided that a resolution directing that it should be presented has been debated and passed by the House of Commons. The period of delay would be capable of running into the next session or the next parliament, and there would be no need, as there is under the present procedure, for the disagreed bill to be passed again through all its stages in the second session or parliament. A straightforward power to impose a delay of six months has the double advantage of applying to the legislation of a government of any party at any stage of a parliament, and of being more readily comprehensible than the complicated provisions of the Parliament Acts.

33. On subordinate legislation the Lords' present powers are also inappropriate and unsuited to modern conditions. The Government has considered whether it
might be possible to provide for a period of delay analogous to the
period proposed for public legislation, but it has concluded that such a
scheme would be impracticable in present circumstances because of the need
for some orders to take effect immediately and because the concept of
a period of delay is not part of the general legislative framework within
which subordinate legislation is enacted. The Lords' power of outright
rejection should therefore be replaced by a power only to insist that the
government of the day should think again and, if necessary, that the
House of Commons debate again and vote again upon any instrument to which
the upper House has taken exception.

34. The Government hopes that the proposed reform of composition and
powers will open the way to further developments in the functions and
procedures of the House, and enable it to play an increasingly valuable
part in the work of Parliament as a whole. In the second part of this
paper the proposals for reform are presented in detail as a comprehensive
plan.
II - Proposals for Reform

Composition

35. The reformed House would be a two-tier structure comprising 'voting' peers with a right both to speak and vote, and 'speaking' peers with a right to speak but not generally to vote. Membership would in the future be by nomination only, and succession to a hereditary peerage would no longer confer membership of the House of Lords, but those peers by succession who are now members of the House would remain as speaking members (unless they elect to resign) for life.

36. The voting peers would constitute the 'working House' and in particular they alone would exercise the vote in the whole House or in committees dealing with legislative matters. They would be expected to give a substantial part of their time to the business of the House, and would be subject to certain minimum conditions of attendance and to a specified age of retirement. The age of retirement would not however be introduced in this parliament for the reasons given in paragraph 42 below. At first, voting peers would include all those existing nominated peers willing to accept the obligations of voting membership, together with additional life peers created as necessary to give the working House an appropriate size and balance between the political parties. A number of peers by succession would be created life peers since they include some of the most active and experienced members of the present House: they would therefore receive life peerages in addition to their hereditary titles and would thus be able to qualify for voting membership. Succession to a hereditary peerage would however no longer in itself carry the right to exercise a vote.

37. All other members of the House would be speaking peers, who would have no right to vote in the whole House or in committees for the consideration of legislation but would be entitled to all other rights as members of the House. They would comprise those nominated peers who were unable or preferred not to accept the obligations of full working and voting membership but would be able to make a valuable contribution to discussion from time to time,
together with those who had passed the age of retirement for voting membership. For the time being they would also include those existing peers by succession who continued as such to be members of the reformed House and did not obtain voting rights through the grant of a life peerage.

38. Peers by succession who preferred not to be members of the reformed House would have the option to withdraw if they wished to do so; those who did would nevertheless be able to retain their titles. The option would have to be exercised within a period of one year from the date of the reform. Future peers by succession would be excluded from the reformed House altogether but would similarly be able to retain their titles.

39. There would be special arrangements for law lords and bishops, which are described in paragraphs 55 - 62 below.

Basis of membership

40. The present constitutional practice is that new peers are created by the Queen on the recommendation of the Prime Minister, who consults other party leaders in the case of nominations from their parties. After becoming a peer, whether by succession or on creation, a peer's right to sit in the House of Lords is derived from the rights given to him by letters patent (1); once he possesses these rights he is entitled to a seat in Parliament and to receive a new writ of summons for each parliament for the remainder of his lifetime. The writ may not be withheld unless he is disqualified, for example as a minor, a bankrupt or an alien. These arrangements would in general remain unchanged, except that those peers who succeeded to a hereditary peerage after the reform had come into effect, or were then minors, would no longer become entitled to receive writs of summons to sit in the House of Lords solely by virtue of such a peerage.

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(1) other than those whose peerage was initially created by summons to Parliament.
41. The writ of summons would be the same for all peers who were entitled to sit in the House, whether they were voting peers or speaking peers. The distinction between voting and speaking rights would derive from legislation specifying the qualifications and requirements for the voting right and the circumstances in which the right might be relinquished or lost. It would provide that all existing nominated peers would be qualified for voting rights when the reform took effect and that all future nominated peers would be so qualified on their creation. Not all nominated peers however would wish to exercise these rights or to accept the obligations which would accompany them, and it would not be expected that they should do so. In order to provide for a choice, qualified peers would have the option to declare their intention to vote, and only those who made the necessary voting declaration for any parliament would be entitled to vote in that parliament. The declaration would have to be made within a specified period of the issue of the writ.

42. A peer would cease to be qualified to exercise the vote at the end of the parliament in which he reached a specified age of retirement. It is important that during the early stages of the reform as many as possible of the more active members of the present House should remain available and continue as full working members to give the benefit of their knowledge and experience in what must inevitably be a period of adjustment, and the age of retirement would not therefore be introduced in this parliament. In the long term, however, it would not be right for a working legislative chamber to contain an indefinite number of members, however distinguished, who were well beyond the normal age of retirement from active life: and if members were to be paid (see paragraph 49 below) it would certainly not be right for membership to carry with it the right to be paid for the remainder of a life-time. It is therefore proposed that a peer who had reached the age of 72 at the end of this parliament should be precluded from voting in any future parliament. The choice of a particular retiring age is necessarily a matter
of difficult judgement and some peers could be valuable members of the House for some years after the proposed age of retirement, but a feature of the two-tier scheme is that they would be able to remain as speaking peers, and so continue to play an active and constructive part in the work of the House.

43. It would be a condition of the right to exercise a vote that a peer should attend not less than one-third of the sittings of the House or its committees in each session (attendance at committees would count for this purpose as attending the House). No account would however be taken of periods during which a voting peer was absent with the leave of the House on account of ill-health or parliamentary or government business. In order to preserve the freedom of the Prime Minister in appointing Ministers of his choice and to ensure that a Minister in the House of Lords would be a voting member of that House, Ministers would also be exempted both from the attendance requirement and from the age restriction. If a voting peer who was not exempted from the attendance requirement found himself unable to meet it or preferred not to do so, he would be expected to surrender his voting rights; if he did not surrender them and it were found at the end of a session that he had not during that session attended the necessary number of sittings he would be deemed to have surrendered them. A voting peer who had surrendered his voting rights or was deemed to have done so would not be able to recover them during the same parliament, but he would be able to do so by making a fresh declaration of his intention to exercise voting rights at the beginning of the next parliament. There would be no restriction on a nominated peer’s right to make such a declaration at the beginning of each parliament (provided that he had not passed the age of retirement and was not disqualified from sitting) and a nominated peer would thus enjoy the degree of independence which is essential if the important principle mentioned in paragraph 24 above is to be preserved.

(1) Serving law lords and certain bishops would also be exempt for the reasons given in paragraphs 55-62 below.
The eventual size of the voting House would depend on the way in which its functions developed, but the Government considers that in the first instance a reasonable size would be between 200 and 250 excluding law lords and bishops. A larger number might be found necessary as the work of the House developed and expanded in the future, and much would also depend on the number of speaking peers who attended debates in the House or served on committees, and on the frequency with which they did so. When the reform first came into effect the voting House would consist principally of those present nominated peers who were able to attend regularly - about 150 for the session for 1967-68 - but as indicated in paragraph 36 above they would be supplemented by additional life peers created as necessary to give the voting House an appropriate size and balance between the political parties. The Government contemplates that about 80 new life peers would be needed for this purpose in the first instance, the great majority of whom would be drawn from existing peers by succession. The voting House would therefore consist at first of about 230 peers; provided that speaking peers were also prepared to attend in reasonable numbers and where appropriate to serve on committees, this number should be sufficient for the business of the House, at least for the remainder of this parliament. It might be increased in subsequent parliaments as the work of the House developed but, to preserve continuity, the number of new life peers to be created when the reform first came into effect should be no larger than the work to be performed and the party balance requires.

The size of the voting House might also have to vary in the future to take account of changes of government or in the relative strength of the opposition parties. A scheme which combines a voting freehold with the right for the government of the day to have a majority of the voting party members must necessarily be sensitive to changes of government and to changes in the relative strength of the political parties generally, since with each change of government a number of new peers would be needed to give the appropriate government majority and the correct party balance. In most parliaments the number of new peers entering the voting House would be roughly matched by the number leaving it having reached the age of retirement, but a succession of changes of government at short intervals could lead to a temporary increase in the size of the voting House until enough peers had retired from it to restore the situation to
equilibrium. Mathematical models have been constructed to test the possible effect on the size of the reformed House of various combinations of circumstances, both as they might appear in the future and as they have actually appeared during the last 60 years. Studies based on them have shown that most of the likely combinations of circumstances could be reflected in the composition of the voting House without an unmanageable increase in its size.

It was proposed in paragraph 29 above that a committee should be appointed to review periodically the composition of the reformed House: its size is one aspect which the committee should consider from time to time.

Relationship between the parties

46. The government of the day would normally have a majority in the House of Lords of about 10 per cent of the combined strength of the opposition parties.

The distribution of seats between the opposition parties would so far as possible be determined in relation to their representation in the House of Commons and to the number of votes cast for them in recent general elections, but it would not be related exactly to either since neither is an accurate reflection of a party's strength. Assuming a total voting House of 230, the figures which would be appropriate in the present parliament are: government 105, main opposition party 80, subsidiary opposition parties 15 and cross benchers 30 (these figures again exclude law lords and bishops). If the total membership were more than 230 the party representation would be increased in proportion.

The figure for particular parties would naturally be capable of being varied from time to time to reflect changes in their relative strength and to take account of the emergence of any new parties. This is a second aspect which the proposed committee might keep under review.

Speaking peers

47. As indicated in paragraph 37 above, speaking peers would comprise:

(a) nominated peers who preferred not to exercise voting rights or were deemed to have surrendered them;

(b) nominated peers who had passed the age of retirement for voting rights;

(c) existing members of the House who were peers by succession and had not become voting peers through the grant of a life peerage.

For the reasons given in paragraph 28 above, speaking peers would be an
integral and important part of the reformed House. On the floor of the
House they would therefore have the same rights as voting peers,
with the exception of the right to vote, and in particular they
would therefore be able to ask questions or move motions, including motions
relating to bills and amendments to them. They would be able to serve on
committees, but would not be able to vote in any committee for the considera-
tion of legislation. Voting peers would thus control the legislative work
and have the final power of decision, but there would at the same time be
every opportunity for speaking peers to contribute to debate, both on
the floor of the House and in committee.

Scotland, Wales and Northern Ireland

The Government attaches the greatest importance to the presence in the
reformed House of peers who can speak with authority on the problems and
wishes of Scotland, Wales and Northern Ireland and of the regions of England,
and it has considered very carefully how their presence might most effectively
be secured. There are strong constitutional arguments, based on the presence
of Scottish peers in the House of Lords ever since 1707, and practical arguments
arising from the existence of separate Scottish law, which make it particularly
important that the reformed House should include a suitable number of Scottish
peers. There is at present in the House of Lords a considerable number
of peers who can speak with authority on the needs of the different parts
of the United Kingdom, and the objective must be to ensure that this
situation continues in the future. The Government considers that the most
satisfactory method of achieving this objective in present circumstances
would be for the Prime Minister of the day, in advising the Queen on the
creation of new peers, to pay special and continuing regard to the need for
the membership of the House of Lords to include a suitable number of persons
with knowledge of, and experience in, matters which are of special concern
to the various parts and regions of the United Kingdom. This requirement
would be made statutory. The committee which has been proposed to review the
composition of the reformed House should also consider this aspect and it
is one to which it should pay particularly close attention.
49. Peers are at present able to claim up to 4½ guineas a day in reimbursement of expenses necessarily incurred in attending the House, and those who live away from London can recover their travelling expenses provided that they have attended not less than one-third of the sittings of the House in the month for which the claim is made. (1)

The Government considers that voting peers should in future receive some remuneration (subject to tax) which would reflect the responsibilities and duties which they would be expected to undertake; but the question should be referred to an independent body such as the Committee on the Remuneration of Ministers and Members of Parliament (the Lawrence Committee) which reported in 1964 (Cmnd 2516), or to the Prices and Incomes Board.

Powers - Public bills

50. The powers of the present House of Lords are described in detail in Appendix I. For the future, a public bill originating in the House of Commons on which there was disagreement between the two Houses should be capable of being presented for Royal Assent at the end of a period of six calendar months from the date of disagreement provided that a resolution directing that it should be presented had been debated and passed in the House of Commons. For this purpose, disagreement would be defined as a situation where a bill sent up from the Commons was rejected by the Lords, where a motion that it should be read at any stage or passed was rejected or amended, or where the Lords insisted on an amendment which was not acceptable to the Commons. The House of Lords would have a period of 60 parliamentary days (2) in which to consider a bill; if its consideration of a bill on which there was subsequent disagreement exceeded this period, the excess would count as part of the six months' period of delay following disagreement. Since it would be theoretically possible for the House of

(1) Scottish peers are required to attend only one-third of the sittings at which Scottish business has been discussed.

(2) I.e. days not comprised in a period when both Houses are adjourned for more than four days.
Lords to destroy a disputed bill by postponing any overt disagreement until the end of the session, the bill should also be treated as disagreed to if after the 60 parliamentary days the Lords rejected a motion necessary to its progress or, in the last resort, if the Commons resolved that the bill should be so treated. A suitable period of notice would have to be given in the latter case. A bill would be capable of being presented for Royal Assent at the end of the period of delay, notwithstanding that this ran over a prorogation of Parliament and into a new session; similarly, in the case of a dissolution, any bill which had been passed by the House of Commons and to which the Lords had disagreed could be presented for Royal Assent in the new parliament after the six months' period of delay had elapsed from the date of disagreement. Provision would also be made to allow any modification which had been agreed between the two Houses after disagreement and before the end of the period of delay to be incorporated in the bill before it became law. The procedure for this purpose would not provide for the discussion of the bill as a whole to be reopened and the House of Commons would not be obliged to take any action on any proposals for compromise; but there would be provision for the bill to include such amendments as gave effect to the proposals for modifications agreed to by both Houses since the date of the disagreement. It would be necessary for the bill to be submitted for Royal Assent within 30 parliamentary days (1) from the end of the period of delay after disagreement.

51. Since there is no question of conflict between a government and the Lords on private bills and bills to confirm provisional orders, and since the quasi-judicial procedures on such bills would make it inappropriate to apply the Parliament Act procedure to them, it is proposed to make no change in the present powers of the House of Lords on private legislation.

(1) i.e., for this purpose, days not comprised in a period when both Houses are adjourned for more than four days, or when Parliament is prorogued or dissolved.
2. The existing provision in the Parliament Acts which excludes from their application any bill to extend the duration of a parliament would be continued in relation to the new powers of the House of Lords. It would therefore remain impossible for a bill to extend the duration of a parliament to be passed without the Lords' consent.

Powers - Subordinate legislation

53. The main types of parliamentary control over subordinate legislation are described in paragraph 76 above. The procedure in respect of subordinate legislation which can be annulled by either House is governed by section 5 of the Statutory Instruments Act 1946, under which a resolution for annulment may be passed by either House within 40 parliamentary days from the day on which it is laid before that House. For these cases the operation of any resolution for annulment passed by the House of Lords should be suspended until the end of the period of 40 parliamentary days, or until the end of a period of 20 parliamentary days from the date on which the resolution is passed, whichever is the later; and a resolution passed by the Lords would be ineffective if thereafter a corresponding resolution is rejected by the Commons or the instrument in question is approved by a resolution of the Commons. As regards cases in which the affirmative approval of both Houses is required, it is proposed that where a motion for such approval is rejected by the Lords the House of Commons should be enabled to override the decision of the House of Lords by an express direction. To ensure however that the object of requiring the House of Commons to consider a proposal a second time is achieved, this power would be limited to those cases in which the instrument in question had been considered by the Commons and had been approved by them before the motion for approval was rejected by the Lords.

54. The Government has considered whether the House of Lords could be given the right to impose a period of delay in respect of subordinate legislation, especially where it was not urgent, analogous to the proposed right in respect of public bills. The concept of a period of delay is not however part of the present power of the House of Lords in relation to statutory instruments, and a considerable survey would be needed in order to
establish the feasibility, in legislative and administrative terms, of introducing for subordinate legislation any provision for a period of delay as such. It might be possible for such a survey to ascertain whether any classification of statutory orders into urgent and less urgent could be devised. There is a rudimentary distinction in that some instruments come into operation at once and the parliamentary procedure, whether affirmative or negative, is addressed to the question whether they shall continue in operation; while other orders require a parliamentary procedure, affirmative or negative, within a specified period before they come into operation. It cannot always be assumed however that orders made under the former procedure are urgent and those under the latter procedure less urgent. Statutory orders are made under a wide variety of legislative provisions and do not fall into a consistent pattern. The Government therefore concludes that no such power of delay would be practicable at this stage. The whole subject of subordinate legislation might however be considered by a joint select committee of both Houses, including the questions whether an effective control could be devised to ensure that a government could not circumvent the delaying powers of the Lords over bills by incorporating in subordinate legislation matters which should be incorporated in Acts of Parliament, and whether it might be possible to rationalise the division between matters thought suitable for the affirmative and negative procedures. This idea is developed more fully in paragraphs 6-8 of Appendix II.

Law lords

57. The term 'law lord' is used here to cover all those members of the House of Lords who are entitled to form a judicial quorum under the Appellate Jurisdiction Act 1876. They include:

(a) the Lord Chancellor and serving Lords of Appeal in Ordinary (the latter hold life peerages created under the Appellate Jurisdiction Acts 1876-1947; they are at present nine in number but the statutory maximum has been increased to eleven under the Administration of Justice Act 1968);

(b) former Lord Chancellors and retired Lords of Appeal in Ordinary (at present there are two of the former and eight...
of the latter); and

(e) other peers who hold or have held high judicial office: for example, the Lord Chief Justice or the Master of the Rolls (at present there are three such peers).

As members of the House of Lords the law lords at present exercise two functions: a judicial function which arises from the position of the House as the supreme appellate court of the United Kingdom; and a more general function as ordinary but specialist members of the House as the second chamber of Parliament.

56. The judicial functions of the House of Lords have not been examined in the context of the proposed reform and no change is contemplated in the responsibilities or rights of law lords in relation to the judicial business of the House. In particular, all law lords would continue to be able to vote on the judicial business of the House, regardless of the attendance qualification or any restriction on age. They would include former Lord Chancellors and retired Lords of Appeal in Ordinary since they often continue to take part in judicial business.

57. As regards the law lords' more general function, their responsibilities and rights are not at present in any way different in law from those of other peers but a convention has been developed under which serving law lords do not generally participate in party political controversy: they may speak on controversial matters but do so in their specialist capacity as men learned in the law. As skilled and experienced lawyers however they have a valuable part to play in the consideration of public bills and the jurisprudential aspects of legislation generally. In addition, four law lords must, under standing order, be included in any meeting of the Lords' Committee for Privileges when considering a peerage case;(1) a law lord is usually the chairman of the Joint Committee on Consolidation Bills, and law lords sit regularly on the sessional and House committees and act in effect as their legal advisers. Their knowledge and experience should continue to be fully available to the reformed House for its non-judicial

(1) i.e. a disputed claim to a peerage.
business but those whose work takes place outside the House, for example in the Judicial Committee of the Privy Council, might not be able to meet the attendance requirement which would be a condition for the exercise of voting rights. The Government believes it would be appropriate for all serving law lords, i.e. the Lord Chancellor, Lords of Appeal in Ordinary and other peers, such as the Lord Chief Justice and the Master of the Rolls, who hold high judicial office, to possess voting rights; but since any distinction between those who could meet the attendance requirement and those who could not would be entirely arbitrary, it is proposed that all serving law lords should possess the right to vote by virtue of their office, irrespective of their age or attendance. Law lords who have retired from these offices would however be subject to the ordinary rules and qualify for voting rights on non-judicial business only if they met the attendance requirement and had not passed the age of retirement.

**Bishops**

58. There are at present 26 bishops of the Church of England who have seats in the House of Lords. They are the Archbishops of Canterbury and York and the Bishops of London, Durham and Winchester, all of whom sit 'ex officio', and 21 other bishops by seniority of appointment to diocesan sees. All hold their seats during their tenure of their sees.

59. There are arguments both for excluding bishops from the reformed House and for their retention. For excluding them it can be argued that it is anomalous for bishops of the Church of England to have any special place in a reformed House of Lords which, as part of a modern Parliament, must be an essentially secular institution. On the other hand, the House consists historically of lords spiritual and temporal, and the Church of England as the established church in England has a special relationship, some aspects of which are delicately balanced, with the State and with the Crown. The presence of bishops in the House of Lords is an integral part of that relationship. The Church is in the unique position that its dignitaries are appointed by the Crown on the advice of the Prime Minister; permanent changes in its liturgy require the approval of Parliament; its courts are constituted by statute and the duties of the clergy towards the community are founded on common or statute law; its legislative powers under the Church of
England Assembly (Powers) Act 1919 are based on a particular relation with Parliament; and the Queen is its "Supreme Governor" and necessarily a member of it. No other church is subject to parliamentary control of this kind, and it is within this whole pattern of Church and State relationship that the 26 bishops have seats in the House of Lords. The relationship is at present under investigation by the Commission on Church and State which was set up by the two archbishops at the request of the Church Assembly in 1966 and which has not yet reported.

60. A decision to exclude bishops from the reformed House of Lords, or fundamentally to alter their position in it, would affect the Church's relationship with the State and prejudice the discussions which are taking place in the Archbishops' Commission. The Government believes that the Church should first reach its own conclusions on this subject and that decisions made in the context of the reform of the House of Lords should not anticipate any fresh consideration of the whole issue of the Church and State relation. Some adjustment in the position of bishops would be necessary in the context of a two-tier House and smaller numbers generally, but pending the settlement of wider questions of Church and State, the adjustments should be the minimum necessary to preserve the relative position of the bishops so far as possible unchanged.

61. It is therefore proposed that, at least for the present, there should continue to be a place for bishops both as speakers and as voters in the reformed House, but since the House would be reduced in size their total number would be gradually reduced from 26 to 16. No bishop who is now a member of the House would be excluded, but as bishops retire from their sees, and therefore from the House, those other than the two archbishops and the Bishops of London, Durham and Winchester would be replaced on the basis of one new bishop for every two retirements until 16 remained. The two archbishops and these three bishops would be replaced by their successors as at present; otherwise, new bishops would succeed in order of seniority, again as at present, but any who preferred not to become members of the House would not be obliged to do so and membership would then devolve upon the next most senior bishop who was willing to become a member. Bishops other than the two archbishops and the Bishops of London, Durham and
Winchester would also be allowed to retire from the House before retiring from their sees if they wished to do so. In this way a degree of flexibility would be introduced which could assist the Church to have as its members in the House of Lords those bishops who would be its most effective representatives - a consideration which would become more important as their total number was reduced.

62. The arguments for retaining bishops as members of the reformed House pending the conclusion of the Commission on Church and State are also arguments for allowing some of them to retain voting rights, even though their diocesan duties might make it impossible for them to meet the attendance requirement. The two archbishops and the Bishops of London, Durham and Winchester who are at present 'ex officio' members of the House would therefore continue as 'ex officio' voting members, exempt from the attendance requirement and restriction on age.

Rights of peers to vote in parliamentary elections

63. Traditionally, peers have been disqualified from voting in parliamentary elections on the ground that the peerage is a separate Estate of the Realm, distinct from the Commons Estate, and a member of the first has no right to influence the composition of the second. This doctrine evolved at a time when the powers and influence of the two Houses were more nearly equal than they are today. A consequence of the doctrine was the anomalous situation in which some members of the peerage were entitled neither to sit in the House of Lords nor to vote in parliamentary elections: for example, Scottish peers other than those elected as representative peers. These anomalies were removed by the Peerage Act 1963, which allowed all peers and peeresses either to sit in the House of Lords or, if not, to vote in parliamentary elections (provided that they were qualified as regards age and residence). The Government does not consider that, in the context of the reformed House, it would any longer be appropriate to maintain a peer's disqualification from voting in parliamentary elections, whether or not he was entitled to sit in the House of Lords. Such a disqualification is an anachronism in a modern democracy where the right to take part in the process of choosing
the members of the elected chamber should be fundamental and universal, and no such bar applies to members of the second chamber in other democratic countries such as Australia, Canada and the United States of America.

All peers, therefore, whether or not they were members of the reformed House, would in future be qualified to vote in parliamentary elections.

Rights of peers to sit in the House of Commons or to surrender their membership of the House of Lords

64. A peer is also disqualified from sitting in the House of Commons unless he has renounced his title under the Peerage Act 1963. It would clearly be absurd for any person to be entitled to a seat in both Houses of Parliament, and this disqualification would therefore be continued for peers who are members of the reformed House. Since succession to a hereditary peerage would no longer give any right to membership of the House of Lords, however, all future peers by succession would have the right to sit in the House of Commons if elected, and they would no longer be required to surrender their titles in order to do so. Nevertheless, it is proposed that the provision in the Act of 1963 which would allow them to renounce their titles should not be repealed, since some might wish to do so for reasons unconnected with membership of the House of Commons. It would be consistent with this approach to include also a transitional provision for those peers who sit only by right of succession and did not receive life peerages when the reform came into effect: it is therefore proposed that those who chose to exercise their option to withdraw from membership of the House of Lords (see paragraph 38 above) should thereby gain the right to sit in the House of Commons if elected. There would, however, be no provision for nominated peers to surrender either their membership of the House or their titles.

Functions and procedure of the reformed House

65. The Government looks forward to a review of the functions and procedures of the two Houses which it proposes should take place once the main reform had come into effect. Such a review would be an important
continuation of the process of improving the efficiency of Parliament but, since it would more properly be carried out by the two Houses, the Government has not made any specific proposals itself. Appendix II is based on a paper submitted by the Government to the Inter-Party Conference and sets out some possible developments which might be examined by a joint select committee at an early date after the reform had come into effect.

Working of the House of Lords after reform

66. It has already been suggested in paragraph 29 above that a committee should be established to review periodically the composition of the reformed House and to report either to the Prime Minister or to Parliament itself on any deficiencies in the balance and quality of its membership which it might find. Its chairman would be a person of national standing, but without party political affiliations; other members would include representatives of the political parties and persons without party political affiliations in roughly equal proportions. Attention has been drawn to the importance of the cross bench peers in the reformed House and to the fact that their presence is vital to safeguard its independence. As stated in paragraph 14 above they do not at present act in any way as an organised group with a sense of corporate identity and their voting and speaking record in recent years shows that those who are active in the House are indeed genuine independents who do not give regular support to any one party. There is no reason to think they would cease to act in this way in the future or become in any sense a new constitutional force, but it would nevertheless be important to ensure that no undue party bias developed among them. As part of its general task the proposed committee should therefore confirm that the cross bench peers continued to act in this spirit.

67. Certain other aspects of the reformed House which would also need to be kept under periodical review have already been mentioned above. They include the size and the party balance of the voting House, particularly in relation to any new parties which might emerge, or to changes in the relative strength of the existing parties, and also the need to take account of coalitions or divisions within parties. Another vitally important aspect would be the need to secure amongst the members of the House as a whole a suitable range of knowledge and experience, not only of national and international affairs but also of those matters which are of special concern

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to the various parts and regions of the United Kingdom. The proposed committee should also consider these subjects when necessary. The committee or a sub-committee might also have a valuable role in preliminary thinking on the development of procedure and functions in the reformed House, especially where they might impinge on the work of and procedural developments in the House of Commons (see paragraph 65 above), but it should not seek to derogate from the responsibilities which the two Houses exercise through existing machinery.

Conclusions

68. The Government's proposals can be summarised as follows:

(a) The reformed House of Lords should be a two-tier structure comprising voting peers, with a right to speak and vote, and speaking peers, with a right to speak but not generally to vote (paragraph 35).

(b) After the reform came into effect, succession to a hereditary peerage should no longer carry the right to a seat in the House of Lords but existing peers by succession would have the right to sit as speaking members for their life-time (paragraph 35).

(c) Voting peers would be exclusively nominated peers, but some peers by succession would be created life peers and therefore become qualified to be voting peers (paragraph 36).

(d) Speaking peers would include nominated peers who did not meet the requirements of voting membership, and peers who at the time of the reform sat by right of succession (paragraph 37).

(e) Peers who at the time of the reform sat by right of succession would have an opportunity to withdraw from the House if they wished to do so (paragraph 38).

(f) Voting peers would be expected to play a full part in the work of the House and required to attend at least one-third of the sittings; they would be subject to an age of retirement (paragraphs 42 and 43).

(g) The voting House would initially consist of about 230 peers, distributed between the parties in a way which would give the government a small majority over the opposition parties, but not a majority of the House as a whole.
including those without party allegiance (paragraphs 44 - 46).

(b) Speaking peers would be able to ask questions and move motions and also to serve in committees; but not to vote on the floor of the House or in any committee for the consideration of legislation (paragraph 47).

(i) The reformed House should include a suitable number of peers able to speak with authority on the problems and wishes of Scotland, Wales, Northern Ireland and the regions of England (paragraph 48).

(j) Voting peers should be paid at a rate which would reflect their responsibilities and duties, but the question should be referred to an independent committee or the Prices and Incomes Board (paragraph 49).

(k) The reformed House should be able to impose a delay of six months on the passage of an ordinary public bill on which there was disagreement between the two Houses; it should then be possible to submit the bill for Royal Assent provided that a resolution to that effect had been debated and passed in the House of Commons. The period of delay should be capable of running into a new session or into a new parliament (paragraphs 50 and 51).

(l) The reformed House should be able to require the House of Commons to reconsider an affirmative order, or to consider a negative order, to which the House of Lords disagreed, and its disagreement should no longer be final (paragraphs 53 and 54).

(m) There should be a place in the reformed House for law lords and bishops (paragraphs 55 - 62).

(n) All peers should in future be qualified to vote in parliamentary elections (paragraph 63).

(o) Future peers by succession and existing peers by succession who chose to renounce their membership of the House of Lords should be enabled to sit in the House of Commons if elected (paragraph 64).

(p) A review should be made of the functions and procedures of the two Houses once the main reform has come into effect (paragraph 65 and Appendix II).

(q) A committee should be established to review periodically the composition of the reformed House; it should have a chairman of national standing but without party political affiliations and its members would include representatives of the political parties and persons without party political affiliations in roughly equal numbers (paragraphs 66 and 67).
PREVIOUS ATTEMPTS TO REFORM THE HOUSE OF LORDS

1. The movement to reform the House of Lords gathered its first real strength in the late nineteenth century as a result of a combination of circumstances connected with the increasingly popular character of the House of Commons: they included the progress towards universal suffrage, the widening differences between the political parties, and the development of the party machines. At the same time, the House of Lords was becoming more and more a House of one party. A crisis was produced by the Lords' attacks on the radical legislation of the Liberal Government elected in 1906, notably Lloyd George's Budget of 1909. A bill was therefore introduced to limit the power of the Lords to frustrate decisions of the Commons - a power which had hitherto been unrestricted except to the extent that it was limited by the Commons' financial privilege. Before the bill finally became law in 1911, the party leaders attempted to reach an agreement on the future of the House, but they failed amidst the violent controversies over Irish Home Rule and other issues.

2. The Parliament Act 1911 in effect removed the Lords' power to reject "money bills" as defined in that Act and provided that an ordinary public bill could become law despite the Lords' opposition if passed by the Commons in three successive sessions, with not less than two years elapsing between second reading in the House of Commons in the first session and the final passing of the bill in the House of Commons in the third session. The Act thus gave a government the capacity to carry through against the Lords' opposition any legislation introduced in the first two sessions of a five-year parliament. Nevertheless, the Lords were left with real powers of delay, which were promptly used on the Welsh Church Bill and on the Government of Ireland Bill: the new Parliament Act procedure was applied to both before they were eventually enacted in 1914.

3. The provisions of the Parliament Act 1911 were however meant as a temporary expedient: as its preamble makes clear, it was intended that a thorough reform of the House of Lords would take place before long. The preamble states:
"and whereas it is intended to substitute for the House of Lords as it at present exists a second chamber constituted on a popular instead of hereditary basis, but such substitution cannot immediately be brought into operation...."

After 1911, however, continuing political troubles and the outbreak of the First World War prevented further action until the Conference appointed under the chairmanship of Lord Bryce in 1917 (1) whose Report (Cd 9038) proposed a House three quarters of whose members would be elected indirectly by members of the House of Commons on a regional basis, and one quarter would be chosen by a joint standing committee of both Houses, with certain proportions of hereditary peers and bishops. The scheme made no progress because of the dissent of some members of the Conference and the political circumstances at the time.

Between the two World Wars, a series of further proposals was made for the wholesale reconstruction of the House but nothing came of them. Then, in 1945, the Labour party pledged itself in its election manifesto not to permit its legislative programme to be obstructed by the House of Lords, and in 1947 the Labour Government brought forward a Parliament Bill. The Bill proposed a reduction from three to two in the number of sessions in which a disputed bill must be passed by the House of Commons and from two years to one in the period of delay from second reading in the House of Commons. The Bill was first passed by the Commons at the end of 1947. The second reading debate in the House of Lords was adjourned so that the proposals in the Bill could be considered at a conference of party leaders, with a view to obtaining all-party agreement: at the conference the representatives of the Labour party would have been prepared to agree to a period of delay of nine months from the third reading of a bill in the House of Commons as an alternative to the period proposed in the Bill; the representatives of the Liberal party concurred; but those of the Conservative party felt unable to agree to a

(1) Its terms of reference were "To inquire and report - (i) as to the nature and limitations of the legislative powers to be exercised by a reformed Second Chamber; (ii) as to the best mode of adjusting differences between the two Houses of Parliament; (iii) as to the changes which are desirable in order that the Second Chamber may in future be so constituted as to exercise fairly the functions appropriate to a Second Chamber."
period of delay of less than one year from third reading on the first occasion in the House of Commons. The Labour party's representatives rejected this alternative on the ground that it could prevent the enactment of controversial legislation introduced in the fourth session of a parliament. No agreement was therefore reached and in 1949 the Parliament Bill was eventually enacted in its original form under the provisions of the Parliament Act 1911.

5. Although the Conference of 1948 reached no agreement on powers, it made substantial progress towards finding a basis for agreement on the composition of a reformed House. This is shown in the agreed statement published as a White Paper (Cmd 7380) after the breakdown of discussions. Paragraph 5 states that if agreement could have been reached generally, further consideration would have been given to reform of composition on the following basis:

(a) The second chamber should be complementary to and not a rival to the lower House, and, with this end in view, the reform of the House of Lords should be based on a modification of its existing constitution as opposed to the establishment of a second chamber of a completely new type based on some system of election.

(b) The revised constitution of the House of Lords should be such as to secure as far as practicable that a permanent majority is not assured for any one political party.

(c) The present right to attend and vote based solely on heredity should not by itself constitute a qualification for admission to a reformed second chamber.

(d) Members of the second chamber should be styled 'Lords of Parliament' and would be appointed on grounds of personal distinction or public service. They might be drawn either from hereditary peers, or from commoners who would be created life peers.

(e) Women should be capable of being appointed Lords of Parliament in like manner as men.

(f) Provision should be made for the inclusion in the second chamber of certain descendants of the Sovereign, certain lords spiritual and the law lords.
(g) In order that persons without private means should not be excluded, some remuneration should be payable to members of the second chamber.

(h) Peers who were not Lords of Parliament should be entitled to stand for election to the House of Commons, and also to vote at elections in the same manner as other citizens.

(i) Some provision should be made for the disqualification of a member of the second chamber who neglects, or becomes no longer able or fitted, to perform his duties as such.

6. The major changes in the last 20 years have all been in accordance with the above statement of principles: the introduction of life peers was made possible by the Life Peerages Act 1958, which also allowed life peerages, with full rights of membership of the House of Lords, to be conferred on women. Resolutions of the two Houses of Parliament in 1957 enabled peers to recover, within limits, expenses incurred for the purpose of attendance at sittings of the House of Lords; and the position of those peers who chose not to attend the House was formalised by a leave of absence scheme introduced by standing order in 1958. The Peerage Act 1963 allowed peers by succession to renounce their peerages, and also removed anomalies within the peerage. Until 1963, 16 representative peers for Scotland were elected for each parliament by the holders of Scottish peerages, but those who were not elected could neither take part in the proceedings of the House of Lords nor vote in parliamentary elections, nor could they stand for election to the House of Commons. A similar disqualification applied to peers of Ireland, who had lost even their representation in the House of Lords because their electoral machinery ceased to be operable in 1922 when the Irish Free State was established. The Peerage Act 1963 opened membership of the House of Lords to all peers of Scotland, and removed the disqualification of peers of Ireland from voting in parliamentary elections or standing for election to the House of Commons. The Act increased the number of women in the House of Lords by admitting peeresses by succession.
POSSIBLE CHANGES IN FUNCTIONS AND PROCEDURE

1. Reform of the powers and composition of the House of Lords would open the way for a fresh look at the functions of the two Houses of Parliament. It would be right for this to be undertaken, in the first instance, by a joint select committee on procedure of the two Houses. The following are possible changes in functions and procedure which might be considered further in a context where a reformed House of Lords was available to work in closer concert with the House of Commons than is possible today. This Appendix does not make any specific proposals since these are matters more properly dealt with by the Houses themselves; but it may nevertheless be helpful to illustrate the wider advantages which might accrue to the British parliamentary system from a reform of the kind proposed.

Public Bills: General

2. A substantial contribution towards improving the legislative process could be obtained through a more even spread of the introduction of public bills over the session. More bills should therefore be introduced in the House of Lords. In particular, bills should not be prevented from starting in the House of Lords because they are in some degree politically controversial or because they incorporate financial provisions. This is the subject of a recommendation of the Sixth Report from the Commons' Select Committee on Procedure (H.C. 1966-67, 539, paragraphs 7 and 8). Some waiver of the Commons' financial privilege would be necessary, preferably by standing order (on the model of the Commons' Standing Order No. 57), or alternatively by legislation in the context of a reformed House of Lords.

3. Obvious advantages would follow from a more even flow of bills from one House to the other. There is, however, the difficulty that major bills introduced into the House of Lords would tend to reach the House of Commons in the late spring when the Commons are pre-occupied with financial business. Additionally, it might be necessary, in order to obtain full advantage from an improved flow of legislation from one House to the other, to increase the number of Cabinet and other Ministers in the House of Lords;
at present there are in the House only two Cabinet Ministers and only thirteen other Ministers (including the Whips), of whom one is permanently at the United Nations and two others are not often able to attend the House because of other commitments.

Public bills: Committee procedure

4. If the Lords are to play a more useful part in legislation, it might be desirable to adopt some form of public bill committee procedure. It need not necessarily be modelled on the Commons’ standing committees. It would be premature at this stage to make suggestions as to its precise form and function; the question should be referred to a select committee of the reformed House of Lords which would be asked to recommend to the House the type of public bill committee which it considered would be most useful. The same select committee might also consider other aspects of public bill procedure in the House of Lords: for example, whether or not it is desirable to follow the example of the House of Commons in the use of second reading committees.

Public bills: Accelerated procedure

5. There are two possible ways of accelerating the legislative process for bills of a kind which do not need consideration at as many stages as the present procedures require: the proceedings in one of the Houses could be curtailed, or some of the stages of consideration could be made a joint procedure. Of these two possibilities, the latter seems the more promising. A convention might be established that certain classes of bill should start in the House of Lords and then receive detailed examination by a joint committee of the two Houses. Experience on consolidation bills indicates that under such an arrangement the main burden would fall on the Lords and very little of the Commons’ time would be needed when a bill reached the lower House. Classes of bills suitable for this treatment might include bills resulting from the work of the Law Commissions and other technical but uncontroversial legislation such as that on mines and quarries. A further possibility would be to commit to
a joint committee private members' bills on controversial social
subjects after they had received a second reading in either
House.

Subordinate legislation

6. Present procedures in relation to subordinate legislation may be thought
to occupy time on the floor of both Houses unnecessarily, in so far as
prayers are moved as a device for obtaining explanations or assurances
without being pressed to a division, and in so far as affirmative
resolutions lead to debate on orders which are not matters of controversy.
Moreover, the work of the Lords' Special Orders Committee duplicates to
some extent that of the Commons' Statutory Instruments Committee. The
Commons' Select Committee on Procedure recommends in its Sixth
Report (H.C. 1966-67, 539) that it should be made possible to refer non­
contentious affirmative resolutions and prayers to the Select Committee
on Statutory Instruments, subject to the same safeguards as exist for
references to a second reading committee. Given a reformed House of Lords,
there would be scope for the development, under procedural resolutions, of
a joint procedure on these lines. A joint committee might be set up to
exercise the combined scrutinising functions of the Special Orders
Committee and the Statutory Instruments Committee, but with a smaller
combined membership. All statutory instruments could then be referred to
this committee for scrutiny, with the exception of financial orders, which
would be considered only by the Commons' representatives and would be
reported only to that House; but otherwise the committee would report
to both Houses. Additionally, it should be possible for the joint
committee to consider the merits of affirmative resolutions and prayers.
Since it would probably be thought necessary to permit prayers against negative
orders which were expected to be pressed to a division, and affirmative
resolutions on contentious orders, to be debated on the floor of the House,
and since such debate would duplicate discussion in committee, one
procedure might be for the government to refer to the joint committee only those prayers which are not expected to be pressed to a division and affirmative resolutions on non-contentious orders. Motions to refer resolutions and prayers to the committee would be subject to the same safeguards as exist for reference of bills to a second reading committee. As regards proceedings in the committee on prayers or affirmative resolutions, it could be provided that Ministers and members of the House who were not members of the committee could speak but not vote, and could examine witnesses. Alternatively, as recommended by the Commons' Select Committee on Procedure, the joint committee could have a specified number of members added by the Committee of Selection and would conduct its debates in the manner of a standing committee. The joint committee would report to both Houses whether it recommended that an instrument be approved. It is for consideration whether this recommendation would be put to the Houses for approval without opportunity for amendment or debate, as recommended by the Select Committee, or be open to debate where a given number of members so desired, despite the opportunity for objection on the original motion to refer the matter to the joint committee.

7. In the longer term, the development of an effective joint procedure for scrutinising statutory instruments might enable provision to be made for the amendment of statutory instruments, since a means would be available of reconciling differences between the two Houses, and even for abolishing the affirmative resolution procedure at least in its present form. But changes of this magnitude could be considered by the joint select committee when the new House of Lords was constituted.

8. If these broad proposals were adopted, a number of issues would remain to be considered in more detail by the proposed joint committee on procedure: for example, the method of reference of matters for debate (an alternative procedure has been suggested for the automatic reference of all instruments, leaving the committee discretion to select topics for debate) and the proceedings in the two Houses on the report of the joint committee.
Private bills

9. A general reform of the functions and procedures of the House of Lords, with an emphasis on joint committees, would provide a suitable occasion for reopening the question of extending the use of joint committees for the consideration of private bills. This question was exhaustively discussed by the Joint Committee on Private Bill Procedure in 1955 (see paragraphs 53-65 of its Report - HL 14.58 - I, HC 139 - I) when it came to the conclusion that, on balance, it could not recommend any alteration in the present system. The Committee did report, however, that the argument for a second hearing depends largely on the fact that, until the case for the promoters is deployed and the attitude of the government is known, petitioners are placed at an unfair disadvantage. If a means could be found for the earlier deployment of the case for the promoters and the attitude of the government could be disclosed earlier, petitioners would not be at so great a disadvantage as they are at present and joint committees might therefore be more freely used. A change of this importance, however, could hardly be made without wide consultation among interested parties and a recommendation from a further joint committee on private bill procedure which might also consider other business of a private character such as special procedure orders.

Specialist committees

10. There is scope for involving the Lords in specialist or select committees; they could set up such committees, e.g. on the arts or aspects of law reform, in which the Commons might participate; and vice versa. It is suggested in paragraph 11(a) below that provision should be made for unequal membership. There are clearly some committees of the House of Commons, such as the Public Accounts and Estimates Committees, in which the Lords should not participate and others such as the Nationalised Industries Committee on which the House of Lords might be only sparsely represented.
Other committees such as ad hoc pre-legislation committees and committees specialising in the affairs of public departments might draw their membership equally from both Houses; and yet others, for example, those on aspects of law reform, might be composed entirely of Lords or include only a small representation from the House of Commons. Any such representation of the members of one House in a committee of the other would be subject to procedural decisions to be taken in the proposed joint select committee on procedure.

Other matters

14. Other matters which might be pursued by the proposed joint select committee on procedure are:

(a) Enabling joint select committees to consist of unequal membership; at present the representation of each House in a joint committee must be equal, although there has been a single exception to this rule.

(b) Enabling joint select committees to appoint sub-committees and, where desirable, to proceed by way of public debate. This would allow a joint committee to deal expeditiously with many aspects of subordinate legislation.

(c) The right of a member of either House to attend and speak, but not to vote, in a joint committee of which he is not a member. This would be an extension of the Lords' Standing Order No.58 and could be convenient in a joint committee on, for example, subordinate legislation.
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Other matters

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(a) Enabling joint select committees to consist of unequal membership; at present the representation of each House in a joint committee must be equal, although there has been a single exception to this rule.

(b) Enabling joint select committees to appoint sub-committees and, where desirable, to proceed by way of public debate. This would allow a joint committee to deal expeditiously with many aspects of subordinate legislation.

(c) The right of a member of either House to attend and speak, but not to vote, in a joint committee of which he is not a member. This would be an extension of the Lords' Standing Order No.58 and could be convenient in a joint committee on, for example, subordinate legislation.
The draft bill is in four parts. The first deals with composition, the second with powers in relation to public bills, the third with powers in relation to subordinate legislation and the fourth contains supplementary provisions.

The draft effects the minimum changes in the law which are necessary to implement the proposals in the draft White Paper. It does not purport to regulate the exercise of the Prerogative in respect of the creation of new peers, and accordingly contains no provisions specifically related to the proposals about the total numbers of peers to be comprised in the new House or in the voting nucleus, or the balance within that nucleus between peers supporting the Government, peers supporting other parties and cross bench peers. The draft as it stands is similarly silent about the creation of new peers to represent Scotland or other parts or regions of the United Kingdom. The draft is also silent in matters of parliamentary procedure which could better be determined by the two Houses themselves.

I - Composition

3. Clause 1. The main object of this clause is to exclude from the reformed House of Lords all hereditary peers who may succeed to peerages in the future. The reference to the peerages of England, Scotland, Great Britain and the United Kingdom indicates that it applies to all hereditary peerages and that specific representation for Scotland, provided in the Union arrangements of 1707 and strengthened by section 4 of the Peerage Act 1963, is to come to an end.

4. As already stated, the present draft makes no provision to replace the existing (hereditary) representation of Scotland by appropriate representation in the nominated House. It is for
consideration whether such provision should be made, either in the clause itself or in a preamble to the bill. Existing peers by succession who are members of the present House retain their membership for life. Intermediate cases are dealt with as follows:

(a) existing peers by succession who are under age at the commencement date (see clause 16) are excluded;

(b) existing peers by succession who are of full age but disqualified at the commencement date (e.g. as being aliens) are excluded, subject however to an exception (subsection (3) of clause 15) in the case of any temporary disqualification on account of bankruptcy; and

(c) existing peers by succession who are of full age and not disqualified at the commencement date are included if they have already applied for the writ of summons or apply for it within the next six months.

5. The peers covered by (c) above include both the peer who has recently succeeded and is in process of proving his title when the bill comes into force - a process which in certain cases may take a considerable time - and the peer who has not previously decided to take up his membership of the House. The six months' extension is relevant to the latter class.

6. Subsection (3) is intended to resolve the question whether an application for the writ is made when the applicant first asks for the writ or when the application is finally completed with all necessary evidence. For the purposes of the clause, written notice of intention to apply is sufficient.

7. Subsection (4) enables any existing peer by succession who is a member of the House to resign his membership within one year after the commencement date. Since peers by succession will not as such be qualified to vote in the reformed House, there may be some who
will not wish to retain their membership. Those who resign will be qualified, under clause 14, to sit in the House of Commons if elected.

6. Clause 2. This clause provides for the division of the reformed House into 'voting' peers and other peers, the former to consist exclusively of peers of first creation. The latter are referred to in the draft White Paper as 'speaking' peers, but that particular description is not used in the draft bill. The voting rights of these peers are circumscribed by subsection (2) of the clause, which withholds the right to vote:

(a) on any question in the House itself (including any committee of the whole House) and
(b) on any question in a committee of the House for the consideration of legislation, or of subordinate legislation falling within clauses 11-13 of the bill.

9. The subsection is thus a compromise between two distinct conceptions, namely (a) that the House should be composed of peers with votes and peers without votes, and (b) that the House should be composed of legislative and non-legislative peers. The committees in which a 'speaking' or 'non-voting' peer cannot vote include committees dealing with local and private bills. The disqualification will apply whether the vote is taken on a division or by collecting voices.

10. Subsection (3) saves the right of a peer who is not a voting peer to take part in any proceeding though not entitled to vote. Such peers will thus be entitled to give notice of and move amendments to bills as well as other motions, and indeed to introduce their own bills.

11. Clause 3. This clause provides for the deposit of "voting declarations" by those peers of first creation who wish to be voting peers. The declaration has to be made for each parliament and continues in force throughout the parliament unless withdrawn.
either voluntarily under subsection (5) of the clause or by failure to meet the minimum attendance requirement (clause 4). A peer whose declaration has been withdrawn (in either of these ways) in one parliament is free to deposit a declaration in any subsequent parliament.

12. Subsection (3) introduces a retirement age for voting peers. As drafted it would apply to any parliament summoned after the end of 1975, and would prevent a peer who had attained 77 before the dissolution of the last preceding parliament from making a voting declaration.

13. Under subsection (4) a voting declaration must normally be deposited within one month of the issue of the writ of summons to the parliament: a peer created during a parliament will thus have a month in which to deposit a voting declaration, and existing peers will have approximately a month from the dissolution of the previous parliament. The time limit may be extended by the House for special reasons. Some such provision is needed for cases in which a peer is unable to deposit his declaration within the month on account of illness or other emergency; but it is not intended to enable a peer to obtain leave to deposit a declaration out of time as a matter of course - for the purpose, for example, of giving his vote on a controversial private peer's bill - still less to enable him to make a second declaration. Some doubt has been felt whether the words "for special reasons" are adequate to distinguish between the one case and the other, but it is thought that some indication should be given that leave is to be granted only in exceptional circumstances.

14. Subsection (5) provides for the voluntary withdrawal of a voting declaration. This, among other things, would enable a peer who foresees that he will be unable to meet the minimum attendance requirement (clause 4) to surrender his vote forthwith.
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13. Under subsection (4) a voting declaration must normally be deposited within one month of the issue of the writ of summons to the parliament: a peer created during a parliament will thus have a month in which to deposit a voting declaration, and existing peers will have approximately a month from the dissolution of the previous parliament. The time limit may be extended by the House for special reasons. Some such provision is needed for cases in which a peer is unable to deposit his declaration within the month on account of illness or other emergency; but it is not intended to enable a peer to obtain leave to deposit a declaration out of time as a matter of course - for the purpose, for example, of giving his vote on a controversial private peer's bill - still less to enable him to make a second declaration. Some doubt has been felt whether the words "for special reasons" are adequate to distinguish between the one case and the other, but it is thought that some indication should be given that leave is to be granted only in exceptional circumstances.

14. Subsection (5) provides for the voluntary withdrawal of a voting declaration. This, among other things, would enable a peer who foresees that he will be unable to meet the minimum attendance requirement (clause 4) to surrender his vote forthwith.
Instead of waiting for it to be withdrawn at the end of the current session.

15. Clause 4 deals with the attendance requirement. Subsection (1) provides that a voting declaration is treated as withdrawn if the peer fails to comply with the requirement in any session, and he will not then be able to make a further declaration until the end of the parliament. Subsection (2) defines the requirement as attendance at sittings of the House or of committees on a number of days equal to not less than one-third of the days on which the House meets during the session for business other than judicial business. A peer would thus be able to count attendance on committees on days when the House itself was not sitting but such days would not be added to the total from which the proportion of one-third would be calculated. From this total would be deducted, in the case of the peer created during a session, any days before the issue of the writ of summons; and in the case of every peer, any period during which he was absent with the leave of the House on account of ill health or of parliamentary or other public business, or during which he was disqualified from sitting. The expression "public business" is not defined and its interpretation would be left to the House itself. Peers who are disqualified would, in practice, be those who are detained as suffering from mental illness (see clause 7) or are bankrupt.

16. Difficulty might arise in applying the attendance requirement in an unexpectedly short session, since a number of peers might be found not to have met the requirement having planned to "make up" the necessary number of attendances later in the session. In order to prevent such peers from having their voting declarations automatically regarded as withdrawn, subsection (4) provides that a session in which the House sits on less than 30 days should not be counted for this purpose.
17. Subsection (5) of the clause would ensure that a day on which the House sits on after midnight is not counted as two for the purposes of the attendance requirement.

18. Clause 5 defines the special position of Ministers and the holders of high judicial office. The draft White Paper proposes that they should be exempt from both the age of retirement and the attendance requirement; this exemption can most conveniently be achieved by the provision in subsection (1) under which they would not be required to make the voting declaration to which the other two requirements are related. Subsection (2) deals with the position of a Minister or holder of high judicial office who retires from office during a parliament. Under paragraph (a) he will automatically retain full voting rights for the remainder of the session in which he retires, while paragraph (b) makes it possible for him to remain a voting peer thereafter, if he so wishes and is within the age limit, by allowing him to deposit a voting declaration within one month of the opening of the next session. This right to make a voting declaration will be available even though the peer concerned may have made an earlier declaration and withdrawn it or been unable to meet the attendance requirement.

19. The clause applies to the Leader of the Opposition and the Chief Opposition Whip in the House of Lords in the same way as to Ministers.

20. Subsection (3) preserves the right of a peer who is one of the Lords of Appeal qualified to sit on judicial business to give his vote on an appeal to the House. Lords of Appeal in Ordinary and serving holders of high judicial office who are peers of first creation will be qualified as voting peers under clause 5 of the bill; but Lords of Appeal will also include certain peers who have resigned from high judicial office and some of these may not be able to comply with the minimum attendance requirement
The judgement on an appeal is given in the House, and the question is put to the vote in the ordinary way.

Clause 6 provides for the reduction in the number of bishops in the House from 25 to 16 and for the method by which it would be achieved. The words "during his tenure of the see" in subsection (3)(b) would allow a bishop who had disclaimed his right to sit in the House a further option to accept a writ if he is translated to another see: such an option might be desirable for a bishop who is translated from a see where attendance would be difficult to one where it would not. Subsection (4) allows the two archbishops and the Bishops of London, Durham and Winchester to retain their voting rights 'ex officio'.

Clause 7 disqualifies a person who is liable to be detained as suffering from mental illness from receiving a writ of summons or from sitting or voting in the House. There is a corresponding provision for members of Parliament in section 137 of the Mental Health Act 1959, but peers are not at present subject to any such disqualification. The object of that section was to enable the member's seat to be declared vacant, and it contains the safeguard of an independent medical examination by doctors reporting to the Speaker to ensure that the seat is declared vacant only where the illness is sufficiently prolonged. A similar examination may not be thought necessary in the different circumstances of the House of Lords. As drafted, the clause would apply not only to peers but also to bishops.

There is no reference to a provision on this subject in the draft White Paper and it is not an integral part of the scheme for the reform. The clause might be criticised on the grounds that it does not deal with informal patients or those suffering from other forms of mental disorder (although the corresponding provision for members of Parliament is similarly restricted); and it might attract derisive comment generally.
hand it would have considerable practical convenience in making it unnecessary to send a writ of summons to a peer who was liable to be detained, and in making it possible to exclude him from the house if he presented himself, for example during a period of home leave.

II - Powers: public bills

This part of the bill replaces section 2 of the Parliament Act 1911: it does not affect the provisions related to money bills which are contained in section 1 of that Act. The definition of a money bill in that section is perhaps not altogether satisfactory in modern conditions since some bills which are commonly regarded as 'money bills' do not fall within it; but it may be thought difficult to find an alternative which would be more satisfactory and would not lead to unnecessary controversy.

Clause 2. Subsection (1) defines the types of bill to which the new procedure shall apply — broadly those to which section 2 of the Parliament Act 1911 applies at present. The expression "public bill" is defined by clause 15 so as to exclude bills to confirm provisional orders, amongst which are bills to confirm Scottish provisional orders under the Private Legislation Procedure (Scotland) Act 1936, but not bills to confirm orders to which the Statutory Orders (Special Procedure) Act 1945 applies. The latter fall within the scope of the present Parliament Act procedure and it may be thought right for the new procedure to apply to them also. The exception for bills containing any provision to extend the maximum duration of parliament corresponds with the existing exception in section 2(1) of the Parliament Act 1911.

Subsection (2) provides that, after the six months' period of delay (see clause 9) a bill disagreed to by the House of Lords can be presented for Royal Assent upon a resolution of the House of Commons, and subsection (3) defines disagreement for this
purpose. An important objective is to ensure that a bill is not disagreed to simply because the Lords have not passed it by the end of the session; if it were, the subsequent provision in clause 9 that the bill may be presented for Royal Assent notwithstanding any intervening prorogation or dissolution would make serious inroads on the essential principle that all uncompleted business lapses at the end of the session. It follows that a state of disagreement must be created by an overt and identifiable action on the part of one or both Houses. The simple situation where the Lords reject a bill, or reject or amend a motion for it to be read at any stage or passed, is defined in paragraph (a). Paragraph (b) provides for the case in which the bill is passed by the House of Lords with amendments some or all of which are disagreed to by the Commons. In such cases the Lords are treated as having disagreed to the bill if they insist on an amendment to which the Commons have disagreed, or if they disagree to a compromise amendment offered by the Commons and insist on their disagreement. The paragraph is so drafted as to give the Lords the last opportunity to resile from the position previously taken up by them and so avoid a disagreement within the meaning of the clause.

27. Paragraphs (a) and (b) accordingly cover all cases of overt disagreement on the part of the Lords. But it remains possible in theory for the Lords to strangle a bill sent up from the Commons without overt disagreement - for example by adjourning debates, or disagreeing to formal motions necessary in order to make progress; and even after the bill has been passed with amendments there is in theory considerable scope for evasive action short of insistence on an original amendment or disagreement. Paragraphs (c) and (d) have been included to insure against this situation. They would operate only after the expiration of the minimum of 50 parliamentary days from the time when the
bill is sent up to the Lords and only within the same session. They would not therefore be available in the case of a bill sent up towards the end of the session.

28. Under paragraph (c), the rejection by the Lords of a formal or business motion necessary for the progress of the bill, made by the peer in charge of the bill and expressed to be made under the clause, would be treated as disagreement to the bill. This provision, standing alone, goes some way to meet the problem, but not the whole way. The debate on the motion could itself be adjourned rather than the motion rejected; and the motion would be inappropriate at the stage of consideration of Commons' Reasons or amendments in lieu of Lords amendments. Paragraph (d), on the other hand, would cover all possible situations by means of a resolution passed by the Commons that the bill be treated as disagreed to by the Lords. The paragraph would require at least ten parliamentary days notice to be given of the necessary motion. The notice itself might be sufficient to ensure progress in the House of Lords, in which case the resolution need not be moved. This paragraph may be though objectionable as leaving too much in the control of the Commons. On the other hand it may be thought that nothing else would provide complete insurance against delaying tactics in the case of a particular bill.

29. The term "parliamentary day" is defined in clause 15(1).

30. Subsection (4) preserves the right of either House to seek agreement on a 'disagreed' bill under the existing procedures. Subsection (5) is formal, but the detailed procedure may require further examination.

31. Clause 9 deals with the six months' "period of delay", which runs from the time of disagreement or, if the bill is disagreed to more than 60 parliamentary days from the day on which the bill was sent to the House of Lords, from the last of those
days. Subsection (2) provides for the period of delay to extend over a prorogation or dissolution. The clause would allow the new procedure to be applied to a bill whatever the stage in the session at which it reached the House of Lords, provided that the Lords had overtly disagreed to the bill before the end of the session – i.e. under paragraphs (a) or (b) of clause 8(3). In these circumstances it would therefore be possible for the procedure to be applied to a bill even if it had reached the House of Lords less than two months before the end of the session.

12. Subsection (3) enables either House to take the initiative in seeking a compromise during the period of delay. This provision is intended to cover the situation where a prorogation or dissolution has taken place during the period of delay; a compromise within the session could normally be brought about under clause 8(4). Under subsection (3) as drafted, either House may propose to the other a compromise amendment or series of amendments. If the amendment or amendments are accepted by the other House, the period of delay comes to an end, and the bill can be presented for Royal Assent forthwith, if the Commons so resolve. In that event, the compromise amendments are of course included in the bill as enacted. No provision is made for counter-proposals or further exchanges between the two Houses. The compromise offered must be accepted or rejected as it stands.

13. Clause 10. Subsection (1) enables the Commons to include the bill as presented for Royal Assent government or other acceptable amendments made by the Lords before disagreement: The need for such a provision might arise if, for example, the bill were rejected by the Lords on third reading. The remainder of the clause is formal and reproduces corresponding provisions in the Parliament Act 1911.
III - Powers: subordinate legislation

Clause 11 is introductory, clause 12 enables the Commons to override a negative resolution passed by the Lords and clause 13 enables the Commons to override an affirmative resolution passed by the Lords. It is hoped that the description of the various types of affirmative orders in subsection (1) of clause 13 is comprehensive; if any procedures are found which it does not cover, it will be necessary to amend the subsection and schedule the enactments concerned. Subsection (3) provides for the extension of the period at the end of which an order or instrument would cease to have effect, unless approved by both Houses, in cases where the resolution for approval is rejected by the Lords towards the end of the period; but there is no other provision for overcoming delaying tactics parallel to that included for public bills in clause 8(3)(c) and (d).

IV - Supplementary Provisions

35. Clause 14 gives to all peers, whether members of the reformed House or not, the right to vote at general elections and, to those who are not members of the House of Lords, the right to sit in the House of Commons if elected.

36. Clause 15 deals with interpretation and includes definitions of a number of expressions used in the bill.

37. Clause 16 deals with the commencement and a transitional provision. Subsection (2) represents the views of the Government as set out in paragraphs 70 and 71 of the draft White Paper. Subsection (3) gives the necessary transitional provision for peers who may be bankrupt at the date of commencement.

38. Clause 17. Subsection (1) gives the short title of the bill; subsection (2) and the Schedule cover the enactments repealed.
ARRANGEMENT OF CLAUSES

Composition of the House of Lords

Clause
1. Exclusion of peers by succession.
2. Restriction of right to vote in the Lords.
3. Voting declarations.
4. Loss of voting right by non-attendance.
5. Voting rights of Ministers and other Officers.
6. Reduction of number of bishops in the Lords.
7. Temporary disqualification for membership.

Legislative powers
8. Enactment of certain Bills disagreed to by Lords.
10. Content and form of Bill as enacted.

Subordinate legislation
11. General provisions as to subordinate legislation.
12. Negative resolutions.

Supplemental
15. Interpretation etc.
16. Commencement and transitional provision.
17. Short title and repeals.

Schedule—Enactments repealed.
Amend the law relating to the composition and powers of the House of Lords; to make related provision as to the parliamentary franchise and qualification; and for purposes connected therewith.

BE IT ENACTED by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

Composition of the House of Lords

1.—(1) Except as provided by subsection (2) below, the holder by succession of a hereditary peerage, whether in the peerage of England, Scotland, Great Britain or the United Kingdom, shall not in right of that peerage receive a writ of summons to attend the House of Lords in any Parliament summoned after the commencement of this Act.

(2) Subsection (1) of this section shall not apply to the holder by succession of a hereditary peerage who—

(a) had received, at any time before the date of the commencement of this Act, a writ of summons to attend the House of Lords in right of that peerage; or

(b) being qualified at that date to receive such a writ, had applied for it before that date or applies for it within six months thereafter.

(3) For the purposes of this section a notice in writing given by a peer to the Lord Chancellor that he intends to apply for a writ shall be treated as an application for the writ.
(4) A peer who is qualified by subsection (2) of this section to receive a writ of summons to attend the House of Lords may, by notice in writing given to the Lord Chancellor within one year after the commencement of this Act, disclaim his membership of that House; and thereupon the said subsection (2) shall cease to apply to him.

2.—(1) In any Parliament summoned after the commencement of this Act, the House of Lords shall be composed of members possessing full voting rights (in this Act referred to as voting peers) and other members; and the voting peers shall consist only of those peers of first creation who are qualified as such under the following provisions of this Act.

(2) A peer who is not a voting peer shall not be qualified to vote—

(a) on any question to be determined by the House (including any Committee of the whole House); or

(b) as a member of any Committee for the consideration of any Bill or Measure or of any instrument which sections 11 to 13 of this Act apply,

but shall be qualified to vote in any other Committee of which he is a member.

(3) Nothing in this section affects the right of a peer to take part in any proceeding in which he is not qualified to vote.

3.—(1) A peer of first creation shall be qualified as a voting peer in any Parliament summoned after the commencement of this Act if he has deposited with the Lord Chancellor in respect of that Parliament a voting declaration (that is, a declaration in writing that he wishes to be so qualified), and that declaration is for the time being in force.

(2) A voting declaration duly deposited in accordance with this section shall, unless previously withdrawn, continue in force until the dissolution of the Parliament to which it relates.

(3) A voting declaration in respect of any Parliament summoned after the end of the year 1975 shall not be deposited by a peer who had attained the age of seventy-two years before the dissolution of the last previous Parliament.

(4) A voting declaration in respect of a Parliament shall not be deposited by any peer after the end of the period of one month from the issue of the writ summoning him to attend the House in that Parliament, or such extended period as the House may for special reasons allow.
(5) A voting declaration deposited by a peer in respect of any Parliament may at any time be withdrawn by notice in writing given by him to the Lord Chancellor.

4.—(1) Subject to the provisions of this section, if a peer who has deposited a voting declaration in respect of any Parliament fails to comply with the minimum attendance requirement in any Session of that Parliament, he shall be treated as having withdrawn that declaration at the end of that Session.

(2) The minimum attendance requirement in any Session is attendance at the sittings of the House (or sittings of Committees of the House) on a number of days equal to not less than one-third of the total number of days on which the House meets during the Session (other than days on which it meets for judicial business only): but in calculating that total number there shall be disregarded—

(a) in the case of a peer created after the commencement of the Session, any days before the issue of the writ summoning him to attend the House;

(b) in the case of a peer who, at any time during the Session, is absent with the leave of the House on account of ill-health or of Parliamentary or other public business, or is disqualified to sit in the House, any days when he is so absent or disqualified.

(3) Leave of absence for the purposes of paragraph (b) of subsection (2) of this section may be given either before, during or after the period for which it is given, and either before or after the end of the Session to which it relates.

(4) Subsection (1) of this section shall not apply in relation to any Session of Parliament in which the number of days on which the House of Lords meets as aforesaid is less than thirty.

(5) For the purposes of this section attendance on a day on which the House sits until after midnight shall be treated as attendance on one day only.

5.—(1) A peer of first creation who is for the time being the holder of an office to which this section applies, that is—

(a) any office in respect of which salary is payable under the Ministerial Salaries Consolidation Act 1965;

(b) any high judicial office within the meaning of the Appellate Jurisdiction Act 1876 as amended by section 5 of the Appellate Jurisdiction Act 1887,

shall be qualified as a voting peer whether or not he is or could be so qualified by virtue of a voting declaration under the foregoing provisions of this Act.
(2) If any such peer ceases during a Parliament to be the holder of an office to which this section applies—

(a) he shall continue to be qualified as a voting peer until the end of the Session then current; and

(b) he may (subject to subsection (3) of section 3 of this Act) deposit a voting declaration or further voting declaration in respect of that Parliament within one month after the opening of the next Session or within such extended period as the House may for special reasons allow.

(3) Without prejudice to subsection (1) of this section, any peer of first creation who is one of the Lords of Appeal within the meaning of the Appellate Jurisdiction Act 1876 shall be qualified as a voting peer for the purposes of any judicial business.

6.—(1) The number of Lords Spiritual who are Lords of Parliament shall be progressively reduced, as provided by subsection (2) of this section, from twenty-six to sixteen.

(2) Of the next twenty vacancies among the Lords Spiritual who are Lords of Parliament which arise after the commencement of this Act on the avoidance of sees other than those of Canterbury, York, London, Durham and Winchester, only ten shall be supplied pursuant to section 5 of the Bishoprics Act 1878; and the vacancies to be so supplied shall be the second of each two which so arise.

(3) The bishop of any see to which the foregoing subsection applies may, by notice in writing given to the Lord Chancellor, disclaim for himself the right to sit as a Lord of Parliament as such; and where such notice is given—

(a) if at the time of the notice the bishop is one of the Lords of Parliament, section 5 of the Bishoprics Act 1878 as amended by this section shall apply as if the see were avoided by his retirement;

(b) whether or not he is then one of the Lords of Parliament, he shall be left out of account for the purpose of supplying pursuant to that section any vacancy among the Lords Spiritual which arises [during his tenure of the see] on the avoidance of any such see.

(4) Sections 2 to 5 of this Act shall apply to the Lords Spiritual as they apply to peers of first creation, and as if the Archbishops of Canterbury and York and the Bishops of London, Durham and Winchester were the holders of an office to which the said section 5 applies.
7. A person who, by virtue of any process under the Mental Temporary Health Act 1959, the Mental Health (Scotland) Act 1960 or any corresponding enactment in force in Northern Ireland, is disqualified from being a member of the House of Lords, so long as he remains so liable, to sit or vote in or to receive writs of summons to attend the House of Lords.

**Legislative powers**

8.—(1) This section applies to any public Bill which is passed by the House of Commons and sent up to the House of Lords, not being a money Bill within the meaning of section 1 of the Parliament Act 1911 or a Bill containing any provision to extend the maximum duration of Parliament.

(2) If a Bill to which this section applies is disagreed to by the House of Lords, the House of Commons may, subject to the provisions of the next following section, resolve that the Bill be presented to Her Majesty for Her Royal Assent under this Act; and on the Royal Assent being signified the Bill shall become an Act of Parliament accordingly notwithstanding that the House of Lords have not consented to it.

(3) For the purposes of this section a Bill shall be treated as disagreed to by the House of Lords in the following circumstances (and not otherwise) namely—

(a) if a motion for the rejection of the Bill is carried, or the motion that the Bill be read at any stage or passed is rejected or amended, by that House;

(b) if that House insist on any amendment of the Bill not agreed to by the House of Commons, or, having disagreed to an amendment made by the House of Commons on consideration of Lords’ amendments, insist on their disagreement;

(c) if, at any time after the end of the period of sixty parliamentary days from the day on which the Bill was sent up to the House of Lords, any motion relevant to the progress of the Bill, made in that House by the peer in charge of the Bill and expressed to be made pursuant to this section, is rejected by that House;

(d) if at any time after the end of that period and within the Session in which the Bill was sent to the House of Lords, the House of Commons resolve, on a motion of which at least ten parliamentary days’ notice has been given, that the Bill be treated for the purposes of this Act as disagreed to by the House of Lords.
(4) Nothing in this section shall prevent the taking, in the case of a Bill which is treated as disagreed to under the foregoing provisions of this section, of any proceeding which could otherwise lawfully be taken in either House, or the enactment otherwise than under this section of a Bill as agreed to by both Houses.

(5) The date on which a Bill is disagreed to by the House of Lords within the meaning of this section shall be endorsed on the Bill by the Clerk of the Parliaments or, if the Bill is then in the possession of the House of Commons, by the Clerk of that House.

9.—(1) A resolution under section 8 of this Act for the presentation of a Bill for Royal Assent shall not be passed by the House of Commons until the end of the following period (“the period of delay”), namely six calendar months from the day on which the Bill was disagreed to by the House of Lords or, if it was so disagreed to more than sixty parliamentary days after being sent to that House, from the last of those days.

(2) A resolution for the presentation of a Bill for Royal Assent under the said section 8 may be passed, and the Royal Assent may be signified accordingly, notwithstanding any prorogation or dissolution of Parliament during the period of delay: but in that case the resolution shall not be passed more than thirty parliamentary days after the end of the period of delay.

(3) Without prejudice to subsection (4) of the said section 8, either House may, at any time during the period of delay and notwithstanding any such prorogation or dissolution as aforesaid, propose to the other House amendments with which they would agree to the Bill; and if those proposals are agreed to by the other House—

(a) the period of delay shall thereupon expire and a resolution under the said section 8 for the presentation of the Bill for Royal Assent may be passed accordingly; and

(b) for the purposes of the Royal Assent pursuant to that resolution, the amendments shall be treated as amendments of the Bill made by the House of Lords and agreed to by the House of Commons.

(4) On the expiration of the period of delay, the Bill shall, unless it is then in possession of the House of Commons, be returned to that House.
10.—(1) A Bill as presented to Her Majesty for Her Royal Content and Assent pursuant to a resolution of the House of Commons under section 8 of this Act shall include—
(a) any amendments made by the House of Lords and agreed to by the House of Commons (including any amendment treated as so made and agreed to under the last foregoing section);
(b) any amendments made by the House of Commons on consideration of Lords' amendments and agreed to by the House of Lords;
(c) such other amendments (if any) made by either House as may be specified in the resolution under the said section 8,
but shall not include any other amendments.

(2) When a Bill is presented to Her Majesty for Her Royal Assent pursuant to such a resolution, there shall be endorsed on the Bill the certificate of the Speaker of the House of Commons, signed by him, that the provisions of this Act have been duly complied with; and any such certificate shall be conclusive for all purposes and shall not be called in question in any court of law.

(3) In every Bill so presented to Her Majesty, the words of enactment shall be as follows:—
"Be it enacted by the Queen's Most Excellent Majesty in Parliament, pursuant to section 8 of the House of Lords Reform Act 1968, as follows"
and the alteration of a Bill necessary to give effect to this subsection shall not be deemed to be an amendment of the Bill.

Subordinate legislation

11.—(1) The provisions of the next two sections of this Act shall have effect for securing that in those cases where each House of Parliament has power either—
(a) by passing a resolution for annulment; or
(b) by rejecting a motion for approval,
to control the making, coming into operation or continuance in force of an instrument laid or laid in draft before it, a decision of the House of Lords may be overruled by the House of Commons.

(2) References in this section and in the said provisions to the annulment or approval of an instrument or draft include references to the presentation to Her Majesty of an address to the like effect in relation to an instrument or draft, and references to resolutions or motions for annulment or approval shall be construed accordingly.
Negative resolutions.

12.—(1) A resolution passed by the House of Lords pursuant to subsection (1) of section 5 of the Statutory Instruments Act 1946 (instruments subject to annulment by resolution of either House) or subsection (1) of section 6 of that Act (draft instruments subject to disapproval by resolution of either House) shall be of no effect until the end of whichever of the following periods expires later, namely—

(a) the period of forty days prescribed in subsection (1) of the said section 5 or section 6, as the case may be;

(b) the period of twenty Parliamentary days from the date of the resolution.

(2) If during the said period a corresponding motion in respect of the instrument or draft is rejected by the House of Commons or the instrument or draft is approved by resolution of that House, the resolution of the House of Lords shall be of no effect thereafter; and in any other case, the last-mentioned resolution shall be treated as having been passed at the end of that period.

Affirmative resolutions.

13.—(1) This section applies to any enactment, whether passed before or after this Act, which provides (by whatever form of words) that an Order in Council, order or other instrument of any description—

(a) may be made only after approval by resolutions of each House of Parliament;

(b) shall not come into force unless or until approved by such resolutions; or

(c) shall cease to have effect at the end of a specified period unless so approved within that period.

(2) For the purposes of any enactment to which this section applies, an instrument or draft shall be treated as approved by resolution of each House of Parliament, notwithstanding that a motion for such approval is rejected by the House of Lords, if the instrument or draft had previously been approved by resolution of the House of Commons and that resolution is subsequently re-affirmed by that House.

(3) If in the case of an instrument falling within paragraph (c) of subsection (1) of this section a motion for approval is rejected by the House of Lords less than [ten] Parliamentary days before the end of the period specified in the relevant enactment, that period shall be extended by virtue of this section until [ten] Parliamentary days after the rejection.
Supplemental

14.—(1) A person shall not be disqualified for voting at parliamentary elections to the House of Commons—

(a) as being the holder of a peerage, whether or not he is entitled to receive writs of summons to attend the House of Lords as such; or

(b) as being one of the Lords Spiritual.

(2) The holder of a peerage who is not so entitled as aforesaid shall not be disqualified as such for being or being elected as a member of the House of Commons.

15.—(1) In this Act the following expressions have the meanings hereby assigned to them, that is to say—

“Committee”, in relation to the House of Lords, includes a joint committee of that House and the House of Commons;

“Judicial business” means proceedings falling within section 5 of the Appellate Jurisdiction Act 1876 as extended by any subsequent enactment;

“Parliamentary day” means any day other than one comprised in a period when Parliament is prorogued or dissolved or both Houses are adjourned for more than four days;

“Peer” includes peeress, and “peer of first creation” means the holder of a life peerage or the first holder of a hereditary peerage;

“Public Bill” does not include a Bill to confirm a provisional order, but includes a Bill presented under section 6 of the Statutory Orders (Special Procedure) 1945 (9 & 10 Act 1945). Geo. 6 c. 18.

(2) In calculating for the purposes of this Act any period from or after a specified day or event, that day, or the day on which that event occurs, shall be excluded.

(3) In relation to a peer who, immediately after the commencement of this Act, is disqualified to receive a writ of summons to attend the House of Lords—

(a) by virtue only of his adjudication or sequestration in bankruptcy; or

(b) by virtue only of section 7 of this Act, subsection (2) of section 1 of this Act shall apply as if for references in paragraph (b) to the date of the commencement of this Act there were substituted references to the date on which he ceases to be so disqualified.
16.—(1) This Act shall come into force at the end of the Session of Parliament in which it is passed.

(2) For the purposes of this Act, the remaining Sessions of the present Parliament shall be treated as a separate Parliament summoned after the passing of this Act; and accordingly—

(a) all writs of summons to attend the House of Lords issued before the commencement of this Act shall cease to have effect at the commencement of this Act; and

(b) fresh writs of summons to attend that House in the said remaining Sessions shall be issued to those peers who, under the provisions of this Act, are entitled to receive them.

17.—(1) This Act may be cited as the Parliament Act, 1968.

(2) The enactments described in the Schedule to this Act are hereby repealed to the extent specified in column 3 of that Schedule.
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Short Title</th>
<th>Extent of Repeal</th>
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| [34 & 35 Vict. 5 c. 50. | The Bankruptcy Disqualification Act 1871. | In section 2 the words from “and further” to the end. In section 4 the words from “and if” to “that House”. Section 5.]
| 46 & 47 Vict. 10 c. 52. | The Bankruptcy Act 1883. | In section 32, in paragraph (a) of subsection (1), the words from “or being” to the end of the paragraph. Sections 2 and 5. |
| 1 & 2 Geo. 5. c. 13. | The Parliament Act 1911. | In section 10, in subsection (4), the words from “Provided that” to the end. In section 25, in subsection (1), the words from “Except” to “elections” where it first occurs; and subsections (2) and (3). The whole Act. |
| 15 12, 13 & 14 Geo. 6. c. 68. | The Representation of the People Act 1949. | Section 2. In section 3, in paragraph (b) of subsection (1), the words from “including” to “that House”. Section 5. In section 6 the words “and elections to that House”. [Sections 4 and 6, except in their application to any holder of a hereditary peerage qualified by virtue of subsection (2) of section 1 of this Act to receive writs of summons to attend the House of Lords.] |
| 20 | | |
| 30 | The Peerage Act 1963. | |
| 35 | | |
| 40 | | |
DRAFT
OF A
BILL
To amend the law relating to the composition and powers of the House of Lords; to make related provision as to the parliamentary franchise and qualification; and for purposes connected therewith.

CLV—D (7)

15th October, 1968
At their meeting on 8th October, the Social Services Committee invited the Minister of State, Treasury, to prepare a paper for the Cabinet on the effect of the earnings-related pensions scheme on the pension entitlement of public service employees.

2. If a reasonable relationship is to be maintained between salaries on retirement up to £33 a week and total pension income on the introduction of the new earnings-related scheme, the occupational pensions of public servants, and others in similar schemes, will have to be scaled down. The extent of this problem is discussed more fully in paragraphs 1 and 2 of the annex. In brief, if the occupational schemes are not amended, many of those retiring after a full career with terminal salaries of anything up to about £30 a week may find themselves with pensions from the occupational and State schemes which exceed their pre-retirement salaries.

3. Amendments in the occupational schemes will not be easy to negotiate with staff interests, but there is some possibility that agreement can be reached provided that compensating improvements are conceded in other features of the occupational schemes. There are a number of deficiencies in the public service schemes that could be dealt with in this way. Some of them are referred to in paragraph 3 of the annex.

4. The extent to which increased contributions to the State scheme can be offset by reduced contributions to occupational schemes will turn on the extent to which improvements in the latter are introduced. Unless the State as employer is to accept a substantial increase in the cost of providing pensions for public servants, the staff can reasonably look for improvements in their occupational schemes to offset the scaling down of the personal pension or reductions in contribution rates to offset the increased contributions that most of them will find themselves paying for State scheme benefits, but they cannot reasonably expect both. Details of the increases in contributions payable to the State scheme, and the resultant loss of tax relief, are given in paragraphs 6 and 7 of the annex.
5. Partial contracting out by abatement would reduce, but not remove, the need to scale down occupational benefits and would also moderate the increase in State scheme contributions. But it also would mean that the scope for financing improvements in other features of occupational schemes, or alternatively for reducing occupational scheme contributions, was reduced, and it would complicate the technical problems of dealing adequately with over provision. Nevertheless it will probably have a strong appeal for staff, especially those in non-contributory schemes. The effect of abatement is dealt with more fully in paragraphs 4, 5 and 8 of the annex.

6. An increase to 65 in the minimum pension age for most male public servants should be considered in the course of the review of public service pension schemes which the new State scheme will compel. But there will undoubtedly be some groups for whom an earlier retiring age is fully justified and special provision may be necessary to see them through the period until their State pensions come into payment. This is considered further in paragraphs 9 and 10 of the annex.

R. H. J.

Treasury Chambers, S. W. 1.

15th October, 1968
ANNEX

THE IMPLICATIONS FOR PUBLIC SERVICE SCHEMES IN MORE DETAIL

A. Effect on benefits

1. In terms of present day earnings levels, an earnings-related scheme on the lines proposed will generate after the maturity period of 20 years retirement pensions of about £6 10s. a week on life average earnings of £11 or £12 a week and about £12 a week on life average earnings of £33 a week or more. The basic provisions of the main public service pension schemes are standard; they provide for a maximum pension at normal retiring age of 40 eightieths of salary averaged over the last three years plus a lump sum of 120 eightieths, or (in the case of the police) the approximately equivalent pension benefit of 40 sixtieths with a right to commute a quarter. In general, up to a further 5 eightieths plus additional lump sum can be earned for service after the normal retiring age, giving a maximum possible benefit of 45 eightieths pension plus 135 eightieths lump sum, this being the approximate equivalent of a 45 sixtieths pension. In addition, public service pensioners receive the flat rate national insurance pension of at present £4 10s. a week for a single person and £7 6s. for a married couple, a part of which, not exceeding £1 6s. a week, may in certain circumstances be offset against the occupational pension. This is already leading to some degree of over-provision. (Almost all public servants are contracted out of the graduated scheme if they are members of an occupational scheme.)

2. The addition of a substantial earnings-related State pension on top of an occupational pension of the size provided in the public services will often produce a total pension income that is excessive by any standards. A man retiring at the end of a full career with a pensionable salary of £30 a week would receive an occupational pension or pension plus lump-sum equivalent to some £20-£22 a week. If his average earnings were £25 a week (as they well might be, especially during the period of accelerated maturity), the new State scheme would provide a pension of £10 a week. In other words, his retirement income would be at least as much as his salary before retirement. Where the retiring salary was less than £30 a week, total pension income could easily exceed salary. Thus a man earning £20 a week on retirement with average career earnings of £16 a week could have the equivalent of a total pension income of some £21 or £22 a week. (All these figures take no account of the wife's flat rate pension, which would go to help the household expenses of the married couple.) This problem of over-provision disappears rapidly as pensionable earnings in occupational schemes rise above £33 a week, and this complicates the task of making adjustments in the schemes.

3. It will be apparent from these figures that with the introduction of the new earnings-related scheme, occupational schemes in the public services, and others like them, will need to be scaled down if a reasonable relationship is to be maintained between terminal salary and pension income. This will not be at all easy to negotiate with the staff interests, who would almost certainly prefer to be contracted out of the State scheme altogether in order to avoid having to pay extra contributions for benefits many of which they would in any case have received at a lesser or no cost to themselves under their occupational schemes. But they may agree to some reshaping of the schemes provided that compensating improvements can be conceded on some of their other features. There is ample room for a deal on these lines. The
Fulton Committee have recommended a number of improvements in the Civil Service scheme. There is pressure for improved widows' benefits, for which there is a good case in equity. The Government are also committed to reviewing the arrangements for increasing public service pensions in the light of the corresponding arrangements for dynamising the new State scheme. Improvements on these lines, many of them highly desirable in principle and some of them hardly avoidable, will be very difficult to finance unless some offsetting savings can be found on the basic pension rates. The net effect of these new State scheme on public service pensions is therefore likely to be a fairly radical rearrangement of the benefits, but it seems unlikely that at the end of the day their total value will be reduced.

Contracting out by abatement: effect on benefits

4. Partial contracting out by abatement (whereby the percentage of earnings paid by members of approved occupational scheme and their employers would be reduced with a related reduction in the employees' State pensions which the employer would undertake to make good from his occupational scheme) would not make a substantial contribution to the solution of the problem of over provision. The precise effect cannot be stated since it turns on the formula linking the deduction from contributions to the deduction from pension, and this has still to be determined, and on the rate of growth of earnings, and therefore of pre-award dynamism in the State scheme. But on reasonable assumptions it seems unlikely to be of major consequence. If it is assumed that the State pension of those contracted out might be abated by 1 per cent of undynamised reckonable earnings for each year of contracted out employment, and that average money earnings grow at a rate of 3 per cent a year, this would mean that the employee contracted out over a full contributing life would qualify for 65 per cent to 87 per cent of the full State pension, depending on his age on the inception of the scheme and his average earnings. And if money earnings raise faster than 3 per cent a year, the proportion of the full State pension payable to the contracted out employee would be even higher. If occupational schemes remained unamended, this would still leave many public service pensioners with a total pension income very close to, if not in excess of, their salaries on retirement. For example, a man who has average career earnings of £20 a week and a final pensionable salary of £24 a week could still have the equivalent of a total pension income of about £23 to £25 a week.

5. Contracting out would indeed complicate rather than ease the problem of reshaping the public service occupational schemes since full pre-award dynamism would be allowed on the whole State pension and not merely the non-abated proportion. This is necessary since employees would otherwise be worse off if they were contracted out by employers who were not able and willing to provide the same (unpredictable) degree of dynamism as the State scheme. But occupational schemes which base pensions on salaries in the final years before retirement automatically provide a high degree of built-in pre-award dynamism. The member of such a scheme who is contracted out will therefore stand to benefit from double dynamism on the abated portion of his State pension, and since the rate of growth of earnings cannot be foreseen over a lengthy period with any degree of accuracy, this will not be easy to counter.
6. The move from a flat rate to an earnings-related contribution in the State scheme will represent a substantial extra charge on the employees at the top end of the salary range. The man earning £33 a week or more who is not contracted out of the new scheme will find himself paying contributions of 18s. 2d. a week more than the present rate of 26s. 5d., or an extra 23s. 5d. a week if, like almost all members of public service schemes, he is at present contracted out of the graduated scheme. It is impossible to forecast at this stage how far this may be offset by a reduction in his contributions to his occupational scheme (or, if his scheme is non-contributory, by an adjustment in the allowance made in determining his pay to take account of that fact). If the occupational scheme were scaled down to the full extent of the improved State pension, it might be practicable to make an equivalent adjustment in the employee's contribution so that the total cost of his contributions remained more or less unaltered. But he would still be at some disadvantage in having to pay a higher proportion in the form of the State contribution which does not attract tax relief, and less as a contribution to his occupational scheme which does. At worst, on the figures quoted above, the £33 a week man would find that 23s. 5d. a week of his income no longer ranked for tax relief.

7. If, however, as is suggested above, staff interests are likely to demand expensive improvements in other features of their occupational schemes as the price of their acceptance of some scaling down of the personal pension to avoid over-provision, there will clearly be little or no room for a reduction in occupational scheme contribution rates. Improvements in total pension provision cost money, and if that is what employees want they will have to face up to higher total outlay on contributions.

Effect of contracting out on contributions

8. Partial contracting out by abatement would limit the extent of the increase in the contribution payable to the State scheme. Assuming that the contribution rate would be reduced by 1 per cent a side, the £33 a week employee would pay 11s. 7d. more than the present rate of 26s. 5d., or 16s. 10d. if he is already contracted out. This is a considerable easement. But there would be less room for reducing the cost of, and therefore the contribution rates payable to, the occupational schemes by scaling down their pension levels, and the final outcome might not be very different whether or not a scheme was contracted out. Nevertheless, the mitigation of the rate of increase in the contribution to the State scheme offered by abatement would be attractive to staff interests, especially where the occupational scheme was non-contributory, and they were therefore weighing an immediate and direct saving on the contribution to the State scheme against a more distant and indirect adjustment of pay. Whatever course was adopted, substantial increases in total contribution rates to State and occupational schemes, even although they were fully matched by improved benefits, could be expected to influence future pay claims.

Pensions on retirement before national pension age

9. The minimum pension age in most of the public services is 60. Certain groups, e.g. police and prison officers, may retire earlier.
earlier on full pension. Leaving aside these groups, where special considerations apply, it will be for consideration whether as part of the process of reshaping the public service schemes the minimum male pension age should not be raised to 65. There are some weighty reasons for such a move. 65 has become the minimum pension age in most new schemes introduced in recent years elsewhere in the public sector and in the private sector. 96 per cent of all schemes provide for a minimum male pension age of 65 or over. In the public service it is already common for people to go on working well beyond 60, and while a change could clearly not be introduced overnight, it would seem right to consider carefully whether the opportunity should not be taken to bring the generality of public servants into line with private sector practice and with the State scheme minimum retiring age.

10. But whatever may be decided on that score there will always be some public servants the nature of whose duties requires a retiring age below age 65. If the level of pensions provided by the public service schemes has been adjusted to take account of the State pension which is payable only from 65, there will clearly be a strong case for some special provision to see those who have to retire early through the period until their State pension comes into payment. It will however be important to avoid the appearance of paying the direct equivalent of the State pension to public servants some years before other members of the community qualify for it. This is one of a large number of points on which it will be necessary to have talks with the staff interests when the White Paper has been published. Arrangements have already been made with the Civil Service staff associations and the unions representing the industrial employees to carry out a thorough review of the Civil Service superannuation scheme, in the course of which the new situation created by the earnings-related State scheme will be taken fully into account. Similar reviews will no doubt be necessary in the other public services.
CABINET

EUROPEAN POLICY

Note by the Secretary of State for Foreign Affairs

My colleagues may wish to see, as background to our discussion on Thursday, 17th October, the attached copy of my telegram of 13th October to the Prime Minister from New York.

M.S.

Foreign Office, S.W.1.
16th October, 1968
Europe

Following for Prime Minister from Foreign Secretary.

The presence in New York this week of the Foreign Ministers of all six EEC countries has enabled Harmel to advance his ideas for dealing with the deadlock in Europe. You will recall the talks which you and I had with him in London on 18th September, and his determination, if the EEC Council Meeting on 27th September showed the French to be as negative as ever, to see what progress could be made in the fields outside the Rome Treaty, and so outside the reach of a French veto. This approach is of course essentially that of the Benelux memorandum of 19th January which we welcomed and agreed at the time, and which might well have led to earlier progress if the Germans had not been diverted by the February meeting between de Gaulle and Kiesinger and the laborious months which followed while the Six explored the possibility of agreeing proposals for a trade agreement. It is clear that, with the exception of the Germans, everyone now regards the trade arrangements approach as dead. Brandt will probably go on with it in the EEC Council but he no longer regards further clarity on a trade arrangement as a necessary condition for considering other approaches.

2. Essentially the Belgian proposal is that we should now see what scope there is for closer co-operation on a European basis in foreign policy and defence. Other subjects could also be considered in due course. Harmel says he has Debre's assurance that France will not object to a procedural decision when WEU Ministers meet in Rome on 21st October to establish a group to report on the possibilities in time for consideration in January. Debre has however said that France will oppose decisions on substance being taken on 21st October.

3. In the light of this, German, Italian and Belgian officials (the latter acting informally for Benelux as a whole) discussed here this week with our own officials both the general political objectives which we should have in mind and the text of a mandate which we might adopt in Rome on 21st October, calling for studies to be submitted to Ministers by January. Informal agreement was reached on objectives and on procedure. It was agreed that consideration should be given to the possibility of a new agreement to be concluded between "the interested European States" to strengthen co-operation particularly in the fields of foreign policy and defence. (This formulation leaves open the possibility of bringing in Norway and Denmark, for example, in due course). As far as foreign policy is concerned, there was agreement that something like the formulation of the final point in the Benelux proposals was the right approach: to aim for consultation before decisions on questions of common interest which could be defined in advance. In defence, problems of European defence strategy and standardisation and production of armaments are subjects which, it is suggested, it would be advantageous to treat on the European plane. A simple institutional structure would be necessary if, because of France, it proves impossible to operate in WEU. In all this, the need to act within the Alliance and in a way which would reinforce the functioning of NATO was recognised.
4. The draft mandate which would set work in motion on all this, and which the Five have all now agreed, will be given to the French by Carmel.

5. So far, so good. The French may either withdraw their agreement, and veto progress in Rome; or they may obstruct progress between the October and January WEU meetings. There are no illusions among my five colleagues about the likelihood of a co-operative French approach. But for the moment, the result of M. Debre’s apparent readiness to contemplate decisions of procedure is that it has been easier for the Germans to join in the operation. This is in our interest, and indeed it may well be essential if useful work is to be done. Our task now will be on the one hand to avoid sacrificing the essential objective — putting in hand effective work in foreign policy and defence — while on the other hand making it as difficult as possible for Germany to withdraw.

6. I am sure that this is the right approach. I have no doubt that the present is a favourable moment for Britain to resume a more active role in European affairs. My talks here this week have confirmed my impression that irritation with French obstruction is running high in the Five. Even Brandt was quite frank about the major differences between the French and German Governments. The conviction that Czechoslovakia and uncertainties about US policies next year mean that Europe must show a greater sense of purpose makes it essential for us to try to break France’s hold on the other Five Community countries and establish a healthier atmosphere for co-operation in Europe while there is time. That is why I regard foreign policy and defence as the most promising fields for action. If we do nothing now, Italy and the Benelux countries may well lose heart, and the Community may then resume its development, under French leadership today, under German leadership later.

7. If we now follow up Harmel’s ideas, we shall sooner or later have to face the question whether we should proceed without France. I am clear that we must be prepared for this, and I have told my colleagues here that this is my view. Medici and Lans agree with me; so does Harmel though the Belgian Government as a whole has not taken a decision. Brandt, when I saw him on 10th October, said that if initiatives came from others and provided that they avoided appearing to try to exclude France, Germany would decide on her attitude in the light of her national interests. And he was of course more specific about readiness to go ahead, if necessary without France, when he spoke to Jackling immediately after the Kiesinger/de Gaulle meeting. (Bonn telegram No. 1344 of 30th September).
22nd October, 1968

CABINET

THE CONCORDE CRITERIA: THE NEXT STEP

Memorandum by the Attorney-General

It may be helpful to make an assessment of our legal position following the negotiations that have taken place between the Minister of Technology and M. Chamant.

2. In paragraph 11 of his memorandum (C(68) 109) the Minister of Technology asks whether acceptance of M. Chamant's proposals would improve our position, worsen it, or leave things much as they are. As the Minister points out, the French proposals fall short of our objective of establishing a strategy of withdrawal under which, in agreement with the French, if certain criteria were not met, we would be free to withdraw unilaterally. I consider first the effect of the proposals.

The Chamant proposals and the Cabinet objectives compared

3. The proposals fall short of our objective in the following respects.

4. As to the first criterion, airline orders. If we have not achieved the order criterion (orders from four major airlines including at least one American airline) by the end of 1969, but there still remains a hope of orders, M. Chamant proposes not that we should be entitled to withdraw, but that Ministers should discuss the continuance of the project based on a comparison of prospects and increased cost and timescales. This is not the firm break-point we sought. Nevertheless it establishes for the first time a reference point in relation to which a decision on the continuation of the project is to be taken based on commercial prospects. If there is no prospect of orders the project is to be terminated; if there is a prospect of orders, but at increased cost and time, the two Ministers will discuss the continuance of the project on its merits.

5. As to the second, estimated development cost exceeding £600 million. Ministers wished us to be in a position to withdraw unilaterally without paying damages as soon as it became apparent that £600 million would be exceeded. The French memorandum requires us to wait until the end of 1969, and if it then appears that £600 million will be exceeded, Ministers will propose to their respective Governments an amendment to the Memorandum of Understanding of 1962 allowing each Government to be released from any automatic obligation to continue the project jointly - paragraph 2d. This falls short of the break-point we sought in two particular respects. In the first place it commits us until the end of 1969, and in the second it does not give us an agreed right of unilateral withdrawal. However if the French Government refused
to accept a recommendation of their Minister to release us when the time came and we then withdrew unilaterally our position in the International Court would be strengthened by the fact that the responsible French Minister had recognised that in the circumstances envisaged the situation would have so changed that each party should be released from its obligation to continue.

The Chamant proposals (course (v))

6. In making an assessment of whether we would be better or worse off by accepting the French proposals I leave out of account the political and other considerations referred to at the end of the Minister of Technology's memorandum and deal only with our legal position. First, how far would we be worse off.

7. In my memorandum of 27th June, 1966 (C(66) 90), I dealt with the legal principles which govern the right of a party to withdraw from an agreement on the ground of a fundamental change of circumstances. The first question to be considered is whether, by agreeing to the French proposals, we deprive ourselves of the right to invoke those principles. On one view, if parties to an agreement prescribe a procedure to be followed in a specified situation they are contractually bound to follow that procedure if the specified situation arises. So far as cost is concerned we will have agreed upon a procedure. If we sought before the International Court to rely upon the increase of cost as constituting a fundamental change, the Court might hold that, having agreed upon a procedure whereby we might be discharged from an obligation which we had acknowledged to be an automatic obligation, we were required to follow that procedure. We would not of course be debarred from invoking the defence of fundamental change of circumstances if the fundamental change fell outside the situation specified in the agreement, as for example a major design failure. On the other hand, it could be argued that the French proposals do not affect the right of unilateral withdrawal in the event of a fundamental change of circumstances, since this is a right every party to an agreement has as a matter of international law. It is by no means certain that this view would prevail but nevertheless the existence of M. Chamant's proposals itself lends strong support to this proposition, for his proposals recognise that in certain circumstances the future of the project will be called into question. There is a risk that if we try to improve upon our position under those proposals we shall lose the advantage of that recognition.

8. If it be the case that we could be regarded as depriving ourselves of the right to rely on cost increase as constituting a fundamental change of circumstances entitling us to withdraw unilaterally we could be said to be losing something by agreeing to the French proposals. But we must make an assessment of the value of that right. It is precisely because of the difficulty, looked at in the light of the history and nature of the project, of determining at what point increase in cost constitutes a fundamental change of circumstances that we decided to try and agree a limit with the French. I do not know whether, during the next 15 months, the pattern of cost increase is likely to differ materially from the pattern that has emerged in the past. Unless there is a significant worsening of the situation between now and the end of 1969 there will be no point at which the Law Officers will be able to advise that increase in cost constitutes a fundamental change of circumstances giving us a right of unilateral
withdrawal (I refer to this further in paragraph 12 below). We must not therefore be under any illusions as to the practical value of this right.

9. How much, on the other hand, would we have gained if we accepted the French proposals? We would have gained their acknowledgment of two criteria by which, as the Minister of Technology says, the continuing validity of the project is to be judged. This acknowledgment is clearly of value, but the value of that acknowledgment must be judged in the light of what the French propose should happen if the criteria are not met. So far as airline orders are concerned the position will be, not that we can withdraw (unless of course no orders are in prospect), but that discussion will open on the lines envisaged by M. Chamant. If the French were minded to prolong these discussions they could drag on during 1970 and meanwhile expenditure would continue unabated. As for an increase in the cost estimate over £600 million, here again we cannot withdraw forthwith. What is proposed is that an amendment to the 1962 Agreement should be negotiated allowing each Government to be released from an automatic obligation to continue, and again the possibility of delay in negotiating an amendment cannot be ruled out.

10. The French might, for instance, propose an amendment whereby, although there was no automatic obligation to continue, the Government which withdrew should pay the other Government's cancellation charges if the other Government decided that it could not continue alone. We would not be obliged to accept an amendment in those terms, but there is clearly the possibility of delay. The risk of delay arising in this way could be avoided if the Minister of Technology were to secure M. Chamant's agreement that it would not be necessary to go through the procedure of amending the 1962 Agreement, but that it would be sufficient for each Government simply to release the other. This is what the Minister of Technology originally proposed (paragraph 9 of his memorandum). It does not touch upon the substance of the matter, but only the procedure. In paragraph 2b of his proposals (no prospect of orders; project to be terminated) M. Chamant makes no mention of an amendment to the 1962 Agreement, and if a formal procedure is unnecessary for abandonment on the ground of lack of orders, it should be equally unnecessary for abandonment on the ground of cost.

11. Whether or not, however, we seek to improve upon our position in this respect, acceptance of the French proposals would in my view represent a helpful gain. We would have secured their acknowledgment that continuance of the project was to be judged in the light of the commercial prospects of the aircraft, depending on the airline orders criterion and the cost criterion of £600 million. Should it happen that at the end of 1969 the criteria were not satisfied but only marginally not satisfied, we might feel that we would show ourselves in an unreasonable light if we did not agree to continue with the project. Those criteria would remain, however, as an agreed yardstick by which the advisability of continuing with the project should be judged. We could make it clear, if we agreed to continue, that we regarded the falling short in achieving the criteria as marginal only and that the significance of the criteria remained. On balance, for the reasons I have given above, I think we would be better off by accepting the French proposals than by rejecting them. At least our commitment would no longer be completely open-ended.
12. I now consider what our legal position would be if we took course (iv). What we would be doing would be to lay down a criterion unilaterally, that if the cost estimate exceeded £600 million at any time before the end of 1969, we would feel free to withdraw. The question comes down to this. Are we as a matter of law entitled to invoke the principles referred to in paragraph 7 above, alleging that an increase in the cost estimate above £600 million amounts to a fundamental change of circumstances? Here I find myself in difficulty upon an issue of fact. On the one hand the £600 million figure is spoken of as a figure that is likely to be reached in any event, and the middle or autumn of 1969 is spoken of as the likely date. On the other hand, it is spoken of as a figure that represents a situation of crises involving a major redesign; a fundamental change of circumstances in other words. From the point of view of our legal position this is a critical issue of fact. Whether we would succeed in proceedings instituted by the French before the International Court in consequence of our unilateral withdrawal must remain a matter of uncertainty, because of the difficulty of satisfying the Court that an increase above any particular figure represents a fundamental change of circumstances.

Possible variant of course (v)

13. In the middle of page 5 of his memorandum, the Minister of Technology gives an account of the misgivings that were expressed at the meeting of the Ministerial Working Group and as to the means whereby they might perhaps be met. The letter which it is proposed should be sent in reply to M. Chamant is at Annex D to the Minister’s memorandum. I cannot advise that, as it stands, the letter is effective to achieve its purpose; if it were to be effective to do so it would have to be made more explicit. The disadvantage which may attach to making it more explicit is that it may in the process become difficult to distinguish from course (iv). This disadvantage might be avoided by taking a middle course of making it clear that agreement to course (v) is without prejudice to the right of the parties in International law to terminate where there is a fundamentally altered situation. The question whether such an approach would unduly involve the risk of a retraction by the French from their present position and the consequential loss of the advantage of having got the two criteria acknowledged is a question of policy and tactics, not a question of law.

F, E, J.

Royal Courts of Justice, W.C.2.

21st October, 1968
CABINET

THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

Note by the Secretary of the Cabinet

I circulate for the information of the Cabinet a copy of The Queen's Speech on the Prorogation of Parliament in the form in which it has been approved by The Queen.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

22nd October, 1968
THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

My Husband and I were glad to welcome to this country the President of the Republic of Turkey.

2. My Government have contributed positively to the wide-ranging work of the United Nations. They have been active in seeking a settlement to the dispute between the Arab States and Israel. They tabled the Security Council Resolution on the Middle East which was unanimously adopted in November, 1967.

3. My Ministers have welcomed the opening of discussions in Paris which they hope will lead to the end of the Vietnam conflict.

4. My Ministers played a leading part in negotiations which led to the successful conclusion of the Treaty on the Non-Proliferation of Nuclear Weapons, and have made proposals for further measures of disarmament.

5. My Government have maintained their application for membership of the European Communities and regret that the attitude adopted by one of the present members of the Communities has so far prevented the opening of negotiations.

6. My Government have announced their intention of withdrawing British forces from Malaysia, Singapore and the Persian Gulf by the end of 1971. They intend that over the next few years there should be a measure of redeployment of national resources and that Britain's defence effort should in future be concentrated mainly in Europe and the North Atlantic area. My Ministers took part in a successful conference with Ministers of Australia, New Zealand, Malaysia and Singapore in Kuala Lumpur, where the problems arising from that decision were considered.

7. My Government have continued to play their full part in the North Atlantic Alliance. They expressed their condemnation of the invasion of Czechoslovakia by the Soviet Union and some of its allies in violation of international law and the Charter of the United Nations.

8. My Government worked for and welcomed the restoration of diplomatic relations with the United Arab Republic, the Somaliland Republic, Sudan, Guinea, Algeria, Mali, Mauritania, the Democratic Republic of the Congo (Brazzaville), Iraq and Tanzania.
9. My Government have continued to seek to bring about a return to constitutional rule in Rhodesia in accordance with the multi-racial principles approved by Parliament. To this end they have co-operated with other members of the United Nations in giving effect to the Security Council Resolution of 29th May. Proposals for a settlement were communicated to Mr. Smith during the recent discussions at Gibraltar.

10. Three of our overseas territories became independent in the last 12 months - Mauritius, Swaziland and Aden (as part of the People's Republic of Southern Yemen). Both Mauritius and Swaziland remained in the Commonwealth. A revised constitution was introduced in Seychelles.

11. Last November, at the invitation of My Government in Malta, My Husband and I visited Malta and renewed our happy memories of My people in Malta and Gozo. In April of this year My Government in the United Kingdom welcomed the successful settlement, to which they made an important contribution, of the Malta Dockyard ownership problem.

12. My Government welcome the improvement in relations between the parties to the Cyprus dispute.

13. Despite economic difficulties, My Government have sustained their programme of aid to less developed countries.

14. The announced reductions in the size of the Services will mean the retirement of some officers and men and lead to the disappearance of some famous regiments. I am deeply grateful to all those concerned for their distinguished and selfless service. The need for recruits for the Forces, however, remains as pressing as ever, and My Government will not relax their efforts in this field.

MEMBERS OF THE HOUSE OF COMMONS

15. I thank you for the provision which you have made for the public services.
19. The growth of industry in the development areas has been encouraged and special measures have been taken to reduce the impact of colliery closures in these areas.

20. An Act has been passed to provide for a better integration of road and rail transport and to promote higher standards in the road transport industry. The Act will also enable improvements to be made in traffic management and the financial and other arrangements for the railways and nationalised inland waterways.

21. An Act has been passed to promote industrial expansion by enabling My Government to assist projects likely to benefit the economy.

22. Legislation has been passed to assist the exploitation of natural gas from the North Sea.

23. Major new developments have been promoted in the production in the United Kingdom of primary aluminium.

24. Legislation has been passed to strengthen the law on misleading trade descriptions and on restrictive trade practices.

25. Legislation has been passed to clarify the law in its application to hovercraft and to enable further measures to be taken to control aircraft noise and supersonic flight.

26. An Act has been passed enabling provisional action in accordance with international agreement to be taken against dumping.

27. My Government took steps to stamp out the very serious epidemic of foot and mouth disease and to ensure that the farms affected could resume production on a sound basis.

28. An Act has been passed to enable additional payments to be made to tenant farmers whose land is needed for development, to safeguard the welfare of farm animals, and for other agricultural purposes.

29. My Government have taken steps to protect the most vulnerable members of the community from the effects of price increases by improving supplementary benefits, rate rebates and family allowances.

30. Legislation has been passed to promote the better provision and development of health and welfare services; and to make new comprehensive arrangements for controlling the safety, quality and description of medicines.

31. Legislation has been passed to establish a comprehensive social work service in Scotland; and appropriate provision has been made wherever necessary in other Acts to meet distinctive Scottish needs.
32. An Act has been passed to improve the government of colleges and special schools.

33. My Ministers have continued the revision of the machinery of government to meet the changing requirements which are placed upon it. The Foreign Office and Commonwealth Office have been merged. An Order has been made for the amalgamation of the Ministry of Health and the Ministry of Social Security. My Government have welcomed the report of the Fulton Committee on the Civil Service; and an Order has been laid before you for the transfer of the necessary functions to a new Civil Service Department which will be closely engaged in the reshaping of the Civil Service following the recommendations of the Committee.

34. An Act has been passed providing for more effective planning control of development in England and Wales and for increased public participation in local planning.

35. Legislation has been passed to establish a Countryside Commission, to provide for the conservation of the countryside and for greater opportunities for leisure and recreation there; and for the appointment of a Welsh Committee of the Commission.

36. An Act has been passed strengthening control over immigration from other parts of the Commonwealth.

37. An Act has been passed to make discrimination on racial grounds unlawful in employment, housing and the provision of goods, facilities and services, and to encourage the development of harmonious community relations.

38. An Act has been passed to reform the law on gaming and to strengthen control over commercial gaming clubs and gaming machines.

39. Further progress has been made in the systematic reform of the law, including that relating to theft, evidence and justices of the peace in England and Wales and to succession and evidence in Scotland.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may attend you.
CABINET

THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

Note by the Secretary of the Cabinet

I circulate for the information of the Cabinet a copy of The Queen's Speech on the Opening of Parliament in the form in which it has been approved by The Queen.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

22nd October, 1968
THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

My Husband and I look forward with pleasure to the State Visit of the President of the Republic of Italy and to our own visit to Brazil and Chile.

2. My Government will continue to play an active part in the efforts of the United Nations to ensure peace and to assist the advancement of the developing world.

3. My Government will continue to work through the United Nations for a just and lasting peace in the Middle East. They will take every opportunity open to them to help the two sides achieve a negotiated settlement of the Vietnam conflict.


5. My Government intend to ratify the Treaty on the Non-Proliferation of Nuclear Weapons. They will continue to work actively for further progress on measures of arms control and disarmament in both the nuclear and non-nuclear fields. To this end they will vigorously pursue the proposals they have put forward to advance the negotiations.

6. My Government will maintain their application for membership of the European Communities and will promote other measures of cooperation in Europe in keeping with this.

7. My Government will continue to support Britain's alliances for collective defence and will play an active part in the North Atlantic Alliance as an essential factor for European security. The development of My Government's relations with the countries of Eastern Europe which took part in the invasion of Czechoslovakia has necessarily been set back, but it remains their aim to work for genuine East-West understanding.

8. My Government will continue to take the necessary steps to withdraw British forces from Malaysia, Singapore and the Persian Gulf by the end of 1974. Furthermore, in consultation with the Governments concerned, My Ministers will maintain their efforts to promote conditions favourable to peace and security in the areas concerned.

9. My Government will continue to seek to bring about a return to constitutional rule in Rhodesia in accordance with the multi-racial principles approved by Parliament.

MEMBERS OF THE HOUSE OF COMMONS

10. Estimates for the public services will be laid before you.
MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

11. My Government will press forward their policies for strengthening the economy so as to achieve a continuing and substantial balance of payments surplus. This will enable us to meet our international obligations, rebuild the reserves, develop industry and safeguard employment.

12. My Government will work closely with other Governments to maintain the smooth working of the international monetary system. They look forward to the early entry into force of the Special Drawing Rights scheme.

13. My Government will develop policies to encourage a better distribution of resources in industry and employment and to make fuller use of resources in the Regions.

14. Legislation will be brought before you to convert the Post Office from a Department of State to a public corporation.

15. Legislation will be introduced to integrate transport in London under local government control; and to establish a central system of vehicle registration and licensing.

16. Legislation will be introduced to help the development of tourism in Great Britain.

17. A Bill will be introduced to effect the change to a decimal currency.

18. My Government will continue to promote the development of agriculture's important contribution to the national economy.

19. Legislation will be introduced for assistance to the deep sea fishing industry and for the policing and conservation of fisheries.

20. My Government will lay before you proposals for action on the Report of the Royal Commission on Trade Unions and Employers' Associations. They will also bring forward proposals for amending the Merchant Shipping Acts in accordance with the recommendations of the Court of Inquiry on the Shipping Industry.

21. My Ministers will submit for consideration a proposal to enable the United Kingdom to give effect to the United Nations Convention on Genocide.

22. Legislation will be introduced on the composition and powers of the House of Lords.

23. A Bill will be brought before you to reduce to 18 the age for voting and to make other reforms in electoral law.

24. Legislation will be laid before you to reduce the age of majority to 18.
25. A Bill will be introduced to reform the law for England and Wales relating to children and young persons.

26. Our social security schemes will be kept under close review. My Government will publish for public discussion proposals for a new scheme of national insurance founded on earnings-related benefits and contributions.

27. Legislation will be brought before you to increase the pensions of retired members of the public services and their dependants.

28. My Government will give special attention to the form of administration of the health and welfare services.

29. Measures will be introduced to modernise the town and country planning system in Scotland; and to bring the law relating to education in Scotland into line with current developments.

30. Legislation will be introduced to give rights of appeal against decisions taken in the administration of immigration control.

31. A measure will be laid before you to provide for a specific grant towards a programme of additional local authority expenditure in urban areas of special social need. This will include additional provision for children below school age.

32. Proposals will be brought forward for implementing the recommendations of the Tribunal appointed to enquire into the tragic disaster at Aberfan.

33. Legislation will be introduced to give greater encouragement to the repair and improvement of older houses and their environment.

34. My Ministers will submit for consideration a proposal to raise the existing legislative limit on Government expenditure on the construction of the National Theatre.

35. Legislation will be introduced to make reforms in the administration of justice. My Government will carry forward their comprehensive programme for the reform of the law. In particular, Bills will be laid before you to extend in England and Wales the rights of succession to property by persons who are illegitimate and to amend the law of heritable securities in Scotland.

36. Other measures will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may rest upon your counsels.

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CABINET

EARNINGS-RELATED PENSIONS SCHEME

Note by the Chancellor of the Exchequer

In accordance with the conclusions of last week's discussion of the Earnings-Related Pensions Scheme (CC(68) 42nd Conclusions, Minute 6), I attach a note on the scheme's economic effects prepared by a group of Economic Advisers.

R.H.J.

Treasury Chambers, S.W.1.

23rd October, 1968
EARNINGS RELATED PENSION SCHEME

Note by a Group of Economic Advisers

At the meeting of the Cabinet on 17th October 1968 (CC(68)42nd Conclusions, Item 6), the Chancellor of the Exchequer was invited to arrange for the Economic Advisers to consider the economic effects of the proposed earnings-related pensions scheme.

A full examination of the economic implications of a scheme as complex and extensive as this would take a long time. In the very limited time available to us we have been able to have only one discussion at which we considered Part V of the Memorandum by the Lord President of the Council (C(68)106) dealing with the economic implications. We have been helped by some of the economists concerned with the preparation of the Lord President's paper. We give below some provisional comments on the six points discussed in Part V.

1. The standard of living and the distribution of income

Any projections of the relative standards of living of the retired and the working population must be uncertain; at present we know comparatively little about the composition of retired people's incomes other than from National Insurance benefits and occupational pension schemes, and the future of the latter will be affected by the proposed new scheme to an extent which is difficult to predict. However, given the 20 year maturity period, it seems unlikely that the new scheme will make much difference to relative standards of living during the first ten years; but the estimates we have seen suggest that the difference would be substantial in the last fifteen years of this century. In the longer run, there would also be redistribution within the retired population, especially in favour of widows who are at present the poorest group among pensioners.

2. Claims on economic resources and the balance of payments

Any scheme which raised contributions in advance of benefits would reduce demand. The estimates of the effects on demand of the proposed scheme seem to be of the right order of magnitude. The estimated effect on the balance of payments in 1972/73 given in paragraph 60 also seems reasonable on the assumption that the scheme is allowed to reduce the level of demand and employment, and thus imports. But, if offsetting measures were taken to restore the level of activity the loss to the balance of payments might be nearer £40 million than £20 million; the precise effect would, however, depend on the nature of the offsetting measures taken. The effect on demand in 1977/8 and 1982/3 is expected to be much smaller and therefore the estimates of the effect on the balance of payments in those years seem to be of the right order of magnitude.

3. Public authorities' borrowing requirements and the capital market

The calculation of the effect on the public authorities' borrowing requirements is complicated. If the reduction in demand
and employment caused by the scheme in the early years was offset by increased public expenditure or reduced taxation, in order to maintain the level of activity, the reduction in the borrowing requirements would be correspondingly less than the figure for 1972/73 in paragraph 62.

4. Costs and prices

The estimates of the effects of the scheme on costs and prices seem broadly reasonable.

5. Taxable capacity and tax revenue

There is no empirical evidence as to whether taxable capacity would be increased, in the sense that people would be more willing to pay contributions under the new scheme than taxation or contributions under the present scheme. This must therefore be a matter of judgment. In the longer run the commitment to additional expenditure on pensions would – to the extent that there is a limit to the amount the Government can raise in taxation and contributions combined – reduce the scope for increases in other public expenditure programmes.

6. Personal savings and the impact on occupational pension schemes

The estimates in the Lord President’s paper assume a substantial reduction in savings through occupational pension schemes as a result of the proposed new scheme. The main factors affecting other forms of private savings have, in our view, been properly set out in paragraphs 69 and 70 of the paper; but we know of no way of estimating the net effect of these factors.
CABINET

RHODESIA

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, as a background note to discussion at Cabinet tomorrow (Item 2), the text of a telegram from the British High Commission Residual Mission in Salisbury.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

23rd October, 1968
Following is text of aide memoire.

Rhodesian Ministers have been considering the British Government's White Paper which contains the statement of British proposals for a settlement. It would assist them in their deliberations on these proposals if they could have the advantage of further discussions with Mr. Thomson, the Minister without Portfolio, who has been given special responsibility on the British side for the Rhodesian negotiations. Accordingly, they would welcome a visit by Mr. Thomson to Salisbury and they suggest that he might arrange to arrive here next Tuesday. The Prime Minister and his colleagues would be at Mr. Thomson's disposal from Tuesday afternoon until Friday evening.

Rhodesian Ministers, however, feel obliged to say at this juncture that they consider the British Government's proposal for a system of appeals in relation to amendments to specially handled provisions of the constitution to be completely unacceptable in any form. Their objections extend equally to any other body, such as a Judicial Commission within Rhodesia; or the country's own Appellate Division of the High Court of Rhodesia, that might be offered in place of the Judicial Committee of the Privy Council as a form of control over the exercise of the sovereignty by the Rhodesian Parliament. Should it be possible to meet their objections to this main stumbling block, Rhodesian Ministers are confident that further discussions with Mr. Thomson could result in agreement being reached on the remaining proposals on the British document.
CABINET

COMMISSION ON THE CONSTITUTION

Memorandum by the Secretary of State for the Home Department

On 24th October the Prime Minister reported to the Cabinet (CC(68) 43rd Conclusions, Minute 1) the progress that had been made in considering devolution to Scotland and Wales since the report of the Ministerial Committee on Devolution was considered by the Parliamentary Committee and I was invited to circulate proposals for the appointment of a Commission on the Constitution. These proposals are in essence those of the Secretaries of State for Scotland and Wales and myself, but I have not had the opportunity of consulting them on the modifications arising from the meeting of the Group of Ministers on 23rd October.

Arguments for a Commission on the Constitution

2. The proposals arising from the Ministerial Committee on Devolution were:

(i) That further thought should be given to arranging for the Scottish and Welsh Grand Committees and Select Committees reporting to them to sit in Edinburgh and Cardiff.

(ii) That further measures of administrative devolution to the Secretaries of State for Scotland and Wales should be considered.

We believe that these proposals represent the most that can be contemplated in the short term; but that in present circumstances they are, taken by themselves, too little and too late. The intensity of current discussion of the problem of bringing government closer to the people and in particular of the possibility of forms of self-government for Scotland and Wales demonstrates an urgent need to recognise the problem as meriting high priority in urgency and importance. It is not only a question of preventing the case for the present system going by default. Although administration in Scotland has been the subject of previous enquiries and devolution to Scotland and Wales has been frequently canvassed (a brief note of the background is at Annex A), the problem is one which has never been authoritatively considered as respects the United Kingdom as a whole. Most of the current proposals, and certainly the most extreme, are the product of emotion rather than any deep and dispassionate study of the financial, economic and administrative facts of the situation. We believe that a long-term study of the situation cannot now be delayed till later in the life of the present Parliament. If there is a need for a thorough review of the system of central government as it affects the different parts of the United Kingdom, so also recent
developments point to the need to reconsider the relationships between the United Kingdom and the Channel Islands and the Isle of Man. In particular, the implications of accession by the United Kingdom to the European Economic Community raise difficult constitutional and economic questions. Our proposal, therefore, is that a Commission on the Constitution should be set up at once with a view to considering what changes are needed in the system of central government as it affects the different parts of the United Kingdom, and in our constitutional relationships with the Channel Islands and the Isle of Man. If this is agreed I hope that our intention would be announced in The Queen’s Speech.

The Local Government Commissions

3. Nothing should be allowed to impede the Government's consideration of the reports of the Maud and Wheatley Commissions, which are expected early next year; or to prevent the application to Wales, if it is thought desirable, of recommendations that are accepted for England and Scotland. While one may question whether ideally one should settle the pattern of local government before that of central government, we should regard, and indeed represent, a Commission on the Constitution as a natural development from the local government commissions. Depending on the outcome of Maud and Wheatley, the development of a new tier of government at regional level within the countries of the United Kingdom might prove to be an important element in the Commission's remit.

The Type of Commission

4. The unique scope and importance of a commission on the lines proposed would have to be reflected in its composition. There is some attraction in a Round Table Conference, composed of Ministers and senior members of the Government and Opposition Parties. Such a conference was held under the chairmanship of the then Lord Chancellor in relation to the Malta Constitution in 1955. While we do not exclude such a conference at a later stage, we think that it would not be a suitable body to undertake the searching constitutional, economic and social enquiries that must precede final decisions. We therefore envisage a commission (which should as a matter of form be a Royal Commission but which would be called the Commission on the Constitution) consisting of the following elements: senior members of both Houses, one or two experienced "proconsuls", economists, constitutional lawyers and administrators (including those with experience in local government); to these we should probably add representatives of the Confederation of British Industry and Trades Union Congress; and there might be great merit in securing as a member a statesman from a Commonwealth country.

5. It would not be difficult to arrange that England, Scotland and Wales, and Northern Ireland were represented over all the classes mentioned above (and not in each class). But it seems to us important that there should be on the commission in their own right people of distinction in Scottish and Welsh affairs - and no doubt Northern Irish - who, while not professed nationalists, are known to have an open mind on the main questions at issue and who are seen to be independent of Westminster. The problems of the various parts of the United Kingdom are not the same and the solutions may not necessarily be the same. It would be very difficult to secure representation of the Channel Islands and the Isle of Man.
Terms of Reference of a Commission on the Constitution

6. I now propose terms of reference on the following lines:

"To examine the present functions of the central legislature and government in relation to the several countries, nations and regions of the United Kingdom, and such modifications as may presently be made in those functions; to consider what changes, in the interests of prosperity and good government, are desirable in those functions, in the form of the constitution, or otherwise in present constitutional and economic relationships; and to consider whether any changes are desirable in the constitutional and economic relationships between the United Kingdom and the Channel Islands and the Isle of Man."

7. This form of words would make it clear that it would be open to Parliament and the Government to make changes while the Commission is sitting - a point which it would be important to emphasise in the Debate on the Address. The possibility of a written constitution is intended to be covered by the words "in the form of the constitution," and it is made clear that the economic (and therefore the financial) relationships as well as the constitutional relationships between the parts of the United Kingdom are to be covered.

Northern Ireland

8. So far I have assumed that Northern Ireland - and the Channel Islands and the Isle of Man - would be included in the scope of the Commission, but it is necessary to consider the implications of the intent to include them. So far as Northern Ireland is concerned, we must naturally expect strong pressure from our back-benchers to include it. But the appointment of a Commission must not be taken as relieving us, or the Northern Ireland Government, from dealing with the immediate situation there. My own view is that the best hope of immediate progress lies in persuading - and, most important, being seen to persuade - Captain O'Neill to an acceptable immediate course of action in the transferred field through action at Stormont. We should press for an acceleration of local government electoral reforms to bring the system closer to that in Great Britain and for reforms in the system of housing allocation by local authorities. Such action as this would in no way be prejudiced by the inclusion of Northern Ireland within the scope of the Commission. But clearly, if there is to be a Commission on the Constitution, Northern Ireland must be included. Such questions as the continuance of the fabric of the Government of Ireland Act 1920 would fall to the Commission to consider; and it would also have to take account of the entrenched provision in the Ireland Act 1949, where "It is hereby declared that Northern Ireland remains part of His Majesty's Dominions and of the United Kingdom and it is hereby affirmed that in no event will Northern Ireland or any part thereof cease to be part of His Majesty's Dominions and of the United Kingdom without the consent of the Parliament of Northern Ireland."
Consultation with Northern Ireland and the Islands

9. The proposed terms of reference sever the problems of the United Kingdom from those of the Channel Islands and the Isle of Man, which are not part of it. Northern Ireland would be included as being part of the United Kingdom. The Northern Ireland Government would be likely to show little enthusiasm for inclusion, but for them to decline to be included would clearly be extremely difficult for them to defend. Our constitutional relationships with Northern Ireland require that they should be consulted and my hope would be that they could be brought to agree.

10. The Channel Islands and the Isle of Man would also need to be consulted under the constitutional relationships we have with them. What is desirable is that, following the announcement of an intention to set up a wide-ranging commission, we should give the Islands an opportunity to make their views on inclusion known to us. It cannot be taken for granted that there will be a ready acceptance of the proposals in all the Islands and it will be necessary to emphasise that the Commission will be concerned with their relationships with the United Kingdom Parliament and Government, but not with the institutions under which and the manner in which domestic home rule is in future to be conducted.

The Queen's Speech

11. The requirements of consultation dictate the kind of reference that can be made in The Queen's Speech. If it is accepted that there must be consultation following the general announcement of intent to set up a Commission, it follows that the passage in The Queen's Speech could not simply consist of an abridged version of the terms of reference. I therefore propose a passage on the following lines:

"My Government will initiate consultations on the appointment of a Commission on the Constitution which would consider what changes may be needed in the central institutions of government in relation to the several countries, nations and regions of the United Kingdom, and examine relationships with the Channel Islands and the Isle of Man."

The Debate on the Address

12. I attach at Annex B a suggested outline of a passage that might be used for opening the Debate on the Address.

L. J. C.

Home Office, S. W. 1.

25th October, 1968
Committees

1. There appear to have been no Government appointed committees dealing with government generally in Wales in contrast to a relatively large number for Scotland: the Gilmour Committee in 1937, the Catto Committee in 1952 and a Royal Commission in 1954. The Catto Committee was concerned with the economic relationship between Scotland and the rest of the United Kingdom. The Royal Commission was appointed to examine the arrangements for exercising the functions of government in Scotland with reference to the financial, economic, administrative and other considerations involved. It made a number of recommendations primarily on administrative matters: but put forward no radical proposals. It rejected a home rule Parliament on the Northern Ireland model.

Private Members' Bills

2. There have been a number of Private Members' Bills designed to secure home rules Parliaments for both Scotland and Wales separately (I know of no Bill that covered both countries). The last Bill for Scotland was introduced in 1966 and had Mr. Grimond's support. It was blocked. For Wales the last Bill was that of Lord Ogmore in 1967. For Wales there have also been proposals for various forms of elected Council.

Other Proposals

3. There have also been a number of pamphlets and articles notably a series in Scotsman early this year, a pamphlet by Mr. David Steel M.P. and Professor H. J. Paton's book. The Scotsman articles favour a federal system for the United Kingdom with four constituent parts, autonomous in most matters except defence and foreign affairs, with a joint board to settle vital economic matters. In May 1968 the Leader of the Opposition proposed a constitutional committee to consider the government of Scotland and in particular the setting up of a Scottish Assembly that would 'take part in legislation in conjunction with Parliament'. He has since set up a committee of his own to work on this. At the General Assembly 1968 the Church of Scotland passed a 'Deliverance' calling for the appointment of a Royal Commission on Self Government for Scotland. The reply set out the arrangements for discharging Government business in Scotland.

Current Work on Economic Statistics

4. The Treasury and the Scottish Office are at present working on the possibility of producing a more up to date statistical account of the economic relationship between England and Scotland than the Return produced in pursuance of the Catto Report.
Outline of Passage for use in Opening the Debate on the Address

1. Constitutional relationships never previously considered as a whole. Limited scope (and authority) of Mr. Heath's Commission (Scotland Only). No use tackling the task country by country.

2. Devolution not a new topic, but current discussion intense. On the one hand it may not be generally appreciated what degree of devolution now exists and how it has developed. On the other hand the Government recognise that Government must not only be efficient - this is no time to dissipate our strength in Europe and the world: - it must also be fully democratic in the sense that people must feel they have influence over decisions that affect them.

3. Efficiency not always easily reconciled with 'participation'. 'Participation' not always easily reconciled with economic prosperity and social well being. Dispassionate inquiry needed to balance factors. Emotion must give place to fact. Full opportunity for all to make views known, and to be examined in public. Terms of reference will allow widest scope.

4. Advantages of including Northern Ireland, but constitutional relationships require consultation. That is now proceeding. Importance of Commission's not prejudicing immediate steps in relation to Northern Ireland, which are to be discussed with Captain O'Neill. Assurance that it will not.

5. Relationships with Channel Islands and Isle of Man need review. New concepts such as that involved in membership of wider communities, notably E.E.C., pose new problems not easily soluble within present framework. Some thought already given, but need to consider within wider whole. Consultations needed and are proceeding.

6. Commission will not involve a standstill in pace of advance. Will not hold up action on Maud and Wheatley. Will not hold up other changes affecting Scotland and Wales that Government has already been considering. Terms of reference will be drafted so as not to prejudice action meanwhile and Commission will be enjoined to take changes into account.
28th October, 1968

CABINET

COMMISSION ON THE CONSTITUTION

Note by the Secretary of State for the Home Department

Following the discussion of my memorandum C(68) 119 by the group of Ministers under the Prime Minister's chairmanship this afternoon, I now propose that the terms of reference of the Commission on the Constitution should be as set out in the attached Annex.

L. J. C.

Home Office, S.W.1.

20th October, 1968
REVISED TERMS OF REFERENCE FOR COMMISSION ON THE CONSTITUTION

"To examine the present functions of the central legislature and government in relation to the several countries, nations and regions of the United Kingdom; to consider, having regard to developments in local government organisation and in the administrative and other relationships between the various parts of the United Kingdom, what changes, in the interests of prosperity and good government, are desirable in those functions or otherwise in present constitutional and economic relationships; and to consider also whether any changes are desirable in the constitutional and economic relationships between the United Kingdom and the Channel Islands and the Isle of Man."
CABINET

EARNINGS-RELATED PENSIONS SCHEME

Note by the Chancellor of the Exchequer

In accordance with the conclusions of our discussion last week of the Earnings-Related Pensions Scheme (CC(68) 43rd Conclusions, Minute 5), I am circulating a further note by the group of Economic Advisers on certain aspects of the scheme,

R. H. J.

Treasury Chambers, S.W.1.

29th October, 1968
EARNINGS RELATED PENSION SCHEME

Note by a Group of Economic Advisers

At the meeting of the Cabinet on 21st October 1968 (CC(68)43 Conclusions, Item 5) the Chancellor of the Exchequer was invited to arrange for the Economic Advisers to consider the desirability of building up a large surplus during the early years of the scheme and the economic implications of doing so by raising employers' contributions. We have held one meeting to discuss this subject and some provisional comments are set out below.

Effects on prices, the balance of payments and the distribution of income

Prices. The assumed increase in employers' contributions, compared with the scheme proposed by the Lord President, would raise labour costs throughout the economy by about 1 per cent. The general price level would also be raised by approximately this amount.

For example, if employers' contributions were increased by 3 per cent, the Fund would be built up by £5,600 million over a period of 17 years.
amount: the direct effect on prices would be somewhat less because the import content of output would be unaffected; but the rise in the cost of living would increase pressure for higher wages which in turn would lead to higher prices.

The increase in employer's contributions, by raising prices, would reduce demand. Assuming that it were desired to maintain the level of output and employment, it would be necessary for taxes to be lower, or public expenditure higher, than it otherwise would have been, by roughly the same amount (about £225 million), although the exact size of the offsetting measures required would depend on their nature.

Balance of payments. The increased employers' contributions would be similar to a general payroll tax and it would not be possible to remit them on exports (or to levy them on imports). Very few other taxes raise export costs directly in this way. The net effect of increasing employers' contributions, and reducing other taxes or increasing public expenditure so as to maintain the same level of activity, would almost certainly worsen the balance of payments - by anything up to £80 million in 1972/3. This figure would gradually increase in subsequent years. (In addition, the scheme proposed by the Lord President was estimated in our earlier note to worsen the balance of payments by up to £40 million in 1972/3.)

Distribution of income. The net effect on the distribution of income would depend on the nature of the offsetting measures taken to maintain employment and activity. The increase in employers' contributions would tend to raise prices across the board, and would in itself have rather little effect on the distribution of income. If the increase was offset by, for example, a reduction in income tax or surtax the net effect would be regressive. If, on the other hand, it was offset by, for example, a reduction in beer or tobacco taxes the net effect would be progressive.

The effect on the Government's borrowing requirement and the monetary situation

If the Fund were invested in Government securities, any net effect on the Government's borrowing requirement and the monetary situation would be relatively small; for increased revenue from higher contributions would be broadly offset by the reduction in taxes or the increase in public expenditure required to maintain the level of activity.

If the increase in contributions were raised in part by additional contributions from employees, the increase in prices would be smaller, because employees' contributions do not enter directly into costs. In general, it is likely that an increase in employers' contributions would be regarded by industry as an increase in tax, while an increase in employees' contributions might to some extent at least be regarded as payment for benefits to be received later and therefore as being more acceptable than a tax.
If the Fund were invested in equities this would have relatively little effect in increasing real demand, so that offsetting measures to increase expenditure or reduce taxes would still be necessary to broadly the same extent as if the Fund were invested in Government securities. There would thus be an increase in the national debt in terms of Government securities broadly equal to the purchase of equities.* In so far as this was financed by borrowing from the banks it would add to the difficulties of monetary management. In addition, the price of equities would tend to be increased and their yield reduced; while the yield on Government securities, and fixed interest securities generally, would tend to be raised. This is because the supply of Government securities and the demand for equities would both be increased. In addition, confidence in Government securities might be reduced as investors saw that the Government was not prepared to put the funds of its own pension scheme into its own securities.

The effect on investment

If the Fund were invested in Government securities the effect on investment would depend on how far the offsetting measures taken to maintain activity were selected so as to stimulate investment - for example through an increase in investment grants, expenditure under the Industrial Expansion Act, or public investment in, for example, roads.

If the Fund were invested in equities, there would tend to be a change in the method of financing private investment: firms would tend to raise more capital through equities and less through fixed interest securities. The net effect on private investment might be favourable but this is very uncertain.

The effect of the Fund in transferring consumption from earlier to later years

A large surplus in the early years of the scheme would not in itself set aside national resources which could be used in later years for pensioners. This would happen only in so far as there was a corresponding increase in national investment in the early years which would not otherwise have taken place at that time.

The previous section gave examples of ways in which investment might be increased as part of the measures required to offset the deflationary effects of the higher contributions so that output was higher in the later years. Another possible way of transferring consumption from the present to the future would be by bringing forward public investment programmes - for example, by more slum clearance in the early years and less later.

*In oversimplified terms, an extra £100 million raised in contributions would require roughly £100 million less taxes or £100 million more expenditure to maintain the level of employment. At this stage therefore the borrowing requirement is unaffected. If the £100 million of contributions were put not into Government stock but into equities, the purchase would have to be financed by an extra £100 million of borrowing.

The increased pressure on U.K. equities could well lead to a search for further opportunities for investment in overseas sterling area equities, with consequential debits on the capital account of the balance of payments.
But the extent to which the Government could in practice increase investment to offset the increase in employers' contributions is likely to be limited. For the increase in employers' contributions would raise prices and so restrain consumption (without increasing the expectation of higher pensions); and there is likely to be pressure for offsetting reductions in taxation which would relax the restraint on consumption, in preference to measures which increased investment. In that case the amassing of a large Fund during the early years of the new scheme would not reduce the burden of the higher pensions on the working population in later years, as there would be no more resources available in the economy.

Sharing the benefits of the growth of private profits

One possible attraction of investment in equities would be the growing income accruing to the Government without the odium of taxation. However, any benefit would be slow to materialise, because the current dividend yield on equities (about 3½ per cent on average) is substantially below that on gilt-edged (about 7½ per cent); and, as has been seen above, the interest rate on Government debt might be increased in relation to the yield on equities. Corporation Tax already gives the Government a share in the growth of private profits; and a relatively small increase in Corporation Tax would give the same result as would be achieved by creating this Fund and investing it in equities.

Fiscal strategy

An increase in employers' contributions with no charge in national insurance benefits would be a deliberate part of the Government's fiscal strategy. Thus the Government would have to consider whether, if its objective were an increase in public expenditure or a reduction in certain forms of taxation, this method of raising revenue was the most suitable. Looked at outside the context of the earnings-related pension scheme, higher employers' contributions have the attraction of being a widespread tax levied across the board which could raise large sums for a small nominal rate; but they have a much more adverse effect on the balance of payments than most other taxes.

Conclusions

To sum up, our main conclusions are as follows:

(a) An increase in employers' contributions would be equivalent to a tax on industry and would have a significant effect on prices and on the balance of payments.

(b) The creation of a bigger Fund would not by itself help to make available more resources in the future to pay for benefits.

(c) It is unlikely to be possible to use the Fund to increase investment (and thus the resources available in the future) to more than a limited extent.

(d) Investment of the Fund in equities would have little effect on real resources and some undesirable monetary consequences. The Government could more easily obtain a higher stake in the growth of profits in industry by raising Corporation Tax.

CABINET

RACE RELATIONS - THE POLICE

Memorandum by the Secretary of State for the Home Department

In discussion in the Home Affairs Committee and in Cabinet (in particular CC(68) 4th Conclusions, Minute 2) before the Race Relations Bill was introduced, we decided that actions taken by the police when carrying out their operational duties in relation to members of the public should not come within the scope of the Bill, but that the police discipline code should be amended in due course to make discrimination a specific offence against police discipline. We recognised that provisions already in the statutory code relating to abuse of authority covered discrimination, but we felt that there would be advantages in being explicit.

2. This proposal has run into difficulties, and the purpose of this memorandum is to seek the agreement of my colleagues that it should not be pursued.

3. The strength of criticism from within the police service, and from police authorities, has proved to be formidable. I explained that I would have to consult the Police Advisory Board, but before the Board met, I had occasion to address the Annual Conference of the Police Federation of England and Wales and was left in no doubt of the unanimous opposition of the delegates to the proposal. Their views are intense and deep seated. At the Board itself, I spoke at some length of the reasons why the proposal was being brought forward, and later circulated a written statement, but the proposal was strongly criticised by all the bodies represented, including the County Councils Association and the Association of Municipal Corporations as well as by the Commissioner of Police of the Metropolis. The experience of the Secretary of State for Scotland - who had to deal with the Scottish Police Federation and the Police Advisory Board for Scotland - has been similar to mine. The membership of the Scottish Advisory Board includes, in addition to police and local authority representatives, independent members representing a variety of interests, and they too were unanimous in their opposition to the proposal.

4. The main points made by and on behalf of the police service were that the members of that service make a declaration upon appointment that they will serve The Queen in the office of constable "without favour"; and that to have a specific provision in the code about racial discrimination would be to pick out the service in such a way as to put a slur on it. If any acts of discrimination should occur, they were already covered by one or other of the provisions of the existing code.
5. We originally thought that the proposal would have a presentational advantage in that it could be used to counter any Parliamentary criticism of the fact that the Bill did not cover the police in their operational role. In the event, this issue was not raised in either House. There is no evidence of any enthusiasm for the proposal on the part of the immigrant organisations.

6. The advantages of the proposal are not as great as they appeared to be when we originally considered it. The disadvantages on the other hand are considerably greater than we had thought. If I were to proceed, notwithstanding the unanimous advice of the representatives of the service and of the police authorities on the Police Advisory Board, there is no doubt that there would be very great resentment in the lower ranks of the service, a considerable outcry by them, and strong opposition in Parliament at a time when, as the events on 27th October showed, we are dependent on the loyalty of the police in dealing with manifestations of civil unrest, both racial and general.

7. I have, therefore, come to the conclusion - with which the Secretary of State for Scotland agrees - that as things have turned out, to go ahead with this proposal would do more harm than good, and I invite my colleagues to agree that it should be dropped.

L.J.C.

Home Office, S.W.1.

31st October, 1968
CABINET

NATO AND OUR POLICY TOWARDS EUROPE

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

Introduction

The North Atlantic Treaty Organisation (NATO) is the cornerstone of our defence and foreign policy. Achieving entry into the European Economic Community (EEC) is a central foreign policy objective. We have already decided that from now on our main defence effort will be in Europe and the North Atlantic Area. It has, for some time, been our policy to promote closer co-operation among European members of NATO on defence as part of our aim of a united Europe, including this country. The problems that we face in these complementary areas of defence and foreign policy have much in common. The Secretary of State for Defence and I keep in close touch in our handling of these matters.

NATO: General

2. The next year or so will, in any case, be important for NATO. Several problems face the Alliance:

(a) The North Atlantic Treaty is of indefinite duration, as was affirmed by the allies in 1954. But as from August, 1969, member states will be able to withdraw from the Alliance, provided that they give one year's notice. There is at present no evidence that any member intends to withdraw, but the possibility exists, and French intentions remain open to doubt.

(b) The Alliance has accepted a strategy of flexible response rather than a trip-wire strategy of immediate nuclear response. But this calls for a readjustment of defence effort and for more and better equipped conventional forces, at a time when many member Governments are unable or unwilling to increase their defence budgets.

(c) The Americans may well seek to reduce the level of their forces in Europe in the next year or two. This would increase the pressure on the Europeans to do more and lead to tension within the Alliance.
3. These problems present the European members of NATO in particular with a challenge and an opportunity. Successful European co-operation within NATO could make it easier to handle all three problems.

NATO: Post Czechoslovakia

4. The Czech crisis has inevitably set back in time the process of detente, although it remains an ultimate aim. It is still soon to be sure of the long-term implications; an assessment of these is now in hand. But it is generally agreed that there is increased uncertainty in Europe and a need for NATO to ensure that its defence and deterrence is effective. As this has been a crisis in the heart of Europe, the problem particularly affects the European members. This provides an opportunity to move forward the process of European collaboration. The Americans have emphasised that a clear sign of collective European effort will assist the United States Government in resisting pressure for troop withdrawals from Europe.

5. Our object in recent weeks has therefore been to help to promote a collective European response within the framework of Atlantic co-operation. We have offered improvements in our own contribution to NATO by a stronger naval presence in the Mediterranean, a greater commitment to the Allied Command Europe (ACE) Mobile Force and by expressing our readiness to conduct an exercise on NATO's Northern Flank. The scale and nature of our offers to improve our contribution to the Alliance have been, and will continue to be, governed by the need to keep within planned Defence Budget targets and to conserve foreign exchange expenditure. We have made our offers in the hope of encouraging other members of the Alliance to make real improvements in their force contributions. We have been making it clear that in our view, this is the first step in what we envisage as a developing pattern of collaboration among the European members in dealing with NATO's problems.

Europe: General

6. Since the last French veto, we have maintained our application for membership and have continued to press for action in fields where the French have no veto. We have kept the issue of European integration and our participation in it alive. French obstruction is increasingly recognised by the other members of the EEC. It is our hope that continued exposure of the French attitude will encourage other members of the EEC to pursue a more robust and independent line.

Europe: The Harmel Initiative

7. The Harmel initiative, launched in September, serves those purposes. It envisages co-operation between ourselves and members of the EEC in a number of areas not covered by the Treaty of Rome, notably those of foreign affairs and defence. Before the Rome meeting of the Western European Union (WEU) we agreed with the Five on objectives of procedure and substance. We are now trying to carry this process forward and it remains to be seen what action the Five will be willing to take and how many of them we can carry with us.
The NATO Ministerial Meeting, 14th-16th November

8. Our efforts to increase European collaboration within NATO and to make progress on the Harmel initiative are now proceeding in parallel. We shall be holding meetings designed to make further progress in both spheres in the margin of the NATO Ministerial meeting in a few days time:—

(a) The Secretary of State for Defence will, if all goes well, be meeting his opposite numbers from the Five and Denmark and Norway. (The French Defence Minister has been asked but is not expected to attend). The aim will be to reach agreement that the Permanent Representatives at NATO should thereafter jointly produce a paper embodying an agreed European view on NATO's needs for the next few years for discussion with the next American Administration. This will not be easy. We need to be careful, if we are to carry all our partners with us, not to appear to divide NATO or to give an anti-American impression. The important feature of the Secretary of State for Defence's plan is that it would be the first occasion on which the European members of the Alliance had discussed major policy issues together as a group. Further discussions with the Defence Ministers are planned to take place before anything is actually discussed with the Americans.

(b) I will, it is hoped, be meeting with the Five to discuss work in the period leading up to the next WEU meeting in January. Our aim will be to prepare the ground on the basis of Harmel's proposals so that, when Ministers meet in January in WEU, the points for decision will be clear.

After the Brussels Meeting

9. For the time being, it will be best for the two approaches to proceed in parallel: practical defence co-operation going on in NATO while consultation on political matters and overall co-ordination takes place in or around WEU. If we are successful at Brussels, there will be much useful work to be done in each forum. We see no reason why there should be any conflict between the objectives we are trying to achieve in each case. We shall try to avoid discussing the creation of institutions in this period. If, in the end, some form of secretariat is to be established with the Five as part of the machinery for political consultation on the subjects proposed by M. Harmel, this would be a framework into which we could, at a later stage, insert some defence subjects if we wanted to do so.

M.S.

Foreign and Commonwealth Office, S.W.1.

8th November, 1960
2nd December, 1968

CABINET

NUCLEAR ENERGY: CIVIL APPLICATIONS

GAS CENTRIFUGE DEVELOPMENT AND COLLABORATION

Memorandum by the Minister of Technology and the
Minister of State for Foreign and Commonwealth Affairs

Our colleagues will be aware in general terms of the results of the meeting which was held between Dutch, German and British Ministers in The Hague on 25th November to discuss the possibilities of gas centrifuge collaboration. (A copy of the agreed communique issued at the end of the meeting is at Annex A.) We represented the United Kingdom at this meeting, and the Prime Minister has since invited us to circulate to Cabinet a Memorandum about the gas centrifuge and the proposed collaborative arrangements. This is attached, at Annex B.

2. As our colleagues may know, it was decided at The Hague that, subject to the agreement of the three Governments, a tripartite meeting of officials should be held in Bonn on 19th December to carry forward the discussions about collaboration. If this is to be held, it will be necessary, in advance of this meeting, to confirm our acceptance of the Agreed Minutes of The Hague meeting, which were adopted ad referendum by Governments. (These Agreed Minutes form an Appendix to the Memorandum at Annex B and are discussed in it.) We shall shortly be making specific recommendations covering this question and other matters arising out of the tripartite discussions, to which the Memorandum at Annex B will constitute the background.

A.W.B.
F.M.

Ministry of Technology, S.W.1.

2nd December, 1968
ANNEX A

GAS CENTRIFUGE COLLABORATION

Text of communique issued on 25 November, 1968:

A meeting took place in The Hague on 25 November between the Ministers of Federal Republic of Germany, the United Kingdom and the Netherlands. It was attended by:

Dr. G. Stoltenberg Minister for Scientific Research
Mr. R. Lahr Secretary of State for Foreign Affairs
Mr. A. Wedgwood Benn Minister of Technology
Mr. P. Mulley Minister of State for Foreign and Commonwealth Office
Mr. L. De Block Minister of Economic Affairs
Mr. H. J. De Koster Secretary of State for Foreign Affairs

The purpose of the meeting was to discuss the implications of recent developments in relation to the technology of the gas centrifuge method of uranium enrichment, a field in which the three countries have been particularly active: and to consider the possibilities of establishing collaborative arrangements for the exploitation of this method of uranium enrichment.

The talks were marked by great frankness and by the desire to enter into concrete forms of co-operation without delay.

Agreement was reached on certain basic principles on which such co-operation could be established. The Ministers will place these principles before their Governments for approval.

Possibilities of co-operation with other countries were envisaged.

It was agreed that any co-operative arrangements will have to be consistent with the policies of the three Governments in relation to the non-proliferation of nuclear weapons and to their international obligations in this field.

The Ministers agreed to meet again in London early next year.
NUCLEAR ENERGY: CIVIL APPLICATIONS

Gas Centrifuge Development and Collaboration

1. The gas centrifuge process is one of several methods of producing enriched uranium which have been known from an early stage in the development of nuclear energy. But it was not the first to be developed for use on an industrial scale. The gaseous diffusion method is the only one developed on this scale in the USA, and France and it is the method used in our own enrichment plant at Capenhurst. Both processes may be in use in the USSR and China.

2. Natural Uranium contains 0.7 per cent of the valuable U235 isotope; the remainder being the U238 isotope. The gaseous diffusion process separates these isotopes by diffusion of a gaseous uranium compound through a barrier; this is a relatively low-efficiency process requiring a large number of barriers in a plant, leading to high capital cost and a large consumption of electricity. Such a plant necessarily covers a very large area. The gas centrifuge process separates the isotopes of uranium by centrifugal force. This is a relatively high-efficiency process and thus a gas centrifuge plant requires fewer stages and consumes substantially less electricity. It can thus be operated economically on a much smaller scale.

3. The principles involved in the gas centrifuge process have been known for a very long time but it is only since the publication, in 1960, of a new design concept that there has seemed any prospect that the process as applied to a gaseous uranium compound might be operated with reasonable economy. Early this year, following progress reported by the United Kingdom Atomic Energy Authority (UKAEA), a Working Party under the Chairmanship of the Chief Scientific Adviser was convinced of the technical feasibility of producing enriched uranium on a large scale by means of the gas centrifuge. They were further convinced that, subject to confirmatory work to be completed, the gas centrifuge would enable enriched uranium to be produced in this country more cheaply than by extending the gaseous diffusion plant at Capenhurst. The Working Party's investigation was carried out primarily in the context of producing uranium enriched to less than 5 per cent in the "235" content (low enrichment), to meet the nuclear reactor requirements of our expanding civil nuclear power programme, but there would be no technical difficulty in adapting the centrifuge process to produce the much more highly enriched uranium required for nuclear weapons or submarine reactors.

4. The advance in centrifuge technology in recent years stemmed not only from general technological advances but also from a paper published by a repatriated German scientist, Zippe. He, as a member of a large team, worked on this subject while captive in the Soviet Union. After his release, he worked in the USA in 1959 and 1960. The publication of his paper stimulated unclassified work in a number of countries, including Holland and Germany, and in 1960 the USA suggested an informal understanding between Holland, Germany, the USA and ourselves.
to classify technical details of the work in this field in each country. The understanding then adopted is still in operation. The type of gas centrifuge which we know to have been under development in the USA up to 1965, and the type which we are presently developing, have evolved directly from the design principles described by Zippe.

5. Dutch and German evaluations of the feasibility of the centrifuge process and their cost forecasts are widely known to many European Governments, having been made available to a European Forum of industrialists in nuclear energy (FORATOM). Published reports emanating from Holland and Germany have increasingly directed public attention to the centrifuge method of enriching uranium, and as a serious competitor to the diffusion method. The annual reports of the UKAEA have been reticent about United Kingdom progress.

6. Against this background it appeared opportune to investigate whether our own advances in the gas centrifuge field, backed by our existing capacity for enriching uranium by the diffusion method, sffered a chance of co-operating on a European basis in gas centrifuge development, and in the actual production of enriched uranium for a rapidly growing European market. If this proved possible we should then have the benefit of the best technological work in the countries concerned, Holland, Germany and the United Kingdom, as well as the best opportunity for enhanced markets in Europe. Moreover, we would be able to maintain much closer contact with German work in this field and this opportunity alone offered a significant advantage in the context of the Non-Proliferation Treaty. Consequently, after exchanges in very general terms between the Foreign Secretary on the one hand and the Netherlands and German Foreign Ministers on the other, preliminary bilateral discussions were arranged between British officials and Dutch and German officials. These led to the first tripartite meeting of officials about a month ago which prepared an agenda for the tripartite Ministerial Meeting which took place on 25th November, 1968.

7. In the first bilateral contact between Dutch and British officials in the summer it was clear that the Dutch were favourably impressed by our plans for exploiting the gas centrifuge process, and were disposed to consider Anglo/Dutch collaboration in gas centrifuge development. They told us that they were already in contact with the Germans on the possibility of bilateral collaboration with them. In the first Anglo/German discussion, at official level, the Germans were also impressed. Indeed they were surprised, because during the previous two years they had been engaging in discussions with the UKAEA about possibilities of jointly exploiting the capacity of our diffusion plant at Capenhurst for the production of enriched uranium for civil nuclear power developments. Like the Dutch, the Germans were interested in full and effective collaboration in all phases of centrifuge development and production of enriched uranium by this process; they were not interested in collaboration on the basis of a mere exchange of technical information.

8. These separate meetings with Dutch and German officials established that possibilities for useful collaboration existed; but that if these were to be further pursued, the next step must be a meeting of Ministers. That meeting took place in The Hague on 25th November. So far no information about gas centrifuge technology has been exchanged, and the discussions have taken place on a classified basis.
9. The United States Government were told what we had in mind before the first bilateral talks, and given an opportunity to comment. Since then they have been kept continuously informed of developments.

The Main Issues

10. Consideration of the gas centrifuge, and more particularly of the possibility of collaboration on its exploitation with other countries, has throughout been based on a continuing analysis of certain key issues, namely the balance of economic advantage; and the relationship of any collaboration to our broad approach to Europe, to our non-proliferation policy, to our relations with the Federal Republic of Germany, and to our relations with the United States.

Our Approach to Europe

11. The establishment of collaborative arrangements with the Netherlands and Germany (and perhaps other Western European countries, though this would almost certainly have to be at a later stage) is important in the context of our approach to Europe. We have leaned heavily, in pressing our European cause, on the claim that we have a major technological contribution to make. Our friends in Europe do not regard this as a self-evident proposition, and they look to us to give some concrete proof of our claim.

12. Despite our efforts, we have so far achieved little or no success in technological collaboration in Europe. A hopeful area in which to look for collaborative initiative is in the provision of enriched uranium, which is crucial in the development of Europe's nuclear power programme. The desire of the European countries to avoid dependence on United States sources of supply has given this issue a major political significance. Progress in centrifuge technology in Britain, the Netherlands and Germany has created an opportunity to meet this need by a collaborative venture. If this political opportunity is to be fully exploited, our aims must be: first, to get effective collaborative arrangements working quickly; second, to see that those arrangements are as wide as possible in the scope of activities covered; and third, to extend them if possible to friendly European countries other than the Netherlands and the Federal Republic, especially Italy. It is already clear that we may have to choose, to some extent, between these aims.

13. The mere holding of the first Ministerial meeting in The Hague has already made a considerable impression. It has enabled us, together with the Dutch and Germans, to seize the initiative in this field from the French. A week earlier, the French Minister of Scientific Research, speaking in the National Assembly about the need for a European uranium enrichment plant said:

"The plant will use a proved French process, to which none of our partners have contributed in the development stage. Besides, European industry is not within range of producing at a price as low as the American price, and the building of a communal plant demands that the Six express the clear intention to avail themselves of an independent production capacity, based on the French process. The question... is in the forefront of our preoccupations, and I think there will be a decision in the course of the next few months".
The talks at The Hague, however, showed that the Dutch and Germans were willing to work out collaborative arrangements as a matter of great importance and to take a firm line in dealing with any protests about non-participation from their European partners, including the French. If we likewise show a clear determination to press ahead, the prospects of success in the negotiations are good; but, from the standpoint of our approach to Europe, if at this stage we were to draw back, after ourselves taking the initiative and pressing the other two to consider a tripartite project, our posture as a prospective partner in technological projects would be seriously weakened.

Non-Proliferation

14. Any consideration of the non-proliferation aspects of gas centrifuge collaboration must start from the fact that the Dutch and Germans have plainly made substantial progress in the development of the centrifuge. Unless and until we reach the point of exchanging with them information about the actual designs of our respective centrifuge machines, no reliable comparison can be made between the positions reached in each country. But it is clear, from what the Dutch and Germans have told us of their rate of investment in the centrifuge, which has been fully borne out by evidence from other sources, that both countries - and especially the Netherlands - are confident of their ability to make a commercial success of the new process; and that they would go ahead in its development, singly or together, whatever we may finally decide about participation in a collaborative venture.

15. In short whatever we do, they are now developing a capability to produce enriched uranium. This capability could be extended to produce material for use in weapons if they so wished. In this field financial considerations would be secondary. But there is no evidence whatsoever to suggest that either country is in fact thinking in terms of making nuclear weapons; quite the contrary, The Dutch have already signed the Non-Proliferation Treaty (NPT), which commits non-nuclear-weapon States party to it to not to manufacture nuclear weapons, and provides for international safeguards to verify the fulfilment of this obligation. The Germans have not yet signed the Treaty; but the evidence is that they will do so. The countries members of the European Atomic Pool (EURATOM) have made it clear that they will withhold ratification until their proposed negotiations with the International Atomic Energy Agency (IAEA) provide a clear answer as to how safeguards would be applied. But there is no reason to think that either the Dutch or the Germans would withhold ratification once this point had been cleared. Meanwhile, Germany is bound by her undertaking under the revised Brussels Treaty not to manufacture nuclear weapons on her territory. Both German and Dutch Ministers drew attention, at the Hague meeting, to the need to ensure that any collaborative arrangements would be consistent with the policies of the three governments in relation to non-proliferation, and to their international obligations in this field. Britain has of course ratified the NPT. Before this was done, the Attorney General advised on the implications of ratification in respect of collaboration with European countries on the gas centrifuge. He took the view that the Treaty presented no bar to collaboration, but that our obligations under it would require us to insist on the inclusion in any collaborative arrangements of certain provisions relating to Non-Proliferation and safeguards.
16. Though we expect both Germany and the Netherlands to be party to the NPT in time, they will not ratify the treaty, as mentioned above, until the EURATOM safeguards negotiations with the IAEA have been concluded. This is unlikely to occur in less than 18 months and could take longer. During this period, some countries may consider that there is a risk of Germany using uranium enriched by the centrifuge process for nuclear weapons purposes. No enriched uranium made by this process is likely to be available until some two to three years after the inception of a collaborative venture. During this period the Germans will, however, have had access to United Kingdom and Dutch technology which might or might not improve their own capacity to go it alone. Any theoretical risk to non-proliferation in relation to Germany will be much reduced, however, if there are collaborative arrangements of such a nature that we are in a position to keep a close check on what is being done in Germany. Moreover, we may be able to make use of the special relationship we shall be establishing with the Germans to put gentle and discreet pressure on them to sign the Treaty sooner rather than later. From the non-proliferation angle, therefore, there is positive advantage in collaborating with European countries, particularly Germany.

17. The reason why we have hitherto been reticent in publicising the work of the UKAEA on the gas centrifuge, as mentioned in paragraph 5 above, was that, given the fact that the Authority are already operating a large diffusion plant, such publicity would have given earlier encouragement to the belief that development of the gas centrifuge on a large scale was a practicable possibility. The gas centrifuge method, because it can be operated on the basis of small plants, increases opportunities for clandestine enrichment of uranium, and to that extent might cause anxiety about the effectiveness of the NPT and thus delay its conclusions and coming into force. We had therefore hoped that it would be possible to keep our progress dark until the NPT was in force. Delays over the NPT have upset this timetable. We are now in a position where, even if there were no question of collaboration with other countries, we should shortly have to take decisions about the use of the gas centrifuge process to meet our needs for enriched uranium which would inevitably have been difficult to conceal.

Our Relations with Germany

18. It is right that we should reflect with particular care before embarking on collaboration with Germany in a sensitive nuclear field. But we must also satisfy ourselves that we are giving due weight to the political factors favouring such collaboration. If it be true that our approach to Europe cannot succeed without French acquiescence, it is likewise true that, without German support, it is bound to fail. We have constantly claimed to treat Germany as an equal partner in international affairs; but in practice she is not entirely equal. For example, she accepted, under the revised Brussels Treaty, obligations limiting her freedom of action in relation not only to the manufacture of nuclear weapons, but also to other important military questions. For the last ten years, this type of de facto discrimination has perhaps not mattered very much. The Germans have accepted that their behaviour in the 1930s and 40s has placed them in a special position. But new generations are now gaining influence in Germany which feel no personal responsibility
for those events, and which are increasingly looking to other countries, especially European countries, to treat Germany as a genuinely equal partner. If we are to wean the Germans away from their excessive preoccupation with their relations with the French, and establish a stronger claim to their support, we shall have to show ourselves more understanding of their aspirations than are the French.

Our Relations with the United States

19. Our relations with the United States carry with them certain legal and political constraints. When the question of collaboration with European countries was first substantively considered by Ministers in April, the Attorney General was asked about the nature of any such legal constraints. His attention was drawn to:

(a) the Anglo/United States (Intergovernmental) Agreement for Collaboration on the Civil Uses of Atomic Energy which runs until 1975, and the agreed Anglo/United States classification guide operated thereunder, (a set of rules for security procedures on nuclear questions);

(b) an understanding between the Governments of the United States, Britain, the Federal Republic of Germany and the Netherlands, which in effect provided for the application in each of the four countries of security procedures in relation to gas centrifuge work which are substantially identical with those contained in the Anglo/United States classification guide.

20. The Attorney General confirmed that the Quadripartite Understanding, which was contained in a series of unpublished minutes of meetings and was in no sense a formal international agreement, was not binding in more than a political sense. As regards the Anglo/United States Agreement, he gave it as his opinion that:

(i) if at any stage during the proposed discussions with the Dutch (or of course the Germans) we were to disclose to them information relating to one particular part of our centrifuge machine, the design of which derived to some extent from information received, under (a) above, from the Americans, we would have difficulty in resisting an American allegation that the disclosure was in breach of the Agreement;

(ii) moreover, if there were any intention to publish the information in question, this would constitute a further breach.
21. The Attorney-General found no other legal constraints. He commented, however, that collaboration with the Americans had been long maintained on a basis of mutual trust; that this appeared to have given rise to common practices designed to safeguard the secrecy of nuclear information exchanged under the Agreement and that it would be a serious matter to take any steps in breach of that mutual trust. It was accepted by Ministers at the time that there was nothing in the Attorney-General's opinion to prevent us from entering into confidential discussions with the Dutch (or the Germans) about possibilities for collaboration, so long as we did not over-step the limitation described in (i) above. This is still the case.

22. So far as the Anglo-United States classification guide itself is concerned, there is the point that, if collaboration leads to a requirement to declassify gas centrifuge technology, in whole or in part, we should be bound by the Anglo-United States Agreement to consult the Americans before so doing; but we should not be legally prevented from such a change after consultations, even in the face of American objections. The difficulties about so doing would be political, not legal. The same considerations apply a fortiori to the Quadripartite Memorandum of Understanding.

23. The political constraints on our freedom of action could be expected to reside in the effects which any row with the United States might have on our bilateral arrangements with them for the supply of enriched uranium for our civil programme, and on the Anglo-United States Agreement for Co-operation on the Uses of Atomic Energy for Mutual Defence Purposes of 1958 (as amended).

24. The Americans have been kept fully informed of the development of our thinking on gas centrifuge collaboration, and on the related question of the classification of gas centrifuge technology. Before speaking to the Dutch or Germans, we warned them that we were thinking of exploring the possibilities of collaboration. The American reaction, which was conveyed to us by the State Department in writing, was that they regarded discussion of such questions as "natural and appropriate" and considered that decisions on them "are of course ones to be made by the Europeans themselves". The Americans took note of an assurance we had given that we should, in discussions with other Governments, take into account the provisions of the Anglo-United States Agreement for collaboration on the Civil Uses of Atomic Energy. They also said that the provisions of the classification guide relating to the gas centrifuge should be reviewed to consider the extent to which they continued to be realistic.

25. We subsequently sent the Americans a memorandum on the latter point. The memorandum recognised that the development of gas centrifuge technology presented problems in relation to non-proliferation. It said that if the development could have been arrested, or if it could have been confined to only two or three countries, classification might still be justifiable. But neither of these conditions appeared to exist. It
seemed, therefore, that it would not be possible to maintain the
classification of centrifuge technology, and that it should be declassified
over a period of time. A reply since received from the Americans stated
that, while they remain ready to review certain provisions of the
classification guide, they felt that any broad declassification of gas
centrifuge technology would be unwise. However, they would re-examine
their overall policies in this field, and would welcome talks with us at
official level.

26. The first round of talks will take place on 5th-6th December in
Washington. It is reasonable to assume that, while this will be helpful
in clarifying the reasons which have led both sides to adopt their views,
neither side will make any substantial alteration in its position. In the
longer term events are likely to induce the Americans to agree to some
relaxation of declassification policy over a period, but the timing and
extent of any such relaxation cannot now be predicted. So far as our
proposed collaboration with the Dutch and Germans is concerned, we
should, for the time being, be able to continue negotiations or development
work on the basis of the security rules laid down in the present
classification guide. The problem is not, therefore, pressing.

27. The question of co-operation on nuclear defence issues is a difficult
one. This co-operation takes place under the terms of the United States/
Although the Americans could theoretically terminate the Agreement by
the end of 1969 we believe they are in fact unlikely to do so. But they
could allow exchanges of information, material and components relating
to current nuclear weapons matters to wither away, as has been the case
for information concerning their new nuclear weapons. As regards the
provision of enriched nuclear fuel for submarine propulsion, the
United States Administration has recently agreed, subject to Congressional
approval, which will remain uncertain until March, 1969, to extend the
relevant provisions of the Agreement for a further ten years. There is
therefore a risk that, if we upset the Americans in the nuclear field, this
could affect the attitude of Congress or the new Administration and lead
to this proposed extension not being ratified. Assuming that this extension
were to be ratified, we may need to exercise the option it gives us to
purchase enriched uranium for naval nuclear propulsion to tide over a gap
before any supply of such material could be available from United Kingdom
sources.

28. As regards our civil nuclear power programme, we may wish to
request, under the Agreement on the Civil Uses of Atomic Energy, supply
of some enriched uranium, in the event that sources of supply, either from
a United Kingdom Plant or a joint plant, are not available in time to meet
the Electricity Generating Boards' civil power programmes.

29. To sum up on the American aspect. In the course of the Government
review of foreign policy last February, it was recognised and agreed that
Europe was now the centre of our foreign policy and we agreed that it was of
the utmost importance to give substance to proposals for partnership with
European countries. Nuclear energy is plainly an important field for the
development of such proposals. But it is also one in which, for a quarter
of a century, we have had close association with the Americans. It is
inevitable that, as we now move to broaden our connections with Europe,
there will be occasions when what we have in mind will carry clear
implications for our relations with the United States. This is the first
such occasion and it is right that it is examined with particular care.
30. In collaboration with others we would hope to obtain substantial commercial benefits. These include: better and wider marketing prospects, subject to paragraph 31 (below) for both centrifuges and enriched uranium, and so a more competitive price; a greater and more continuous scale of production of centrifuges, leading to lower prices of both the machines and their product, enriched uranium; and a larger and more diverse development effort for the improvement of centrifuges, which could be sustained by the greater turnover and resources of a joint venture than any we could manage ourselves, and could add to our joint ability to keep a jump ahead of our other competitors. We would also expect that the collaborative venture as a whole would benefit from the research and development (R & D) work already done by the three partners independently. There are of course also disadvantages which often affect international or multilateral projects. These arise partly from the extra organisational complexity of the project, from vague and imperfectly agreed objectives and from too inflexible efforts, under political pressure or otherwise to maintain a balance of expenditure in each participating country commensurate with its contribution. These elements can all lead to inefficiency and so to higher costs, but each with care can be much reduced if the running of the organisation approximates as closely as possible to that of an international industrial consortium and Government intervention is kept to a minimum consistent with our international obligations.

31. In order to ensure that the advantages of collaboration on centrifuge production and exploitation are not outweighed by the disadvantages, it will be of the utmost importance to ensure that the manufacturing organisations operate in a strictly commercial environment, disciplined by the requirement to face American competition, both in centrifuges and in enriched uranium production. This need for commercial strength and ability to face competition is strongly endorsed by both Dutch and Germans. The actual commitment of markets in the countries of the partners is not something on which it is yet possible to be definite. It is on the whole perhaps easier for us to do this than for the Dutch or Germans most of whose utilities are private enterprises. At the same time it may be possible to encourage utilities to support the "home" product, and tariffs can perhaps be adjusted, certainly for a transitional period - e.g. until the joint venture achieves commercial viability. Moreover countries could in effect commit their markets by undertaking to buy a given number of centrifuges rather than a given quantity of enriched uranium. The main risk is of "dumping" by the Americans. It may be possible to agree on measures to prevent this.

32. There may be profits to be made from sales to non-participants and from licensing; their extent cannot be indicated before arrangements for declassifying centrifuge technology - or otherwise dealing with the problem - have been agreed among all the parties concerned, and until adequate safeguarding practices have been worked out.

33. While certain advantages might flow from the incorporation of other countries in the proposed collaboration, notably from the increased market and from their expertise in engineering, it is clear from the last meeting at The Hague on 25th November that in the short term the possibility of bringing in even Italy is slight. This aspect of future possibilities, while not to be neglected in the long run, is therefore not further considered in the commercial or financial sense.
Financial Issues

34. In order to meet United Kingdom requirements for enriched uranium, the UKAEA will in any event have to invest in further enrichment capacity. Until recently the Authority have been planning to extend the capacity of the diffusion plant at Capenhurst. The Authority's five year forecast of expenditure for the years 1969-74 stated that, for Capenhurst, the cost of the erection of the authorised first stage of the expansion would be £14.4 million. This is already in hand. The further expansion planned, for which it is now intended to substitute centrifuges, would have cost £65 million beginning during the years 1968-71. The financial implications of switching from diffusion technology to centrifuge technology are hard to quantify exactly as this stage. But the expert advice available is firm that the substitution of centrifuge for gaseous diffusion installations would represent a considerable saving on that figure.

35. It is, however, impossible at this stage to give reliable indications of the costs or other financial implications of developing and exploiting centrifuge technology in collaboration with others, when the nature of the institutions, the precise extent of collaboration and of our share in it and the relative degrees of technical advance, have not yet been determined. If we succeed in establishing a commercial organisation on the lines described at paragraph 30 above, we should expect a collaborative venture to be at least as successful as the domestic alternative. It must be recognised, however, that the necessity for some degree of Government supervision and intervention may militate against this outcome.

36. A substantial capital amount will, of course, be needed from the partners at the start. Bearing in mind that our own requirements for enriched uranium are the most urgent (in fact we are first in the queue), in the early stages we might find that what we get out of the joint venture would be at a lesser immediate capital cost to ourselves than if we were to proceed alone; this is on the reasonable assumption that capital costs will be shared. At a later stage, when German and Dutch requirements have built up, our contribution might offset this initial advantage, but the effect will be a spread of the costs over a longer period of time. The net effect of these influences should be that we should pay by way of capital contribution less than if we did the job alone, and that this contribution, because centrifuge installations can be economically set up on a more modest scale than diffusion plants, and because the initial requirements vary from partner to partner, will be spread over a longer period of time.

37. Using United Kingdom costs as a basis, it has been tentatively estimated that the capital cost of the manufacture of centrifuges and of enrichment plants to meet the requirements of the three partners up to 1975 would be as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>7</td>
</tr>
<tr>
<td>1973</td>
<td>28</td>
</tr>
<tr>
<td>1974</td>
<td>13</td>
</tr>
<tr>
<td>1975</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>101</td>
</tr>
</tbody>
</table>

-10-
Of this total approximately two-fifths would represent the cost of centrifuges. The United Kingdom share of this capital expenditure cannot be determined at this stage. The arrangements for subscription to the capital of the organisation remain to be negotiated. Discussions so far suggest that a one-third share for each partner might be negotiable. It is not yet clear what the respective roles of Governments and the private sector will be in the provision of capital, but it should not be assumed that the whole of the finance for what is hoped to be a profitable undertaking will fall on Governments.

38. As experience has shown, the actual cost of complicated technological projects frequently exceeds the original estimates. In partnerships involving several countries and their Governments the risk of cost escalation is greater. Usually, however, most of the escalation of costs can be pinned down to the research and especially the development effort. For this reason, it would be desirable to insist that national R & D efforts in the centrifuge field should be integrated into the commercial organisation and financed by it, so that the external commercial pressures tending to discipline the R & D effort towards improved competitive and technical performance in the open market would play their part.

39. To sum up, we are unable yet to compare exactly the cost of meeting our own requirements on a national basis with that of doing so in collaboration with others. But it may be said that we can only secure an economical result from a collaborative effort if it is conducted upon a strictly commercial basis - with which our proposed partners agree - and if our contribution to the joint venture is kept to the minimum, commensurate with our equality of rights. These therefore must be among the objectives of further negotiations.

The agreed minutes of the tripartite meeting at The Hague on 25th November

40. At the Ministerial meeting with the Dutch and Germans at The Hague on 25th November, we reached agreement with them, ad referendum to Governments, on certain basic principles on which collaboration on the exploitation of the gas centrifuge could be established. These were recorded in agreed minutes (copy attached). The Dutch and Germans have told us that they would have been prepared to commit their Governments definitively, there and then, on all matters covered in the agreed minutes, if we had been in a position to do the same.

41. We have the following comments on the agreed minutes:

(a) Principle No. 5

This provides that a suitable institutional framework for the co-operation should be set up on the basis of "equality of rights". This phrase was not defined. Although discussion on the establishment of the institutional framework reached no clear conclusions, it seems probable that a two-tier structure will emerge, with a governmental body and an industrial organisation. At the governmental level, there is likely to be an inter-governmental agreement which might contain the basic undertakings of collaborating countries, including undertakings
about safeguards, and provide for the establishment of a supervisory political body of some kind. The principle of "equality of rights" would presumably result in each Government having equal voting rights in that body. At the industrial level there will probably be an international consortium, with Dutch, German and British constituents. We would wish this organisation to be able to pursue a commercial policy with the minimum of intervention by the political supervisory body. The British constituent would initially be the AEA, and subsequently the Nuclear Fuel Corporation. It is not clear how the principle of "equality of rights" would apply in this context; or how account would be taken of any differences in the contributions that were being made by the participating countries in relation to technology, finance or commitment of markets. This would be a key part of the negotiations.

(b) Principle No. 6

This provides for participation in the results of exploitation of the gas centrifuge process to be open to other countries. This likewise was not defined. Before the meeting, we had told the Italians that we would put to the Germans and Dutch the case for Italian participation in any collaborative arrangements. Meanwhile, however, the Germans and Dutch had told their EURATOM partners, including the Italians, that they would be able to participate "in the results of exploitation"; they have actually told the Italians that they would not be able to participate in design and development work from the start. At the meeting they told us that, if the Italians were admitted, they could hardly resist claims for admission from the Belgians or even the French. If accepted, these claims would result in the negotiations becoming bogged down. In short, we had to choose between pressing the Italian claim and securing rapid progress towards centrifuge collaboration. We decided that this dilemma was a real one and that, on balance, the advantage lay in rapid progress. This presents us with an awkward problem of disengagement vis-a-vis the Italians; but it seemed to be the less of two evils.

(c) Principle No. 7

Attention is drawn to the readiness of the Dutch and Germans to give firm undertakings, at the outset, about the necessity for any collaborative arrangement to be consistent with the policies of the three Governments on non-proliferation and with their international obligations in this field. There is explicit mention of the need for appropriate international safeguards. Agreement on this principle was reached without any difficulty.
GAS CENTRIFUGE COLLABORATION

Agreed Minutes of a meeting between Dutch, German and British Ministers held in The Hague on 25th November, 1968, which were adopted as a referendum to governments.

1. The Governments of the Federal Republic of Germany, the United Kingdom of Great Britain and Northern Ireland and the Kingdom of the Netherlands regard the supply of enriched uranium for purposes other than the manufacture of nuclear weapons as a matter of great importance. To meet growing needs additional enrichment capacity will have to be created. With a view to further diversifying the sources of supply, the Governments consider it desirable that Western Europe should possess a substantial enrichment capacity.

2. The Governments believe that the result of experiments with the gas centrifuge method and its present stage of development in their respective countries are such that this method is the most suitable for the expansion of Western Europe's enrichment capacity.

3. With a view to applying this method on an industrial and commercial scale with the least possible delay and expense, the Governments have decided to cooperate in the endeavour: they will do so under arrangements to be determined later but which will rest on the following principles.

4. Cooperation will include further research and development, as well as the manufacture of equipment for the separation of isotopes and the operation of enrichment plants on an industrial and commercial basis.

5. A suitable institutional framework for the cooperation will be set up on the basis of equality of rights.

6. Participation in the results of exploitation of the gas centrifuge process will be open to other countries, provided such participation is to the advantage of all concerned.

7. Any cooperative arrangement will have to be consistent with the policies of the three Governments in relation to the Non Proliferation of Nuclear Weapons, to which they attach extreme importance, and to their international obligations in this field. It is therefore the intention to apply appropriate international safeguards to these arrangements.
3rd December, 1968

CABINET

HOUSE OF LORDS REFORM

Note by the Lord Chancellor

My colleagues may wish to have, with reference to the item on the agenda for Thursday, the attached copy of the latest draft of the Bill as it has now been approved by the Ministerial Committee on the House of Lords. The only new feature of substance in the Bill is the preamble, which is designed to link the Bill more closely with those parts of the White Paper which are not suitable for legislation and to emphasise our intention that Scotland and other parts of the United Kingdom should be adequately represented in the reformed House.

2. I will give my own views orally on the timetable.

G.

House of Lords, S.W.1.

3rd December, 1968
ARRANGEMENT OF CLAUSES

Composition of the House of Lords

1. Exclusion of peers by succession.
2. Restriction of right to vote in the Lords.
3. Voting declarations.
4. Loss of voting right by non-attendance.
5. Voting rights of Ministers and other Officers.
6. Reduction of number of bishops in the Lords.
7. Temporary disqualification for membership.

Legislative powers

8. New provisions to replace Parliament Act 1911 s. 2.
9. Enactment after delay of Bill disagreed to by Lords.
10. Disagreement to Bill.
12. Content and form of Bill as enacted.

Subordinate legislation

15. Affirmative resolutions.

Supplemental

16. Parliamentary franchise and qualification.
17. Interpretation etc.
18. Commencement and transitional provision.
19. Short title and repeals.

Schedule—Enactments repealed.
Amend the law relating to the composition and powers of the House of Lords; to make related provision as to the parliamentary franchise and qualification; and for purposes connected therewith.

WHEREAS it is expedient to make further provision with respect to the composition and powers of the House of Lords, and in particular to exclude from membership of that House persons not already members thereof who are peers by virtue only of succession to a hereditary peerage; to establish within the House a body of voting members exclusively entitled to participate in decisions relating to legislation and other matters, being qualified in that behalf by virtue of their attendance to the business of Parliament or by their official position; to reduce the number of the Lords Spiritual; to substitute for section 2 of the Parliament Act 1911 as amended new provisions limiting the power of the House to prevent or delay the enactment of Bills passed by the House of Commons; and to secure the predominance of the House of Commons in case of disagreement between the two Houses in respect of subordinate legislation:

And whereas proposals for the purposes aforesaid were presented to Parliament by Command of Her Majesty on 1st November 1968, together with proposals (to which effect would properly be given by means of the exercise of Her Majesty's Prerogative in respect of the creation of new peers) designed to secure—

(a) the preservation within the said body of voting members of the reformed House of Lords of a proper balance...
between members adhering to the party of Her Majesty's
Government, members adhering to other parties and
members adhering to no party;

(b) the inclusion in that House, and in the said body of
voting members, of suitable numbers of peers with
knowledge of and experience in matters of special
concern to the various countries, nations and regions
of the United Kingdom:

Be it therefore enacted by the Queen's most Excellent Majesty,
by and with the advice and consent of the Lords Spiritual and
Temporal, and Commons, in this present Parliament assembled,
and by the authority of the same, as follows:

Composition of the House of Lords

1.—(1) Except as provided by subsection (2) below, the
holder by succession of a hereditary peerage, whether in the
peerage of England, Scotland, Great Britain or the United
Kingdom, shall not in right of that peerage receive a writ of
summons to attend the House of Lords in any Parliament
summoned after the commencement of this Act.

(2) Subsection (1) of this section shall not apply to the holder
by succession of a hereditary peerage who—

(a) had received, at any time before the date of the
commencement of this Act, a writ of summons to
attend the House of Lords in right of that peerage;
or

(b) being qualified at that date to receive such a writ,
had applied for it before that date or applies for it
within six months thereafter.

(3) For the purposes of this section a notice in writing given
by a peer to the Lord Chancellor that he intends to apply for a
writ shall be treated as an application for the writ.

(4) A peer who is qualified by subsection (2) of this section
to receive a writ of summons to attend the House of Lords may,
by notice in writing given to the Lord Chancellor within one
year after the commencement of this Act, disclaim his member-
ship of that House; and thereupon the said subsection (2) shall
cease to apply to him.

2.—(1) In any Parliament summoned after the commence-
ment of this Act, the House of Lords shall be composed of
members possessing full voting rights (in this Act referred to

SECRET
(2) A peer who is not a voting peer shall not be qualified to vote—

(a) on any question to be determined by the House (including any Committee of the whole House); or

(b) as a member of any Committee for the consideration of any Bill or Measure or of any instrument to which sections 13 to 15 of this Act apply,

but shall be qualified to vote in any other Committee of which he is a member.

(3) In this section “vote” means to give voice upon question put or take part in a division.

(4) Nothing in this section affects the right of any peer to move any motion or to take part, otherwise than by vote, in any proceedings of the House or any Committee of the House.

3.—(1) A peer of first creation shall be qualified as a voting peer in any Parliament summoned after the commencement of this Act if he has deposited with the Lord Chancellor in respect of that Parliament a voting declaration (that is, a declaration in writing that he wishes to be so qualified), and that declaration is for the time being in force.

(2) A voting declaration duly deposited in accordance with this section shall, unless previously withdrawn, continue in force until the dissolution of the Parliament to which it relates.

(3) A voting declaration in respect of any Parliament summoned after such date as Her Majesty may prescribe by Order in Council (being an Order of which a draft has been laid before Parliament and approved by resolution of each House) shall not be deposited by a peer who had attained the age of seventy-two years before the dissolution of the last previous Parliament.

(4) A voting declaration in respect of a Parliament shall not be deposited by any peer after the end of the period of one month from the issue of the writ summoning him to attend the House in that Parliament, or such extended period as the House may for special reasons allow.

(5) A voting declaration deposited by a peer in respect of any Parliament may at any time be withdrawn by notice in writing given by him to the Lord Chancellor.
4.—(1) Subject to the provisions of this section, if a peer who has deposited a voting declaration in respect of any Parliament fails to comply with the minimum attendance requirement in any Session of that Parliament, he shall be treated as having withdrawn that declaration at the end of that Session.

(2) The minimum attendance requirement in any Session is attendance at the sittings of the House (or sittings of Committees of the House) on a number of days equal to not less than one-third of the total number of days on which the House meets during the Session (other than days on which it meets for judicial business only): but in calculating that total number there shall be disregarded—

(a) in the case of a peer created after the commencement of the Session, any days before the issue of the writ summoning him to attend the House;

(b) in the case of a peer who, at any time during the Session, is absent with the leave of the House on account of ill-health or of Parliamentary or other public business, or is disqualified to sit in the House, any days when he is so absent or disqualified.

(3) Leave of absence for the purposes of paragraph (b) of subsection (2) of this section may be given either before, during or after the period for which it is given, and either before or after the end of the Session to which it relates.

(4) Subsection (1) of this section shall not apply in relation to any Session of Parliament in which the number of days on which the House of Lords meets as aforesaid is less than thirty.

(5) For the purposes of this section attendance on a day on which the House sits until after midnight shall be treated as attendance on one day only.

5.—(1) A peer of first creation who is for the time being the holder of an office to which this section applies, that is—

(a) any office in respect of which salary is payable under the Ministerial Salaries Consolidation Act 1965;

(b) any high judicial office, within the meaning of the Appellate Jurisdiction Act 1876 as amended by section 5 of the Appellate Jurisdiction Act 1887, shall be qualified as a voting peer whether or not he is or could be so qualified by virtue of a voting declaration under the foregoing provisions of this Act.
(2) If any such peer ceases during a Parliament to be the holder of an office to which this section applies—

(a) he shall continue to be qualified as a voting peer until the end of the Session then current; and

(b) he may (subject to subsection (3) of section 3 of this Act) deposit a voting declaration or further voting declaration in respect of that Parliament within one month after the opening of the next Session or within such extended period as the House may for special reasons allow.

(3) Without prejudice to subsection (1) of this section, any peer of first creation who is one of the Lords of Appeal within the meaning of the Appellate Jurisdiction Act 1876 shall be qualified as a voting peer for the purposes of any judicial business.

6.—(1) The number of Lords Spiritual who are Lords of Parliament shall be progressively reduced, as provided by subsection (2) of this section, from twenty-six to sixteen.

(2) Of the next twenty vacancies among the Lords Spiritual who are Lords of Parliament which arise after the commencement of this Act on the avoidance of sees other than those of Canterbury, York, London, Durham and Winchester, only ten shall be supplied pursuant to section 5 of the Bishoprics Act 1878; and the vacancies to be so supplied shall be the second of each two which so arise.

(3) The bishop of any see to which the foregoing subsection applies may, by notice in writing given to the Lord Chancellor, disclaim for himself the right to sit as a Lord of Parliament as such; and where such notice is given—

(a) if at the time of the notice the bishop is one of the Lords of Parliament, section 5 of the Bishoprics Act 1878 as amended by this section shall apply as if the see were avoided by his retirement;

(b) whether or not he is then one of the Lords of Parliament, he shall be left out of account for the purpose of supplying pursuant to that section any vacancy among the Lords Spiritual which arises during his tenure of the see on the avoidance of any such see.

(4) Sections 2 to 5 of this Act shall apply to the Lords Spiritual as they apply to peers of first creation, and as if the Archbishops of Canterbury and York and the Bishops of London, Durham and Winchester were the holders of an office to which the said section 5 applies.
7. A person who, by virtue of any process under the Mental Health Act 1959, the Mental Health (Scotland) Act 1960 or any corresponding enactment in force in Northern Ireland, is liable to be detained on the ground (however formulated) that he is a person suffering from mental illness shall not be qualified, so long as he remains so liable, to sit or vote in or to receive writs of summons to attend the House of Lords.

Legislative powers

8.—(1) The next four sections of this Act shall apply to any Bill which is passed by the House of Commons and sent up to the House of Lords, not being a Money Bill within the meaning of section 1 of the Parliament Act 1911 or a Bill containing any provision to extend the maximum duration of Parliament.

(2) In this section “public Bill” does not include a Bill to confirm a provisional order, but includes a Bill presented under section 6 of the Statutory Orders (Special Procedure) Act 1945.

(3) Section 2 of the Parliament Act 1911 shall cease to have effect.

9.—(1) If a Bill to which this section applies is disagreed to by the House of Lords, the House of Commons may, subject to the provisions of this section, resolve that the Bill be presented to Her Majesty for Her Royal Assent under this Act; and on the Royal Assent being signified the Bill shall become an Act of Parliament accordingly notwithstanding that the House of Lords have not consented to it.

(2) A resolution under this section for the presentation of a Bill for Royal Assent shall not be passed by the House of Commons until the end of the following period of delay, namely six calendar months from the day on which the Bill was disagreed to by the House of Lords or, if it was so disagreed to more than sixty parliamentary days after being sent to that House, from the last of those days.

(3) A resolution for the presentation of a Bill for Royal Assent under this section may be passed, and the Royal Assent may be signified accordingly, notwithstanding any prorogation or dissolution of Parliament during the period of delay: but in that case the resolution shall not be passed more than thirty parliamentary days after the end of the period of delay.

10.—(1) For the purposes of this Act a Bill shall be treated as disagreed to by the House of Lords in the following circumstances (and not otherwise) namely—

(a) if a motion for the rejection of the Bill is carried, or the motion that the Bill be read at any stage or passed is rejected or amended, by that House.
(b) if that House insist on any amendment of the Bill not agreed to by the House of Commons, or, having disagreed to an amendment made by the House of Commons on consideration of Lords' amendments, insist on their disagreement;

(c) if, at any time after the end of the period of sixty parliamentary days from the day on which the Bill was sent up to the House of Lords and within the Session in which it was so sent—

(i) any motion relevant to the progress of the Bill, made in that House by the peer in charge of the Bill and expressed to be made pursuant to this section, is rejected by that House; or

(ii) the House of Commons resolve, on a motion of which at least ten parliamentary days' notice has been given, that the Bill be treated for the purposes of this Act as disagreed to by the House of Lords.

(2) The date on which a Bill is disagreed to by the House of Lords within the meaning of this section shall be endorsed on the Bill by the Clerk of the Parliaments or, if the Bill is then in the possession of the House of Commons, by the Clerk of that House; and on the expiration of the period of delay, the Bill shall, unless it is then in possession of the House of Commons, be returned to that House.

11.-(1) Nothing in this Act shall prevent the taking, in the Resolution of case of a Bill which is disagreed to within the meaning of the last foregoing section, of any proceeding which could otherwise lawfully be taken in either House, or the enactment otherwise than under section 9 of this Act of a Bill as agreed to by both Houses.

(2) Without prejudice to subsection (1) of this section, either House may, at any time during the period of delay and notwithstanding any prorogation or dissolution of Parliament, propose to the other House amendments with which they would agree to the Bill; and if agreement is reached between both Houses in respect of those proposals—

(a) the period of delay shall thereupon expire and a resolution under the said section 9 for the presentation of the Bill for Royal Assent may be passed accordingly; and

(b) for the purposes of the Royal Assent pursuant to such a resolution, the amendments shall be treated as amendments of the Bill made by the House of Lords and agreed to by the House of Commons.
12.—(1) A Bill as presented to Her Majesty for Her Royal Assent pursuant to a resolution of the House of Commons under section 9 of this Act shall include—

(a) any amendments made by the House of Lords and agreed to by the House of Commons (including any amendment treated as so made and agreed to under the last foregoing section);

(b) any amendments made by the House of Commons on consideration of Lords' amendments and agreed to by the House of Lords;

(c) such other amendments (if any) made by either House as may be specified in the resolution under the said section 9,

but shall not include any other amendments.

(2) When a Bill is presented to Her Majesty for Her Royal Assent pursuant to such a resolution, there shall be endorsed on the Bill the certificate of the Speaker of the House of Commons, signed by him, that the provisions of this Act have been duly complied with; and any such certificate shall be conclusive for all purposes and shall not be called in question in any court of law.

(3) In every Bill so presented to Her Majesty, the words of enactment shall be as follows:—

"Be it enacted by the Queen's Most Excellent Majesty in Parliament, pursuant to section 9 of the Parliament Act 1968, as follows"

and the alteration of a Bill necessary to give effect to this subsection shall not be deemed to be an amendment of the Bill.

13.—(1) The provisions of the next two sections of this Act shall have effect for securing that in those cases where each House of Parliament has power either—

(a) by passing a resolution for annulment; or

(b) by rejecting a motion for approval,

to control the making, coming into operation or continuance in force of an instrument laid or laid in draft before it, a decision of the House of Lords may be overruled by the House of Commons.

(2) References in this section and in the said provisions to the annulment or approval of an instrument or draft include references to the presentation to Her Majesty of an address to the like effect in relation to an instrument or draft, and references to resolutions or motions for annulment or approval shall be construed accordingly.
14.—(1) A resolution passed by the House of Lords pursuant to subsection (1) of section 5 of the Statutory Instruments Act 1946 (instruments subject to annulment by resolution of either House) or subsection (1) of section 6 of that Act (draft instruments subject to disapproval by resolution of either House) shall be of no effect until the end of whichever of the following periods expires later, namely—

(a) the period of forty days prescribed in subsection (1) of the said section 5 or section 6, as the case may be;

(b) the period of twenty parliamentary days from the date of the resolution.

(2) If during the period for which a resolution of the House of Lords is suspended as aforesaid a corresponding motion in respect of the instrument or draft is rejected by the House of Commons or (in a case where such a motion had previously been so rejected) the instrument or draft is approved by resolution of that House, the resolution of the House of Lords shall be of no effect thereafter.

15.—(1) This section applies to any enactment, including any future enactment, which provides (by whatever form of words) that an Order in Council, order or other instrument of any description—

(a) may be made only after approval in draft by resolutions of each House of Parliament;

(b) shall not come into force unless or until approved by such resolutions; or

(c) shall cease to have effect at the end of a specified period unless so approved within that period.

(2) For the purposes of any enactment to which this section applies, an instrument or draft shall be treated as approved by resolution of each House of Parliament, notwithstanding that a motion for such approval is rejected by the House of Lords, if the instrument or draft had previously been approved by resolution of the House of Commons and that resolution is subsequently confirmed by that House.

(3) If in the case of an instrument falling within paragraph (c) of subsection (1) of this section a motion for approval is rejected by the House of Lords less than ten parliamentary days before the end of the period specified in the relevant enactment, that period shall be extended by virtue of this section until ten parliamentary days after the rejection.
Parliamentary franchise and qualification. 16.—(1) A person shall not be disqualified for voting at elections to the House of Commons—

(a) as being the holder of a peerage, whether or not he is entitled to receive writs of summons to attend the House of Lords as such; or

(b) as being one of the Lords Spiritual.

(2) The holder of a peerage who is not so entitled as aforesaid shall not be disqualified as such for being or being elected as a member of the House of Commons.

Interpretation etc. 17.—(1) In this Act the following expressions have the meanings hereby assigned to them, that is to say—

“Committee”, in relation to the House of Lords, includes a joint committee of that House and the House of Commons;

“Judicial business” means proceedings falling within section 5 of the Appellate Jurisdiction Act 1876 as extended by any subsequent enactment;

“Parliamentary day” means any day other than one comprised in a period when Parliament is prorogued or dissolved or both Houses are adjourned for more than four days;

“Peer” includes peeress, and “peer of first creation” means the holder of a life peerage or the first holder of a hereditary peerage.

(2) In calculating for the purposes of this Act any period from or after a specified day or event, that day, or the day on which that event occurs, shall be excluded.

(3) In relation to a peer who, immediately after the commencement of this Act, is disqualified to receive a writ of summons to attend the House of Lords—

(a) by virtue only of his adjudication in bankruptcy or the sequestration of his estate; or

(b) by virtue only of section 7 of this Act, subsection (2) of section 1 of this Act shall apply as if for references in paragraph (b) to the date of the commencement of this Act there were substituted references to the date on which he ceases to be so disqualified.
18.—(1) This Act shall come into force at the end of the Session of Parliament in which it is passed.

(2) For the purposes of this Act, the remaining Sessions of the present Parliament shall be treated as a separate Parliament summoned after the passing of this Act; and accordingly—

(a) all writs of summons to attend the House of Lords issued before the commencement of this Act shall cease to have effect at the commencement of this Act; and

(b) fresh writs of summons to attend that House in the said remaining Sessions shall be issued to those who, under the provisions of this Act, are entitled to receive them.

19.—(1) This Act may be cited as the Parliament Act, 1968. Short title and repeals.

(2) The enactments described in the Schedule to this Act (which include certain obsolete or unnecessary enactments relating to the House of Lords) are hereby repealed to the extent specified in column 3 of that Schedule.
### SCHEDULE

**ENACTMENTS REPEALED**

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<td>The Parliament Act 1911.</td>
<td>In section 4 the words from &quot;and if&quot; to &quot;that House&quot;.</td>
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### Extent of Repeal Details

- Sections 6 and 7, without prejudice to so much as is unrepealed of the Act of the Parliament of Scotland therein mentioned.
- The Preamble and sections 1 and 4.
- In Article IV of the Treaty of Union as set out in section 1, the first, third and fourth paragraphs and so much of the last paragraph as relates to the Lords of Parliament.
- Section 2 so far as it incorporates the Preamble to and sections 1 and 4 of the Parliamentary Representation Act (Ireland) 1800.
- In Article IV of the Treaty of Union as set out in section 1, the first, third and fourth paragraphs and so much of the last paragraph as relates to the Lords of Parliament.
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Parliament

DRAFT
OF A
BILL

To amend the law relating to the composition and powers of the House of Lords; to make related provision as to the parliamentary franchise and qualification; and for purposes connected therewith.

CLV—D (11)

3rd December, 1968

36—3 (373494) 44/3
CABINET

NIGERIA

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

Why we support the Federal Government

Our aim is to do everything possible to restore peace, stability and prosperity in Nigeria, but we must do this in a way which keeps us on good terms with the Nigerians and their rulers. This is a Nigerian and an African problem first and foremost.

2. Nevertheless we have a great deal at stake in Nigeria. Shell and BP have sunk at least £250 million in Nigeria and have a 50 per cent share in the Port Harcourt refinery valued at £12 million, the repair of which is now being put in hand. Our other investments in Nigeria are worth about £150-£175 million, and we have an export trade worth about £90,000,000 a year. We have, moreover, about 15,000 British subjects living in Nigeria. The whole of our investments in Nigeria and particularly our oil interests in the South-East and the Mid-West will be at risk if we change our policy of support for the Federal Government. The French would be glad to pick up our oil concessions if they could; they would be well placed to do so if the Biafrans could regain control of the oil areas.

3. Although we support the Federal Government, we have urged moderation on them with some success (e.g. observers and the offer of relief routes). Our practical support for the Federal Government takes the form mainly of carefully controlled amounts and types of arms which we sell them for cash.

4. It was undoubtedly right to help an ex colony and fellow Commonwealth country when it faced secession. (In a speech made on 3rd December, the United States Under-Secretary of State, Mr. Katzenbach, pointed out that the United Kingdom had traditionally trained and supplied Nigeria with arms and that we had continued to do so, and added: "I do not really see how they could have made any other choice.") If we had stood aside at the outset of the war we might conceivably have been able to limit the damage to British interests, but to change our policy now would have a catastrophic effect on our relations with the Federal Government and put our interests in Nigeria in jeopardy.
5. But there were wider reasons for helping Nigeria when we did. U Thant said to Sir Paul Gore-Booth some time ago that he had told M. Debre that neither as an individual nor as Secretary General of the United Nations could he possibly approve of secession as a principle. In fact there are two thousand ethnic groups in Africa and 40 African states, and if the principle of secession on a tribal basis were once accepted there would be chaos on the continent. Moreover when we gave Nigeria independence we agreed to put her in a position to defend herself by supplying arms and by training programmes. To have gone back on this support to a Commonwealth country when the first real threat to her integrity developed would have been a betrayal, with serious effects on our relations with other countries in the same position. We still believe, as we did when we granted independence to "one Nigeria", that Nigerian unity is in the interests of all Nigerians (including the Ibos); and that the disintegration of Nigeria would be disastrous both for the Nigerians and for other countries in Africa which face similar strains.

6. Nigeria is potentially, in African terms, a major power. A quarter of the population of Africa live within her borders. It is important and in our interests that it should in the long run be stable, pro-Western, prosperous and moderate. Our present policy is designed to promote this aim.

The Alternatives

7. To change our policy of support for the Federal Government would drive the Federal Government into the arms of the Russians, who first got a foot in the door by supplying military aircraft and bombs, which we refused to supply. Since the summer the Russians have extended their hold, following the Parliamentary debates, which made the Nigerians think that the time might come when they might no longer be able to obtain arms from this country. They are now working assiduously to develop their position in Nigeria. They have just signed an economic and financial agreement. Seven hundred Nigerian students are studying in Russia. A Soviet Military Attaché has just arrived in Lagos. The Russians are planning to open Consular posts in Ibadan and Kaduna and are working hard to develop their interest in the trade union field. If we change course now, the Federal Government will be dependent on mainly the Russians, and will be likely eventually to win the war with their support: the Russians will then secure their goodwill and all that flows from it. If, on the other hand, the Biafrans succeed in holding out or in regaining some of the southern territory, the French will reap the benefit.

8. There are three fields in which we could theoretically take new policy initiatives:

(a) Arms policy
(b) Peace initiative
(c) Relief.
9. **Arms Policy**

For the reasons explained earlier in this paper we think it would be disastrous to change our arms policy. It would be impracticable to secure a multilateral arms embargo in advance of a ceasefire: the French would deny that they have any part in supplying arms and the Russians, who must see themselves as on the point of re-establishing a base for influence in West Africa such as they lost with the fall of Nkrumah, would never forego such an opportunity. Even to offer to negotiate an embargo would greatly harm our relations with the Federal Government without securing any change for the better in Nigeria itself. It would also destroy any prospect of success for a British peace initiative by encouraging Ojukwu to stiffen his terms and undermining our influence with the Federals.

10. We could however take action on (b) and (c) as described below.

### A British Peace Initiative

#### 11. The prospects

Chief Enahoro told the Secretary of State that provided that the principle of "one Nigeria" was accepted, other things were negotiable. In all our negotiations with the Federal Government, they have made it clear that they are not prepared to consider a ceasefire unless this principle is guaranteed; and they maintain that otherwise the Ibo will use the ceasefire to build up their military strength and attack them as they did at the outset of the war as soon as they see a suitable opportunity. Against this background, an unconditional ceasefire in Federal eyes simply establishes Biafra independence.

12. There are no signs of any corresponding flexibility on the Biafran side. In his last major public statement on 28th October Colonel Ojukwu declared that "the war aims of Biafra are very simple: to delay the enemy for as long as possible until world conscience is aroused and then to seek world support in what is essentially a human problem". He claimed then that the Biafran situation had improved, that the fact that international relief operations had been bringing in a great deal of relief items had tended to reassure the Biafran people and had pulled up their morale. He added "peace, indeed everything pertaining to this war depends on one man and one man only; that person is Harold Wilson. It is he who decided for Nigeria whether to continue the war or to seek peace. No matter how reasonable the others are eventually Harold Wilson will have to decide and Nigeria will accept". In this speech however Colonel Ojukwu did say that he would "go anywhere for peace" and added: "a peace conference would always be possible provided Nigeria genuinely wants peace, unfortunately, the indications are not so at the moment".

Mr. Kogbara, the unofficial Biafran representative in London, told the Canadians here on 5th December that the Biafrans have no intention of negotiating at this stage since they wish first to strengthen their position and to regain some more territory. He asserted that Biafran secession could not now be called in question and said that Biafran sovereignty was not negotiable. Anything short of Biafran independence could not be accepted. Concessions would have to come from the Federal Government who he claimed were in a precarious position because of strains between the Yorubas and the North. There must be an unconditional ceasefire. Britain for her part must persuade Lagos to make concessions. The Organisation for African Unity (OAU) was ruled out as a mediator.
13. Despite this rather bleak prospect we must continue to do our utmost to try to bring about a settlement, however difficult it may at present appear; it is also of great domestic political importance that we are seen to be active in this direction. We must not at the same time fall foul of the OAU who are sensitive (as are the Federal Government) about any attempt to take the problem out of African hands and whose attitude on the fundamental issue is robust, as demonstrated by their 33-4 vote at Algiers in September calling for the restoration of peace and unity in Nigeria.

14. There are, in fact two separate initiatives now being prepared, one by the OAU, the other by ourselves. The OAU initiative is being launched by the Emperor of Ethiopia, who has proposed that a fact-finding mission should visit Lagos and Biafra, and that the full OAU Consultative Committee of six Heads of State should then be re-convened. This proposal is reported to have been put both to Gowon and (we believe) to Ojukwu, whose reactions are not yet known.

15. **Scope for a British peace move**

We have no direct contact with Ojukwu and no member of the Government has met him. We do not know whether he is in private as inflexible as he shows himself to be in public, whether it is possible to do business with him and whether he really believes we are as omnipotent as his propaganda claims we are. We do not even know to what extent he himself takes the decisions in Biafra (though we believe that he probably does) and to what extent he is in the hands of a group of advisors. It would be valuable for us to know more about this.

16. We have told General Gowon that it is out of the question for a British Minister to go into Biafra to meet Ojukwu. General Gowon has been sounded when our High Commissioner delivered the Prime Minister’s latest letter and on the basis of his expressed trust in us is prepared to go along with a meeting between a British Minister and Ojukwu outside Biafra though it was clear from what he said that he has deep suspicions about the Ivory Coast and would be very unhappy about any meeting there. Sir David Hunt has suggested to us, Accra or Dakar as possible meeting places. If such a meeting were to result in direct talks between the Federal Government and the Biafrans followed by a settlement we should be seen to have brought about an end to the fighting, if it failed we would be seen to have done our utmost to bring about a settlement. Even if the meeting was inconclusive it would help us to see where Ojukwu really stood and whether there was any prospect of getting negotiations started. At the very least we should be able to demonstrate that it was his obstinacy which was preventing a settlement.

17. If Ojukwu agreed to meet a British Minister we could try to put pressure on him to be reasonable through Nyerere and Kaunda. Mr. Arnold Smith thinks he might be able to help here. Mr. Foley has sounded him about this and if we do go for a meeting we suggest he should be urged strongly to do this.
18. Previous efforts have been spoilt by premature publicity, and the less we say in detail about our plans the better, although it might be expedient to announce at an early stage our intention to try to meet Ojukwu. Foreign and Commonwealth Office Ministers have had contacts with the Roman Catholic Bishop of Port Harcourt and with an official representative from the Ivory Coast; and it is for consideration whether we should follow up these contacts with a definite invitation to Ojukwu forthwith. If this step was taken it would be important for the Emperor of Ethiopia to be told of our plans and assured that we want to gear them in with the OAU. For this purpose a Minister should visit Addis Ababa; and another Minister should visit Lagos to discuss our plans with General Gowon.

19. If we can arrange a Ministerial meeting with Ojukwu our first objective must be to try to bring about a ceasefire on a mutually agreed basis. This we think should be as simple and straightforward as possible (e.g. acceptance by Ojukwu of “one Nigeria” in some form in return for guarantees for the safety and future position of the Ibos). If a meeting with Colonel Ojukwu were to establish either that he was in fact prepared to be reasonable if his face could be saved but would not admit this publicly, or that some new formula could be found which seemed to us to offer the seeds of a settlement, we could consider whether to go back to General Gowon and put this to him. If a meeting between General Gowon and Colonel Ojukwu could be arranged and such a ceasefire were agreed upon we would hope to arrange then for:

(a) the introduction of a Commonwealth peace force;

(b) an immediate international arms embargo (enforced on the ground by outside observers);

(c) the opening up of relief routes to those in need (on this, and on a possible visit by Lord Hunt to Biafra (see below), it might be possible to make progress with Colonel Ojukwu even if no agreement proves possible on the other points).

Relief

20. The immediate need is for a decision on, and announcement of, a new contribution by Her Majesty’s Government to the International Red Cross in response to both the recent Red Cross world-wide appeal for £3.2 million and also public and Parliamentary concern at suffering and starvation in Nigeria. Her Majesty’s Government has already given £270,000 for relief; it is now proposed that we should announce a further contribution of £1 million to the Red Cross. The Treasury has agreed to this provided that corresponding savings can be found in the Ministry of Overseas Development aid programme. The Ministry of Overseas Development has agreed to find £½ million savings and we hope that they can now go on to find the other £½ million. This is still being discussed with the Ministry of Overseas Development. Provided that agreement on the £½ million can be reached, this could be announced next week in Parliament.
21. It might also be worth while to ask Lord Hunt to go back to Nigeria to assess the present relief and starvation position, with the help of the Red Cross. There would be little point in a visit, however, unless Colonel Ojukwu agreed this time to let Lord Hunt or his colleagues visit Biafra. (In July he refused and he would probably refuse again). A new assessment might help the International Red Cross and our own relief effort; and Lord Hunt might be able to exert some constructive influence on Ojukwu - or expose him as the obstacle to effective relief.

Conclusions

22. We have three choices:

(a) to continue as we are doing, merely making an announcement of our £500,000 contribution on relief;

(b) to give way to public and Parliamentary pressure and stop the supply of arms to the Federal Government;

(c) to mount a British peace initiative.

Course (a) by itself is in my view now insufficient in view of the Parliamentary pressure. Course (b) in my view would be disastrous for British interests and would put at risk some £300 million of British investment in Nigeria and 16,000 British subjects in Nigeria; at the very least it would severely damage our relations with the Federal Government and start us down the road towards the loss of our investments. I therefore favour course (c), combined with course (a).

M.S.

Foreign and Commonwealth Office, S.W.1.

9th December, 1968
At the Cabinet meeting held on 29th October (CC(68) 44th Conclusions, Minute 4), when Concorde was discussed, we agreed to accept the criteria proposed by M. Chamant, with the proviso that this should be without prejudice to the right of the parties in international law to terminate where there was a fundamentally altered situation. To reflect this proviso, the Attorney-General was invited to prepare a draft letter of acceptance from me to M. Chamant.

The Attorney's draft was agreed in correspondence with the members of the small Ministerial group which has, in the past, dealt with these Concorde questions and a letter following the agreed form of words was sent to M. Chamant on 12th November. A copy is attached for information.

A. W. B.
Thank you for your letter and enclosure of 27th September. I have discussed this with my colleagues and we accept your proposal.

Our acceptance is of course without prejudice to whatever rights a Government may have on the ground of a fundamental change of circumstances.

I should like to take this opportunity to thank you for what was, I think, a most valuable and helpful discussion and to place on record my appreciation for the courtesy you have shown and for the very careful consideration you have given to this difficult matter.

(Signed) ANTHONY WEDGWOOD BENN

M. Jean Chamant
I invite the Cabinet to approve for publication the attached draft of a White Paper which embodies the proposals for an earnings-related pension scheme approved by the Cabinet at their meeting on 31st October (CC(68)45th Conclusions, Minute 5). I also seek the Cabinet's agreement to the preparation of legislation for introduction next Session.

R.H.S.C.

Department of Health and Social Security, S.E.1.

13th December 1968
DEPARTMENT OF HEALTH AND SOCIAL SECURITY

National Superannuation and Social Insurance

PROPOSALS FOR EARNINGS-RELATED SOCIAL SECURITY

Presented to Parliament by the Secretary of State for Social Services by Command of Her Majesty January 1969

LONDON
HER MAJESTY'S STATIONERY OFFICE

Cmnd.
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NATIONAL SUPERANNUATION AND SOCIAL INSURANCE
PROPOSALS FOR EARNINGS-RELATED SOCIAL SECURITY

INTRODUCTION

1. The Government are proposing the most fundamental changes in social security since the present national insurance scheme was introduced soon after the Second World War.

2. The present scheme is clearly inadequate. Nearly 30 per cent of all pensioners are dependent in some degree on supplementary benefit. The existing flat-rate scheme has failed, despite the effort made in 1961 to shore it up by introducing an element of graduated contribution and pension. And the extent of this failure will grow unless drastic steps are taken to reconstruct the whole system.

3. This White Paper sets out the Government's proposals for replacing the present national insurance scheme by a new scheme of national superannuation and social insurance, in which both contributions and benefits will be related to the earnings of the individual employee. The new earnings-related contributions will mostly be higher than the present-scheme contributions, especially for higher earners. But those who pay the new contributions will earn new and higher personal pensions and other benefits—personal in two particular senses. First, national superannuation pensions will be related to the individual's personal earnings record; the uniform flat-rate pension will go. Secondly, unlike pension rights under most private superannuation schemes, those under national superannuation will never be lost, however many times or for whatever reason the individual changes his job.

4. The new earnings-related pensions and other benefits will only be available to those who have paid the new contributions. Twenty years of new-scheme contributions will be required before the first pensions at the full new-scheme rates are paid to people reaching pension age then. These full rates will normally be adequate, even for those whose earnings have been relatively low, to live on without other means. Contributors who reach pension age during the twenty-year build-up period will earn pensions at intermediate rates. As more and more people draw the higher pensions which they will have earned by their new-scheme contributions, the proportion of pensioners needing supplementary benefit will gradually decline.

5. The new earnings-related pensions will not be available to those who are pensioners already. But existing pensioners will continue to share in the nation's rising living standards, through periodical increases in their pensions. The rate to be paid to present-scheme pensioners when the new scheme starts will be decided by the Government at the time.

6. The income of the new scheme will automatically rise as earnings rise. This buoyancy will help to make possible a new guarantee covering pensions and other benefits already in payment. The Government will be required by law to undertake a review every two years of the main rates of benefits.
in payment, both under the present scheme and under the new. The increases made will, as a minimum, compensate for any rise in prices during the two-year period. The amounts of increases beyond this will be decided by the Government of the day, in the light of the general situation on each occasion.

7. The Government have already introduced, in 1966, earnings-related short-term benefits for the first six months of sickness, unemployment and widowhood. Thus the most fundamental changes now proposed concern pensions and other long-term benefits. They are based upon broad principles formulated in “National Superannuation”, published by the Labour Party in 1967. The Government’s proposals are set out in this White Paper for public comment and debate, and to serve as a basis of consultation with both sides of industry and with organisations having a special interest in these matters. The Government plan to introduce legislation in the next session of Parliament, and to start the scheme as soon as possible afterwards. The target date is April 1972.

8. Part I of this White Paper explains why the present national insurance scheme has failed to provide adequate pensions (chapter 1). Part II sets out the Government’s basic objectives under the new scheme (chapter 2); describes the scheme’s main features (chapter 3); and gives the Government’s reasons for rejecting two alternative approaches to pension reform—greater “selectivity”, and reliance on occupational pension schemes (chapter 4). Part III deals with the State scheme’s relations with occupational schemes (chapters 5 and 6), and Part IV with the financial and economic implications of the new scheme (chapter 7). Appendix 1 contains some further notes on particular aspects of the scheme. Appendix 2 contains a memorandum by the Government Actuary on the finance of the proposals.
PART I

CHAPTER 1

THE NEED FOR CHANGE

The financial position of pensioners today

9. There are about 7,000,000 people(1) drawing national insurance pensions today. Until the middle 1960s, comprehensive information on the financial position of pensioners (apart from those receiving national assistance) was lacking, although independent research had provided evidence(2) that a substantial number were entitled to receive national assistance but had not applied for it. This evidence was confirmed by a survey which was carried out in 1965 by the Ministry of Pensions and National Insurance with the co-operation of the National Assistance Board(3). This survey indicated that while about 1,450,000 pensioners were being helped by national assistance, there were about a further 850,000 who could have qualified for some payment of assistance at that time but had not applied—and of these roughly 300,000 were living appreciably below national assistance standards. The survey also showed that a very large number were only just above national assistance levels. If those levels had been £2 a week higher, about three-quarters of all pensioners would have been within the scope of national assistance.

10. Since 1965 the Government have done much to improve the position of elderly people, by pension increases and in other ways. The new supplementary benefits scheme, which replaced national assistance in 1966, has increased the minimum standard of living guaranteed by the State; and many more people have been persuaded to claim. There are now about 2,000,000 national insurance pensioners dependent in some degree on supplementary benefit—over half a million more than benefited from national assistance. The supplementary benefits scheme has therefore improved the financial position of many of the poorest pensioners. But it cannot help those who are above supplementary benefit levels—even by only a few shillings. The rate rebate scheme which was introduced in 1966 brought extra help in its first year to some 800,000 elderly householders, covering about a million elderly people in all. Some of them were previously living below supplementary benefit levels; others had incomes only slightly higher. The extension of local authority rent rebate schemes has also benefited a

(1) This and other figures quoted in this chapter count a married couple as two, where both are over pension age and retired.
(3) "Financial and other Circumstances of Retirement Pensioners", H.M.S.O., 1966, pp. 83-85. Earlier the Committee of Enquiry into the Impact of Rates on Households had estimated that there were half a million retired householders apparently eligible for national assistance but not getting it—Cmnd. 2582, 1965, para. 370.
number of the poorest. There has thus been a definite improvement in the lot of elderly people most in need. But it is still true that most pensioners have incomes around, or not far above, supplementary benefit levels.

11. Nearly a third of all pensioners are widows. This is the poorest group among the elderly. Nearly half of these widows receive supplementary benefit compared with about a fifth of other pensioners. It is likely that, if the level of supplementary benefit were raised by £1 a week, well over 80 per cent of widow pensioners over 60 would be eligible for it.

12. It is estimated that about half the total income of pensioners comes from national insurance pensions and supplementary benefits, and that their average income is around two-thirds of that of the rest of the population (counting children as a half). The general standard of living of pensioners is therefore substantially below that of the working population.

The Beveridge plan

13. How has it happened that the present scheme of national insurance, founded on the principles of the Beveridge Report(1), fails to provide an adequate income in retirement? In 1948 the Report seemed a great step forward for Britain and a model for many other countries. Our “Welfare State” became more comprehensive than that of any other country. Virtually the whole population was covered by national insurance and by the National Health Service.

14. The Beveridge plan was “first and foremost, a plan of insurance—of giving in return for contributions benefits up to subsistence level, as of right and without means test, so that individuals may build freely upon it”(2). It was based firmly on the contributory principle: benefits had to be earned. “Benefit in return for contributions”, Beveridge wrote, “rather than free allowances from the State, is what the people of Britain desire . . . Payment of a substantial part of the cost of benefit as a contribution irrespective of the means of the contributor is the firm basis of a claim to benefit irrespective of means”(3). It was based also on the principle of insurance in the sense that risks had to be pooled. “Each individual should stand in on the same terms; none should claim to pay less because he is healthier or has more regular employment”(4). Social insurance “implies a pooling of risks except so far as separation of risks serves a social purpose”(5).

15. The aim of the plan was “to make want under any circumstances unnecessary”(6). Beveridge condemned the inadequacy of the benefit provided by earlier social insurance schemes. The remedy he proposed was to improve social insurance “in three directions: by extension of scope to cover persons now excluded, by extension of purposes to cover risks now excluded, and by raising the rates of benefit”(7). . . . “Social Insurance should aim at guaranteeing the minimum income needed for subsistence”(8).

(1) Social Insurance and Allied Services, Cmd. 6404, 1942.
(2) Ibid. para. 10.
(3) Ibid. para. 21.
(6) Ibid. para. 17.
(7) Ibid. para. 12.
(8) Ibid. para. 27.
The need to supplement this minimum with national assistance would eventually be wholly exceptional. While benefits other than pensions would start at a full "subsistence" level, the level of pensions was to be gradually increased over twenty years until eventually they too were adequate for "subsistence".

The national insurance scheme

16. The principles laid down by Beveridge were widely acclaimed at the time and were accepted as the basis for the planning which led up to the National Insurance Act of 1946. Yet it is clear in retrospect that the national insurance scheme, as it has developed over the last 20 years, has failed to achieve Beveridge's main objective—adequate pensions and other benefits by right of contributions.

17. The basic reason for this failure was undoubtedly the acceptance—which was almost unanimous—of Beveridge's recommendation that the scheme should be based on a system of flat-rate contributions and benefits; but there were four other factors—

(a) In the first place there was the increasing proportion of the population over pension age. This had been foreseen by Beveridge, but his method of dealing with it was not adopted. He had envisaged that twenty years after his scheme had started, when the first full pensions would be paid, the taxpayer would contribute nearly half the cost of the scheme. In practice, successive Governments have been reluctant to enlarge the Exchequer contribution to anything approaching this extent, as they considered that the cost of an insurance scheme should fall predominantly on the contributors.

(b) Secondly, the Government decided that existing pensioners should receive the full rate of pension straight away. Thus from 1948 the same level of benefits was given to all—pensioners, the sick, the unemployed and other categories. Furthermore, the decision was taken to offer full pensions to those approaching pension age after only ten years of contributions (to be paid between 1948 and 1958). These two concessions, although inescapable in the circumstances of the time, further weakened the financial foundations of the Beveridge scheme.

(c) Thirdly—and this was only dimly envisaged in the 1946 Act—there was a continuing need to improve the real value of pensions and to keep them moving upwards in step with the rising living standards of those in work.

(d) Fourthly, when the national assistance scheme came into operation in 1948 its levels (including allowances for rent) were in most cases substantially above the level of national insurance pensions and benefits. From the start, therefore, hundreds of thousands of old people needed to supplement their national insurance pension with an allowance from the National Assistance Board. Supplementation had become the rule for those with little or no other income—not, as was Beveridge's ultimate objective, the exception. This situation has persisted ever since.
18. Underlying these factors was the basic weakness of the flat-rate system itself. A flat-rate contribution falls equally on the incomes of rich and poor. It is easily borne by the better-off, but hits the poorest hardest. The flat-rate contribution had to be set, therefore, at a level which the lowest wage-earner could afford. Experience has shown that under this system the level of contribution necessary to provide adequate pensions would place too great a burden on the lowest-paid contributors. As already indicated, the alternative of placing the extra burden on the Exchequer was rejected by successive Governments. Nor were they prepared to adopt the course followed in some other countries of financing adequate pensions out of much higher employers' contributions, because of the unacceptable effect on prices and the cost of living.

19. These were the problems which led to the introduction of the graduated pension scheme in 1961. The immediate purpose of this scheme was to find a new source of contribution income to buttress the ailing finances of national insurance. But the relief it provides to the finances of the flat-rate scheme is inherently limited; and in any case it does not tackle the long-term problem. Further, the grafting on to the flat-rate scheme of a separate structure of graduated contributions and pensions has created extra work for employers and made the system more difficult for people to understand.

20. The pensions provided in return for graduated contributions, combined with the flat-rate pensions, still offer no prospect of achieving the original objectives of the Beveridge plan. The graduated pension scheme fails in two respects: its pensions are left unprotected against inflation and it cannot be adjusted for economic growth. This failure was ensured by the form of contracting out which was adopted (see paragraphs 127 and 128). Employers can hardly be required to increase the occupational pensions of those who have been contracted out, to match improvements in the graduated pensions of the State scheme; and it would not be right to provide higher graduated pensions only for those who have not been contracted out.

21. Meanwhile, the cost of pensions continues to grow, if only because the number of pensioners is rising—at present at a faster rate than the number of contributors. In 1948 there was one pensioner for every 5.6 people at

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (thousands)</th>
<th>As a percentage of the total population</th>
<th>As a percentage of the population of working age (1)</th>
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<tr>
<td>1948</td>
<td>6,448</td>
<td>13.2</td>
<td>20.4</td>
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<td>25.2</td>
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<td>8,649</td>
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<td>9,579</td>
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<td>26.9</td>
</tr>
<tr>
<td>2000</td>
<td>9,300</td>
<td>13.6</td>
<td>23.5</td>
</tr>
</tbody>
</table>

(1) The population of working age comprises men and women over minimum school-leaving age and below pension age (65 for men, 60 for women). The numbers take account of the Government’s decision to raise the school-leaving age in 1972-73.
work. At the end of 1967 there was one pensioner for every 3.6 people at work. By 1980 it is estimated that there will be one pensioner for every 3.2 people at work. As Table 1 shows, between 1967 and 1980 the proportion of the population over pension age is expected to increase from 15.5 to 16.2 per cent. Between the same two years the ratio of people over pension age to the population of working age is expected to increase from 25.3 to 28.3 per cent. Later on, the proportion of those over pension age is expected to decline.

Conclusion

22. Neither the flat-rate scheme by itself, nor the present combination of flat-rate and graduated schemes, has succeeded in providing adequate pensions by right of contribution. For those without occupational pensions or private means, it is not the national insurance scheme which provides security in old age, but the supplementary benefits scheme. The latter is not, as was intended, just a “safety net” for the exceptional case. Instead it is a vast platform which now helps to support some two million people over pension age.

23. Like the original flat-rate scheme as planned in the Beveridge Report, the present scheme is static, and the existing structures of both benefits and contributions have failed in their purpose. The only real way forward, which tackles the problem at its roots as well as having great merits of its own, is to create a comprehensive scheme of fully earnings-related benefits and contributions, as described in the following chapters.
PART II

CHAPTER 2

BASIC OBJECTIVES

24. The scheme now proposed will have the following basic objectives—

(1) Rights to benefit must be earned by the payment of contributions.
(2) Benefits and contributions must be related to the contributor's earnings.
(3) Benefits must normally be sufficient to live on without other means.
(4) Benefits must take into account changes both in price levels and in general living standards.
(5) Women will contribute on the same basis as men and earn similar benefits.
(6) The scheme will be run on the "pay-as-you-go" principle.
(7) The State scheme will work in partnership with occupational pension schemes.
(8) People changing their employment will be legally entitled to have their occupational pension rights preserved.

(1) Rights to benefit must be earned by the payment of contributions

25. It is as true today as when Beveridge wrote his Report that benefit in return for contributions is what the people of Britain desire; and the State has already undertaken obligations to those who have paid contributions, often for very many years. These obligations have to be honoured. The present annual cost of retirement pensions alone is over £1,500 million, which is equivalent to 5s. 3d. on the standard rate of income tax. Even if it were remotely realistic to consider a transfer of this order from contributions to taxation, the Government would still think it wrong for pensions to be wholly tax-financed. People do not want to be given rights to pensions and benefits; they want to earn them by their contributions. Moreover, the level of wholly tax-financed pensions would undoubtedly be low. This is because people are prepared to subscribe more in a contribution for their own personal or family security than they would ever be willing to pay in taxation devoted to a wide variety of different purposes.

26. For all these reasons the Government reaffirm their commitment to the contributory principle. The success of the new scheme must not depend on the willingness of future Governments or future generations of taxpayers to prop it up with an increasing proportion of support from the Exchequer. The same share of the scheme's income will come from the taxpayer as at present, and this proportion should never need to be changed. In every year the major part of the scheme's income must come from contributors and their employers.
Benefits and contributions must be related to the contributor's earnings

27. The principle of relating benefits to the individual contributor's earnings, and so to his standard of living while at work, is already widely accepted in the social security schemes of other countries. Although most people are reconciled to some drop in their living standards at retirement, there is a limit to the reduction which is felt to be tolerable in any particular case. Where earnings at work have been low there may be little, if any, margin for a lowering of standards. Better-off people will have a greater margin, but will have developed a pattern of habits and expectations which, while capable of some adjustment, can only be abandoned at great psychological and social cost. People choose their housing according to what they have been accustomed to afford; they incur, therefore, not only expenditure on such things as rent, rates and repairs, but also other expenditures arising from the community in which they live—for example, on participation in local activities. Retirement is in itself a difficult time of social and psychological adjustment. For all these reasons, pensions need to be related to the previous earnings of the pensioner.

28. About three-quarters of the members of occupational pension schemes are in schemes which are earnings-related. This is clearly the trend and is what more and more people are coming to expect from a good pension scheme. This makes it all the more important that the State scheme itself should be based on the principle of earnings-relation. If it were to be kept basically flat-rate, retired people would continue to be divided into two nations—those with good occupational superannuation, and those with little or nothing to add to their basic State pension except supplementary benefit based on a test of means and needs.

29. The principle of earnings-related benefits means, in turn, that contributions must be earnings-related as well. Payment of higher benefits to those with higher earnings cannot be justified unless they have paid, and are known to have paid, higher contributions to the scheme. Earnings-related contributions also have great advantages in themselves. They enable the total income of the scheme contribution to be increased, and to be made automatically buoyant in that it rises as earnings levels rise. At the same time the burden on contributors with low earnings can be reduced. This has particular importance for people who work at low rates of pay or cannot manage a full working week.

30. Earnings-relation does not mean, however, that the State scheme will be extended to cover the whole of a person's earnings, however large. Many people would consider compulsory State pension provision justified only up to a certain point. As explained in paragraphs 45 to 48, the State scheme will continue to leave sufficient room for occupational pension schemes. Indeed, superannuation is only one way of providing for old age, and some people will prefer to make part of their provision by buying their own homes, or by investment. These are all reasons why there should be a maximum to the State pension and in consequence an annual earnings "ceiling" above which employees are not required to pay further contributions.

Benefits must normally be sufficient to live on without other means

31. It might seem at first sight that, as in some occupational schemes,
pensions under the new scheme should be the same percentage of earnings at all levels up to the scheme's ceiling. But if this percentage were set high enough to ensure adequate pensions for low earners, the cost of applying it uniformly up to the ceiling would be very great, and the contributions needed to finance the scheme would be much too high. State provision at this level for the middle and higher earner would not be justified. The scheme must therefore strike a balance. It must provide adequate pensions at all levels, but without requiring excessively high contributions. This will be achieved by a pension formula which gives greater weight to the contributions paid on the first third of earnings covered by the scheme.

(4) Benefits must take into account changes both in price levels and in general living standards

32. Beveridge could not foresee, or allow for, the great economic changes which have taken place even over the quarter of a century since he wrote his report. A pension scheme spans not just a quarter of a century but the whole of adult life. For the individual there will be some forty to fifty years during which rights to pension are earned, followed by, in many cases, twenty years or more during which pension is drawn. Among risks which must be pooled is the risk that money will change its value. Among needs which must be met is the need for pensioners to share in the nation's rising living standards. In 1908 the 5s. pension was seen as a great step forward. Sixty years later a pension of eighteen times this amount is still not enough to live on without other means.

33. For these reasons the new scheme must meet two separate requirements. First, when pensions come to be awarded they must reflect changes in general earnings levels which have taken place during the contributor's working life. Secondly, pensions in payment must be adjusted regularly for further economic changes which take place during retirement. In both cases adjustment is needed not only for changes in price levels but also for changes in general living standards. (The application of this principle is discussed in paragraphs 68 and 100 to 103). The importance of adjusting for both factors can be seen by looking back at what has actually happened in the past. In 1922 the average earnings of adult men were about £3 a week. In April 1968 they were over £22 a week. Only part of this increase was needed to compensate for rising prices. Earnings of about £10 would buy today what the worker could have bought with earnings of £3 in 1922. Thus while prices have more than trebled over this period, the real purchasing power of average earnings has more than doubled.

34. The new scheme will accordingly provide a "dynamic" pension, earned by the individual's contributions on his earnings over working life but with his record in each year re-valued according to subsequent changes in earnings levels generally, up to the time he reaches pension age. This will ensure that the earnings figure from which his pension is calculated —and so the pension itself—is in line with general living standards at the time he reaches pension age. Further regular adjustments will then be made to the pension during the years of retirement. Those at work are in a position to use their bargaining strength to increase their share of the nation's income. Pensioners do not have the power to protect their interests in this way.
Women will contribute on the same basis as men and earn similar benefits.

35. The new scheme, like the present one, must take account of family needs. Some wives are away from paid work for long periods looking after their families. Furthermore, among married women who will reach pension age in the next twenty or thirty years, even those who have spent substantial periods at work will often have achieved no corresponding insurance record, since under the present scheme they are able to choose not to pay the flat-rate contributions. Pensions and other benefits based on their husband's records will therefore still be needed both for married women and for widows. But at the same time those who do go out to work must be enabled to earn benefits in their own right, and must expect to pay their fair share towards a scheme which pools risks and depends on contributions based on earnings.

36. Under the present scheme, a married woman usually obtains a relatively unfavourable return for such contributions as she has paid. Not only does she normally receive a reduced personal rate of flat-rate sickness or unemployment benefit, but she may gain no extra pension from flat-rate contributions she has paid before, or during, her marriage: if her husband has retired or has died, she receives no pension from her own flat-rate contributions unless they have been sufficient to earn more than the amount for which she qualifies in any case on his record.

37. This is one reason why married women are at present offered an option whether or not to pay flat-rate national insurance contributions. A second reason for the option is to prevent a serious disincentive to their undertaking part-time work. Normally a person who works for more than eight hours a week is liable to pay the full flat-rate contribution. This can take a very large slice out of part-time earnings. Many married women contemplating part-time work would wonder if it was worth while to work at all if, on top of the costs of travel to work, clothing and so on, they were obliged to pay the flat-rate contributions. Under the new scheme, this reason for providing a contribution option will disappear. Married women in part-time employment, like other employees, will be able to contribute according to their earnings. Those who earn little will pay little. It will no longer be necessary to face them with the choice of either paying a contribution which represents an unduly large proportion of earnings, or else opting out of both the contribution and the benefits.

38. The new scheme must recognise that it is now very common for married women to go out to work. In 1931 less than a million did so. By 1951 the number had risen to more than 2½ million. Now it exceeds 4½ million. For the combined pensions of a married couple who have both worked to reflect the standard of living achieved by their joint efforts, they must be based on the earnings of both husband and wife.

39. Under the new scheme women who go out to work, whether they are single, married or widowed, will contribute on the same basis as men, and will earn pensions and other personal benefits in their own right. When they are sick or unemployed, married women will receive the same personal rate of benefit as single men and women with the same earnings. They will also be entitled to have their pensions calculated on their earnings in the same way as single people. But for wives who, for one reason or another,
do not have a substantial record of their own, a pension on their husband's record will continue to be provided. For widows, the right which will be given to older widows to inherit their husband's full rate of earnings-related pension will be one of the new scheme's most beneficial features.

40. Besides its pension provisions, the new scheme, like the present one, will include benefits for widows of working age. These benefits will be based on the earnings record of the husband, and will be available to widows with children and to childless widows above a certain age.

41. It is often suggested that the national insurance scheme should go further and cover either all "fatherless families" or at least the children in such households: this would mean an insurance benefit for divorced, separated and unmarried mothers. "Fatherless families" as a whole, however, not only divide into obvious groups but also show wide variations of need and circumstances within each group. There is a great difference between the needs of an unmarried mother who supports her child alone, and those of another girl who has a stable relationship with her child's father; and there are many possible gradations between these two extremes. Similarly, it is often very difficult to distinguish between temporary separations and marriages that have finally broken down. Again, the father of the children is normally liable to contribute towards their maintenance, while he may or may not be liable for the maintenance of the mother. Whatever the extent of his liability, he may or may not be honouring his obligation. The available information about the numbers, structure and needs of these families is very inadequate.

42. Social security benefits are one obvious method by which fatherless families can be helped by Government action, and many of them are already receiving supplementary benefits. But they are also affected by the law on family matters and the practices of the courts (on which the Graham Hall Committee(1) have recently made a valuable contribution) and by central and local Government policies, especially policies on housing, education and child care. The Government have therefore decided, first, to start a further study(2) of the circumstances of all families with children, paying special attention to one-parent families (whether fatherless or motherless); and, secondly, to appoint a committee to consider the general position of one-parent families in our society and whether there are further methods by which they should be helped. The results of the study mentioned above will be available to the committee, who will meanwhile proceed with other aspects of their work. The appropriate provision for one-parent families will be further considered when the results of the study and the committee's report are available.

(6) The scheme will be run on the "pay-as-you-go" principle

43. As explained in paragraph 52, the new scheme will have two separate funds: a National Superannuation Fund and a Social Insurance Fund. Neither of them will be "funded" in the technical sense in which most occupational schemes are funded (see paragraph 47). Both funds will be run, like the present scheme, on the "pay-as-you-go" principle. This principle

(2) The results of a study made in 1966 were published under the title "Circumstances of Families", H.M.S.O., 1967.
is that current contribution income is used to meet current benefit expenditure—the contribution rates for any period being accordingly fixed to meet the expected expenditure in that period(1). Thus contributions paid into the National Superannuation Fund will be used to finance current pensions expenditure. At the same time, the State will undertake to provide the contributors with pensions, calculated according to the new scheme's provisions, when they themselves come to retire. The cost of these future pensions will in turn be met from contributions paid at the time. Since the new scheme's contributions will be earnings-related, the income they produce will automatically rise with the higher earnings levels which can be expected to accompany economic growth. In this way the new scheme, with its earnings-related contribution income, will be able, without imposing an excessive burden on future generations of contributors, to give pensioners and other beneficiaries not only protection against the effects of price increases but also a share in the general improvement of the nation's living standards. (See chapter 7.)

44. While “pay-as-you-go” financing means that the money currently being contributed for pensions is paid out to the existing pensioners, each contributor will at the same time be building up rights to his or her own personal pension. The new pensions will be personal in the sense of being related to the individual contributor's own earnings record, instead of being at a uniform rate as under the present flat-rate scheme. They will also be personal in that rights earned will be retained regardless of changes in employment, whatever the reason for them. (Universal transferability of pension rights on change of employment is not practicable for occupational schemes—see chapter 6.) Contributors will be given a regular report from the Department of Health and Social Security on their record under the new scheme.

(7) The State scheme will work in partnership with occupational pension schemes

45. As a result of the growth of occupational pension schemes in recent years, described in chapter 5, people will increasingly become entitled to superannuation consisting of two parts—one part from the State scheme and the other from an occupational scheme. For them the State scheme will serve as a foundation for the type of provision which occupational schemes are most suited to provide.

46. Occupational pension schemes have an important part to play in partnership with the State scheme. This partnership cannot consist, however, of a division of the population into two sectors of pensioners, State and occupational. It would be extremely difficult to apply any such division to people who move into and out of occupational schemes at different stages of their working lives. The best foundation for the success of occupational schemes is the existence of a substantial basic compulsory State scheme; and strong arguments can be advanced that, so far from handicapping occupational schemes, the new State scheme will assist their development. (See paragraphs 106 to 109.)

(1) In the early years of the new scheme, the income of the National Superannuation Fund will be somewhat more than will be needed to meet its current expenditure—see paras. 167 to 170.
47. The strength of occupational pensions lies in the principle of savings upon which most of them are built. The contributions paid to private schemes accumulate and earn an element of interest which grows throughout the working life of the member. This interest contributes an important part of the pension when it comes to be paid out. A "pay-as-you-go" scheme operated by the State—whether a nation-wide scheme like national insurance or a sectional scheme such as is provided for civil servants—is not obliged to accumulate a fund except in so far as may be necessary to provide a reserve against any unexpected drop in income or rise in expenditure. Its income from interest accordingly plays a comparatively small part in meeting its benefit expenditure.

48. While a State scheme must have relatively standardised provisions, an occupational scheme can be adapted to meet the special needs of particular occupations and industries. Inevitably the major changes in the State scheme which the Government are proposing will involve readjustment in occupational provision. The extent of the readjustment required can be limited by an arrangement for partial contracting out of the State scheme, as explained in chapter 5. On the other hand, during the past few years the growth of occupational provision may have been held back in some cases while the Government's proposals were awaited. The Government hope that the publication of this White Paper will enable further development in such cases to go ahead.

(8) People changing their employment will be legally entitled to have their occupational pension rights preserved

49. At present there are no universal or comprehensive arrangements for safeguarding occupational pension rights on changes of employment. A Committee of the Minister of Labour's National Joint Advisory Council, which was appointed to report on the economic and social implications of existing arrangements for preservation of pension rights on change of employment, concluded that there were strong social arguments for more extensive arrangements for safeguarding occupational pension rights(1).

50. The Government endorse this conclusion and accordingly intend to impose on all occupational schemes the obligation of offering to their members the right, if desired, to have their pension rights preserved on change of employment. Those employees who prefer to have their contributions returned to them will however still be able to do so. (See chapter 6.)

CHAPTER 3

THE GOVERNMENT'S MAIN PROPOSALS

51. This chapter describes the Government's main proposals. Fuller explanations of certain points are given in Appendix 1. For convenience all cash figures are expressed in pounds, shilling and pence, rather than in the decimal currency which will come into use before the new scheme begins.

THE NATIONAL SUPERANNUATION FUND AND THE SOCIAL INSURANCE FUND

52. At present there is one fund for all national insurance contributions and benefits. Under the new scheme there will be two separate funds: a National Superannuation Fund for pensions, widowhood benefits and death grant; and a Social Insurance Fund for the remaining benefits. Each fund will receive its appropriate share of the total income from contributions, and this share will be used to meet the expenditure on the benefits charged to it (including benefits still in payment from the present scheme). Separate funds will reflect the different natures of the benefits concerned, and will help people to understand the purposes for which they are contributing. Contributions paid into one fund will not be diverted for use by the other. Contributors can therefore know what proportion of their contributions is for national superannuation and what proportion for other purposes, and can be sure that money paid for one purpose will not be used for another.

53. The initial rates of contribution to the National Superannuation Fund will be fixed with the aim of providing an income sufficient to meet the growing pension expenditure for some years after the new scheme begins. After that, the contribution rates will need to be somewhat increased. In the early years the National Superannuation Fund will accumulate a surplus, which will be invested. (See paragraphs 167 to 170 and the Memorandum by the Government Actuary at Appendix 2.)

CONTRIBUTIONS FOR EMPLOYED PERSONS

Employees' contributions

54. The present contributions for employed persons are in three parts. First, there is the flat-rate contribution, which is collected through the stamped card system. Secondly, there is the contribution for graduated pension, charged at 4½ per cent on earnings between £9 and £18 a week. Thirdly, there is the contribution for earnings-related short-term sickness, unemployment and widowhood benefits, charged at ½ per cent on earnings between £9 and £30 a week. The last two contributions are collected together through the PAYE income tax system.

55. Under the new scheme these three contributions will all be abolished, and with them the present system of stamped cards. Instead, all employees
coming within the PAYE system(1) will pay a single type of contribution, collected through that system(2). This contribution will be a straight percentage of all their earnings in each year(3), up to a maximum or “ceiling” of about 1½ times national average earnings(4). At April 1968(5) earnings levels this ceiling would be £1,700 a year (equivalent to about £33 a week); the cash amount will increase over the years as national average earnings rise. In 1968, about 7 per cent of the 22 million employees covered by PAYE were earning £1,700 a year or more, and so would have paid the new contributions on their yearly earnings up to that amount but not beyond. The remaining 93 per cent would have paid the new contributions on the whole of their earnings.

56. The percentage contributions will be paid by employed men and women alike. The percentage rate will be the same for both; and the new contributions (unlike the present flat-rate contributions) will be compulsory for married women and widows who go out to work, on the same basis as for other employees. At the start of the scheme the total contribution rate payable by employees will be 6½ per cent. Of this total, 4½ per cent will be for national superannuation. The remaining 2 per cent will be for social insurance benefits, industrial injuries benefits and a contribution to the National Health Service.

57. To illustrate how the change to the new contributions will affect employees, Table 2 shows the position as it would have been if the new scheme had started in April 1968(5). The table gives, at various earnings levels, the total present-scheme contributions which were paid by employees at that time, their total new-scheme contributions, and the difference between the two. The corresponding figures when the new scheme starts will of course depend on the levels of earnings and of present-scheme contributions at that time.

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(1) Generally speaking, people who are treated as employed persons for national insurance purposes also come within the PAYE system, and vice versa. The possibility of bringing the two systems still closer into line is being examined. For employees with low earnings, see para. 99.

(2) See Appendix 1, paras. 5 to 7.

(3) See Appendix 1, paras. 3 and 4.

(4) Here and elsewhere, “national average earnings” is used, for convenience, to mean the average earnings of adult male manual workers in manufacturing industries and certain non-manufacturing industries and services, as obtained from the Department of Employment and Productivity’s half-yearly enquiries into earnings. The latest available figure (for April 1968) is about £22 5s. a week.

(5) Because of the link with the PAYE system, the new contributions must begin on a 6th April, at the beginning of a “tax year”.
### TABLE 2

**Employees’ contributions**

Total present-scheme and new-scheme contributions (including amounts for the industrial injuries scheme and the National Health Service) at April 1968 levels, paid by employees (not contracted out).

<table>
<thead>
<tr>
<th>Level of weekly earnings</th>
<th>Present scheme</th>
<th>New scheme</th>
<th>Change in contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employee's total weekly contributions (flat-rate plus graduated)</td>
<td>Employee's total contributions (expressed as weekly rate)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td><strong>MEN</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£11 (½ national average)</td>
<td>s.  d.</td>
<td>s.  d.</td>
<td>-</td>
</tr>
<tr>
<td>£16 10s. (½ national average)</td>
<td>17 10</td>
<td>14 10</td>
<td>-3  -</td>
</tr>
<tr>
<td>£22 (national average)</td>
<td>23 8</td>
<td>22 3</td>
<td>-9  -</td>
</tr>
<tr>
<td>£27 10s. (1½ national average)</td>
<td>24 3</td>
<td>29 8</td>
<td>+5  -</td>
</tr>
<tr>
<td>£33 (1½ national average) or more</td>
<td>25 5</td>
<td>37 1</td>
<td>+11 10</td>
</tr>
<tr>
<td><strong>WOMEN</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£8</td>
<td>13 2</td>
<td>10 10</td>
<td>-2  4</td>
</tr>
<tr>
<td>£11</td>
<td>15 4</td>
<td>14 10</td>
<td>-6  -</td>
</tr>
<tr>
<td>£16 10s.</td>
<td>20 6</td>
<td>22 3</td>
<td>+1  9</td>
</tr>
<tr>
<td>£22</td>
<td>22 2</td>
<td>29 8</td>
<td>+7  6</td>
</tr>
<tr>
<td>£27 10s.</td>
<td>22 9</td>
<td>37 1</td>
<td>+14  4</td>
</tr>
<tr>
<td>£33 or more</td>
<td>22 11</td>
<td>44 7</td>
<td>+21  8</td>
</tr>
</tbody>
</table>

The figures for women in column (2) are for those contributing under the present flat-rate national insurance scheme. For married women and widows who have opted not to do so (and who therefore pay only the industrial injuries contribution of 7d. a week) the figures in column (2) would all be 12s. 7d. less; and 12s. 7d. would therefore need to be added to the figures in column (4).

**Employers’ contributions**

58. Employers’ contributions under the new scheme will be calculated as a percentage of their total PAYE payroll, with no earnings ceiling(1). At the start of the scheme, the total contribution rate for employers will be 6½ per cent. Of this total, 4½ per cent will be for national superannuation; this will yield approximately the same total income as the employees’ rate of 4½ per cent, which will apply only up to the earnings ceiling. Employers and employees as a whole will therefore contribute approximately the same to the National Superannuation Fund. Of the remaining 2½ per cent of the employers’ contribution rate, 2 per cent will be for social insurance benefits, industrial injuries benefits and a contribution to the National Health Service; and ¾ per cent has been allowed for the Redundancy Fund (replacing employers’ present flat-rate contributions to that fund). The contribution to the National Health Service will be at the same percentage rate for employers as for employees (in the former case without an earnings ceiling); this is in contrast to the present flat-rate National Health Service contributions, which are much lower for employers than employees.

**The Exchequer contribution**

59. The total Exchequer contribution to the present national insurance scheme is now about £340 million a year; this amounts to about 18 per cent of the combined national insurance contributions of insured persons.

(1) See Appendix 1, paras. 8 to 10.
and employers. Under the new scheme the Exchequer will contribute approximately the same proportion; and the amount this produces will increase automatically as earnings levels rise.

NATIONAL SUPERANNUATION BENEFITS FOR EMPLOYED PERSONS

Retirement pensions

Pension ages and the retirement condition

60. The minimum ages for pension will remain at 65 for men and 60 for women(1). The pensions will still be retirement pensions: that is, until age 70 (men) or 65 (women) they will be paid only to people who have retired from regular employment. Up to these ages there will therefore still need to be an earnings rule, whereby a retirement pension is reduced if the pensioner earns more than a certain amount(2). Those who retire after age 65 (men) or 60 (women) will earn extra pension, the amount of which will take into account both the contributions they have paid after reaching pension age and the amount of pension they have forgone through their later retirement.

Transition to the new-scheme rates

61. Rights to the full new pensions will be built up gradually over the first twenty years of the scheme. Pensions for people reaching pension age during this twenty-year "maturity period" will be at intermediate rates, calculated by combining rights earned by contributions under the present flat-rate scheme with rights earned under the new scheme. Those who reach pension age after the first year of the new scheme will get nineteen-twentieths of the present-scheme rate, plus one-twentieth of the new scheme rate based on their earnings since the new scheme began. Those reaching pension age after the second year will get eighteen-twentieths and two-twentieths respectively. And so on, until the first fully mature new-scheme pensions are paid to those reaching pension age twenty years after the scheme begins. The pensions awarded during the maturity period will remain at intermediate rates; but the rates in payment will be reviewed every two years as described in paragraphs 100 to 103. The transitional arrangements are explained in more detail in Appendix 1, paragraphs 20 to 23.

End of the present graduated scheme

62. When the new earnings-related scheme begins, the present graduated scheme will come to an end; and no further rights will be earned under it. The graduated pension rights already earned up to that date will be preserved, and paid on top of the new-scheme pensions calculated as in paragraph 61. For the reason explained in paragraph 20, the amounts earned under the present graduated scheme will not be covered by the two-yearly reviews of benefit rates.

How new-scheme pensions will be calculated

63. The principles on which the new pensions will be calculated were set out in chapter 2. The following paragraphs show how these principles will be put into practice.

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(1) This important decision is explained in Appendix 1, paras. 11 to 15.
(2) See Appendix 1, paras. 16 to 19.
(i) The main pension formula

64. The pensions earned under the new scheme will, like the contributions, be wholly earnings-related. The fully mature new-scheme pension for a single person will be made up of 60 per cent of his or her earnings up to half national average earnings, and 25 per cent of the remainder up to the scheme’s ceiling. This is the new scheme’s main “pension formula”. At April 1968 earnings levels, the changeover point between the two parts of the formula would have been at earnings of about £11 a week, and the ceiling at earnings of about £33 a week. Both the changeover point and the ceiling will increase as national average earnings rise.

65. Rights built up by contributions under the present flat-rate scheme will be taken into account in calculating new-scheme pensions, as explained in paragraph 61. Contributors with very low earnings under the new scheme, or none at all, will be able, if they wish, to keep up their right to pension at the rate provided for present-scheme pensioners (see paragraph 99).

(ii) Earnings over working life

66. Under the present scheme, both the flat-rate and the graduated pension entitlement depend on the contributions paid during the whole of working life. On the other hand, many occupational schemes calculate pensions on earnings during the last few years of employment. This is appropriate for schemes which cover only salaried workers who can expect to reach their peak earnings just before they retire. But it would not be suitable for many manual workers. In many occupations the earning ability of manual workers drops in their forties and fifties because they can no longer do the more strenuous work, or can no longer work at the same pace. Taking account of all earnings throughout working life is fairer both to people who have been relatively high earners at different periods of their lives and to those who have had to take work of a lower grade at any time for health or other reasons. Retirement pensions will therefore continue under the new scheme to be based on the “whole life” principle. The working life for this purpose will be taken as the period from the beginning of the tax year containing the 19th birthday, up to age 65 (men) or 60 (women).

67. The present flat-rate scheme requires a person to have a minimum life average of 13 contributions a year in order to qualify for any pension (apart from a pension received by a wife or widow on her husband’s record). There will be a corresponding minimum qualifying condition under the new scheme.

(iii) Life average earnings

68. When a contributor’s life average under the new scheme comes to be calculated, his earnings in each year will be re-valued in line with the changes which have since taken place in the level of national average earnings. In this way his earnings will be converted into their up-to-date equivalent at the time he reaches pension age. As a result, for example, a man who had had exactly national average earnings every year of his working life would have his pension calculated on national average earnings as they were at the time he reached pension age, not on the money average of his actual
earnings over life (which might come to only a fraction of this, as the figures in paragraph 33 show). All the necessary recording and calculation will be done by computer.

(iv) Credited earnings for periods of sickness or unemployment

69. If pension were calculated only on actual earnings, adjusted as described above, people with considerable sickness or unemployment might not receive adequate pensions. During periods when sickness or unemployment benefit is paid, and in some other circumstances, contributors' records will therefore be credited, for the purpose of calculating their future benefit entitlement, with earnings of, normally, half the national average (that is, about £11 a week at April 1968 levels). This will correspond to the full 60 per cent part of the pension formula, as described in paragraph 64. Further details of the arrangements for crediting earnings are given in Appendix 1, paragraphs 24 to 26.

(v) Examples of new-scheme pensions for a single person

70. Under a dynamic earnings-related scheme of this kind, it is not possible to foretell what a person’s eventual pension will amount to in cash terms. This will depend both on his own earnings record over working life and on changes in national average earnings during that time. Any example expressed in cash terms can therefore do no more than give a general idea of how the pension calculation will work in practice.

71. It is not possible to forecast what the level of national average earnings will be when the new scheme starts, or over the following years. The results produced by the pension formula are therefore illustrated in Table 3 by reference to the actual earnings levels in the recent past. The table gives some examples of fully mature new-scheme pensions (see paragraph 61) worked out at the earnings levels which existed in April 1968(1). These examples therefore illustrate the pensions which contributors reaching pension age at that time would have received if the new scheme had started twenty years previously, in April 1948. Figures are given for contributors with life average earnings of five different proportions of the national average(1), as shown in column (1). The cash amounts of these earnings at April 1968 levels are in column (2). The corresponding weekly pension amounts which the new scheme's 60 per cent/25 per cent pension formular would produce for a single person are in column (3). The figures in this column represent the pension at the time of award, and show the effect of the greater weight given to earnings up to the changeover point of the formula (see paragraph 31). For married couples the pensions would be higher by at least £2 16s. (the wife's flat-rate pension on her husband's record), with the amount above this depending on the wife's own record, as explained in paragraph 72. There will continue to be flat-rate increases for dependent children. Column (4) of the table shows for comparison the total present-scheme pension, flat-rate plus graduated, for a single man in April 1968. (The present graduated pension scheme started in April 1961; the amounts of graduated pension shown therefore represent the totals earned over that scheme's first seven years.)

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(1) See footnote on page 20.
TABLE 3

Fully mature new-scheme pensions for a single person, illustrated at April 1968 earnings levels, and compared with the present-scheme pensions payable at that time

<table>
<thead>
<tr>
<th>Proportion of national average earnings achieved by pensioner during working life</th>
<th>Col. (1) at April 1968 earnings levels</th>
<th>Fully mature new-scheme pension at April 1968 earnings levels</th>
<th>Present-scheme pension in April 1968</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>£ s.</td>
<td>£ s.</td>
<td>£ s.</td>
<td>s.</td>
</tr>
<tr>
<td>£ s.</td>
<td>s.</td>
<td>£ s.</td>
<td></td>
</tr>
<tr>
<td>½ (changeover point in the pension formula)</td>
<td>11 -</td>
<td>6 12</td>
<td>4 10</td>
</tr>
<tr>
<td>⅔</td>
<td>16 10</td>
<td>8 -</td>
<td>4 10</td>
</tr>
<tr>
<td>1 (average)</td>
<td>22 -</td>
<td>9 7</td>
<td>4 10</td>
</tr>
<tr>
<td>1⅓ (the scheme's ceiling)</td>
<td>27 10</td>
<td>10 15</td>
<td>4 10</td>
</tr>
<tr>
<td>33 -</td>
<td>12 2</td>
<td>4 10</td>
<td>9</td>
</tr>
</tbody>
</table>

(a) Earnings and pension figures are given in weekly rates, with earnings rounded to the nearest 10s. and pensions to the nearest shilling.

(b) The graduated pension amounts shown in column (4) are those for a man, whose earnings are assumed to have remained throughout at the proportion of the national average shown in column (1).

The new deal for women

Pensions for married women

72. A married woman's retirement pension will be calculated in whichever of the following ways is more favourable for her—

1. A pension based on her own life average earnings and calculated from the main 60 per cent/25 per cent pension formula in exactly the same way as for men and single women (see paragraphs 64 to 71).

2. A flat-rate pension on her husband's record(1), as under the existing scheme (the present rate being £2 16s. a week), plus an earnings-related addition of 25 per cent of her own life average earnings.

73. At the start of the new scheme, calculation (2) will be better for the great majority of pensioner wives; but the build-up of married women's earnings records under the new scheme will gradually increase the numbers for whom calculation (1) is more favourable. Under either calculation all the wife's contributions paid after the new scheme begins, whether before or during marriage, will bring her extra pension. For dependent wives under age 60 a flat-rate addition to the husband's retirement pension will be paid, as under the existing scheme (the present rate being £2 16s. a week).

74. The new earnings-related pensions for married women, like those for single people, will build up gradually, over the first twenty years of the scheme, to the fully mature new-scheme rates. Under calculation (1) in paragraph 72, the method will be as described in paragraph 61. Under calculation (2), the earnings-related addition for a married woman reaching pension age after the first year of the scheme will be one-twentieth of the

(1) See Appendix 1, paras. 27 and 28.
full 25 per cent rate (calculated on her average earnings since the new scheme began); and the proportion will rise, by annual steps of one-twentieth, until the fully mature new-scheme rate is paid to those reaching pension age twenty years after the scheme begins.

**Women widowed after reaching age 60**

75. A wife whose husband dies when she is aged 60 or over will receive whichever of the following pensions is more favourable for her—

1. The same personal rate of retirement pension as her husband was receiving, or had earned, when he died. If he died before reaching age 65, her pension will be based on his life record of average earnings, with the years he had still to live before reaching age 65 filled in by crediting earnings at, normally, one half the national average.

or 2. A pension based entirely on her own life average earnings and calculated from the main 60 per cent/25 per cent formula in the usual way.

**Younger widows**

1. **Widow's allowance**

76. There will continue to be an earnings-related widow's allowance for the first six months of widowhood. As now, this will be based on the husband's earnings in the previous tax year. The method of calculating the allowance will be revised to take into account the abolition of flat-rate contributions and benefits.

2. **Widowed mother's allowance**

77. A widow who has a child under 19 in her family will receive an earnings-related widowed mother's allowance. This will be calculated in the same way as the pension in paragraph 75(1), with the addition of a flat-rate allowance for each dependent child. As at present, the amount of this allowance will be higher than child allowances generally.

3. **Widow's pension**

78. An earnings-related widow's pension will be paid to women who are widowed after reaching age 50, and also to widows who are aged 50 or over when their entitlement to widowed mother's allowance ceases. This pension will be calculated in the way described in paragraph 75(1). Any contributions of the widow after her husband's death will add to the eventual retirement pension which she will receive on his record. Alternatively, if better, her retirement pension will be based entirely on her own life average.

79. At present a woman who is widowed under age 50, and has no child under 19 in her family, normally receives no pension at all until she reaches age 60. The same is true of a widowed mother whose youngest child reaches 19 before she is 50. A difference of a few days in the date of the husband's death or in a child's nineteenth birthday can decide whether for the next ten years a widow receives a pension at the full rate or nothing at all.

(*) See Appendix 1, paras. 24 to 26.
80. Under the new scheme, a woman who is between age 40 and 49 when she is widowed, or when her entitlement to widowed mother’s allowance ceases, will receive, while she is under age 60, an earnings-related widow’s pension. This will be calculated in the same way as in paragraph 78 but scaled down according to her age at that time, with a minimum pension corresponding to about £1 10s. a week at present-day levels. Her eventual retirement pension will take into account both her husband’s earnings record and any earnings of her own after his death. Alternatively, if better, her retirement pension will be based entirely on her own life average.

81. Existing widows will be able to qualify for a scaled-down flat-rate pension under the new arrangements, if they would have satisfied the new qualifying conditions at the time when they were widowed or when their entitlement to widowed mother’s allowance ceased.

Transitional arrangements for widowhood benefits

82. The transitional arrangements for the widowhood benefits described in paragraph 77 to 80 will be similar to those for retirement pensions (see paragraph 61), with a gradual build-up, over the first twenty years of the scheme, to the fully mature new-scheme rates.

Pension provision for divorced women

83. Under the present flat-rate scheme, a woman who becomes divorced under age 60 can have her retirement pension calculated by taking over her ex-husband’s contribution record for the period of their marriage, if this is to her advantage. Under the new scheme she will be able to take over his record for the period before as well as during the marriage.

84. A woman who becomes divorced after reaching age 60 can at present receive, on her ex-husband’s insurance, the full amount of the flat-rate pension for a single person. A corresponding right will be given under the new scheme.

Pension provision for separated wives

85. The present scheme gives a separated wife cover for retirement pension and widowhood benefits on her husband’s insurance, whether or not she herself has paid contributions. Her entitlement to these benefits on her husband’s record will continue under the new scheme. Her rights will be made more valuable by the improvements in married women’s pensions and widowhood benefits described in paragraphs 72 to 80.

Death grant

86. Death grant, which is paid to help with funeral expenses, will continue to be at a flat rate. The grant will be extended, on the insurance of close relatives, to cover the deaths of handicapped people who were living with them and who had never been able to work and contribute.

SocIal INSURANCE BENEFITS

Short-term sickness benefit

87. Under the present scheme, the basic flat-rate sickness benefit can be supplemented, for up to six months, by an earnings-related addition based on the employee’s earnings in the previous tax year. In the new scheme
there will be a single earnings-related short-term sickness benefit, also payable for up to six months. There will continue to be higher rates for married men than for single people, and additions for children. Married women contributors who are themselves sick will receive the same personal rate of benefit as other contributors (instead of a lower rate as at present). During periods of benefit, earnings will be credited in the sick person’s record, as described in paragraph 69. Further details of the new arrangements for short-term sickness benefit, including the benefit formula to be applied to the employee’s earnings, will be announced separately.

Long-term sickness benefit

88. After short-term sickness benefit ends, there will be a new earnings-related long-term sickness benefit. This will not be restricted to cases of permanent or prolonged illness, but will be the rate of sickness benefit paid after entitlement to the initial short-term rate has ended. It will therefore often be paid for comparatively short periods. For those who are not able to return to work it will be in effect an invalidity pension, which will continue until pension age and will then be replaced by retirement pension.

89. The rate of long-term sickness benefit will be calculated from the contributor’s life average earnings in the same way as retirement pension (see paragraphs 64 to 69). The years remaining up to age 65 (men) or 60 (women) will be filled in by crediting earnings at, normally, one half the national average(1). Flat-rate increases will be paid for a dependent wife and children, as under the existing scheme. The transitional arrangements will be similar to those for retirement pensions (see paragraph 61), with a gradual build-up, over the first twenty years of the scheme, to the fully mature new-scheme rates.

Attendance allowance for the very severely disabled

90. Among those who have been ill or disabled for some time, there are a number with a handicap so severe that it makes them wholly or largely dependent on help from other people in coping with the ordinary functions of daily living. Where they are being cared for at home, the strain on their families can be considerable. Many of them prefer to remain in their own surroundings rather than go into a hospital or home; and many families are prepared to take on the extra burden of caring for a severely disabled relative.

91. A new attendance allowance will therefore be introduced for very severely disabled people. Wives who have not themselves been paying contributions will be able to receive the allowance on their husbands’ insurance. The allowance will be at a flat rate, and will be available to people who are already disabled when it is introduced. A corresponding allowance will be provided under the supplementary benefits scheme; this will be of special help to those, such as the congenitally disabled, who have no contribution record and few resources of their own. The Government Social Survey is at present conducting a nation-wide survey of the chronic sick and disabled, sponsored by the Department of Health and Social Security. This is designed, among other things, to establish the facts which are needed before decisions are taken on the precise details of the new allowance.

(1) See Appendix 1, paras. 24 to 26.
Unemployment benefit

92. An earnings-related benefit, corresponding to the new short-term sickness benefit (see paragraph 87), will be paid for up to six months of unemployment. It will be followed, as under the present scheme, by a flat-rate benefit for up to a further six months.

Other benefits

93. Consequential changes in other insurance benefits, including maternity benefits and guardian’s allowance, and in industrial injuries benefits, will be announced separately.

OCCUPATIONAL PENSION SCHEMES

Partial contracting out of the new scheme

94. Employees in occupational pension schemes can be contracted out of the present State graduated pension scheme, but not out of the basic flat-rate scheme. The Government are confident that fair and workable arrangements can be made to allow employees in occupational schemes to be contracted out of part of the new retirement pension provisions. Under such arrangements the employee’s and employer’s contributions to the new scheme would be reduced, and part of the employee’s retirement pension would be provided instead by the employer through the occupational scheme. This subject is fully discussed in chapter 5.

Preservation of occupational pension rights

95. At present many employees in occupational pension schemes forfeit part or all of their pension rights when they leave a job. In future those who have satisfied certain minimum qualifying conditions will be given the right to have the amount of occupational pension which they earn preserved for them until they reach the age for drawing it. Those who prefer to have their contributions returned to them, when they change their employer, will still be able to do so. Further details are given in chapter 6.

Consultation on occupational pension matters

96. The Government will discuss the matters referred to in paragraphs 94 and 95 with representatives of occupational pension schemes and others specially interested in these subjects. In its role as employer, the Government will likewise be consulting the organisations representing employees in the public services.

THE SELF-EMPLOYED

97. Self-employed people are not included in the present graduated pension scheme. In principle their new-scheme contributions and benefits, like those for employees, should be related to their earnings. But thorough study of the problems has shown that this is not practicable, at least for the time being (see Appendix 1, paragraphs 29 to 32). The self-employed will therefore be brought into the new scheme by contributing to it at a flat rate. Someone with a mixture of employment and self-employment during his working life (as most self-employed people will probably have) will still have a single integrated record.
98. Self-employed men and women—including married women and widows, who at present can choose whether or not to pay contributions—will contribute alike. Their contributions will count for benefits (except, as now, unemployment benefit and industrial injuries benefits) at the level earned by employees with half national average earnings. This will correspond to the full 60 per cent part of the pension formula as described in paragraph 64. As with employed persons, there will be additional provision for wives and children. On this basis the total new-scheme contributions for a self-employed person would have come to about £1 7s. a week at April 1968 levels, of which about £1 1s. a week would be for the National Superannuation Fund. If the scheme had been introduced at that time, this would have involved increases of about 6s. a week for men and just under 10s. a week for women (or the full £1 7s. a week for those self-employed married women and widows not paying the present-scheme contributions). Contributions of this size would be a very heavy burden on those with low earnings. For this reason, the new self-employed contributions will be compulsory only for those earning more than half national average earnings (that is, about £11 a week at April 1968 levels). Those earning less than this will however be able to pay self-employed contributions if they want to; alternatively, they will be able to contribute voluntarily for pensions and certain other benefits (see Appendix 1, paragraphs 36–37). Ways in which the self-employed will be able to pay their contributions under the new scheme are being examined.

LOW EARNERS AND NON-EARNERS

99. Employees whose earnings are too low to bring them within the PAYE system (at present this means those earning less than £5 5s. a week) will not be compelled to pay contributions under the new scheme. Nor will people who do not earn at all. There will however be arrangements for voluntary contributions to be paid to bring a person’s record for any year up to the level which would produce a pension at the standard rate then in force for present-scheme pensioners (at present £4 10s. a week for a single person, £7 6s. for a married couple). Further details are given in Appendix 1, paragraphs 33 to 37.

REVIEWS OF PENSIONS AND OTHER BENEFITS IN PAYMENT

100. In the past there has been no proper system for increasing benefits already in payment. The intervals between increases have varied considerably, and the changes have rarely come into effect at what is clearly the best time of year, before the beginning of winter.

101. Under the new scheme the Government will be bound by statute to review every two years the main rates of national insurance and industrial injuries benefits in payment. The reviews will cover present-scheme(1) as well as new-scheme pensions and other benefits. The increases, which will always come into operation in the autumn, will compensate for any rise in price levels since the previous increase. But this inflation-proofing is only a minimum. Pensioners and other beneficiaries will also continue to share in the nation’s rising living standards. The actual amount of improvement

(1) Other than the present graduated pensions, for the reasons explained in para. 20.
on each occasion, beyond the inflation-proofing, must be left for decision by the Government of the day, which will need to take into account such factors as movements in earnings levels, changes in the standard of living of the community as a whole, and the general economic situation.

102. The Government propose that the benefit increases should be brought about by regulations, without the present need for a new Act of Parliament on each occasion.

103. As in the past, war pensions and allowances will be increased at the same time as other benefits; but no new statutory provision is needed for this since they are not governed by Act of Parliament. Supplementary benefits will be dealt with along with the main benefits in each biennial review; and they can always be increased by regulations.

TIMING OF THE SCHEME'S INTRODUCTION

104. The Government hope that the new scheme will be thoroughly discussed, in Parliament and elsewhere, before its details are finally settled; and they will consult organisations with special interests in this field. After taking account of these consultations, they intend to introduce the necessary legislation in the 1969-70 session of Parliament. Because of the link with the PAYE system, the scheme must start at the beginning of an income tax year, in April. The target date is April 1972.
CHAPTER 4

THE ALTERNATIVES

105. Before putting forward the proposals in the previous chapter, the Government have considered two other possibilities which are sometimes advanced as alternatives to extending the national insurance scheme: greater "selectivity", and reliance on occupational pension schemes.

Greater selectivity?

106. It is often suggested that, if national insurance pensions were to be kept at their present level, or were to be increased only to compensate for rising prices, greater help could then be given to the poorest pensioners. Giving larger pensions to those who do not "need" them is said to be wasteful. It is claimed that by being more selective the Government could reduce the burden of public expenditure. This amounts to suggesting that the present gap between contributory pensions and supplementary benefit should be widened, rather than narrowed.

107. In the Government's view there are compelling reasons why the main provision for social security should be through contributory benefits, rather than—as may be suitable in some other fields, such as rate rebates—through reliance on means-testing. The chief reasons are—

(1) A further widening of the gap between the levels of pensions and supplementary benefits could produce an enormous increase in the number of pensioners needing supplementation. As indicated in paragraph 9, in 1965 a widening of the gap by no more than £2 a week would have meant that something like three-quarters—that is, nearly five million—of all pensioners would have been within the scope of means-tested supplementation. This would be a disastrous step in the wrong direction. There is a widespread and deep-seated feeling that, after a lifetime of work, people should receive a pension which is not reduced because they have other income or savings. The figures just quoted show that by far the greater part of the expenditure on pension increases goes to people with low incomes.

(2) No means-tested scheme will be used by all those who are entitled to claim. The supplementary benefits scheme has shown that, with enlightened design and humane administration, much can be done to overcome ignorance or reluctance; but there will always be people in need who do not come forward. Either they are not reached by publicity about the scheme or, having treasured their independence throughout their working lives, they are reluctant to admit to outsiders, or sometimes even to themselves, that they find it difficult to make ends meet. This difficulty cannot be resolved by any magic of the computer, as some people have suggested. A computer can process efficiently and rapidly such facts as are fed into it. But it cannot make calculations on facts which have not
been collected. Inevitably those claiming supplementary benefit must answer what are commonly regarded as highly personal questions; and this is precisely what a minority are reluctant to do.

(3) Increased reliance on supplementary benefit in providing for old age would also have damaging effects on private savings and on occupational pension schemes. This point has been well expressed in a recent report by the State Pensions Committee of the National Association of Pension Funds:

"Employers are deterred from setting up schemes for lower-paid workers, if they see that much of the benefit to their employees will be counterbalanced by a reduction in the pensions provided from a State system to which they have contributed on the same basis as other less generous employers. Employees are reluctant to contribute to occupational schemes if they fear that a State means test will deprive them of much of the resulting benefit. Many employers are already finding that the means test for supplementary benefits under the present social security system is making it difficult for them to persuade their lower paid employees to join their pension schemes."\(^{(1)}\)

108. The undesirable effects on the development of occupational schemes, and on savings generally, would occur whatever method of applying a means test was used. This alone rules out in this field any proposal based on the idea of a "negative income tax", which is sometimes put forward as a method of means-testing which is automatic and all-embracing, and therefore not open to social objections. But in fact a negative income tax would by no means be easy to operate. It is sometimes assumed that the Government already possess the relevant facts about people's requirements and current resources, and that all they need to do is bring together in a computer the different pieces of information held by different Departments. But this is far from true. For example, the Government do not have details of rents. Many elderly people with low incomes do not make a return to the Inland Revenue and can hardly be compelled to do so. The tax returns made by others cover income in the *previous* year—whereas up-to-date information would be essential if people's *current* needs were to be properly met.

109. All this reinforces the Government's determination to strengthen and develop the contributory principle in social security. People cannot be expected to contribute willingly for a pension unless it is worth having. The contributory principle would break down if many people had reason to believe that the Government would in the end pay the same amount whether they contributed or not.

*Occupational pension schemes—an alternative for the longer term?*

110. The second suggestion is that occupational pension schemes are becoming so widespread that eventually they could meet, or very nearly meet, all need for pensions above a low minimum provided by the State scheme. Some would go even further, seeking to combine this with the "selectivist" approach. They argue that the adoption of greater selectivity

\(^{(1)}\) "The Future Relationship of State and Occupational Pensions", published by the National Association of Pension Funds, September 1968, p. 22.
in State pensions could pave the way for the ultimate withdrawal of Government from the field of provision for old age, except for a residual means-tested scheme. The State, it is suggested, could thus avoid incurring any pension obligations for those now starting work, and the savings could be split between reductions in public expenditure and improvements in other services which only the State can provide.

111. Would it ever be possible for all or virtually all old people to receive a pension from an occupational scheme or, in the case of the self-employed, from an approved pension plan? And would such pensions be enough, when added to a basic State pension insufficient by itself, to ensure adequate total provision for their old age?

112. During recent years the number of employees in occupational pension schemes has considerably increased: it is now over 12 million. In total the schemes have been making a major contribution to national saving. In 1967 their total income from contributions was about £1,265 million and their expenditure about £935 million. The number of people receiving occupational benefits in old age was about two million, although, as Table 4 shows, the amounts provided were often small.

### Table 4

#### Amounts of pension payable to occupational pensioners, 1967 (estimated)

<table>
<thead>
<tr>
<th>Weekly amount of pension</th>
<th>Proportion of pensioners per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under £1</td>
<td>20</td>
</tr>
<tr>
<td>£1 to £2</td>
<td>20</td>
</tr>
<tr>
<td>£2 to £3</td>
<td>10</td>
</tr>
<tr>
<td>£3 to £4</td>
<td>10</td>
</tr>
<tr>
<td>£4 and over</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

113. The present coverage of occupational schemes varies considerably among different groups of the population. While about 75 per cent of male non-manual employees are in a scheme, the coverage among male manual workers is probably not much more than 50 per cent. Some 75 per cent of men employed in the public sector are in occupational schemes, compared with 60 per cent of men in the private sector. The proportion of employed women who are in schemes is 25 per cent.

114. There are inherent limits to the ultimate expansion of occupational pensions. First, many of the people who have no occupational scheme work for small firms: there are about a million employers of all kinds in Britain, but less than 70,000 active pension schemes. Small employers are less equipped to have a scheme than large employers. In particular, there are many thousands of small firms—in engineering, in the distributive, building and other trades—where the employer could reasonably claim that his operation is on too small a scale, and his labour turnover too high, to justify an occupational pension scheme.
115. Secondly, the benefits of occupational schemes tend, like wages and salaries, not to be adjusted to family needs. Perhaps two-thirds of the occupational pensions at present being paid to men will die with them; and about a third of men at work today are in schemes giving no permanent widowhood pension cover once they have retired. Usually a man can make provision for his wife only by cutting into his own pension. Few wives spend sufficiently long at work to earn occupational pensions of their own.

116. It is estimated on present trends that even by the turn of the century about a third of retirement pensioner households will still have no occupational pension at all. It would be impracticable to attempt to close this gap in coverage by making occupational schemes compulsory: the control of a universal network of private schemes, even if one could be set up, would create formidable administrative and financial problems both for the Government and for the schemes themselves.

117. Finally, growth in the coverage of occupational schemes, and improvements in the levels of pensions which they award, will still leave the problem of maintaining the value of occupational pensions once they are in payment. Not all schemes have found it possible to increase pensions after retirement; and such increases as are given are often haphazard and may be inadequate. At most they do no more than compensate for rising prices. Thus, while many schemes provide pensions which are adequate at the time of retirement, there is seldom any guarantee that their value will not be eroded as time goes on. Some old people are therefore faced with the prospect of steadily diminishing resources at the same time as their capacity to improve their circumstances is also getting less.

118. It is no criticism of occupational schemes to draw attention to needs which, by their nature, they cannot be expected to meet. Their purposes are different from those of a social security scheme. They can add to the pensions of many; but they cannot be a substitute for an adequate State scheme. If adequate benefits are to be provided for the irregularly employed, the chronic sick and widows, and if additions to pensions are to be made for family responsibilities such as the care of wives who have had long periods away from employment, this is clearly a task for the State scheme and not for occupational schemes. Moreover, if there is to be a pension which is guaranteed to maintain its real value, this also is a task which the State scheme can fulfil but which raises great difficulties for occupational schemes. Occupational schemes cannot be expected to cover all needs. The Government's aim is to allow them to fulfil their essentially complementary role, as explained in the following two chapters.
PART III
CHAPTER 5
THE NEW STATE SCHEME AND OCCUPATIONAL SCHEMES

The role of occupational pension schemes

119. The new State scheme described in chapter 3 will bring considerable extra benefit cover to contributors who are members of occupational pension schemes, as well as to those who are not. Reference has already been made to the impressive growth in occupational schemes in recent years. It is estimated that at the end of 1967 there were about 65,000 active pension schemes, excluding arrangements for individuals, compared with about 37,500 in 1956. The membership of such schemes increased from about 8 million in 1956 to over 11 million in 1963 and to over 12 million in 1967. Thus half of all employed persons, including about two-thirds of all employed men, are now members of occupational pension schemes (and this takes no account of those employees who will become members of their employer's scheme as soon as they have satisfied any qualifying conditions for membership). Of the total membership, 8 million are employed in private industry and 4 million in the public sector (central and local government and the nationalised industries). The Government welcome this growth in occupational pension provision and recognise the important role which occupational schemes now play, not only in provision for old age (and to some extent for widowhood and sickness) but as a source of the savings needed to finance investment.

120. The new State scheme must provide comprehensive benefits for the population as a whole—including in particular provision for families and a guarantee that the real value of pensions will be maintained after award—which it would be difficult, if not impossible, for funded occupational schemes fully to reproduce. It would be still more difficult to rely on occupational schemes being able to match any increases in the level of State pensions in payment which went beyond maintaining their real value. But occupational schemes can be individually framed, in a way that the State scheme cannot, to meet the special requirements of particular industries and employments. They can in this way both complement and supplement the universal State provision. Membership of a good occupational scheme is commonly a highly valued feature of an employment.

121. The contribution and investment income of occupational schemes has increased over the years more than their expenditure on benefits, and there has been a steady increase in accumulated funds. Table 5 shows the estimated total income and expenditure of occupational schemes for the years 1963 and 1967, based on the results of special surveys for those years conducted by the Government Actuary(1).

TABLE 5
Finance of occupational pension schemes (£ million)

<table>
<thead>
<tr>
<th></th>
<th>Contribution income (1)</th>
<th>Investment income (2)</th>
<th>Expenditure (benefits and expenses) (3)</th>
<th>Net growth of funds (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>...</td>
<td>...</td>
<td>615</td>
<td>560</td>
</tr>
<tr>
<td>1967</td>
<td>...</td>
<td>...</td>
<td>810</td>
<td>810</td>
</tr>
</tbody>
</table>

The final column of the table, indicating the difference between the total income of the funds (columns 1 and 2) and the expenditure (column 3), shows the savings made through schemes. These savings account at present for more than one-third of total personal savings and more than a tenth of total net savings.

122. The new funds accumulated in 1967 by self-administered schemes (that is, schemes other than those conducted by insurance companies) were invested as follows: 12 per cent in United Kingdom Government and local authorities securities; 59 per cent in company securities; and 29 per cent in investments of other kinds. These schemes account for about two-thirds of all occupational pension funds, from which it can be seen that the funds occupational schemes are administering play an important financial role, helping to finance investment by private industry as well as investment by public authorities and other bodies.

123. Personal savings are of economic importance because, by limiting consumption, they permit the expansion of investment needed for growth and productivity to be made without inflationary pressure. Growth in occupational pension funds has in the past made an important contribution to these savings. This growth derives from four factors: growth in membership; expansion in the scale of provision, resulting in higher contributions (as a proportion of earnings) towards more generous future benefits; the extent to which new schemes are still at the stage when funds are being built up while there is little expenditure yet on benefits; and the fact that when incomes are rising current contributions relate to higher earnings than current pensions, which are based on former earnings.

124. The growth in the number of members may have slackened recently. There is however still room for a further increase in membership, which is expected to occur particularly among women; but as coverage is now fairly wide, future growth may well be smaller than in the recent past. Contribution income is continuing to grow both because of rising earnings and because of the increasing scale of provision; and some further expansion can be expected. The effects of the recent rapid expansion will also be felt for a good many years to come. Thus it is likely that occupational pension schemes will continue for some time to provide an important source of savings.

125. In contrast to most occupational schemes, the State scheme will continue to be financed on the pay-as-you-go principle (see paragraph 43).
The contributions to it will therefore largely be used to finance current payments of benefit and will not contribute in the long run to net savings in the same sense as funded occupational schemes do while they are expanding. From the point of view of the national economy, therefore, occupational schemes and the State scheme are complementary to each other.

126. For all these reasons, there is no question of the new State provision replacing occupational schemes. On the contrary, its structure will leave ample scope for their continued development. Occupational schemes have an important part to play alongside the new State scheme, and in its widest sense national superannuation must embrace occupational as well as State pensions. As has been made clear in chapter 2, the Government's aim is that of working in partnership. It is against this background that the need to place a ceiling on the earnings to which employees' contributions to the State scheme are related (see paragraph 30), and the desirability of allowing some contracting out of the new scheme, have to be considered.

The present system of contracting out

127. Under the present national insurance scheme, no contracting out is allowed from either the short-term benefits or the basic flat-rate pension. The present scheme's only contracting-out provision applies to the graduated additions to the flat-rate pension which were introduced in 1961. At that time graduated contributions applied to that part of a person's earnings lying between £9 and £15 a week. An employer was allowed to contract out those of his employees who were qualifying under an occupational scheme for at least as much pension on retirement as they could have obtained by contributing at the maximum earnings level—£15 a week—under the State graduated scheme. Contracted-out employees and their employers paid no graduated contributions but became liable for higher flat-rate contributions than other employees and employers. If an employee who had been contracted out left his employment without being guaranteed the necessary occupational pension, his employer had to buy him back into the State scheme by paying the appropriate balance of graduated contributions.

128. The maximum level of earnings taken into account under the graduated scheme went up from £15 to £18 a week in 1963, and the amount of pension which contracted-out employees had to be guaranteed from their occupational schemes was increased correspondingly.

129. In 1966, the introduction of earnings-related short-term benefits by the present Government made it necessary to charge employer and employee an additional contribution of ¾ per cent each on that part of an employee's earnings between £9 and £30 a week. This contribution is payable whether the employee is contracted out or not; and so for the first time contracted-out employees have come within the scope of graduated liability. The basis of contracting out was not affected, since the difference in amount between the contributions paid for contracted-out employees and for other employees—and the difference between the State pensions of people in these two categories—have remained unchanged.

130. The number of employees contracted out has risen from 4½ million in 1961 to about 5½ million at present (nearly 3 million of whom are in the public service or nationalised industries).
131. The present method of contracting out involves replacing the element of graduated pension, but not the basic flat-rate pension, by a pension from an occupational scheme. Irrespective of an employee’s actual earnings he must be assured by his employer, either through the occupational scheme or by an appropriate payment into the State scheme, of a pension of about 1s. 4d. a week for each year of contracted-out service, corresponding to the extra State pension obtainable by contributions over the full earnings range covered by graduated pension contributions. It follows that an employee earning less than £18 a week is guaranteed a higher pension through having been contracted out than he would have obtained under the State scheme at his particular earnings level. In the new scheme, however, the range of earnings on which the new percentage contributions will be payable is so much greater that it would be out of the question to continue to require the employer to disregard the actual earnings of the contracted-out employee and to provide even for the lowest earner a pension at the maximum level of the State scheme.

132. Any new form of contracting out must therefore require the employer to guarantee pensions for his contracted-out employees related to their actual earnings. But, even so, a system whereby contracted-out schemes had to offer a complete substitute for the State pension would be well beyond the scope of most occupational schemes. First, they would have to match the new State scheme’s weighted pension formula and twenty-year maturity—neither of which would fit easily into occupational schemes. Secondly, those schemes which do not base their pensions on final salary would have to match the regular revaluation of an employee’s past earnings record which the State scheme will provide, resulting in a steady increase in his pension rights in respect of past as well as current service; and all schemes would have to match the improvements made under the State scheme in pensions after award. In other words, whenever increases were made in the State scheme’s benefits to take account of changes in earnings standards or living costs, employers running completely contracted-out schemes would have to review their own provisions and, if necessary, make corresponding adjustments so as to ensure that their employees did not lose any improvement in pension rights granted either during service or after retirement. All this would mean that, by contracting out, an employer would be taking on commitments which were large in themselves, and of quite a different order from those which contracting out at present involves. He would also be accepting in advance additional liabilities which could not be predicted at all exactly, as they would depend upon future increases in the general level of prices and earnings.

133. A few schemes of a specialised kind might nevertheless be able to offer a benefit which was a complete substitute for the State scheme’s pension, though very complex transitional arrangements would be needed to ensure that people did not lose the benefit they had already contributed for under the present State scheme. But in the Government’s view the possibility of any such provision has to be dismissed on broader grounds. Either it would have to be the only arrangement for contracting out, in which case
the facility would be outside the compass of the great majority of occupational schemes; or there would have to be an alternative system for contracting out, more suitable for the generality of private schemes, which did not require them to match the full provision of the State scheme. A two-tier arrangement of this kind would be much too complicated. The same would be true of any proposal to extend the scope of contracting out beyond the personal retirement pension. Contracting out of the range of benefits covering sickness and unemployment would be impracticable in any event; and even if it proved practicable to extend contracting out to cover the widowhood and dependency benefits which will be financed, like pensions, from the National Superannuation Fund, this would restrict very considerably the number of schemes capable of contracting out. It would clearly lead to extensive complications if employers were offered a choice of contracting out of either all the benefits provided from the National Superannuation Fund, or the personal pension alone. This being so, the real point at issue is whether the new scheme should offer a facility for partial contracting out—that is, an arrangement whereby occupational schemes could take over responsibility for a defined part of the personal retirement pension which would otherwise be paid by the State.

The case for partial contracting out

134. There are arguments both for and against a system of partial contracting out. Considerations of simplicity of operation and administrative economy tell against it. And it might be argued on more general grounds that it would be acceptable for all employees to participate fully in the State scheme, with occupational schemes left free to “live on top”. This is the pattern generally found abroad. In support of this approach, it could be said that occupational schemes best serve their members to the extent that they offer something additional to what can be provided under the State system; and that there would still remain ample scope for this for many employees. Within the range of earnings covered by the State scheme there is no inherent advantage for a pensioner if part of his income comes from an occupational rather than a State source.

135. The Government have however noted the strongly held view among some of those concerned with occupational pension schemes that contracting out would help to spread the burden of the growing cost of pensions more evenly over successive generations of contributors. As explained in paragraph 43, the National Superannuation Fund will be financed on the pay-as-you-go principle, which has the broad effect that contributions of each generation of contributors are used to pay for the pensions of the preceding generation. While the initial contribution rates for National Superannuation will be fixed at a level which is sufficient to finance the growing expenditure of the Fund for some years ahead, increases will thereafter be necessary. Although contributors who were contracted out of part of the State pension provision would pay total contributions comparable to those paid by those not contracted out, part of this total would not be paid to the State scheme. The immediate effect of contracting out would be to shorten the initial period during which the income of the National Superannuation Fund will exceed its outgo and therefore to require contribution rates to be increased earlier.
than would otherwise be the case. But in the longer term, since lower pensions would be paid from the National Superannuation Fund to those who had been contracted out, there would be a growing offset to the loss of contribution income.

136. There is a further sense in which it is sometimes argued that contracting out would help to reduce the burden of pensions on later generations. The claim on goods and services represented by future pensions will have to be met out of future production. Apart from certain public sector schemes, occupational schemes which are contracted out need to be financed on funding principles, whereby financial provision is made during the contributor's working lifetime through the accumulation and investment of his contributions for the pension which will become payable during his old age—whereas a State scheme, financed on the pay-as-you-go principle, will not itself generate additional investment of this sort. Since contracting out would not only reduce the extent to which pension provision under the State scheme is substituted for existing occupational provision but also enable some new pension provision to be occupational rather than State, it is held that it would assist to maintain and indeed increase the flow of savings from occupational schemes. It is argued that this would be an advantageous method of increasing the funds directly channelled to productive investment and so of ensuring a bigger growth of resources which would help to reduce the burden of pensions on future generations—while at the same time the disturbance of the capital markets which might follow a large cut-back of existing occupational schemes would be avoided.

137. In any event, the new State scheme will inevitably face occupational schemes with formidable problems of adjustment. If there were no contracting-out facility, some employers and employees might be prepared to pay for both the new State pension and full occupational benefit; but the more likely reaction would be to offset the higher State contributions by reducing future payments to the occupational scheme. If this happened the scale and rate of growth of occupational schemes would be reduced and this could lead to the winding up of some of them. This in turn would involve a corresponding diminution of their contribution to savings. A contracting-out facility would limit the impact of the new State scheme on the level of occupational provision, and this would ease the situation. It would also assist the continued growth of occupational schemes and encourage employers who might otherwise have been deterred from starting new schemes to go ahead with them. Nor need administrative difficulties block the way; the present contracting-out arrangements, which have been in operation since 1961, have provided a valuable basis of experience which should enable the additional complications arising from any future system to be tackled with a reasonable measure of assurance. These considerations all lead the Government to favour the inclusion of a contracting-out facility in the new scheme.

A scheme for partial contracting out

138. Preliminary study has suggested the following as the pattern for partial contracting out. The national superannuation contribution paid by contracted-out employees, and that part of the employer's contribution on earnings up to the employees' "ceiling" (see paragraph 55), would be at a
lower percentage than would be payable for employees in general. As counterpart, there would be a deduction from the personal retirement pension which the contracted-out employee would receive under the State scheme. The occupational scheme would be required to guarantee him a pension of at least the amount deducted from his State pension. This arrangement would affect only the personal retirement pension (and not dependency or widowhood cover, which would be available in full to those contracted out) and there would be no requirement for contracted-out occupational schemes to match various special features of the State scheme, such as its weighted pension formula and twenty-year maturity. Because the occupational scheme would be assuming responsibility for only part of the personal retirement pension, and the State scheme would still be providing all its other benefits in full, contracted-out employees and their employers would of course still need to pay the major part of the normal contribution to the National Superannuation Fund. The financial implications for the National Superannuation Fund of such an arrangement are discussed by the Government Actuary in Appendix 2.

139. The formula linking the deduction from contributions to the deduction from pension would be fixed in such a way that the total amount by which contributions were reduced—for employer and employee together—represented, on average, the commercial cost of providing the pension for which the occupational scheme was taking over responsibility from the State. The main factors to be taken into account in fixing the formula would be the accumulation of interest of an invested fund, mortality, and the age distribution and earnings of contracted-out employees. With pension ages for men and women remaining at 65 and 60 respectively (see paragraph 60) there would have to be a separate formula for women, incorporating either a higher contribution reduction than for men or a smaller pension reduction. The working of the arrangements would need to be examined regularly and the formula might need to be adjusted as some of the relevant factors changed over time.

140. While a system on these lines should be technically feasible, it would raise a number of problems. The first would arise through the dynamic element in the new State scheme, since any form of contracting out must plainly leave each contracted-out employee no worse off than if he had remained fully within the State system. This would be essential because, although the employer would be required to give the employees concerned the opportunity to consider the matter beforehand, the final decision whether to contract out his occupational scheme must (as now) remain with him. On the other hand it would not be tolerable for an employee's overall pension rights to be diminished because his employer had chosen to take him out of a part of the State scheme.

141. At present there is no difficulty in ensuring that an employee cannot lose any of his personal pension rights by becoming contracted out, since he can only be contracted out of a part of the State scheme which is entirely fixed in cash terms. Achieving the same result under the new, dynamic State scheme is bound to be more difficult, as it becomes necessary to decide who should be responsible for guaranteeing a contracted-out employee those improvements in his overall entitlement which he would
have received under the State scheme. The natural answer would perhaps appear to be for this to be entirely the employer’s responsibility; but he would then have to take on an unknown commitment which would depend on future movements in price and earnings levels and, as recognised in paragraph 132, this would present very real difficulties.

142. Some difficulties may also be encountered in the settlement of terms which can be generally accepted as fair to all parties—that is, to contributors not contracted out as well as to those who are. As explained in paragraph 170, a contracting-out facility would mean an immediate loss of income to the National Superannuation Fund, as the result of which the rates of contribution payable by everyone would have to be increased earlier than would otherwise have been necessary. It would be particularly important therefore to be able to assure the generality of contributors that the contributions of the contracted out had been reduced by no more than was needed to meet the cost of providing for that part of the State pension for which the occupational scheme was assuming responsibility.

143. Further, the formula linking the contribution and pension deductions would have to be based on an estimate of future trends over a period in a number of factors, including the rate of interest. Even a small misjudgment in the initial terms could mean either that the State pensions of contracted-out employees were being provided, to some extent, at the expense of other contributors, or, conversely, that the cost of contracting out was set so high that only limited use was made of the facility, which would then no longer offer a satisfactory basis for partnership between the State and private provision. On the other hand, the contracting-out arrangements would have a better chance of working smoothly, and being generally understood and accepted as fair, if the formula were adjusted as infrequently as possible.

144. Finally, if employees are to rely on occupational schemes to provide a substantial part of the pension they would otherwise have received from the State scheme, adequate safeguards will be needed to ensure that no scheme is used for contracting out unless soundly based. In view of the increased contingent liabilities which contracting out under the new scheme would involve, it would be right to consider whether safeguards are needed beyond those which operate at present.

Public service pensions

145. Of the 12 million or so people who are members of occupational pension schemes, about 4 million are employed in the public sector and 3 million of these are contracted out of the present graduated pension scheme. They include employees of the nationalised industries, the public services (civil servants, teachers, police, firemen and the staff of local authorities and the National Health Service) and the Armed Forces. The basic provisions of many of the main public sector pensions schemes are alike: they provide for a maximum pension, at the normal retiring age, of forty eightieths of salary averaged over the last three years (one eightieth for each year of service) plus a lump sum of one hundred and twenty eightieths, or the approximately equivalent pension benefit of forty sixtieths with a right to commute up to a quarter. Arrangements have been made in successive Pensions (Increase) Acts periodically to increase pensions already being paid to retired members of the public services. Increases on a similar pattern have also been
paid to pensioners in many other parts of the public sector (including the Armed Forces) to which these Acts do not directly apply. Recently many schemes in the private sector have also found it possible to augment the pensions of their retired members, but the latest survey undertaken by the Government Actuary(1) suggests that the public sector is ahead of private sector practice in this respect.

146. As in the private sector, many public sector schemes (for example, in the nationalised industries and most of those in the public services) are contributory, but a few are non-contributory (the Civil Service and the Armed Forces) and are financed by the Government on a pay-as-you-go basis.

147. Schemes on these lines, giving relatively high pension fractions and relating pensions to earnings in the few years before retirement, are common in both the private and public sectors and will pose a problem as State pensions build up to the substantial levels to be provided in the new scheme. Some re-alignment of their terms may be necessary.

148. In the areas where the Government have an additional responsibility in their role as employer, they intend that these matters should be discussed fully with staff interests. In the Civil Service, following the recommendations on various pensions questions by the Committee under the chairmanship of Lord Fulton(2), a joint committee has already been set up to review the whole basis of superannuation, with representatives of management and staff, including the industrial trade unions concerned. The implications of the new State scheme will be taken fully into account in the course of this review. The position of the Armed Forces will also have to be considered.

Winding up of the present contracting-out arrangements and adaptation of occupational schemes

149. Because a contracting-out facility under the new scheme will have to be on a different basis from the present arrangements, rights acquired from contracted-out employment up to the start of the new scheme will need to be properly determined and safeguarded—where necessary by means of a deferred pension or an appropriate payment into the State scheme. There will, in addition, need to be statutory provision to help some occupational schemes to adapt to the new State provision, so that those responsible for them are not prevented from making necessary modifications because of legal complications.

Conclusion

150. Although the main lines of development are clear, a number of important issues remain to be settled in relation to a new system of contracting out of the State scheme. In advance of legislation, therefore, the Government intend to discuss these matters with representatives of occupational schemes and others concerned. The Government are confident that, given that all concerned are prepared to play their part in resolving the evident difficulties, fair and workable arrangements can be made for a system of partial contracting out to accompany the introduction of the new State scheme.

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(2) Report of the Committee on the Civil Service, Cmnd. 3638, 1968, paras. 136 to 139 and Appendix H.
CHAPTER 6

PRESERVATION AND TRANSFERABILITY OF OCCUPATIONAL PENSION RIGHTS

The background

151. The importance of occupational pension schemes has been referred to in chapters 2 and 5, which discussed the provision of a contracting-out facility in the new State scheme. It has been made clear that the Government attach considerable importance to the well-being of occupational schemes and see them as continuing to play a vital part alongside the State scheme.

152. The 65,000 occupational schemes vary greatly in size, scope and method of financing, and in their detailed provisions. Their variety reflects the fact that they are often individually framed to meet the needs of particular occupations or employments. But, considered collectively, they suffer from a considerable defect—there are no universal or comprehensive arrangements for safeguarding pension rights on changes of employment.

153. Ideally, when members of occupational pension schemes change jobs, they should be given the opportunity of transferring accrued rights from one pension scheme to another—thus acquiring in the new scheme benefits equivalent to those they possessed in the old. Pension rights would accumulate and move with the individual from one employment to another, finally providing a single pension on retirement.

154. While transfer arrangements between particular pension schemes do exist (and are common within the public sector) information collected by the Government Actuary's Department shows that, in practice, a transfer value in respect of their pension rights is paid for only a small proportion of those changing jobs. In 1963 only about 5 per cent of those leaving public sector employment and about 1 per cent of those leaving private sector employment had their rights transferred in this way. Rights were safeguarded by the grant of deferred pensions to 2 per cent of those leaving public sector employment and 8 per cent of those leaving private sector employment. Thus in public and private sectors together, pension rights were secured by one or other of these methods in less than 10 per cent of cases. Of the remainder—over 90 per cent—about three-quarters received a refund of their contributions to the occupational scheme, while the rest received no benefit from their membership of the scheme (other than a gratuity in a small number of cases). There is no indication that the position has changed substantially since 1963.

155. The reports published by the Government Actuary(1) make it clear that the rules of a substantial proportion of schemes do provide for the possibility of safeguarding pension rights by provision of a deferred pension or payment of a transfer value. But a majority of members who could have

(1) See footnote to para. 121.
exercised an option to take a deferred pension preferred to withdraw their contributions, while the mere possibility of paying a transfer value (which exists for 40 to 50 per cent of members of private sector schemes) does not mean that transfer arrangements between two schemes will in practice be negotiated. The difficulty of negotiating such arrangements is referred to below.

Previous consideration of the safeguarding of pension rights

156. The National Economic Development Council discussed this problem in 1964 and suggested that the Minister of Labour's National Joint Advisory Council (N.J.A.C.) was an appropriate forum for a full examination of all the considerations involved. The Council decided to appoint a special committee to report on the economic and social implications of existing arrangements for preservation of pension rights on change of employment, the desirability of extending such arrangements and the means of doing so. The Committee's report was published in 1966(1).

157. The Committee concluded that there were strong social arguments for more extensive arrangements for the safeguarding of pension rights. The extent to which the present situation discouraged mobility of labour was, they believed, limited; but it applied particularly to middle-aged employees in relatively well-paid jobs. The Committee favoured action to preserve pension rights on change of employment, by the provision of deferred pensions. They did not believe that it was feasible to require universal transferability of pension rights.

158. The Government have given very careful consideration to the report of the Committee and to all aspects of the problem. In particular they have looked at the possibility of requiring complete transferability of pension rights. The practical difficulties, many of which were set out in the Committee's report, are very great. Transferability of pension rights depends on determining the value of the rights accrued in the first scheme and establishing the rights these values represent in the second. Even when two schemes are broadly similar it may not be easy to negotiate satisfactory transfer arrangements; the number and variety of occupational pension schemes make it extremely difficult to devise rules of universal application. It would not be feasible to bring about transferability of pension rights between all schemes, either by direct legislation or by other means, except as part of a much more general control of pension schemes, which might disrupt many of them. Further, in many cases a change of job involves moving from employment covered by an occupational scheme to employment where no scheme exists. While the Government hope to see a continuing spread of transfer arrangements they have concluded that it is not at present possible to achieve universal transferability of occupational pension rights.

Proposals

159. The Government believe, however, that the situation must be improved. It is clearly unsatisfactory that individuals who have been members of an occupational pension scheme, perhaps for many years, should find on changing jobs that they are obliged to forfeit their pension rights.

(1) See footnote to para. 49.
160. The new State scheme, when fully operative, will generally provide much better pensions than now. However, an employee changing jobs should, for both social and economic reasons, be able to retain the additional pension rights for which he has qualified in an occupational scheme. It is the Government's intention to bring in legislation to ensure that every member of an occupational pension scheme who has satisfied certain minimum qualifying conditions shall have the right to have his accrued pension preserved for him until he reaches retiring age.

161. However, many complex points have first to be decided. These include, how to define a method of calculating accrued pension rights which will be of universal application, and whether the preservation requirement should apply to pensions accrued before the operative date of the new legislation. On this second point, if the preservation requirement applied only to rights accruing after the operative date of the legislation it would be many years before the objects of preservation were fully met. On the other hand, the fullest consideration will need to be given to the financial burden which any retrospective requirement would impose on schemes.

162. A further point of principle concerns the right of an employee on leaving his job to withdraw the contributions which he himself has paid into an occupational pension scheme. Such a right is an almost universal feature of contributory schemes, whether or not the schemes give an employee an alternative right to have his accrued pension transferred or preserved. There are some who argue that the option to withdraw contributions should be removed and that preservation of pensions should be compulsory in all cases. In general, the report of the N.J.A.C. Committee took this view.

163. On the other hand, the right to withdraw contributions is prized by many individuals who may find a cash sum at the time of greater importance than a deferred pension. Pensions accruing under the State scheme will not be jeopardised by changes of employment and will ensure for the great majority a State pension on which they can live in retirement. In these circumstances the Government see considerable merit in leaving the individual free to decide whether to have his occupational pension preserved or to withdraw his contributions. Their view is therefore that while contributory schemes should be subject to the requirement to offer preservation arrangements, they should be allowed to provide for an employee to withdraw his contributions on leaving if he prefers. The Government would however regard it as important that a withdrawing employee should be given a clear statement of the value of the alternative options open to him.

**Consultation**

164. Before introducing legislation, the Government intend to discuss these matters with representatives of occupational schemes and others concerned. In view of the widespread agreement that action is needed to ensure the safeguarding of occupational pension rights they are confident that, despite the practical difficulties to be overcome, arrangements can be worked out which will represent a marked advance on the present situation.

(1) Withdrawal could not of course be permitted of any contributions paid towards that part of an occupational scheme pension which an employer had guaranteed to provide in order to contract the employee concerned out of the new State scheme.
PART IV
CHAPTER 7

THE FINANCIAL AND ECONOMIC IMPLICATIONS
OF THE NEW SCHEME

Financial implications

165. Under the existing scheme all national insurance contributions are paid into one fund and all national insurance benefits are paid out of it. Under the new scheme, as explained in paragraph 52, this single fund will be replaced by two funds, the National Superannuation Fund and the Social Insurance Fund. Each fund will receive the appropriate proportion of the total contribution income, including the Exchequer contribution. The money accumulated in the funds—including the present scheme’s reserves, which will be divided between them—will bring in interest which will, as now, help towards meeting the scheme’s expenditure.

166. As shown in Table 6 in the Memorandum by the Government Actuary on the finance of the proposals (Appendix 2) the cost of the scheme will grow as the full rates of pension come gradually into payment over the first twenty years, and as the proportion of pensioners receiving the full rates increases.

167. In principle the new scheme, like the present one, will be financed on a “pay-as-you-go” basis—that is, with current income designed to meet current expenditure. Most people must expect, however, to pay more for their higher benefit prospects. Furthermore, frequent changes in the percentage contribution rates ought to be avoided, especially in the early years when the scheme is settling down. The initial national superannuation contribution rates proposed (see paragraphs 56 and 58) leave room, therefore, for the growth of expenditure for some years ahead.

168. The result is that there will be a surplus of income over outgo in the National Superannuation Fund at the outset of the new scheme. How long this position will last depends upon the actual levels of income and outgo; and these in turn depend on a number of factors. Most important among these are: the extent to which, over the years, the growing national income will permit improvements in the real value of pensions after award; the arrangements for contracting out; and the number of employees covered by these arrangements.

169. The two-yearly reviews of pensions in payment (see paragraph 101) will ensure that, as a minimum, they are raised sufficiently to compensate for any rise in prices. The costings of the new scheme have been done in terms of April 1968 earnings levels. They therefore illustrate what the relative growths of income and expenditure would be if pensions in payment were always to rise in line with earnings. However, the figures do not take
account of contracting out. Because decisions have still to be taken on the
degree of contracting out in the scheme, the Government Actuary has given
estimates of what the position would be if there were no contracting out at all,
accompanied by an indication of the effect of each ½ per cent a side by which
the contribution was reduced for those contracted out. (See Appendix 2,
paragraph 14.)

170. The Government Actuary estimates that with contributions at the
proposed level, and before making any allowance for contracting out, the
accumulated National Superannuation Fund would reach a maximum of about
£3,400 million (in addition to its share of the present reserves) in 1987–88,
the year in which expenditure would exceed income for the first time.
The contribution rates would then need to be increased somewhat, to
maintain income in line with expenditure, on the pay-as-you-go principle.
If the numbers contracted out were the same as at present, the point at which
expenditure first exceeded income would be advanced by about 18 months
for every ½ per cent a side by which the contribution was reduced for those
contracted out, and the maximum size of the fund would be correspondingly
reduced.

171. Against the expenditure on pensions there will be some saving
because of the gradual reduction in the number and amounts of supplementary
benefits in payment to pensioners. It is not possible to provide any accurate
forecast of these savings. Expenditure on supplementary benefits is at present
about £450 million a year (of which over £200 million is for pensioners). The
prospect is that, in terms of 1968 levels, this will decline after the start of the
new scheme, though only slowly during the first decade or so, with the
probability that by the turn of the century expenditure or supplementary
benefits will be at a very much lower level.

Economic implications

172. The main purpose of the new scheme is to raise the standard of
living of pensioners, both absolutely and in relation to the rest of the
population. It is estimated that at present national insurance and supple­
mentary benefits provide pensioners with about a third of the average income
of the rest of the population(1). Other sources provide about a further third,
so that the average income of pensioners is now around two-thirds of that of
the rest of the population; but there are wide variations on either side of
these average levels.

173. When the new scheme has been running long enough for the bulk of
pensioners to be receiving pensions at the fully mature new rates—that is,
some time after the turn of the century—the pensions provided might amount
on average to nearly half the average income of the rest of the population.
This would mean that, even if the relative provision from other sources were
no greater than now, the average income of pensioners would approach
80 per cent of that of the working population.

174. The improvement in the relative standard of living of pensioners will
not be spread evenly throughout the retired population, but will tend to be
concentrated on the groups with fewest resources beyond their State retire­

(1) In estimating average income per person, children are counted as a half.
ment pension. Those who will gain most will be the widows, who often have no appreciable other income of their own.

175. At present, pensioners account for 10 per cent of total personal consumption, and the rest of the population for 90 per cent. The projected increase in the living standards of pensioners might raise their share of personal consumption to about 12 per cent by the turn of the century, thus reducing the share available to the rest of the population by about 2 per cent of the total.

176. The reduction in the share of personal consumption going to the working population represents the real burden of the new pension scheme. From the point of view of each contributor, the scheme implies some postponement of consumption from the working years to the years of retirement. For the community as a whole, what is available for personal consumption at any one time is determined by the potential size of the total national product and by the claims of investment, public services and exports. As long as the scheme does not result in an increase in the total proportion of the national income devoted to personal consumption, there should be no adverse effect on productivity or employment, or on future economic growth.

177. The extra burden on the working population which the new scheme involves will come about gradually over a period of 30 years or more, during which living standards can be expected to rise by at least 2 per cent a year on average, or by a total of some 80 per cent over 30 years. If they do so rise, the introduction of the new scheme might mean that workers' living standards would increase by 77 per cent rather than 80 per cent. In other words, at any rate of economic growth comparable with what has been achieved in recent years, the increase in pensioners' living standards should not be felt by the working population as an appreciable burden.

178. As explained in paragraph 167, the Government have decided that at the start of the scheme the level of contributions should be somewhat higher than is necessary to meet the expected current expenditure. The resulting surplus in the scheme's early years will have a restraining effect on the pressure of demand, and thereby enable any given level of public expenditure to be financed with a somewhat smaller recourse to general taxation. The extent of this easement will depend on how far the surplus is offset by any consequential reduction in private savings as a whole, including savings through occupational pension schemes. It would be prudent to assume, at any rate initially, that there will be some effect on occupational pension schemes which will not be fully offset by increases in other forms of private saving.

179. It is estimated that the increase in employers' contributions to 6½ per cent of earnings (including their contributions to the Redundancy Fund) implies an increase of about ¾ per cent in total labour costs, which in turn—taking both direct and indirect effects into account—may increase the general level of prices by a similar percentage. There may thus be a small adverse impact on the balance of payments when the new scheme begins.

Conclusion

180. The new scheme requires people to spread their incomes more evenly throughout their lives, so that they have somewhat less during working life and substantially more during retirement. From the social point of view,
it implies a long-term commitment, by the Government on behalf of the community as a whole, to reduce substantially the present gap between the living standards of the working population and the retired population. This change will come about gradually; and it will still leave the working population able to look forward to a steady improvement in their living standards.
APPENDIX 1

FURTHER NOTES ON THE NEW SCHEME

1. This Appendix contains further notes on the following aspects of the new scheme—

   (1) The assessment of employees' contributions.
   (2) Administrative consequences of the new earnings-related contributions.
   (3) The assessment of employers' contributions.
   (4) Pension ages.
   (5) The retirement condition and earnings rule.
   (6) The transition from present-scheme pensions to new-scheme pensions.
   (7) Credited earnings.
   (8) Pension provision for married women.
   (9) The practical difficulties of applying earnings-relation to the self-employed.
   (10) Contribution arrangements for low earners and non-earners.

2. Except where otherwise stated, all paragraph references are to the main text of the White Paper.

(1) **The assessment of employees' contributions**

   (See paragraph 54)

3. The present graduated contributions are assessed on the amount of pay received by the employee in each week (or other pay period) taken by itself. This means that employees whose pay is sometimes above and sometimes below the scheme's earnings ceiling may pay substantially less in contributions, and qualify in consequence for lower pensions, than others with the same total earnings spread more evenly over the year.

4. The new scheme's method of assessment will avoid this unfairness. The employee will contribute on the whole of his earnings in the employment in each tax year, as he receives them, up to the annual earnings ceiling. The 7 per cent or so of employees whose earnings reach the ceiling in any year will then pay no further contributions until the following tax year. This method of assessment will ensure that the total amount of the employee's earnings which ought to count for benefit is always matched by the amount of his contributions. It will also be simpler than the present system, which necessarily applies different ceilings to, for example, a week's, a fortnight's and a month's pay.

(2) **Administrative consequences of the new earnings-related contributions**

   (See paragraph 54)

5. The replacement of the present dual system of flat-rate and graduated contributions by the new earnings-related contributions should produce a considerable net saving in employers' administrative costs. As with the present graduated contributions, the employer will record the contributions on his employees' PAYE documents and will remit the amounts to the Collector of Taxes. Employers will no longer need to be concerned with national insurance stamps and cards.

6. Net savings can also be expected in the administrative costs incurred by the Government in collecting and recording contributions. A new computer complex at the Newcastle Central Office of the Department of Health and Social Security will keep contributors' records and calculate their pensions. This will supersede the clerical methods of recording used for the present flat-rate contributions.
7. At present the regular statistics of numbers in employment are based on the number of national insurance cards exchanged by employers each quarter. When the national insurance cards are withdrawn a new method of compiling employment statistics, probably by means of a simple return from all employers, will be introduced. Tests on the most suitable methods will be carried out in the next two years.

(3) The assessment of employers' contributions
(See paragraph 58)

8. The absence of an earnings ceiling for employers' contributions means that their liability will be assessed on the total pay of their employees, as recorded for PAYE. This is both fair and straightforward for employers to operate.

9. It might be suggested that employers' contribution liability ought to be tied still more closely to that of their employees, by being assessed only on the amount of each employee's earnings up to the employees' earnings ceiling—just as the present graduated scheme's ceiling applies to employers as well as employees' contributions. In the new scheme, however, with contributions assessed on an annual basis (see paragraph 4 of this Appendix), an earnings ceiling for employers' contributions is not only unnecessary but would have undesirable effects. There would, for instance, be no satisfactory way of apportioning contribution liability between employers (whether by refund or otherwise) in cases where an employee whose total earnings in the year exceeded the annual ceiling had received those earnings in more than one employment—whether because he had changed jobs in the course of the year or because he worked regularly for more than one employer. In practice the employers' contributions in such cases could not be adjusted by reference to the employee's earnings ceiling without making one employer's liability depend on what the employee had earned with another employer. With no earnings ceiling for employers' contributions, difficulties of this kind will not arise. Each employer will contribute solely according to his own payroll: his liability will be unaffected by any earnings which his employees may have in other employments.

10. The effect of having no earnings ceiling for employers' contributions has been taken into account in deciding their percentage contribution rate under the new scheme. As indicated in paragraph 58, an estimated 1½ per cent contribution is needed from employers for the Redundancy Fund. Had their total percentage rate (without an earnings ceiling) for the remaining purposes been made the same as that paid by employees (with a ceiling), employers as a whole would have paid, at April 1968 earnings levels, about £80 million a year more for these purposes than employees. The contribution rates actually proposed will reduce this margin to about £30 million a year.

(4) Pension ages
(See paragraph 60)

Men's pension age

11. Although some occupational schemes provide pensions before age 65, there are strong reasons against lowering the present men's pension age of 65 in the State scheme. Such a move would undoubtedly encourage earlier retirement, when the general need of the country's economy is for people to continue in work as long as possible; and the increase in pension expenditure and loss of contribution income would be serious.

12. On the other hand, the Government do not consider that men's pension age should be raised above 65. This would take away, without good reason, the long-established right of a man to obtain at that age the pension for which he has contributed over many years. The right way to deal with the question of men retiring later than age 65 is to provide higher pensions for those who do so; and under the new scheme this will be done as indicated in paragraph 60. Pension age for men will therefore remain at 65.
Women's pension age

13. On the grounds of strict equity, it can be argued that women's pension age should be brought into line with that of men, by raising it to 65. But a social security scheme must take into account the normal family situation. Most men reaching age 65 are married, and on average their wives are about three years younger than they are. Equality of pension age would therefore usually mean that, when a husband reached pension age and retired, it would be some time, often several years, before the wife could draw any pension she herself had earned. This delay would occur even if she had ceased employment and was for all practical purposes retired like her husband.

14. Nor would raising women's pension age to 65 produce a large immediate saving in benefit expenditure. As described in paragraphs 72 to 85, the new scheme, like the present one, must include provision for wives and widows on their husbands' records; the immediate saving would therefore be made primarily on the pensions of single women. At present they form about 12 per cent of women reaching age 60; but the proportion is steadily declining and by the end of the century is expected to fall to only about 5 per cent. Moreover, a move from age 60 to 65 would have to be phased gradually over a number of years in order to avoid hardship and unfairness; and this would reduce the saving still further.

15. The Government therefore do not consider that there is a sufficient case for raising women's pension age. Leaving it at 60 will normally ensure that, when husband and wife effectively become a retired couple, both will be able to draw whatever pension they have earned.

(5) The retirement condition and earnings rule (See paragraph 60)

16. Since 1946, following a recommendation in the Beveridge Report\(^1\)), the national insurance pension has been, not an old age pension, but a retirement pension: that is, during the first five years after pension age its award is conditional on retirement from regular employment. People who defer their retirement beyond pension age can qualify for higher pensions when they eventually retire.

17. The essential purpose of pensions is to replace normal earnings when these cease at the end of working life; and the retirement condition accordingly prevents pensions being paid, on top of earnings, to people who do not retire on reaching pension age. Enforcement of the retirement condition obviously requires some means of preventing a person from obtaining a pension by declaring his retirement and then drawing it in full however much work he does. This is the function of the earnings rule, under which, up to age 70 (men) or 65 (women), retirement pension is subject to reduction if the pensioner earns more than a certain amount. This amount is at present £6 10s. a week; for the first £2 a week of earnings beyond this the reduction in pension is 6d. for each 1s. of earnings, and thereafter 1s. for each 1s. The earnings rule does no more than adjust the amount of pension payable, according to the pensioner's earnings. No limit is placed on the amount of work pensioners may do; and if a pensioner returns to regular work he can, if he prefers, cancel his retirement and so earn a higher eventual pension. At present, of about 1½ million\(^2\) retirement pensioners to whom the earnings rule applies, about 20,000 are having their pensions reduced or extinguished because they are earning more than £6 10s. a week. At age 70 (men) or 65 (women) both the retirement condition and the earnings rule cease to apply.

18. So long as a retirement condition remains, something corresponding to the present earnings rule is needed to support it; the two stand or fall together. To abolish them would increase the scheme's expenditure by about £150 million a year initially at April 1968 levels; and most of this would be spent in supplementing the earnings of some 350,000 people who were still in regular

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\(^{1}\) Cmd. 6404, paras. 133 to 136 and 244–5.

\(^{2}\) Counting a married couple as one pensioner, where the wife has a pension on her husband's insurance.
employment. It is difficult to predict the effect of this on the pattern of work among people over pension age; but it might well produce a net decrease rather than an increase of employment. Some pensioners would be encouraged to earn more, where circumstances permitted; but they would be likely to constitute only a very small proportion of the total, judging from the fact that the vast majority of present pensioners who could be affected by the earnings rule are either not working or else have earnings substantially below the point at which the earnings rule begins to apply(1). Increases in employment among some pensioners could be more than offset by a reduction of working hours among the 350,000 people still in regular employment, who would find themselves with pensions as well as earnings.

19. Taking into account the economic, financial and social considerations involved, the Government have concluded that, as at present, the State scheme should not provide people in regular employment with pensions merely because they have reached the minimum age at which pension can be paid. Something like the existing retirement condition and earnings rule will accordingly remain.

(6) The transition from present-scheme pensions to new-scheme pensions
(See paragraph 61)

Pensions for people reaching pension age during the first twenty years of the new scheme

20. As explained in paragraph 61, the pensions for people who reach pension age during the new scheme’s twenty-year maturity period will be based on their records under both the present flat-rate scheme (the “old scheme”) and the new scheme. Their pensions will be at rates intermediate between the old-scheme rate and the fully mature new-scheme rate. The “old-scheme rate” used in the calculation will be based on the rate currently in payment to old-scheme pensioners at the time when the person concerned reaches pension age. The “new-scheme rate” used in the calculation will be the rate obtained by applying the new scheme’s pension formula to the contributor’s average earnings since the new scheme began (each year’s earnings being re-valued as in paragraph 68). After award the total pension calculated in this way will be reviewed every two years as described in paragraphs 100 to 103. Any pension earned by contributions to the present graduated scheme will be paid in addition.

21. The following examples illustrate how the calculations for a single person will be made. There will be corresponding calculations for a married couple—see paragraph 74. For simplicity, the examples are based on April 1968 levels, both for the old-scheme pension rate (£4 10s. standard rate for a single person) and for national average earnings (£22 a week). The corresponding cash amounts in the future will depend on the increases in these two levels which have taken place meanwhile.

Example 1: A person reaches pension age after the new scheme has been running for five years. His yearly contribution average under the old scheme is 50 or more, corresponding to full old-scheme pension (£4 10s. a week). His average earnings under the new scheme are the same as the national average of £22 a week; this average would correspond to a new-scheme pension, at full maturity, of £9 7s. a week (see column (3) of Table 3 in paragraph 71). His pension is therefore—

\[
\left(\frac{4}{4}\times£4\ 10s.\right)+\left(\frac{5}{4}\times£9\ 7s.\right)
\]

= £5 14s. a week.

This is a quarter of the way between the old-scheme rate of £4 10s. and the fully mature new-scheme rate of £9 7s.

(1) See the Report of the National Insurance Advisory Committee on the Question of the Earnings Limit for Retirement Pensions (Cmd. 3197, 1967, paras. 16 to 28 and Appendices II and III).
Example 2: A person with the same old-scheme and new-scheme averages as in example 1 reaches pension age after the new scheme has been running for ten years, i.e. half-way through the maturity period. His pension is therefore—

\[
(\frac{1}{2} \times £4\ 10s.) + (\frac{1}{2} \times £9\ 7s.) = £6\ 19s.\ a\ week.
\]

This is half way between the old-scheme rate and the fully mature new-scheme rate.

Example 3: A person reaches pension age after the new scheme has been running for fifteen years. His yearly contribution average under the old scheme is 4½, corresponding to old-scheme pension of £4 a week. His average earnings under the new scheme are 1½ times the national average—that is, £27 10s. a week; this average would correspond to a new-scheme pension, at full maturity, of £10 15s. a week (see column (3) of Table 3 in paragraph 71). His pension is therefore—

\[
(\frac{9}{10} \times £4) + (\frac{1}{2} \times £10\ 15s.) = £9\ 1s.\ a\ week.
\]

This is three-quarters of the way between the old-scheme rate and the fully mature new-scheme rate.

Pensions for people reaching pension age after the first twenty years of the new scheme

22. The pensions for people who reach pension age after the new scheme's twenty-year maturity period will be based simply on their average earnings since the start of the scheme: that is, they will be entitled to the full new-scheme rates produced by the pension formula, without regard to their record under the old scheme.

Fall-back rule for certain cases

23. For a few people with no or a very low new-scheme record, the phasing out of the old-scheme record over twenty years could result in a smaller pension than they would have received had the old scheme continued. A fall-back rule will be included to prevent a reduction of pension rights in these circumstances.

(7) Credited earnings

(See paragraphs 69, 75, 87 and 89)

24. Credited earnings, normally at half the national average, will count for both long-term and short-term benefits as appropriate.

25. Where the contributor's relevant earnings record is less than half the national average, the amount of earnings credited will be limited correspondingly. Without such a limitation, those low earners who remained on benefit would become entitled, even though paying no contributions, to higher rates of benefit in the future than others with a similar level of earnings who worked and paid contributions.

26. At the other end of the scale, credited earnings will not be allowed to bring a contributor's record for any year above the ordinary earnings ceiling.

(8) Pension provision for married women

(See paragraph 72)

27. For the reasons explained in paragraph 39, the new scheme will still provide many married women and widows with pensions based on their husbands' records. The Government have examined the alternative possibility of crediting them with earnings for periods in which family responsibilities prevented them from going out to work, so enabling them to build up adequate records of their own. But special credits of this kind would produce serious difficulties, for the following reasons:

(1) There could be no real justification for crediting a housewife with earnings unless her circumstances were such as to make it unreasonable
to expect her to go out to work—because she had children at home or, for example, was looking after a sick husband. Reliance on credits restricted in this way would, however, often mean lower pension entitlement for a wife than is given by the present right to a pension on her husband's record. It would also involve making very difficult judgments in individual cases about whether a wife had good reasons, of the kinds laid down, for not going out to work. This would create an immense new burden of claims, decisions, appeals and record-keeping.

(2) If earnings were credited to married women at a level sufficient to provide enough pension for those who, through widowhood or some other cause, were left to fend for themselves, the credit level would necessarily be over-generous for the ordinary case of a wife living with her husband. There could not therefore be one uniform level of credits which could be merged with the wife's earnings in other periods in order to provide her with a single independent record. The credits would have to be worth different amounts according to the wife's domestic circumstances at the time her pension or other benefit was paid—a complication hard for those concerned to understand, under an arrangement purporting to provide married women with independent records of their own.

28. The Government have concluded that there is no satisfactory way in which housewives could be credited during marriage with earnings they have not in fact received, in order to help them acquire pensions independently of their husbands' records. Pensions will therefore continue to be available for married women and widows on their husbands' insurance, as described in paragraphs 72 to 85.

(9) The practical difficulties of applying earnings-relation to the self-employed

(See paragraphs 97 and 98)

29. At present about 14 million people come within the self-employed category for national insurance. They include a very wide variety of men and women working on their own account, among them people in the various professions, shopkeepers, farmers and others running their own businesses, both large and small. In general they are assessable for income tax under Schedule D and do not come under the PAYE system(1). They are not covered by the present graduated scheme and therefore pay only flat-rate contributions. Apart from unemployment benefit and industrial injuries benefits, their range of benefit cover is the same as for employees.

30. There are great practical difficulties in relating the contributions and benefits of self-employed people to their earnings. These difficulties would exist whether their contributions were to be calculated on all their earnings up to the ceiling (as is proposed for employees) or, as a supplement to basic flat-rate contributions, only on that part of their earnings which lay above a certain level. An assessment of earnings would be required for many cases where, since there is clearly no liability for tax (for example, because of the size of the total personal tax allowances due), no assessment at all is made at present. In many other cases where only a small amount of tax is at issue, much more detailed enquiries would have to be made than are required now. There is the further problem that to charge earnings-related contributions on the unadjusted figure of profits as assessed for tax under Schedule D would lead to serious anomalies in many cases. This is because the Schedule D figure may be affected by factors which ought to play no part in the calculation of contribution liability and benefit entitlement: examples are the tax adjustments arising from the way in which a taxpayer has chosen to claim relief for a trading loss, or from the incidence of capital allowances. Additional complications would arise because Schedule D tax is in general assessed not

(1) Among the minority who do come under the PAYE system, it may be possible to bring some into the employed category under the new scheme, so bringing the two systems closer into line. This is being studied.
on the current year's income, to which PAYE applies, but on the income of
the preceding year. Thus if earnings-related contributions for self-employed
people were to be linked to the rules which have been found necessary for
Schedule D tax assessment, an intricate series of adjustments to the figure
of trading profits as determined for income tax would often need to be made
before it would provide a reasonable basis for calculating their contributions
and benefits.

31. All this extra work would not only increase the strain on the heavily
burdened accountancy profession; it would also require an estimated 2,000
or so additional Government staff. A large proportion of these would need
to be Inspectors of Taxes, a grade which it is difficult to maintain at the
numbers already required. The amounts of contribution which would result
from all this extra effort would often be small. The extra manpower needed
would be still greater if a special new system, outside the tax arrangements,
were to be set up for assessing and collecting earnings-related contributions
from the self-employed.

32. These difficulties rule out earnings-relation for the self-employed, at
any rate for the time being. Self-employed people will therefore continue to
pay contributions at a flat rate. This does not mean that they will be in a
separate scheme. As explained in paragraph 98, their contributions will be
counted as equivalent to earnings-related contributions on earnings of half
the national average, and will be entered in the same records as the contributions
for employees.

(10) Contributions arrangements for low earners and non-earners
(See paragraph 99)

33. Where an employee falls outside the scope of the PAYE system, this
is nearly always because his earnings are below the minimum figure to which
PAYE applies—at present £5 5s. a week for main employments. Something
like 1¾ million people are thought to be in this category at present. Of
these, probably more than half are married women who have chosen not to
pay the flat-rate national insurance contribution; many of the others are
juveniles and pensioners. Earnings-related contributions on earnings which are
too low to come within PAYE would amount to only a few shillings a week,
yielding correspondingly small amounts of benefit. The collection of such
contributions, whether done by extending the PAYE system or through some
separate machinery, would often be difficult and disproportionately costly. It
is therefore proposed that those whose earnings are too low to come within
PAYE should not be treated as employed persons under the new scheme.
Some of those who have more than one such small job will qualify to be
treated as self-employed. The others will count as non-employed and so be
able to contribute voluntarily as described in paragraphs 36 and 37 of this
Appendix. All will still be able to qualify, where appropriate, for benefit under
the industrial injuries scheme (entitlement to which does not depend on the
employee's contribution record).

“Class 3” contributions

34. Contributions as a non-employed person—“class 3” contributions—are
paid at present by about a quarter of a million people at any one time, in
very varied circumstances. Some class 3 contributions cover no more than a
week or two between jobs, or a period of unpaid holiday. Others are paid
over a prolonged period by, for example, women at home looking after their
parents, or housewives who, though no longer going out to work, wish to keep
up their contribution record so as to qualify for a pension in their own
right at age 60. In general class 3 contributions count for all national insurance
benefits except unemployment benefit, sickness benefit and maternity allowance.
In April 1968 the total class 3 contribution rates were 16s. 7d. a week for
men and 12s. 11d. for women.

58
35. People without earnings are not easy to fit in as contributors under an earnings-related scheme. But it would be wrong to abolish class 3 contributions altogether. This would deprive many present contributors of the right, which they have been exercising for years, to keep up their record for pensions and other benefits at the full standard rates provided by the present scheme. Further, under the new scheme some people will have only a low record from their earnings in a particular year, either because their earnings level is itself low or because they are off work for part of the year in circumstances which do not qualify them to have earnings credited—for example, on unpaid holiday. They too need to be able to pay class 3 contributions to prevent an undue reduction in their pension expectation.

36. Class 3 contributions will therefore continue under the new scheme, to enable a contributor's record for any year to be brought up to a certain level (but no higher). This level will be set and maintained so as to correspond, at any given time, to new-scheme pension entitlement at whatever is then the standard rate in force for present-scheme pensioners. The range of benefit cover will remain as described in paragraph 34 of this Appendix. In this way entitlement to existing rights will be preserved.

37. Payment of the present class 3 contributions is compulsory in some circumstances and voluntary in others. The new-scheme class 3 contributions will be voluntary in all cases, since the amount needed to bring a person's ordinary record in any year up to the class 3 level will not usually be known until after the end of that year, and the full amount involved would often then be too large for a person with little or no earnings to be required to pay. People will be able to pay either the full year's amount or a lesser amount; and an adequate period will be allowed for payment. Facilities will also be provided, through stamped cards or otherwise, for regular payment throughout the year by those whose circumstances are sufficiently stable to enable them to foresee how much they will want to pay within the permitted range.
MEMORANDUM BY THE GOVERNMENT ACTUARY
ON THE FINANCE OF THE PROPOSALS

1. The cost of the present national insurance scheme is met by contributions from insured persons, employers and the Exchequer, the aim being to ensure, as nearly as practicable, a balance between income and outgo. The existing funds are merely a reserve—at present about 60 per cent of the annual outgo—the interest on which makes a small contribution towards the cost of benefits. The proposed scheme will be financed in the long term on the same principles, although the initial contribution will allow for the growth of expenditure over a number of years ahead and will lead to a moderate surplus in the early years.

Basis of the estimates

2. In a period of rising earnings, estimates of income and outgo expressed in monetary terms would need to be compared with estimates of national income; all such estimates would involve speculative assumptions regarding future rates of increase of prices and earnings. Contribution income in an earnings-related scheme will rise automatically with earnings and, under the proposals, newly awarded pensions will also reflect rising earnings. It is also intended that, after award, the real value of pensions will at least be maintained when prices rise. Estimates based on constant earnings give a realistic indication of the relative progress of income and outgo if benefits as well as contributions were to rise in line with earnings and, following the practice adopted in recent years in reports on the national insurance scheme, this basis has been used for the present memorandum.

3. The estimates are based on the level of earnings in April 1968 (when national average earnings were about £22 a week). In order that the new earnings related benefits and the flat-rate benefits of the present scheme should be on a comparable basis, the latter have been taken at 3½ per cent above the current rates, which came into operation in October 1967, to allow for changes in prices and earnings between that date and April 1968.

4. The major costs in the early years of the new scheme will arise from pensions awarded wholly or partly under the provisions of the present scheme, and the conditions under which benefits will be granted will be generally similar to those applying at present. Rates of claim and other factors have, therefore, been derived from recent experience of the present scheme. On Government instructions an unemployment rate of 2 per cent has been assumed.

5. The scheme to which the present estimates relate is described in detail in chapter 3 and Appendix 1. It is proposed that the initial total contribution rate should be 6½ per cent of earnings, subject to a ceiling of about 1½ times national average earnings (£1,700 a year at April 1968 levels) for employees, with the same percentage from employers calculated on the employees' earnings without a ceiling. These rates would cover national superannuation and social insurance benefits, industrial injuries benefits, a contribution towards the cost of the National Health Service and the employer's contribution to the Redundancy Fund. Appropriate rates of contribution related to the benefits covered will be paid by self-employed and voluntary contributors. The contributions for the new scheme will be augmented by Exchequer supplements representing about the same proportion of the total contributions of insured persons and employers as at present.

6. Under the new scheme there will be two separate funds, the National Superannuation Fund covering retirement pensions, widows' benefits and death grant and the Social Insurance Fund covering the other benefits including

(1) See footnote (2) on page 20.
the proposed new attendance allowance. Specific rates of contribution will be
fixed for the two funds, and the present scheme's reserves will be apportioned
between them when the new scheme comes into operation.

7. As indicated in paragraphs 56 and 58, the National Superannuation Fund
will initially receive contributions of 4½ per cent of earnings, subject to a ceiling,
from employees, and 4½ per cent of earnings without a ceiling from employers.
A contribution of ½ per cent of earnings from employers has been allowed
for the Redundancy Fund, and 2 per cent a side for the Social Insurance Fund,
industrial injuries benefits and the National Health Service.

**Social Insurance Fund**

8. In the Social Insurance Fund, long-term sickness benefit will be earnings­
related and based on the same formula as retirement pensions. The precise
details of short-term sickness, unemployment and maternity benefits have not
yet been settled, but it is proposed that married women should be entitled to
the full personal rates of sickness and unemployment benefit instead of the
reduced rates paid at present, and that employed married women within the
scope of PAYE should no longer be able to choose not to contribute and
should thus become eligible for all benefits. It is estimated that, allowing for
these changes, a contribution of 2 per cent of earnings a side, subject to the
ceiling for the employee, would be sufficient to maintain a balance of income
and outgo in the Social Insurance Fund if short-term benefits are on about
the same scale as now and would provide contributions for industrial injuries
benefits and the National Health Service at about the same level in relation
to earnings as at present.

9. On the assumption of stable claim rates, the contributions required for the
Social Insurance Fund would remain almost constant for a long period. This
fund will be particularly susceptible, however, to short-term fluctuations due
to such factors as sickness epidemics or changes in the level of employment and
will need to retain an adequate working balance to meet such contingencies.

**National Superannuation Fund**

10. The National Superannuation Fund will cover retirement pensions, widows' 
benefits and death grant; the full earnings-related pensions awarded after 20
years will be based on a formula giving 60 per cent of average earnings up to
half national average earnings (about £11 a week at April 1968 levels) and
25 per cent of higher earnings up to a ceiling of one and half times national
average earnings (about £33 a week, or £1,700 a year, at April 1968 levels).
Estimates of the cost of these benefits on the basis of constant earnings, and
assuming that the new scheme will come into force in April 1972, are shown
in Table 6, together with corresponding figures for the benefits of the present
scheme if it were to continue unchanged.
### TABLE 6

Estimated cost of benefits of the National Superannuation Fund (calculated at April 1968 earnings levels) for present and proposed schemes

<table>
<thead>
<tr>
<th></th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retirement pensions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present scheme</td>
<td>1,712</td>
<td>1,854</td>
<td>1,954</td>
<td>2,049</td>
<td>2,132</td>
<td>2,196</td>
<td>2,261</td>
</tr>
<tr>
<td>Extra cost</td>
<td>5</td>
<td>58</td>
<td>181</td>
<td>386</td>
<td>628</td>
<td>897</td>
<td>1,097</td>
</tr>
<tr>
<td>Proposed scheme</td>
<td>1,717</td>
<td>1,912</td>
<td>2,135</td>
<td>2,435</td>
<td>2,760</td>
<td>3,093</td>
<td>3,358</td>
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<tr>
<td><strong>Widows' benefits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present scheme</td>
<td>158</td>
<td>151</td>
<td>144</td>
<td>138</td>
<td>130</td>
<td>127</td>
<td>129</td>
</tr>
<tr>
<td>Extra cost</td>
<td>11</td>
<td>15</td>
<td>25</td>
<td>35</td>
<td>49</td>
<td>60</td>
<td>67</td>
</tr>
<tr>
<td>Proposed scheme</td>
<td>169</td>
<td>166</td>
<td>169</td>
<td>173</td>
<td>179</td>
<td>187</td>
<td>196</td>
</tr>
<tr>
<td><strong>Death grant</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>15</td>
<td>17</td>
<td>19</td>
<td>19</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total cost of National Superannuation Fund benefits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present scheme</td>
<td>1,882</td>
<td>2,020</td>
<td>2,115</td>
<td>2,206</td>
<td>2,281</td>
<td>2,343</td>
<td>2,410</td>
</tr>
<tr>
<td>Extra cost</td>
<td>16</td>
<td>73</td>
<td>206</td>
<td>421</td>
<td>677</td>
<td>957</td>
<td>1,164</td>
</tr>
<tr>
<td>Proposed scheme</td>
<td>1,898</td>
<td>2,093</td>
<td>2,321</td>
<td>2,627</td>
<td>2,958</td>
<td>3,300</td>
<td>3,574</td>
</tr>
</tbody>
</table>

**Notes**

(i) These figures represent costs to the National Superannuation Fund and do not take account of any consequential savings in supplementary benefits (see para. 171).

(ii) No allowance is made for any reduction in expenditure on pensions resulting from contracting out of the new scheme (see para. 12 below).

**11.** The rising extra cost shown in the table compared with the present benefits reflects the gradual increase in the average pensions awarded during the twenty-year maturity period and the growing proportion of pensioners in receipt of new scheme pensions. The extra cost of widows' benefits includes the cost of paying scaled-down widows' pensions to certain widows whose husbands have died before the start of the new scheme (see paragraph 81 of the White Paper).

**12.** It is the Government's intention to enter into discussions with interested parties with the object of devising a system of partial contracting out for members of occupational pension schemes (see chapter 5). It is envisaged that both the persons covered by such arrangements and their employers will pay lower contributions than those for the generality of employees and that there will be corresponding deductions from personal retirement pensions. This will have a material effect on the finances of the scheme, since the reduction in contributions will be felt immediately, but the corresponding saving in expenditure on pensions will emerge only gradually as the individuals concerned come to draw their pensions. Until the terms of contracting out have been fixed and details become available about the numbers involved it is not possible to estimate what its effect will be. The estimates shown in the tables make no allowance for contracting out but, in paragraphs 14 and 17 below, some indication is given of the possible effect on the fund.

**The progress of the fund**

**13.** Table 7 shows how the income from contributions of 4½ per cent of earnings, subject to a ceiling, from employees and 4½ per cent of all earnings from employers, together with Exchequer supplements and interest, would exceed outgo in the early years. The figures, like those in Table 6, are based on constant earnings. They indicate that, subject to the qualifications set out in the following paragraphs, and before allowing for contracting out, the income, including interest on the growing fund, would exceed outgo for about 15 years.
TABLE 7
Estimated income and outgo and changes in the balance in the National Superannuation Fund
on the basis of the proposed initial rates of contribution

(Based on April 1968 earnings and with no allowance for contracting out)

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure on benefits £ million</th>
<th>Costs of administration £ million</th>
<th>Contributions from insured persons and employers £ million</th>
<th>Exchequer supplements £ million</th>
<th>Interest £ million</th>
<th>Excess of income over outgo £ million</th>
<th>Balance at beginning of year £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-73</td>
<td>1,898</td>
<td>37</td>
<td>1,941</td>
<td>361</td>
<td>31</td>
<td>398</td>
<td>—</td>
</tr>
<tr>
<td>1977-78</td>
<td>2,093</td>
<td>40</td>
<td>1,969</td>
<td>366</td>
<td>31</td>
<td>283</td>
<td>1,756</td>
</tr>
<tr>
<td>1982-83</td>
<td>2,321</td>
<td>42</td>
<td>2,044</td>
<td>380</td>
<td>81</td>
<td>176</td>
<td>2,954</td>
</tr>
<tr>
<td>1987-88</td>
<td>2,627</td>
<td>45</td>
<td>2,129</td>
<td>396</td>
<td>115</td>
<td>—</td>
<td>3,439</td>
</tr>
</tbody>
</table>

* At a rate of 3 per cent on the growth in the Fund and including £25 million assumed to be interest on the National Superannuation Fund’s share of the balance in the existing National Insurance Funds.

† In addition to the part of the existing National Insurance Funds transferred to the National Superannuation Fund.

14. As mentioned in paragraph 12 above, contracting out would lead to an immediate reduction in contribution income and a consequent saving in benefits emerging only gradually. The period during which the National Superannuation Fund will continue to increase will, therefore, be reduced to an extent depending on the numbers of employees who are contracted out, the amount of the reduction of contributions and, to a smaller extent, on the terms finally agreed for relating the reductions of pension to those of contributions. For example, for those at present contracted out (i.e. some 4½ million men and ¾ million women), each ½ per cent a side reduction in the contributions would reduce the period of growth of the fund by about ½ years, and the maximum size of the fund would be correspondingly reduced.

15. The estimates of growth in the fund given in Table 7 and in paragraph 14 above are necessarily speculative, since its progress will be very sensitive to changes in benefit costs and contribution yields which might result from causes other than contracting out. For example, costs of pensions can be affected by changes in pensioners’ mortality rates or by patterns of retirement; and in so far as the rate of augmentation of benefits in payment over a period might differ from the rate of increase of earnings, there would be a departure from the relative position shown on the basis of constant earnings.

Future changes in contribution rates

16. The financial position of the scheme will have to be examined from time to time and adjustments to contributions or benefits may be necessary to meet changing circumstances. In any event it is to be expected that an increase in contribution rates will be required for the National Superannuation Fund when the annual income begins to fall short of outgo. An indication of the contributions needed to meet the costs on a pay-as-you-go basis is given in Table 8, which sets out the percentage rates of contribution for certain years assuming that Exchequer supplements are payable at the present proportions. The rates represent the total rates for employees and employers jointly (the employees’ rate being subject to a ceiling) on the assumption of constant earnings, but can be assumed to show the rates that would be needed if benefits as well as contributions were to rise in line with earnings. No allowance has been made for interest on the fund built up from the surpluses expected in the early years, but Table 7 shows that interest income would be relatively small in relation to benefit expenditure.
TABLE 8
Estimated joint rates of contribution from employed persons and employers which would be required to finance the National Superannuation Fund on a pay-as-you-go basis in certain years

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of contribution (employee and employer jointly)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-73</td>
<td>7.7</td>
</tr>
<tr>
<td>1977-78</td>
<td>8.4</td>
</tr>
<tr>
<td>1982-83</td>
<td>8.9</td>
</tr>
<tr>
<td>1987-88</td>
<td>9.7</td>
</tr>
<tr>
<td>1992-93</td>
<td>10.4</td>
</tr>
<tr>
<td>1997-98</td>
<td>11.1</td>
</tr>
<tr>
<td>2002-03</td>
<td>11.4</td>
</tr>
</tbody>
</table>

Notes
(i) The rates in this table do not allow for contracting out (see para. 17 below).
(ii) The initial joint rate proposed is 9\(\frac{1}{4}\) per cent (4\(\frac{1}{2}\) per cent subject to a ceiling for employees and 4\(\frac{1}{2}\) per cent with no ceiling for employers).

17. It follows from paragraph 16 above and Table 8 that, before allowing for contracting out, the joint rate of contribution for the National Superannuation Fund (initially 9\(\frac{1}{4}\) per cent of earnings) might have to be raised to about 10 per cent after 20 years and to about 11 per cent by the end of the century. Contracting out would result in a loss of contributions which for the years shown would exceed the saving in benefit expenditure so that the rates in the table might be too low to an extent depending on the numbers contracted out, the rate of increase in earnings, and the terms which might be agreed for the reductions of contributions and pension. With the present proportions contracted out the shortfall in the rates of contribution might be of the order of 0.1 per cent of earnings for each \(\frac{1}{4}\) per cent a side by which the rate of contribution was reduced.

18. Even after 30 years, some pensions in payment will be based wholly or partly on the flat-rate benefits of the present scheme and it is estimated that the average pension in payment will still be some 10 per cent lower than the full rate under the new scheme. Other things being equal, therefore, the joint rate of contribution required for the National Superannuation Fund would probably have to be increased by a further 1 per cent of earnings (\(\frac{1}{4}\) per cent a side) over the early part of the next century to deal with this feature. The actual rate of contribution required at any time, however, is determined not only by the degree of maturity of the scheme and the other factors referred to in earlier paragraphs, but also by the relative numbers of pensioners and contributors. Estimates for the more distant future will depend to an increasing extent on the numbers of future births and any estimates of rates of contribution for periods more than 30 years ahead would be very speculative.

19. The effect of many of the factors which will play an important part in the development of the scheme will not become clear until it is brought into force. For example, the extent to which employers will take advantage of an option to contract out of part of the retirement pension and the age and salary after consultation with interested parties. Similar uncertainty applies to the provision under which voluntary contributions will be paid by workers with very low earnings and others outside the scope of compulsory contributions. The whole pattern of claims, particularly for benefits in the Social Insurance Fund, may well be changed by the new benefit provisions and in particular by the inclusion of all employed married women. It will, therefore, be necessary to follow the development of the scheme and the level of claims particularly carefully during the early years.

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CABINET

CENTRAL LANCASHIRE NEW TOWN

Note by the Chancellor of the Duchy of Lancaster

At their meeting on 5th February, 1965, the Cabinet decided in principle in favour of establishing a new town in Central Lancashire at Leyland/Chorley (CC(65) 7th Conclusions, Minute 5).

2. Subsequently, officials were instructed by the Ministerial Committee on Environmental Planning to consider a report by consultants evaluating the effect on North East Lancashire of the proposed new town in Central Lancashire; and to put forward recommendations for action in the light of the views of the Regional Council and the local authorities concerned,

3. The views of officials are summarised in the accompanying note which, in the absence of the Chairman of the Ministerial Committee on Environmental Planning, I am circulating for consideration by the Cabinet. The recommendations for action are summarised in paragraph 11.

F. L.

Department of Economic Affairs, S.W.1.

13th December, 1968
1. At their meeting on 14th March 1968 the Committee (EP(68) third meeting, item 5) instructed the Official Committee to consider the report by consultants evaluating the effect on North East Lancashire of the proposed new town in central Lancashire; and to put forward recommendations for action in the light of the views of the Regional Council and the local authorities concerned.

2. The new town proposal was first announced by the Government in February 1965. It is for the development in the Preston/Leyland/Chorley area, which at present has a population of some 250,000, of a large new city which would grow, by immigration of 150,000 and natural increase, to a population of about 500,000 by the end of the century. This development would not only help to meet the long-term needs of overspill and population increase of the North West as a whole; as a large and concentrated development it would offer the opportunity to create a centre of economic growth, and so accelerate the industrial revival of Lancashire. For these reasons the proposal is strongly supported by the North West Economic Planning Council and the County Council. Consultants have reported that the site is well suited in capacity and location for these purposes; and have proposed an area that should be designated as the site of the new town.

3. The proposal has, however, aroused apprehensions in neighbouring North East Lancashire - the areas of Blackburn, Burnley and Rossendale. This is a typical 'grey area' of the kind whose problems are now being studied by the Hunt Committee. Consultants have made a separate study evaluating the likely effects of the new town on North East Lancashire. This suggested the project would have both advantages and disadvantages for North East Lancashire, but these were likely to become evident only after about 1980. This allows time for North East Lancashire to improve its comparative position.
4. The North East Lancashire authorities do not oppose the new town proposal as such, but ask for safeguards. Some of these are in fields on which decisions must await the report of the Hunt Committee. Their other concerns relate to communications, the problem of urban renewal, and the need for a plan for the future of the area, on which some progress can be made now.

5. The new town proposal in relation to both Central and North East Lancashire is dealt with in detail in the Ministry of Housing and Local Government paper annexed. But there are four main aspects which the Official Committee has considered.

The Impact of the New Town

6. The consultants' judgement that the new town would have little effect on North East Lancashire in the first decade can be accepted. Their assessment that in the longer term the new town would have an increasingly complex effect which would include increased travel to work in the new town, a stimulus to the growth centres of industry and increased difficulties for declining ones, with overall an accelerated rate of change, seems broadly right. The consultants did not consider that the new town would attract industries which otherwise would have moved to North East Lancashire. In the longer term the people in the area must benefit from the access to wider job opportunities and city scale facilities which improved communications and the growth of the new town would give them. None of this suggests such adverse effects on North East Lancashire that the new town proposal ought to be abandoned or substantially modified.

7. On the other hand there are powerful reasons for proceeding with the new town. The problems of overspill from the conurbations and long term population growth in the region must be met. The town will help to limit both outward migration from the region and further congestion in the Manchester/Liverpool belt; and as a new centre of growth it should make a major contribution to promoting industrial revival.

Supply of Industry

6. The movement of population to the new town would have to match an increase in the number of jobs. Over the whole period of the new town's development - which would not get under way before about 1972 - this will require the movement to the new town of substantial manufacturing employment. For this the new town will draw primarily on the South East Lancashire conurbation as the population exporting area, and on the region generally. Lancashire as a whole has shown a capacity to generate employment for its population, as shown by the extent to which the consequences of the
decline of the textile and mining industries have been absorbed. Moreover, the new town is well placed, with excellent road and rail links, and can offer a markedly attractive location for industry. It also has a strong existing industrial base. The Official Committee considered that these factors gave sufficient assurance about industrial prospects at this stage to proceed with the proposal.

Public Expenditure

9. The appendix to the annexed note gives a projection of the total of both public and private capital investment likely to be required for the new town up to 1981. To a considerable degree this represents the concentration in this area of investment which would in any case be required to accommodate the population. The Committee have also considered the more immediate effects on public expenditure within the period of the current public expenditure survey. Even taking an optimistic view of progress, the new town would still be only in the preliminary stages of development during this period. The major part of such public investment as may be required would be on housing, which forms part of, and is contained within, the national housing programme. Investment under other heads would be negligible or nil for 1969/70 and barely significant in 1970/71, with some increase thereafter. But in any event, the Ministry of Housing and Local Government will so order their priorities as to contain the calls on their investment programmes during the period of the current public expenditure survey within whatever limits may be established in the Public Expenditure Committee. While the position of Treasury Ministers has been formally reserved, the Official Committee do not consider in the light of this assurance that the new town proposal should be deferred for public expenditure reasons.

Timing of the Announcement

10. The new town proposal has been the subject of much study and widespread consultation since it was first announced by the Government in early 1965. All the local authorities in the area now recognise the need for early decisions to end uncertainty. There is no significant outright opposition among them to the new town proposal as such. The North East Lancashire authorities are, of course, concerned about their industrial future and the measures the Government may take for 'grey areas' in the light of the report of the Hunt Committee; but they do not argue that the making of a draft designation order should be held up for this reason. A draft designation order, which would bring matters to the stage where a specific proposal can be the subject of objection and public enquiry, would lead to a final decision in the latter part of 1969. The
The report of the Hunt Committee will be available well before then. The Official Committee accordingly consider, that it would now be right to proceed to a draft designation order as soon as possible.

**Recommendations**

11. The Official Committee endorse the proposal that the Government, as a major development of their regional strategy for the North West, should announce decisions:

(i) to proceed with the Central Lancashire New Town proposal, and to make a draft designation order;

(ii) to accept the case for an improved road link between the Calder Valley and the M.6;

(iii) to commission the preparation of pilot schemes of area improvement in North East Lancashire;

(iv) to invite the Lancashire County Council, the Blackburn County Borough Council and the Burnley County Borough Council to prepare a sub-regional plan for North East Lancashire, which will make the best advantage of the new road, reserve sites for industry, and generally assess and make provision for the future potential of the areas.

(Signed) R. N. HEATON

Cabinet Office,
LONDON, S.W.1.
11th December, 1968
CENTRAL AND NORTH EAST LANCASHIRE

Note by the Ministry of Housing and Local Government

1. The Cabinet at its meeting on 5th February 1965, (C.C.(65) 7th Meeting, Item 5), approved in principle the proposal for a new town in Central Lancashire. Consultants were subsequently appointed to advise on the area to be designated for the new town and to prepare a draft master plan. Their report on the first part of their commission "Central Lancashire - Study for a City" (the "Designation Report") was published in May 1967. They recommended the designation of some 11,500 acres in Central Lancashire, including the whole of the County Borough of Preston as well as the Leyland/Chorley area, for development under the New Towns Act.

2. Following the publication of this report, the Ministerial Committee on Environmental Planning approved a proposal for a further study to assess the effect of the new town on North East Lancashire (E.P.(67) 5th Meeting Item 2). The consultants' report "Central Lancashire New Town Proposal - Impact on North East Lancashire" (the "Impact Study") has now been published. A summary was circulated with E.P.(68)9.

3. At their meeting on 14th March 1968 the Committee (E.P.(68)3rd Meeting Item 5) instructed the Official Committee on Environmental Planning to consider the Impact Study and to put forward recommendations for action in the light of the Study and of the views of the Regional Council and other authorities to be consulted.

The consultants' reports

4. The purpose of the proposed new town was stated in the consultants' remit as being to provide for the long-term overspill needs of the congested areas of the North West and particularly of the Manchester conurbation; and to contribute to the industrial revival of the whole region. The designation report envisaged the accommodation over 20 years of an incoming population of 150,000 to form.
with the existing population and natural growth, a city of some 500,000 by the end of the century. The consultants said that their proposed designated area satisfied all the locational requirements for a major growth area; good communications; firm level sites for industry; a sizeable town - Preston - suitable for the further development of city functions; and a certain proportion of modern industry and its associated skills. In their view the opportunity in this area to create a new city with high standards of environment and accessibility should, with the potential for economic growth, combine to produce a new image for the North West, powerful and attractive enough to redress the present regional imbalance of population and prosperity.

5. In the Impact Study the consultants broadly conclude that the development of the town will not significantly affect North East Lancashire until after about 1981: that it will then have increasingly a complex effect, which will include; an increased travel to work in the new town; a stimulus to activities in the growth sectors of industry; increased difficulties for the declining centres; and overall an accelerated rate of change. They suggest that for North East Lancashire to secure the maximum benefit from the new town there should be:

(a) a good new road connection from the M.6 up the Calder Valley;
(b) a special effort to improve and renew the urban fabric;
(c) the reservation of areas suitable for industrial development;
(d) a substantial expansion of industrial training facilities.

They say that the primary need of North East Lancashire is assistance with communications and the task of rehabilitation and renewal rather than industrial incentives.

Views of the North West Economic Planning Council

6. In "Strategy II - The North West of the 1970s" (paras. 85 and 86) the Council recommended that the new town should go ahead as soon as possible. They considered that the new town would substantially reduce the scale of the conurbation problems posed by population expansion, and could provide the North West with a major new growth point in an area whose potential had hitherto been largely neglected. It would help to counteract the decline in the traditional industries of the surrounding areas, and its new industries should encourage more firms to move both into the new town and into the surrounding areas.
areas, thus increasing the prosperity of the whole of the Fylde and North, North East and Central Lancashire.

7. The Council have re-affirmed these views in the light of the Impact study. They urge that a designation order should be made as soon as possible to avoid further uncertainty and to establish a firm basis for future planning in the Central/North East Lancashire area. They emphasize that the problems of the older developed areas of North East Lancashire should not be over-looked (the Council had previously proposed a long-term study of the area). A similar view concerning the new town was expressed to the Prime Minister when he met the Council earlier this year, and the Prime Minister then said that the Government agreed in principle with the need to proceed with the proposals.

Views of the County Council

8. The Lancashire County Council strongly support the new town proposals and urge an early designation order to correspond broadly with the area recommended by the consultants. They consider that the designation of a substantially smaller area would fail to secure a build-up leading to self-sustaining growth, would fail to promote the high standard of design and environment required in the region, and would not allow the creation of a sufficiently large industrial complex to support the requisite variety of enterprise. They say that the Impact Study tends to confirm their view that the new town will have no damaging effects on North East Lancashire, but will act as a stimulus for growth and activity in the area.

Views of local authorities within the proposed designation area

9. Preston County Borough Council also support the new town proposals (but reserve their position on satisfactory financial arrangements with the Development Corporation).

10. The designation proposals are generally acceptable to the second tier authorities south of Preston. However, the district councils affected by the part of the proposed designated area which extends north east of Preston beyond the M.6 (the "Longridge spur") object to this aspect.

Views of the local authorities outside the proposed designation area

11. Joint and unanimous representations have been made by a Conference of North East Lancashire Authorities, which includes all of the first and second
tier authorities in North East Lancashire except for the County Council and
the Withnell and Barrowford Urban District Councils.

12. The Conference say that they will be compelled to object to the new town
designation order if there are not sufficient safeguards for North East
Lancashire. They say in general:—

(a) that they should not be asked to make a final decision on the new
town until the Government's intentions on industrial incentives (i.e.
following the report of the Hunt Committee) are known;
(b) the "Longridge spur" should be omitted from the designated area,
pending determination of the right form of development for North East
Lancashire.

13. The Conference ask for the following specific and general safeguards:—

(a) The proposed new road up the Calder Valley should extend to a
connection eastwards to M.1 and A.1;
(b) There should be pilot operations in area improvement in North East
Lancashire;
(c) North East Lancashire should have the 85% Development Area rate of
grant for clearing derelict land instead of the normal 50%;
(d) North East Lancashire should have equal priority with Development
Areas in allocation of urban renewal grants;
(e) The Minister should accept in principle that there should be
provision for growth of population and industry in North East Lancashire
to the full extent of the area's potential;
(f) The Minister should reject the conclusion in the Impact Study that
the area's primary needs are better communications and help with
environmental improvement rather than industrial incentives. North East
Lancashire can accommodate major industrial growth, and a strengthened
and diversified economy is crucial to the future of the area;
(g) Any tendency of the new town to reduce job opportunities in professional
and administrative fields should be reversed by the decentralisation of
central government offices to the area and by the siting of appropriate
regional or sub-regional services throughout the area, including the
Third Polytechnic for Lancashire.
14. Wigan County Borough have expressed concern about the new town on a number of occasions. Their main fear has been that development in Central Lancashire would be at the expense of the renewal and development of South Lancashire, and Wigan in particular. They now say that they will not object to the new town if they can be assured that the new town will not be at the expense of development which would otherwise have taken place in South Lancashire and will not be regarded as setting the future pattern of development in that area. Wigan also claim that any special measures taken to assist the North East Lancashire authorities should automatically be made available to South Lancashire, and to Wigan in particular.

**Appreciation**

15. It is now necessary to view together Central and North East Lancashire, in the light of regional needs, and to determine what action will best help to meet the needs of the area and to advance the Government's regional policies.

16. Central Lancashire has been a relatively stable area in recent years. It contains some substantial representatives of growth industries in Preston and Leyland. It is well placed on national and regional communications and presents good sites for development.

17. North East Lancashire has a population of nearly 500,000. It has suffered from the decline of cotton and coal, on which it was heavily dependent. The population has declined, with substantial emigration. Its urban fabric is largely worn out. It is an obvious 'grey' area. It is not however in irreversible decline. Blackburn in particular, by vigorous effort, has achieved a position of relative stability. Several substantial schemes of town centre renewal are under way. Housebuilding has reached a post-war peak. Schemes in the current road programme will substantially improve the southward communications.

18. The calculations in the North West Economic Planning Council's "Strategy II" are, basically, an up-dating of figures published in 1965 in the North West Study. They suggest that the Manchester sub-region will have a deficiency of up to 23,000 house sites in 1981, even assuming that 15,000 families have moved to a new town in Central Lancashire. A more recent calculation by the Ministry of Housing and Local Government, after discussion with the local...
planning authorities, suggests that the conurbation must export up to 44,000 families by 1981 to Central Lancashire or elsewhere. This figure assumes that 22,000 families will by then have been housed in other overspill schemes outside the conurbation. In fact a number of these schemes are certain to fall short of their targets and the figure of 44,000 will therefore be exceeded.

19. The Merseyside conurbation has yet larger overspill requirements for which provision has not yet been made: "Strategy II", on a similar basis to the Manchester Calculation quoted in the preceding paragraph, suggests a deficiency of up to 42,000 house sites by 1981, even allowing for the new towns at Runcorn and Skelmersdale. It is right to take these needs into account and to envisage that the Central Lancashire New Town should make some contribution to meeting the needs of North Merseyside.

20. Looking beyond 1981, in the twenty years to 2001, the population of the region - already the most densely populated of the economic planning regions - is expected to grow by some 1.5 million; provision must be made to accommodate much of this growth outside the conurbations.

21. The question is whether the new town is the best way of making provision for the needs referred to in the three preceding paragraphs.

22. Distribution of the immigrant population in and throughout Central and North East Lancashire - even if that were practicable - would not maximise the effect on the area's economy and prosperity. The impact (and effort) would be too dispersed. Concentration as far as possible on a single suitable location will channel population growth in this part of the country in a way most likely to raise to a higher level the facilities available to the population, to generate an expanding industrial base, and to produce the best possible modern environment. The most suitable location for such a development is in Central Lancashire.

23. No development of this kind will secure a rapid and dramatic benefit to neighbouring areas, and the consultants' judgment that the new town would have little effect on North East Lancashire in the first decade can be accepted. The longer-term effects on North East Lancashire are less easy to foretell, but the consultants' assessment (paragraph 5 above), though possibly tending toward optimism, may well be broadly right. On the narrowest view people in
North East Lancashire must in the longer term benefit from having the access to rider job opportunities and to city-scale facilities which improved road communications in the area and the growth of such a new town would give them; but in fact the attractiveness of North East Lancashire as a location for modern industry could hardly fail to be, at least to some degree, improved by the proximity and example of successful large scale expansion.

The New Town proposal, first announced in 1965, is one for the location in the northern part of the country of a substantial investment. There is no comparable proposal capable of early implementation in current regional strategies for the north. To abandon this project would be to accept that outward migration from the area and from the region should continue, to make inevitable yet further congestion of the Manchester/Liverpool belt, and to forego the opportunity to create a new area of growth of benefit to the region as a whole.

Action proposed in North East Lancashire in the light of the Impact Study and of local authority views

The Ministry of Transport accept the case for an improved road link between the Calder Valley and the M.6., and that this will be strengthened by the expected road traffic in the area arising from the effect of the new town. The sort of road required, its effect on the area's road system and the phasing of its construction with the development of the new town are all matters which must be carefully worked out and the Ministry have commissioned the Lancashire County Council to carry out a feasibility study. The Council have set up a steering group at official level comprising their own representatives, representatives of the Ministries of Transport and Housing and Local Government and highway and planning representatives of each of the county boroughs and district councils in the Valley and is drawing the New Town consultants into the group's deliberations.

North East Lancashire, like other older industrial areas, needs a determined effort to improve houses which will inevitably remain in use for a number of years, and their immediate environment. The Government's proposals for promoting this were set out in "Old Houses into New Homes" (Cmnd. 3602). In the circumstances of North East Lancashire there would be advantage in the commissioning by the Government, in consultation with the local authorities, of the preparation of one or two pilot schemes in a form which could provide lessons of general application, lead quickly to action on the ground, and serve as pace makers for the general effort which will be needed by all local authorities in North East Lancashire. In this way an improvement of living conditions in North East
Lancashire can be promoted in parallel with the improvements which the new town will bring to Central Lancashire.

27. The need for expansion of industrial training or retraining facilities in the area would be kept under continuous review by the Department of Employment and Productivity and the Industrial Training Boards.

28. A sub-regional physical plan for North East Lancashire is now needed, to secure the best advantage from improved communication, to set aside land for industrial development, and to set the lines for such measure of growth as the area may support. This plan will be able to take into account whatever decisions follow the report of the Hunt Committee. It would be appropriate for it to be prepared by the three local planning authorities (Lancashire, Blackburn, Burnley) in consultation with the Regional Economic Planning Council and Board but some leadership by the Government may be necessary if progress is to be made.

29. There are accordingly a number of positive actions which can be taken now in relation to North East Lancashire, which follow the lines suggested by the consultants, form part of a single strategy with the establishment of the new town, provide solid evidence of the Government's concern for the area, and meet in a number of important respects the views of the local authorities in the area.

30. The measures proposed do not meet all the demands of the North East Lancashire authorities for action in North East Lancashire to safeguard their position if the new town goes ahead. The authorities place first on their list a proposal for the construction of a new road eastward to link the area with the M.1. The Ministry of Transport consider that there is at present no evidence to justify this, and that the completion of the M.62 in the early 1970s, and other planned improvements to existing roads, will cater adequately for the cross-Pennine traffic movement; second, the local authorities propose that the area should in certain respects (rate of grant for restoring the derelict land, priorities in urban renewal grants) be treated as a development area; and they emphasise the need in their view for industrial incentives. But it would not be right to single out North East Lancashire for special treatment now on matters such as these which the Hunt Committee are still considering.

Industry, Employment and Timing

31. Within the North West, Central Lancashire presents an attractive location for industry. It is well placed on national communications, the main line
railway and the M.6; and, being at the latter's junction with the M.61 (Preston–Manchester) which connects with the M.62 (Lancashire-Yorkshire) it is on regional communications which will be much improved in the 1970s; suitable large, level sites can be made available; several large national firms are established in the area; it lies close to areas of great natural beauty. The development here of a strong and expanding industrial complex must be of major long term benefit to the whole region.

32. It is reasonable to suppose that the North West Region as a whole - the most densely populated region with a population of some six million - would, in times of economic prosperity, generate enough new projects to meet the Central Lancashire requirement. Lancashire has shown a remarkable capacity to generate employment for its population and to absorb the consequences of the decline of the textile and mining industries. But it is difficult to assess with precision the prospects of securing a sufficient build-up of employment to match the planned population growth. In addition to expansion of firms within the new town, Central Lancashire will have to look for its industry primarily to the population-exporting areas and especially to the Manchester conurbation. But the conurbation may not have a large enough share of fast-growing manufacturing industries to give assurance that it will be a sufficient source of new projects. Some gap may remain to be filled.

33. The prospects of attracting sufficient industry are dependent both on the performance of the national economy, and on the pattern of inducements for, and control of, industrial development throughout the country. Looked at in the light of today, with limited growth of industry and consequently relatively limited supplies of mobile industry, and in advance of decisions following the report of the Hunt Committee, it cannot be asserted that no shortfall in supply of industry would remain to be filled from elsewhere than Manchester. But looking to the long term of years over which the project is envisaged, it is right to say that the site presents the characteristics and advantages which are necessary to its success.

34. The North East Lancashire authorities urge that no further decision should be taken on the new town until the Government can announce their conclusions, following the report of the Hunt Committee. (This means at best the spring or summer of 1969). The concern of these authorities is that they should see what is to be done for them as "grey areas" before the new town proposal goes forward. There will in any case be strong pressure for Central and North East Lancashire to be treated equally in deciding the application of any new policies on the basis of the Hunt report. Meanwhile, as the Impact Study indicates, the new town could have no major effect on North East Lancashire for a number of years.
A decision now to proceed with the new town proposal would be given effect by a draft designation order under the New Towns Act. This would be open to objection and to public local inquiry. If an objection were maintained by a local planning authority, the final designation order would be subject to the negative resolution procedure in Parliament. The final stage in the statutory designation procedure would, in consequence, not be reached until fairly late in 1969, by which time the Government should have received and considered the Hunt report.

There are strong arguments for proceeding now to a decision to publish a draft designation order:

(a) the need for the new town arises from population pressures for which provision must be made. If it is deferred, there will be further search for short-term and second-best solutions, such as further unacceptable spread of the conurbations, to the prejudice of this strategic proposal;
(b) there are substantial Ministerial commitments in principle to the proposal, which was first announced in February 1965, and which has been widely welcomed as an unprecedented proposal for an important concentration of public and private investment in the region, and in the North generally;
(c) the new town proposal is a cardinal feature in the plans of the North West Region Economic Planning Council, and was emphasised as such in their report "Strategy II" to which the Government will soon need to reply;
(d) for these reasons there is strong pressure from the County Council, the Regional Council, the local authorities in the new town area, and from much opinion in Lancashire, for an early decision to proceed.

In the light of these considerations it is recommended that the right course is to proceed now to a draft designation order, accepting that when the time comes for policy decisions arising from the Hunt report the industrial needs of the new town will to some extent at least have to be taken into account.

The Designated Area

The designated area proposed by the consultants is too large, since it is based partly on an assumption of lower densities of development than should reasonably be achieved. A number of reductions are proposed, which are described in appendix 1. They reduce the area from some 51,000 acres to about
3,000 acres, and still allow the flexibility necessary to achieve the purposes of the town. It would not, however, be right to go further and delete entirely the "Longridge spur". This truncation of the area would make it impossible to achieve the scale of growth proposed. It would also remove the fine opportunity which the terrain in this part of the site presents for building to a high standard of amenity and environment in a way that will be an example to the region. The development of this part of the site will not materially affect the overall interaction between the new town and North East Lancashire, for its direct links will be urban ones into Preston.

39. The calls made by the new town on public expenditure within the period of the current Public Expenditure Survey are not large, and the Ministry of Housing will order their priorities to contain the calls on their programmes within whatever limits may be established in the Public Expenditure Committee. The main expenditure would fall later than the period covered by the current Public Expenditure Survey. In the report of the New Towns Working Group (WT(67)23) broad estimates were made of the total capital investment (public and private sectors) expressed as a call on national resources, for the new towns programme as a whole. The programme included provision for new town development at Ashford, which has since been abandoned, and at Stansted - which as a commitment can be abandoned. These estimates included provision for the Central Lancashire New Town. The estimates for this town should now be amended to take account of the delay in starting, and also to take account, in the late 1970's, of a build-up to a higher rate of development in the 1980's. The previous and amended figures are in appendix 2.

Recommendations

40. As a major development of their regional strategy for the North West, the Government should announce decisions:

(i) to proceed with the Central Lancashire New Town proposal, and to make a draft designation order;

(ii) to accept the case for an improved road link between the Calder Valley and the M.6;

(iii) to commission the preparation of pilot schemes of area improvement in North East Lancashire;

(iv) to invite the Lancashire County Council, the Blackburn County Borough Council and the Burnley County Borough Council to prepare a sub-regional plan for North East Lancashire which will make the best advantage of the new road, reserve sites for industry, and generally assess and make provision for the future potential of the areas.

Ministry of Housing and Local Government
5th December 1968
The Proposed Designated Area

On Plan A attached, the area originally proposed by the consultants for designation is shown edged with a black line. It covers some 51,460 acres. The area now proposed for designation (about 41,700 acres) is edged in blue, and the changes of the various areas whose exclusion is proposed are also shown. (In two cases, a slight extension is proposed, to give more logical boundaries). The proposed cuts do not affect the structure of the new town area, and consist mainly of relatively minor boundary adjustments. The two most significant are:

(a) The exclusion of 2810 acres south-west of Chorley, including the village of Coppull. This may not be welcomed locally; it will be argued that Coppull will come under strong development pressures, best channelled and controlled by the New Town Corporation. But this can also be said of other villages just outside the proposed designation area, particularly Adlington (which has asked to be included). The exclusion of the Coppull area has the advantage of taking the new town boundary further from Wigan, and the justification for including it in the designated area is slight.

(b) The exclusion of 1699 acres of valley plain and escarpment along the south bank of the river Ribble. The consultants recommended its inclusion in the designated area to ensure that it was preserved for recreational and amenity purposes. But designation is not essential for this purpose. The river forms a traditional boundary at this point, and the exclusion of this area is likely to be welcomed locally.

A summary of the proposed reductions is given below:

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<thead>
<tr>
<th>Proposed Reductions</th>
<th>Acres</th>
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<tr>
<td>North of Preston</td>
<td>698</td>
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<tr>
<td>North East of Preston (4 areas near Longridge and Whittingham)</td>
<td>1254</td>
</tr>
<tr>
<td>North East of Preston (Areas south of River Ribble and near Ribchester)</td>
<td>1985</td>
</tr>
<tr>
<td>North East of Chorley</td>
<td>894</td>
</tr>
<tr>
<td>North West of Chorley (including Coppull)</td>
<td>2810</td>
</tr>
<tr>
<td>North West of Leyland</td>
<td>641</td>
</tr>
<tr>
<td>West of Preston (2 areas)</td>
<td>1479</td>
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<tr>
<td>Net of Preston</td>
<td>9761</td>
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## CENTRAL LANCs NEW TOWN

Capital investment (public and private)  
(£m - at present values)

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<tbody>
<tr>
<td>1. N.T.W.G. projection</td>
<td>1</td>
<td>5</td>
<td>9</td>
<td>15</td>
<td>18</td>
<td>19</td>
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<td>2. Revised projection</td>
<td>-</td>
<td>1</td>
<td>5</td>
<td>8</td>
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<td>19</td>
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<td>19</td>
<td>19</td>
<td>22</td>
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<td>27</td>
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Total: 200m.

Total revised: 192m.
20th December, 1968

CABINET

UNITED KINGDOM PASSPORT HOLDERS IN KENYA AND UGANDA

Memorandum by the Secretary of State for the Home Department

On 16th December the Ministerial Committee on Immigration and Community Relations considered the attached note prepared by officials.

2. If the Governments of Kenya and Uganda carry out their expressed intentions, and the prospect is that they will, we face a serious situation. At worst some 30,000 Asian immigrants, including dependants, may seek to enter this country from East Africa next year in addition to the normal flow of voucher holders and dependants from elsewhere in the Commonwealth unless either drastic action is taken to reduce this normal flow or we can succeed, with the co-operation of the Indian Government, in diverting a good part of the exodus from East Africa to India itself. This is on top of the Asians already being admitted, mainly from Kenya, under the arrangements made following the passage of the Commonwealth Immigrants Act, 1968 last February. We have succeeded in keeping them down to an annual rate of 6,000-7,000.

3. So far the problem of United Kingdom passport holders has been limited to East Africa, but there is a potential danger, though on present information it is not immediately imminent, of a similar situation arising in the Federation of South Yemen where there are some 30,000 Asian or Somali United Kingdom passport holders at risk of being denied local citizenship under the policy, in this instance, of "arabisation".

4. The Ministerial Committee took no decision on policy, but they did on the handling of the problem arising in Kenya and Uganda. Paragraph (d) on page 5 of the attached note draws attention to action that could be taken in the context of the Commonwealth Prime Ministers' Conference, and the Ministerial Committee were agreed that this gathering would provide the best opportunity for bilateral discussions with Presidents Kenyatta and Obote as well as with other Commonwealth leaders who might be able to bring pressure upon the Governments of Kenya and Uganda to moderate their actions, if not their policies. I am taking up with the Secretary of State for Foreign and Commonwealth Affairs the question whether we ought not straightaway to put the relevant Commonwealth Governments on notice that we would like to discuss these matters with them informally during the course of the forthcoming Conference.
5. The Ministerial Committee also thought that the Cabinet should be aware of the domestic as well as the Commonwealth aspects of the situation, particularly the extent to which it would be possible or desirable to offset an increase in numbers arriving from East Africa by reductions elsewhere. The political implications at home needed to be weighed so that contingency plans could be prepared.

6. I am accordingly circulating this memorandum to the Cabinet.

L. J. C.

Home Office, S.W.1.

20th December, 1968
U.K. PASSPORT HOLDERS IN KENYA AND UGANDA

Memorandum by Foreign and Commonwealth Office

At their meeting on 4 December the Official Committee on Immigration and Community Relations considered two papers circulated by the Foreign and Commonwealth Office on the intentions of the Kenyan and Ugandan Governments in regard to their Africanisation programmes and the likely effect that these would have on the Asian communities resident in those countries. Since the great majority of the Asian communities in these two countries are citizens of the United Kingdom and Colonies the measures now decided upon by Kenya and under consideration in Uganda cannot fail to bring heavy pressure upon our immigration policy. This paper states the facts as far as they are known and indicates possible courses of action.

Developments in Kenya

2. On 19 October the Permanent Secretary in the Office of the President informed our High Commissioner in Nairobi that the Kenya Government estimated that by the end of 1969 the work permits of some 9,000 non-Kenya citizens of Asian origin, 90% of whom would be citizens of the U.K. and Colonies, would have expired. Only a few of these permits would be renewed and it was expected that some 27,000 people would be likely to leave Kenya, possibly for the United Kingdom. The Permanent Secretary asked how the United Kingdom proposed to deal with this problem, given that our present policy is to allot only 1,500 vouchers a year for entry into the United Kingdom "for the whole of East Africa". Further enquiries by the High Commission have indicated that the 9,000 expiring work permits will be spread over two years from June 1968 to June 1970. Some of these people have already lost their employment and have received vouchers from the 1,200 or so issued this year. The rate of cancellation is expected to be steady, thus the number of cancellations in 1969 may be of the order of 5,000 of whom about 4,500 would be citizens of the United Kingdom and Colonies and cancellations would probably continue at the same rate or perhaps higher in 1970.
developments in Uganda

1. We know that the Uganda Government, in pursuit of a policy of Africanisation, are considering legislation which could be introduced at short notice, the effect of which, by withdrawing all permits and renewing them only on a selective basis, would be designed to reduce the Asian population of Uganda from 80,000 to some 20,000 over a period of 5 years. It is understood that the Uganda Government intend that about 20,000 of these people should leave Uganda within 6 months of the introduction of the legislation. While the exact number of United Kingdom citizens of Asian origin in Uganda is not known, it is expected that about 75% of those required to leave Uganda will be United Kingdom citizens. If our worst fears are realised this could involve a demand for 5,000 vouchers in the first 6 months.

2. We have no definite information as to when the Uganda legislation is likely to be introduced, but we have been told that a Government White Paper on the Africanisation policy is at present with the printers and it is quite likely that the White Paper and the legislation will appear together. The legislation is likely to be passed through all its stages in the Uganda Parliament very rapidly and come into effect immediately. Recent developments have indicated that the Uganda Government may be trying to bring the matter to a head in a way less embarrassing to themselves. Their Minister of Foreign Affairs wrote to our High Commissioner in Kampala on 6 December in the context of a consular protection case involving a U.K. citizen of Asian origin, and in his letter, asked for assurances on the full admissibility to the United Kingdom of all Asian U.K. citizens resident in Uganda. The alternative, he suggested, would be to gazette them all as refugees. Within a few hours of the delivery of this letter, the Minister of Internal Affairs made a public statement to the same effect. We feel that this new tactic may be intended either to remove the need for legislation of the type described above (since it could be held that refugees are not entitled to permanent residence and that they would have to apply for work permits) or to provide the Uganda Government with a ready-made excuse for introducing the legislation at once. No reply has yet been sent to this part of the letter from the Minister of Foreign Affairs.

Scope for Diplomatic Action

5 (a) Kenya

We should clearly make strong representations to the Kenya Government emphasising that we have already made provision to absorb a substantial number of Asian U.K. citizens expelled from Kenya; that our capacity to absorb is already fully stretched, so that an additional influx of the order envisaged would be bound to add greatly to the problems of the existing immigrant community in Britain; and that precipitate action on the Kenya Government's
part in planning to terminate the work permits at an increasing rate presents H.M.G. with serious difficulties. While even an indirect threat regarding a possible effect on our aid to Kenya is out of the question it could be pointed out to the Kenyans that creating difficulties for H.M.G. is a poor return for the considerable effort Britain is making to assist Kenya's development and that there may well be a strong public reaction to the idea that while H.M.G. gives substantial support to the Kenyan economy the Kenyan Government itself deliberately follows a policy of expelling U.K. citizens in such a way as to cause self-inflicted harm to that same economy.

Later in this paper we discuss the possibility of enlarging the quota of special vouchers and this might offer some scope for bargaining with the Kenyans. However, no representations can be expected to reduce the problem to a magnitude we would consider satisfactory.

It is considered that the most effective way of making representations would be to raise the matter bilaterally with the Kenyan representative at the Prime Minister's Meeting. If this course is approved, the High Commissioner would be instructed to inform the Kenyan Government that we would wish to discuss the matter further in this way.
India

The introduction of the Commonwealth Immigrants Bill in February 1968 aroused bitter criticism in India and this was maintained after the Bill had been enacted. The new legislation was seen by the Indian Government and Parliament as racist in intent and an attempt on the part of the U.K. Government to renounce their obligations to their own citizens. To emphasise their disapproval they purported to close their doors to U.K. citizens of Indian origin resident in Kenya who had hitherto enjoyed the right of free entry into India for settlement. However, this restrictive action soon exposed the Indian Government to hostile domestic criticism on "kith and kin" grounds. After informal discussions at official level in New Delhi the Indian Government intimated that they would be prepared to admit for settlement such Asians as were forced to leave Kenya, and who wished to settle in India, provided that this would involve no dilution of our ultimate responsibility for those who were U.K. citizens. An informal understanding was reached in July 1968 as a result of which so far about 1,000 such individuals, including dependants, have secured the right to entry into India for settlement.

In the situation which is likely to develop in 1969, as regards Kenya Asians, it is very much in our interest that this understanding should continue to operate. The question is whether, in view of the much greater numbers who will be obliged to leave Kenya than was envisaged last July, the Indians will be willing for it to do so. They are likely to be sensitive to the "kith and kin" argument as they were before, but their attention is likely even more keenly to focus on our performance in continuing to honour what they regard as our obligations to U.K. citizens. Here the Indians attach particular importance to what Mr. Callaghan said towards the end of the debate on 28th February (Hansard Col. 1501) about having to take "...... a man who was thrown out of work and ejected from the country .....".

Any impression that the United Kingdom Government was seeking to evade its responsibilities might well result in the Indians repudiating the informal understanding of last July and a consequent intensification of the problem as far as numbers coming to the U.K. are concerned. Until there is some indication that the Indians are having second thoughts there is no need to seek reassurance from them which might have the effect of arousing their anxiety and prompting them to review their commitment. It may be necessary to do so at a later stage and particularly if numbers build up significantly. Since the Indians are no doubt aware of Kenyan, and are certainly aware of Ugandan intentions, we shall wish to keep under careful consideration the question of if on when we should take the initiative in discussing the implications. The Indian restrictions on entry apply at present only to those coming from Kenya, but these restrictions would almost certainly be extended to cover those coming from Uganda and when the impending legislation is passed. When the present understanding was being negotiated, the Indians said that if other East African countries became involved "surely, we could simply amend our letters of understanding".

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(c) **Uganda**

The scope for diplomatic action in Kampala is very limited. The combination of the fact that we do not yet have public knowledge of their intentions and the recent demand from the Uganda Government for an assurance that all Asian United Kingdom citizens may enter this country unconditionally at any time that they are required to leave Uganda, makes it highly probable that any approach by the High Commissioner in Kampala seeking to influence Uganda policy before it has been declared would make matters worse.

It is considered that the most effective way of discussing this matter with the Ugandans would be for Ministers to raise the matter bilaterally with President Obote or his representative during the Prime Ministers' Meeting. If this course is approved the High Commissioner would be instructed to inform the Ugandan Government that we would wish to discuss this matter in this way.

(d) **Commonwealth Prime Ministers' Meeting**

While a general discussion on Citizenship and Migration appears low to be out of the question in view of the opposition of several Heads of Government including Presidents Kenyatta and Obote, to the inscription of this item on the agenda, there would be nothing to prevent us from raising this aspect of the problem informally. Possible courses of action open to us include:

(i) Bilateral discussions with the Kenyan Minister attending and also with President Obote or his representative, see sub paras. (a) and (c) above.

(ii) A discussion of our problems with Old Commonwealth representatives with a view to ascertaining the extent to which they might be prepared to co-operate in re-settling U.K. citizens of Asian origin from Kenya and Uganda.

(iii) Action designed to bring pressure upon Kenya and Uganda from the countries which provide the bulk of our immigrants. This might take the form of pointing out to them that if there were a large and continuing influx of U.K. citizens from East Africa we might have to consider making proportionate reductions in the immigration of Commonwealth citizens.
In considering ways in which the policies of developing Commonwealth countries conflict with ours or cause us embarrassment, it is inevitable that the large subventions of aid which the United Kingdom Government gives these countries should be questioned. We consider it would be wrong to use the threat of withdrawing aid in an attempt to influence what is clearly domestic policy arrived at in the exercise of national sovereignty. Apart from the unpleasant consequences which would arise in our relations with Kenya and Uganda, such action would throw doubt upon our whole aid policy, which is conducted on the principle that no conditions are attached to our grants. As far as Kenya is concerned, we stand to lose valuable military facilities, overflying and staging facilities, our commercial interests are considerable, and most of all, we should antagonise the emergent African Government whose views on African policies are more moderate and predictable than most if not all others. A denial or reduction of aid would have serious consequences for the substantial number of European U.K. settlers who have not yet disposed of their land holdings, and for the United Kingdom firms still operating in Kenya. In Uganda, our trade and other commercial interests would probably suffer disproportionately to the amount of the aid which would be saved.

Scope for Domestic Action

6. Ministers will wish to consider what rate of immigration from East Africa should be sanctioned in 1969. Since those concerned are citizens of the United Kingdom and Colonies, other Commonwealth Governments, especially the Government of India, will doubtless maintain that our responsibility is not diminished by the passage of the Commonwealth Immigrants Act 1968. (In Uganda an estimated 10,000 Asians are not citizens of the United Kingdom and Colonies but British Protected Persons, and are therefore distinguishable because they have since 1962 been subject to our immigration control. But in practice the Uganda Government can be expected to regard British Protected Persons as equally our responsibility, as the Kenya Government has already done).

7. As mentioned in paragraph 4(b) above, the Government of India will be keen to detect any tendency on our part to evade our responsibility and in particular will place weight on the United Nations Resolution that the United

[After "East Africa" amend comma to full stop and insert the following:]

It is possible to interpret that 'pledge' literally, as meaning only that we should have to take people actually ejected from East Africa, but not...
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7. As mentioned in paragraph (b) above, the Government of India will be keen to detect any tendency on our part to evade our responsibility and will particularly place weight on the statement during the debate on 28th February that the United Kingdom would have to take anyone thrown out of work and ejected from East Africa, but not those who might become unemployed by the withdrawal of work permits but who are not forbidden to stay here. On this basis we would continue to refuse to accept immigrants unless they had qualified for a special voucher or entry certificate according to our criteria of need; in the hope that the Kenya Government would not set about a programme of expulsion to force our hands. But we have been advised that the presence of a work permit holder becomes illegal on expiry of the permit. (He might get a visitor's pass to enable him to stay for 3 to 6 months, but during this period he would presumably be using up his savings). Moreover, such a course could only be sustained if we were prepared to see United Kingdom passport holders left destitute in East Africa. It is relevant that,
during the debate on 28th February, the Home Secretary indicated agreement with the view expressed by Mr. James Griffiths that we could not "sit down in comfort without taking action if, during the next few months, thousands of Indians, who are United Kingdom citizens like ourselves, became jobless and had no income of any kind." It is also a consideration that it might be more to our advantage, if we are likely to have to take these people in the end, to admit them while they still have some resources.

8. The Home Secretary made it clear in the debate that the 1968 Act was an attempt to control the situation which depended in part on the reaction of other Governments; it was acknowledged that the Act could be "swamped" by the reaction of others, in which case our attempt to get a civilised solution would have failed.

9. But while it may be hard for us to argue for a narrow interpretation of the "pledge", it will be equally difficult to concede openly that it requires us to accept any United Kingdom passport holders left without means of employment in East Africa. This would encourage other Governments to take an increasingly irresponsible attitude, and numbers would be uncontrollable. In any further moves it therefore seems desirable to avoid getting drawn into argument about the precise meaning of the "pledge".

10. Against this background the possibilities open seem to be:-

(a) to maintain that 1,500 remains the maximum number of heads of families we are prepared to admit. This might deter the East African Governments from pushing ahead with Africanisation as rapidly as they propose; but it seems more likely to provoke an intransigent reaction in East Africa and make the Indians less helpful;

(b) to maintain that the basic allocation of 1,500 will remain unchanged, but to provide a supplementary allocation to meet cases of hardship (which could hardly exceed the original allocation in size if this approach was to carry any conviction). The difficulty about this is that the original allocation is already based on hardship, and the distinction between the "basic" and the supplementary allocation would be artificial. This would merely be a not-very-well-concealed method of increasing the total allocation;

(c) to waive any ceiling on the number of vouchers, on the ground that, within the narrow criteria of need we are already applying, we are prepared to accept as many cases as arise. This would imply that we had confidence that the numbers would not be unlimited, because we could maintain our own criteria. But it would rapidly be seen as a waiving of any effective control, and would leave the other governments with a free hand to force the pace.
(d) to increase the allocation of vouchers to take account of the revised situation. This would demonstrate a flexible approach on our part, in accordance with our original declared intention of not imposing a rigid limit. Provided the increase was large enough to indicate a realistic appreciation of the other governments' intentions, it should also give us a reasonable basis for asking for some reciprocal attitude of restraint on their part. In particular, the Indian Government are more likely to be ready to play a helpful part on this basis than they would be to accept people expelled from East Africa.

11. Of these approaches, (d) seems the most likely to be effective. If it is adopted, the two issues to be settled are:

(i) by how much should the allocation be raised; and

(ii) should any compensating reduction in the allocation of ordinary employment vouchers be looked for?

As background to this, the present rate of controlled admission under the two schemes is:

(i) Employment voucher scheme

- Malta: 1,000
- Dependent territories: 600
- Rest of Commonwealth:
  - Category A: 1,700
  - Category B: 5,200
  - Total: 8,500

(ii) Special vouchers for United Kingdom passport holders: 1,500

Total, (i) and (ii): 10,000

At present the issue of employment vouchers results in the admission of about 5,000 heads of households, as there is a considerable wastage. There is not expected to be anything like the same wastage under the special voucher scheme. Taken together, therefore, the two schemes account for about 6,500 heads of families annually. The total rate of settlement from the Commonwealth, including dependants, is between 50,000 and 60,000 annually.

(i) How large an increase in special vouchers?

If discussions with the Kenya and Uganda Government fail to reduce the size of the problem, in 1969 we might have to expect a demand for admission from some 4,500 heads of families in Kenya and perhaps 5,000 in Uganda. Admission on this scale could imply
A possible immigration with dependants of 30,000 people. The problem would not be smaller in succeeding years and similar difficulties may arise elsewhere. Any allocation which made full allowance for these potential numbers would amount to an abandonment of real control. Until Uganda shows its hand we cannot openly take account of the contingent demand from there, but will have to keep something in reserve. So far as Kenya alone is concerned, it might be thought that 2,500 heads of households should be the limit to aim for in 1969, implying a possible intake of 7,500 with dependants.

(ii) A reduction in employment vouchers?

The number of Commonwealth citizens who may seek to enter the United Kingdom from East Africa may well be so large that it could not be wholly offset even if the issue of vouchers were completely stopped. In practice it would be difficult to do this. The other members of the Commonwealth would be likely to take serious exception to a complete prohibition on the entry of those of their citizens, who wish to come here to work, in order that those from East Africa may do so. The West Indies and the Old Commonwealth would be the most seriously affected. This country's special obligations to Malta and the dependent territories have, moreover, been acknowledged by special allocations of employment vouchers to them. The situation is further complicated by the dependence of the National Health Service on doctors, and to a lesser extent nurses, from the Commonwealth for its efficient functioning, a position which is likely to continue for some time in the future. It would almost certainly be necessary to make arrangements for their continued admittance; but to take only medical personnel might lead to accusations of "creaming off" the skills of the Commonwealth and could even lead to retaliatory measures by India which supplies the bulk of immigrant doctors. There are also other categories of British subjects (usually from the Old Commonwealth) whose entry is advantageous to this country. It might not be necessary to retain an employment voucher to regulate the admission of doctors and other essential workers.
30th December, 1968

CABINET

A POLICY FOR INDUSTRIAL RELATIONS:
DRAFT WHITE PAPER

Memorandum by the First Secretary of State and Secretary of State for Employment and Productivity

I attach for my colleagues' consideration a draft of a White Paper on our future policy for industrial relations. This draft has already been considered, at the Prime Minister's request, by a small number of Ministers, and it incorporates suggestions made by them.

2. The proposals for action in the draft White Paper are carefully balanced, and together comprise a radical programme for reform, designed both to strengthen trade unionism and make it more accountable, going well beyond the Donovan recommendations in certain respects. In my judgment this is the right approach for the Government though there will inevitably be opposition on individual points from vested interests.

Theme of the Draft White Paper

3. Conflict in industrial relations is unavoidable and not necessarily anti-social. In our present system, however, that conflict is in some ways out of control and damages our society and economy. This situation is the result of defects in our collective bargaining arrangements, which are also responsible for failure to deal adequately with workers' rights in matters other than pay. Changes in the institutions and practices of collective bargaining are required. These changes must be initiated not only by both sides of industry. Government intervention, too, is necessary to ensure reform and safeguard the interests of the community.

4. After introductory sections on the role of the Government and the present state of industrial relations, the draft White Paper sets out the following main areas for action -

The Reform of Collective Bargaining (paragraphs 19-47)
The Extension of Collective Bargaining (paragraphs 48-58)
Aids to Collective Bargaining (paragraphs 59-71)
New Safeguards (paragraphs 72-107)

The following paragraphs draw attention to major proposals in the draft White Paper. New proposals and those which depart from the Donovan recommendations are sidelined in the draft White Paper.

-1-
5. The draft accepts in principle the Donovan Report's analysis of present collective bargaining arrangements and its recommendations for the reform of both industry-wide and company-workplace bargaining, while pointing out that there is room for discussion on their application in different industries.

A Commission on Industrial Relations (paragraphs 29-34)

6. The draft proposes that a Commission on Industrial Relations (CIR) should be set up by Royal Warrant at once, and later put on a statutory basis. There should be no objection to this proposal from the CBI or TUC, to judge from their comments so far received. However, there will be criticism from other quarters of the establishment of yet another public body and of the possible duplication of its functions and those of the National Board for Prices and Incomes (NBPI). There is some force in these objections. Yet on balance I am in favour of the immediate creation of the CIR because I believe this is necessary to give impetus to the reform of collective bargaining. This could not at present be successfully initiated by the NBPI in view of its identification with the application of prices and incomes policy. The words used in the draft leave open the possibility of putting the CIR on a statutory basis which will not necessarily demand its continued existence as a separate body.

7. The functions proposed for the CIR in this part of the draft White Paper are on the lines recommended by the Donovan Report, and are not likely to arouse controversy.

Registration of Agreements (paragraphs 35-37)

8. The draft proposes that procedure agreements of employers employing more than 5,000 workers should initially be registered on a voluntary basis with the Department of Employment and Productivity (DEP); and that later this should be made compulsory. No doubt these proposals will be strongly opposed by the Conservative Party on the grounds that they would lead to unnecessary interference with industry; and there will also be left-wing suspicion that this system of registration will be used for incomes policy purposes. But I am convinced that such a system is necessary to secure the required managerial initiatives towards the reform of collective bargaining, and their early comments do not suggest that it will be opposed by the CBI or TUC.

Collective Agreements and the Law (paragraphs 38-42)

9. Under existing law an employer can sue an individual employee for breach of that employee's contract of employment (for example, when the employee goes on strike without giving proper notice). It is also possible for an individual employer to conclude a legally binding agreement with a trade union if both parties so wish. However, as explained in paragraph 42 of the draft White Paper, Section 4(4) of the Trade Union Act, 1871 precludes the direct legal enforcement of collective agreements between an employers' association and a trade union. The draft White Paper proposes to modify this provision, and so remove the barrier to legally binding collective agreements of this kind. But it is important to emphasise that the draft White Paper takes up a neutral position regarding the desirability of making collective agreements legally enforceable; it merely proposes a change in the law which will enable employers' associations and trade unions to make a collective agreement legally enforceable if both sides want to do this.
10. Some trade unionists may object that the policy set out in this part of the draft White Paper is similar to proposals by the Conservatives in their booklet "Fair Deal at Work" and in their mid-term policy statement "Make Life Better". There are in fact very important differences between what the draft White Paper proposes and what the Conservatives have suggested. The draft proposes that parties should be enabled to make legally enforceable agreements if they wish; the Conservatives say that they would "make agreements between employers and unions legally binding except where both sides specifically agree otherwise". The Conservative proposal is ill-judged because it ignores the fact that the great majority of collective agreements are not in a form which can be enforced in the courts. They are too vague and informal. Moreover, the Conservatives do not seem to have realised that what they want to achieve will call for more legislation than the simple repeal of Section 4(4) of the Trade Union Act, 1871.

11. Some trade unionists have already expressed fear that the repeal of Section 4(4) will automatically make all industry-wide agreements legally enforceable. This fear is quite unfounded, as to make such an agreement enforceable the parties would have to intend it to be enforceable and draw it up in a form capable of enforcement. But to avoid any misunderstanding I propose to provide that an agreement can be made legally enforceable only if it includes an express provision in writing to this effect.

12. A more general criticism, for example from the CBI and from a section of the daily and weekly press, will be that these proposals in paragraphs 38-42 are too weak on the enforcement of collective agreements. But in my view the draft strikes the right balance on this subject. It is sensible to give parties the opportunity to make collective agreements legally enforceable if they wish; it is not sensible (for the reasons set out in Chapter VIII of the Donovan Report) to compel parties to make legally enforceable agreements. Even "Fair Deal at Work" states very firmly that "it would be wrong to accord to collective agreements the quite exceptional status of a contract which must be enforceable regardless of the wishes of the parties".

Disclosure of Management Information to Trade Unions and Employee Participation (paragraphs 43-45)

13. The draft White Paper points out that employees' representatives need adequate information if they are to play an effective part in collective bargaining and joint consultation. It therefore proposes that the Government should have further discussions, with a view to giving trade unions a statutory right to certain sorts of management information. The provision of such a right would be in line with proposals made in the Labour Party's 1967 report on 'Industrial Democracy' and in this year's statement by the National Executive Committee to the Party Conference.

14. The suggestion that the Industrial Relations Act should facilitate (not require) the appointment of trade union representatives on boards of undertakings is in line with the recommendation on this subject of a minority of the Donovan Commission (Lord Collison, Professor Kahn-Freund and Mr. Woodcock).
Trade Union Membership, Recognition, Inter Union-Disputes (paragraphs 50-58)

15. This section of the draft puts forward far-reaching suggestions for strengthening trade unionism and extending collective bargaining. I draw my colleagues' attention particularly to the proposals that no employer should have the right to prevent or obstruct an employee from belonging to a trade union, and for the use of selective unilateral arbitration to assist the growth of collective bargaining, and to the proposals for dealing with inter-union disputes. I attach importance to the suggestion that the TUC should have an opportunity of solving inter-union troubles before the proposed new legal provisions are invoked. Those provisions will, in inter-union cases, make an employer liable to a fine if he failed to observe an order requiring him to recognise a union; and in inter-union disputes not solved by the TUC a union which infringed an order requiring the recognition of another union would also be liable to a fine. The draft White Paper comes down firmly against the Tory proposal for withdrawing the protection of the law from trade disputes resulting from inter-union difficulties.

A Trade Union Development Scheme (paragraphs 64-68)

16. The draft puts forward the idea of grants and loans by the CIR for trade union development, to support efforts to raise the efficiency of the trade union movement. I attach a great deal of importance to this proposal for giving impetus to trade union reform without in any way encroaching on the autonomy of the trade union movement.

 Strikes and the National Interest (paragraphs 79-85)

17. The proposals in paragraph 81 that the Secretary of State should have reserve powers to require secret ballots before official strikes are called, and to require a maximum of 56 days postponement in the case of unconstitutional strikes, are highly controversial, especially as they envisage fines on unions failing to carry out ballots and on individuals failing to observe a period of postponement. But the Government has a responsibility to safeguard the interests of the community in certain circumstances. The two measures are therefore needed.

 Strikes and the Law (paragraphs 86-91)

18. We should reject the majority recommendation of the Donovan Commission that the protection given by Section 3 of the Trade Disputes Act, 1906 and by the Trade Disputes Act, 1965 should be limited to registered trade unions and employers' associations. Such a limitation would be at best useless (because employers would probably still shrink from suing unofficial strike leaders) and at worst it would embitter industrial relations and encourage local breakaway unions.

19. There might be criticism from the trade unions of the proposal not to make any change in the law relating to picketing. The Donovan Report recommended that Section 2 of the Trade Disputes Act, 1906 should be amplified so as to give express permission to the peaceful persuasion of any customer or potential customer of an employer in dispute, and a minority proposed that picketing at a person's home should not be allowed. I think it is best to leave the law as it is, as proposed in paragraph 80.
Safeguards Against Unfair Dismissal; Contracts of Employment Act; Jurisdiction of Industrial Tribunals (paragraphs 92-95)

20. These important proposals will call for legislation of a fairly complex kind and will require a relatively large number of extra staff. The CBI is likely to oppose them all. The TUC is against the extended jurisdiction of the Industrial Tribunals except in cases of unfair dismissal.

Trade Union Rules and Registration (paragraphs 96-101)

21. Broadly speaking, the draft accepts the recommendations of the Donovan Report concerning trade union rules and registration; but not the recommendation that trade unions should be given corporate status. My colleagues should note that it is proposed to provide for a financial penalty on unions refusing to register.

An Independent Review Body (paragraphs 102-107)

22. Paragraph 103 of the draft suggests the setting-up of an independent review body, as proposed by the Donovan Report (but with the modification that it should be manned by the President and trade union members of the Industrial Court), to adjudicate in disputes between trade unions and individual members. The TUC has expressed opposition to the idea of an independent review body, and has suggested that the trade union movement itself is capable of setting up any necessary machinery for this purpose. The CBI, on the other hand, has expressed the view that it would be wrong for trade unionists to be in a majority on the independent review body.

23. I think it would be wrong, and unacceptable to public opinion, to rely on machinery set up by the trade union movement itself to deal with disputes between trade unions and individuals. This is pre-eminently a situation in which justice must be seen to be done. There would always be a lack of confidence in judgments made by a tribunal composed only of trade union nominees against individuals who had been in dispute with their trade unions. On the other hand I think that the public would accept an independent body headed by the President of the Industrial Court even if a majority of its members were trade unionists.

An Industrial Relations Bill

24. The provisions which might be included in an Industrial Relations Bill are set out in Appendix I of the draft White Paper.

Sanctions

25. The draft White Paper proposes several new legal sanctions. It is for consideration whether the new sanctions should be imposed, when necessary, by the ordinary courts or by a special Court. The advantage on the latter would be that it would help to avoid any appearance that the application of the criminal law is being extended in industrial relations.
Conclusion


27. I invite my colleagues to consider the general approach of the draft White Paper, and to give special attention to the major subjects.

B.A.C.

Department of Employment and Productivity, S.W.1.

30th December, 1968
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ANNEX I

People At Work

A Policy for Industrial Relations

1. There are necessarily conflicts of interest in industry. The objective of our industrial relations system should be to direct the forces producing conflict towards constructive ends. This can be done by the right kind of action by management, unions and Government itself. This White Paper sets out what needs to be done.

2. Our existing system of industrial relations fails to prevent inequity, disorder and inefficient use of manpower. It perpetuates the existence of groups of workers who, as the result of the weakness of their bargaining position, fall behind in the struggle to enjoy the fruits of an advanced industrial economy. In other cases management and employees are able unfairly to exploit the consumer and endanger economic prosperity. Small groups of strategically placed individuals, often relatively well paid, can produce widespread disruption by lightning strikes. The present institutions of industrial relations contribute little to increasing efficiency. There are still areas of industry without machinery for collective bargaining.

3. Until action is taken to remedy such defects, conflict in British industry will often be damaging and anti-social. The Government places the following proposals before Parliament and the nation convinced that they are justified on two main grounds. First, they will help to contain the destructive expression of industrial conflict and to encourage a more equitable, ordered and creative system of industrial relations, which will benefit both those involved and the community at large. Second, they are based on the belief that the efforts of employers, unions and employees to reform collective bargaining need the active support and intervention of government.

4. The reasons for the first of these propositions must emerge as the Government's proposals are stated and explained in turn. But there is need, at the outset, to say something about the role of Government in industrial relations in the 1970s.

/THE ROLE
5. The State has always been involved in the process of industrial relations. It has always had to provide a framework of law for dealing with the activities of individuals and groups struggling to advance and protect their interests. The development of stable trade unionism in the nineteenth century faced Governments with the need to provide laws recognising and regulating the activities of trade unions. In the ensuing debate on the principles to be applied, two conflicting philosophies emerged in reports of successive Royal Commissions and enquiries. The first was that Trade unions should be accepted as lawful and given the right to organise. The State should recognise the right to strike and the right to bargain collectively to improve wages and conditions. But so long as the 'rules of the game' were roughly fair to both sides the State should not be concerned with its consequences. In effect the Government should provide facilities to help the parties agree, but should not interfere to impose a settlement upon them. It is worth stressing that it was never any part of this view that industrial relations in general or trade unions in particular should be outside the law; it was merely felt that so far as possible the law should not interfere with the day to day results of collective bargaining.

6. But from the very beginning of this debate there was an alternative view: while the periodic 're-adjustment' of bargaining power was an essential part of the Government's role, it was not in itself sufficient. The State also had to act at times to contain the disruptive consequences of the struggle for those not immediately affected - especially if non-intervention was likely to result in widespread damage to the interests of the community at large. Linked with this argument to an increasing extent was a related one: Governments might be forced to intervene still further if it could be shown that certain important economic or social objectives were not sufficiently furthered or were frustrated by collective bargaining.

/7. Within

2.
7. Within the last hundred years, an example of Government action to contain the effects of disruption was Sections 4 and 5 of the Conspiracy and Protection of Property Act 1875. This was designed to limit the freedom to strike where it was likely to have undue effects on essential services or life and property. The Truck Acts, the creation of Wages Councils, and the establishment of a State insurance scheme were examples of intervention to advance objectives which could not at the time be met by collective bargaining.

8. More recently intervention has become much more necessary and pronounced. The Government has increasingly had to play a part in the industrial relations of the motor industry. Far-reaching reforms have been initiated in the industrial relations system of the docks. The State has laid down minimum periods of notice in contracts of employment in the Act of 1963. Action has been taken to secure improvements in the quality and use of labour by creating Industrial Training Boards and the Redundancy Payments Scheme, both financed by compulsory levies on industry.

9. As a result of these and other developments both management and trade unions have come to accept, and in many ways positively to welcome, a development of Government involvement in industrial relations that in practice goes far beyond the confines of the theory of non-intervention by the State. While often still voicing the doctrine of non-intervention, managements and unions have entered into a positive and mutually beneficial partnership with the State to secure common objectives. Indeed in their evidence to the Royal Commission on Trade Unions and Employers' Associations, and in their representations to Government, bodies representing both employers and trade unionists have urged further intervention and involvement – at least where they see it as advantageous to them. Demands have been made by employers for new laws to discourage strikes; requests have been put forward on behalf of trade unions for minimum wage legislation and Government action to force employers to recognise trade unions. In short the doctrine of non-intervention is not, and never has been, consistently preached. The need for State intervention and involvement, in association with both sides of industry, is now admitted by almost everyone. The question that remains is, what form should it take at the present time?
The answer to this question is to be found in an analysis of the present state of industrial relations in Britain. The report of the Royal Commission on Trade Unions and Employers' Associations contains the essential material necessary to enable both the Government and the country to decide what should be the shape of industrial relations in the 1970s.

It shows that at its best our industrial relations system works well, and that many criticisms which have been made of it are largely unjustified. There are many companies, and even industries, in which industrial relations are well conducted. In general, managers who have recognised and dealt with union officials and shop stewards testified to their reason and good sense. Similar statements about managements were made to the Royal Commission by many union officials and shop stewards. Research revealed few signs that trade union members were dissatisfied with their unions. Most union officials said they appreciated the work of stewards and the relationship between them and their stewards appeared to be good.

It is not even true to say that the Royal Commission's inquiries and surveys reveal a state of general complacency and disinclination to change. Managements have in recent years successfully carried through some remarkable experiments in the field of collective bargaining - many of them connected with the growth of productivity agreements. Rapid changes are taking place in trade union organisation. Indeed, there has probably never been a time when more amalgamation schemes and mergers have been under discussion by the trade unions of this country. On both sides of industry there is a growing awareness of the need for change, and many managers and trade union officials are making strenuous efforts to bring this about. The measures proposed in this White Paper should not be interpreted as a criticism of their efforts. The Government's proposals are designed to assist the forces of change and to direct them into the most constructive channels.

Nevertheless, our present system of industrial relations can be criticised on three main counts. First, imperfect competition in many industries and the market power exercised by many firms enable unions and employers to combine together to raise wages without regard to the effect on costs and prices, and so to advance their own claims at the expense of other members of the community.
14. Secondly, the growing inter-dependence of most industry enables strategically placed groups to exact advantages for themselves by inflicting disproportionate harm on the rest of the society. The right of a worker to withdraw his labour is one of the essential freedoms in a democracy and the existence of this right has undoubtedly contributed to industrial progress and to the development of a more just society. But it is also true that in certain situations to-day the use of the strike weapon can damage the interests of others so seriously — including the interests of other trade unionists — that it should only be resorted to when all other alternatives have failed.

15. In comparison with many other countries, Britain has a large number of strikes in relation to its workforce, although our record, if measured by the number of workers involved and the number of working days lost, is relatively good. In industries other than coal-mining the number of strikes has gone up considerably in recent years (see Appendix 2). The typical British strike is unofficial and usually in breach of agreed procedures; it comes with little warning and is soon over. It is commonest in a small number of industries such as motors and components, the docks, and shipbuilding. Other industries often have long periods without strikes, but they may suffer indirectly because of a strike at a key point. This type of strike can cause disproportionate harm and is at times exercised in complete disregard of its consequences for the community.

16. Finally, our organised system of collective bargaining has not got to grips with a number of economic and social problems. As the Donovan Report indicated, it has often failed to provide for effective and acceptable collective bargaining arrangements covering matters of common concern to employees and employers. Little has been done to reform outdated and generally condemned procedural agreements - such as those now existing in the engineering industry. Too often employees have felt that major decisions directly concerning them were being taken at such a high level that the decision-makers were out of reach and unable to understand the human consequences of their actions. Decisions have been taken to close down plants without consultation and with inadequate fore-warning to the employees. Outdated social distinctions between hourly paid employees and those on staff conditions have been perpetuated. At the same time, some employers have opposed and obstructed the spread of collective bargaining to new sections of the labour force, especially those increasing numbers employed in 'white-collar' jobs. Unions too have often failed to involve their members closely.
closely enough in their work, or to tackle with sufficient urgency the problems of overlapping membership and unnecessary rivalry, which always diminish their effectiveness and sometimes their reputation. Many employers' relations with unions have been greatly complicated by the large number of unions that may have members in a single factory.

17. The combined effect of such defects in our system of industrial relations is to increase the feeling of many employees that they have no real stake in the enterprise for which they work. There are of course other factors too. Britain is passing through a period of rapid technological change. New processes and methods of production are combined with changing patterns of company ownership and management structure. Established jobs and ways of work are disappearing to be replaced by unusual and unfamiliar tasks in surroundings often equally strange. This naturally reinforces feelings of insecurity among employees and even management itself and results in lack of co-operation and resistance to change, especially if systems for dealing with legitimate grievances and problems of all kinds do not adapt themselves to the demands placed upon them. Efficiency suffers and the community pays.

18. Yet there can be no reversal of the forces of change. On the contrary, the Government has taken action to accelerate change. This is necessary if Britain is to survive and prosper. But it means that we must make sure that all employees have the opportunity to participate in deciding the direction of change, that we must overhaul arrangements for dealing with the consequences of change as they affect all who work in industry, and that we must remedy the defects described in the preceding paragraphs. This requires policies to secure four objectives:

(i) our system of collective bargaining needs to be reformed;
(ii) it needs to be extended;
(iii) those who are involved in it need to be assisted and if necessary strengthened; and
(iv) the community and individuals need new safeguards.

The next four sections of this White Paper explain the major measures proposed by the Government to deal with each of these questions.
THE REFORM OF COLLECTIVE BARGAINING

19. Collective bargaining is essentially a process by which employees take part in the management decisions that affect their working lives. If it is carried on by efficient management and representatives of well-organized unions, negotiating over a wide range of subjects, it represents the best method so far devised of advancing industrial democracy in the interests of both employees and employers. It offers the community the best opportunity for securing well-ordered progress towards higher levels of performance and the introduction of new methods of work.

20. Yet as the Donovan Report has shown this is far from being the situation in the economy as a whole. Even where collective bargaining is well developed it has many defects. Very often there is a marked difference between the formal collective bargaining system and what actually happens. It is often supposed that formal industry-wide negotiations are the only important method of collective bargaining; but in practice an increasing amount of bargaining, and an increasing proportion of the wage packet, is settled outside the 'formal system' by informal understandings and arrangements between shop stewards and managers or foremen at workplace level. Yet this concentration on 'informality', and the network of shop floor arrangements and understandings that result from it, lead to serious problems. Few clear principles and standards are developed to settle shop floor grievances. Management and unions react to passing pressures, especially when applied by determined groups/resolved to exploit their strategic position to the full—often at the expense of their fellow trade unionists. Anomalies develop in wage payment systems. There is no stable or equitable relationship between payment and performance. Those who are dissatisfied take unconstitutional action when formal systems for dealing with their grievances are not effective and do not deal rapidly and equitably with the problems of the shop floor.

/21. Most important

SECRET
21. Most important of all, perhaps, this disparity between the formal system and the realities of shop floor life is often not fully appreciated or even understood by senior management in the enterprises where it occurs. As the Donovan Report said, the assumptions of the formal system still exert a powerful influence over men's minds and prevent the development of effective and orderly methods of collective bargaining. Too often senior management continues to regard industrial relations as a matter for employers' association officials or lower levels of management, rather than as one of its primary responsibilities. On the union side many national leaders continue to uphold the assumptions of increasingly ineffectual industry-wide negotiating structures.

22. There is room for debate about how far this description of the decay of our formal industry-wide system of collective bargaining applies from industry to industry. It is obviously true of large parts of private industry. Some firms in these industries have taken action to tackle the situation, and thus thrown into sharper relief the problems elsewhere in their industries. In most of the public sector, including national and local government service and the nationalised industries, and in a few industries in the private sector - for example electrical contracting - effective industry-wide collective bargaining still exists. There, actual wages and conditions continue to be settled by the national officials who bargain on both sides. There is no equivalent of the disordered pay structures, or the chaotic and inflationary shop floor pressure, that is so pronounced a feature of industries like engineering.

23. However, it does not follow from this that collective bargaining in such industries cannot be improved. Their procedures may not extend to all the questions that ought to be covered. For instance, there may be no adequate procedures to deal with redundancy, or the effects of introducing new machinery and methods of work. Shop stewards may have few formal rights to represent their members. There may be no proper agreement to deal with disciplinary questions, including unfair dismissal. Pay systems may still be largely unrelated to performance and productivity.
24. There is therefore need for the reform of collective bargaining both where industry-wide bargaining has become ineffective and where it still determines actual pay and conditions. What can be done to accelerate reform?

25. The solution to this problem calls for the right kind of re-appraisal by managements and trade unions of collective bargaining arrangements. The initiative must lie with employers, and notably the boards or chief executives of undertakings, for they are best placed to set in train the kind of detailed study of existing systems and their defects and to make the right kind of positive approaches to trade unions. Such appraisals will often show that the best way forward is the negotiation of formal, comprehensive and authoritative company and factory agreements. Negotiation at these levels is often the best way to arrive at stable and equitable pay structures, adequate procedures for the settlement of disputes and the extension of collective bargaining into matters such as discipline, redundancy arrangements and other similar questions which directly concern employees.

26. The Government welcomes the readiness expressed by the C.B.I. and the T.U.C. in their joint statement of 23rd October 1968 to ask employers' associations and trade unions to examine the situation industry by industry and to ask managements in consultation with the unions to review industrial relations in their undertakings. Such re-appraisals are essential if the defects of collective bargaining are to be remedied. They should be prompt and thorough. There is a special need for them in industries where the defects described in the Donovan Report are apparent. The Government will follow closely the progress of these reviews, both at company and industry level. If assistance is needed the D.H.P.'s Manpower and Productivity Service will be available to help.

27. The Government urges employers, in the course of these reviews, to examine fully and sympathetically the possibility of removing unnecessary and outdated distinctions between "staff" and other employees. These are sustained chiefly by tradition and inertia, and cause much unnecessary ill-feeling. Some large employers have already found it possible to abolish them. The Government suggests that the T.U.C. and C.B.I. should jointly /encourage the
encourage the abolition of these distinctions throughout industry, and make
arrangements to keep the matter under review.

28. The Government broadly accepts the views of the Royal Commission concerning
the principles which should inform a satisfactory set of agreements. These
should assist the negotiation of pay structures that are comprehensive, fair
and conducive to efficiency. They should also provide a link between pay and
the improvement of performance or results within the individual plant or
company. Subjects which should be dealt with should include the handling of
redundancies, the provision of effective rules and procedures governing
disciplinary matters, including dismissal, and the rapid and effective
settlement of grievances. Wherever possible provision should be made for
previous conditions to be maintained while any dispute is being considered
in accordance with agreed rules. Agreements should provide adequate
facilities for shop stewards to consult their members and to negotiate,
reasonable access for trade union officials, and the holding of necessary
union elections. Managements should make available to employee representatives
the information necessary for them to do their work. There should be provision
for important matters to be raised with the highest levels of management.
So far as possible agreements should be clear and precise.
The Government, too, through the work of the Department of Employment and Productivity, has a responsibility to bring about the necessary changes in our system of industrial relations. This has caused it to expand and extend its existing arrangements for conciliation and to create a Manpower and Productivity Service. But as the Donovan Report pointed out, and as both the U.C. and C.B.I. recognise, there remains a major gap in the public apparatus for change. There is no institution primarily concerned with the reform of collective bargaining. This is why the Government proposes to establish a Commission on Industrial Relations.

The relationship between the Department of Employment and Productivity and the Commission on Industrial Relations will be close and continuous. The Commission will work on references by the Secretary of State. It will report to the Secretary of State and its recommendations will be followed up by the D.E.P.'s Manpower and Productivity Service. In these respects the C.I.R.'s relationship with the D.E.P. will be similar to that of the National Board for Prices and Incomes. But the C.I.R. is needed to do a different job, and its methods of operation and therefore its relationships with both sides of industry will be rather different from those of the N.B.P.I.

The C.I.R. will be concerned with ways of improving and extending procedural arrangements. This will involve it in questions different from those which are the subject of references to the N.B.P.I. - how to promote suitable company-wide procedures in important firms, how to develop acceptable rules governing disciplinary practices and dismissals, how to encourage effective and fair redundancy procedures, how to bring shop stewards within a proper framework of agreed rules in their firm, how to ensure that they are provided with the right kind of facilities to do their job. To decide on the adequacy of existing arrangements for dealing with such matters, the C.I.R. will have to find out about many aspects of industrial relations in particular industries and firms - for example, the rate of labour turnover, the arrangements for negotiation over productivity and wages, and the causes of recent strikes. It will be authorised to obtain such information as is necessary for its work. The C.I.R., unlike the N.B.P.I., will not be concerned with the application of prices and incomes criteria to particular disputes or settlements; nor will it be directly concerned to secure improvements in productivity.
32. The C.I.R. will also be required, by reporting on references by the Secretary of State, to assist other reforms that are not now undertaken by any public agency, and which represent a novel extension of public involvement in industrial relations in this country. They will include the investigation of trade union demands for recognition; encouragement of reforms in trade union structure and services; examining cases in which companies report failure to negotiate satisfactory agreements; and reporting on general questions related to its responsibilities, such as deficiencies in factory disputes procedures or in disciplinary procedures, over an industry, part of an industry, or an undertaking. It will also be asked to give advice to the Secretary of State from time to time on the reform of the industrial relations system, and to report periodically to Parliament.

33. Its contacts with trade unions, employers' associations and individual firms will be regular and continuous. It will need to gain their confidence and co-operation while remaining an independent and candid critic. For this reason the Government does not propose to give it any legal sanctions, apart from authority to obtain information. It looks on the C.I.R. as a disseminator of good practice and a focus for reform by example. The Government hopes that the work of the C.I.R. will help to bring about a general move towards the reform and restructuring of collective bargaining arrangements, not least because it will be able to suggest to the parties mutually beneficial improvements from practices which have been tried and found to work in other industries and undertakings.

34. The C.I.R. will have a full-time chairman and several full-time and part-time members with relevant experience. It will be established initially as a Royal Commission, to enable it to begin its work without delay. Provisions to put it on a statutory basis will be included in an Industrial Relations Bill which the Government intends to present to Parliament as soon as possible.

Registration of Agreements

35. The Government will also set up a register of collective agreements. This will emphasise to managements their responsibility for the efficient conduct of industrial relations in their undertakings, and will provide information which the Department of Employment and Productivity and the C.I.R. will need in implementing the policies set out in this White Paper. Registration will at first be voluntary but the Government intends to include provisions in the Industrial Relations Bill to make it a statutory requirement. Consultations on the scope of voluntary registration are now in progress with the C.B.I., T.U.C. and nationalised industries. It will include:-
(1) Procedures for the determination of terms and conditions of employment.

(2) Procedures for the settlement of grievances and disputes.

(3) Arrangements for consultation concerning matters not covered by negotiation.

36. The Government will shortly invite all companies and other undertakings employing more than 5,000 to register their procedure agreements and arrangements with the D.E.P. or to inform the D.E.P. of the absence of such agreements and arrangements. Some smaller employers may also be asked to give information about their procedure agreements and arrangements if the D.E.P. considers this necessary. The scope of the eventual statutory requirement to register and, within it, the subjects for registration, will be decided in consultation with industry in the light of experience with the voluntary system.

37. The Manpower and Productivity Service of the D.E.P. will use the registered agreements to ascertain where improvements are most needed and where advice will be most helpful, and will take appropriate follow-up action. Special attention will naturally be paid to companies failing to register or making 'nil returns' for all or parts of their undertakings, or whose procedure agreements seem seriously inadequate.

Collective Agreements and the Law

38. The present legal position is that an individual employer and a trade union can, if they so decide, make a collective agreement between them legally binding. However, because many employers' associations fall within the legal definition of a trade union, collective agreements between them and trade unions happen to be subject to section 4(4) of the Trade Union Act 1871, which (for other reasons altogether) precludes the direct legal enforcement of agreements between trade unions. Agreements between trade unions and such employers' associations therefore cannot be made directly legally enforceable even if both parties should want this.
It has been suggested that collective agreements should be made legally binding unless the parties specifically decide to the contrary. This suggestion ignores the fact that it is already open to individual employers and trade unions to make their agreements legally binding, and that they do not do so. Nothing would be gained by requiring them to say that they do not want legal enforcement, when this is already so clearly indicated by their actions.

Some therefore go further and suggest that all collective agreements should be made legally binding, whatever the wishes of the parties. The Government rejects this view. It does not believe that a more ordered system of collective bargaining can be achieved by changing moral obligations into legal obligations against the wishes of those on whom the obligations rest. In particular it would be an ineffective way to tackle the very serious problem of unconstitutional strikes to give legal force to procedure agreements which are not designed for this purpose, and then look to employers to sue unconstitutional strikers. Employers can usually sue such strikers already for breach of their individual contracts of employment. In fact they hardly ever do so, because they think it will exacerbate their industrial relations. The evidence is that they would do no more to secure the enforcement of legally binding agreements.

It has therefore been suggested that collective agreements should not only be made legally enforceable against the parties' wishes, but be enforced by proceedings in the courts, initiated by the Government or a specially created public agency, against those striking in breach of agreement. This is equally unacceptable. Employees may well be justified in striking in breach of procedure, in defence of their interests, if the procedure is slow and clumsy and protects an employer who has taken unilateral action such as victimisation. It is the responsibility of employers and trade unions to reach agreements which they think they will be able to keep, and then to see that they are observed.
The task of the Government is to ensure there is no legal impediment to the observance of collective agreements negotiated between employers or employers' associations and trade unions by any method freely decided upon by the two parties. For this reason it will propose in the Industrial Relations Bill the modification of section 4 (h) of the Trade Union Act 1871, so that agreements between trade unions and employers' associations will be put in the same position as those between trade unions and individual employers. The Bill will further propose that agreements could be made legally binding only by an express written provision in the agreement. It would thus have no effect on the legal status of existing agreements, or of future agreements if the parties did not expressly decide in writing to make them legally binding.

Disclosure of Management
42. The task of the Government is to ensure there is no legal impediment to the observance of collective agreements negotiated between employers or employers' associations and trade unions by any method freely decided upon by the two parties. For this reason it will propose in the Industrial Relations Bill the modification of section 4 (4) of the Trade Union Act 1871, so that agreements between trade unions and employers' associations will be put in the same position as those between trade unions and individual employers. The Bill will further propose that agreements could be made legally binding only by an express written provision in the agreement. It would thus have no effect on the legal status of existing agreements, or of future agreements if the parties did not expressly decide in writing to make them legally binding.

/Disclosure of Management
Disclosure of Management Information to Trade Union Representatives

If employees' representatives are to participate with management on equal terms in the extension of collective bargaining and consultation at company or plant level, they will need adequate information to allow them to form an independent judgment on management proposals, policies and decisions. Many managements already recognise the need to disclose such information if negotiations are to be carried on in a climate of confidence, and find no difficulty in making adequate safeguards for any information disclosure of which might cause risk of harm to a firm's commercial interests. But other firms are unwilling to disclose relevant information in the course of negotiations or consultation, even when no risk is involved. This limits the scope for informed discussion between the two sides, encourages an early retreat to entrenched positions, and thus damages industrial relations.

The Government proposes to have further consultations about this problem, with a view to including in the Industrial Relations Bill a provision to enable trade unions to have from employers certain sorts of information that are needed for negotiations. The safeguards needed to protect firms' commercial interests will be fully considered.

Appointment of Trade Union Representatives to Boards of Undertakings

The Government favours further experiments with the appointment of trade union representatives to the boards of undertakings, and will include in the Industrial Relations Bill provisions on the extent to which such representatives should share the powers, and the legal and financial responsibilities, of directors.

Restrictive Labour Practices

There can be no doubt that equipment and manpower are not always used as efficiently in this country as in other comparable industrial countries. This is partly due to customs and practices which restrict the effective use of resources including manpower, for example overmanning or unnecessary overtime. On the whole such practices are operated, not by the unions, but by small unofficial groups of employees, who see them as a way of protecting their jobs or of maintaining earnings. Because of this, any attempt to get rid of such practices without adequate compensation is seen as a threat, either to earnings,
to security of employment. Their abolition therefore requires negotiations initiated by employers. This is often best achieved in the context of wider negotiations aimed at producing a comprehensive agreement, since such an agreement can include alternative provisions for such matters as minimum earnings and job security, which are equally acceptable to the employees and more compatible with increasing efficiency. The overhaul of our collective bargaining system will facilitate such agreements, and will thus help to raise productivity. The Government agrees with the majority of the Royal Commission that penal powers would be of no value in this field. In the N.B.P.I., the proposed C.I.R. and the D.E.P.'s Manpower and Productivity Service, this country will have three valuable instruments for tackling the problem of out-of-date restrictive or protective working practices.

Adult Training

An adequate supply of skilled workers is essential to the development of the economy. In certain areas there are continuing shortages of some types of skilled men. Even in the less prosperous areas experience has shown how quickly the demand for skilled labour can grow and outstrip the supply. These shortages can prevent employers from using modern equipment to the best advantage or even from buying it. Likewise they can seriously hinder attempts to set up new industries in areas with a high general level of unemployment. Both the Government and industry already train adults to the skilled level, and the need for this will continue to grow. However, in the engineering industry, in particular, all such trainees are normally registered as “dilutees” and opposition is still found in some areas to allowing them to exercise fully the skills they have acquired or to have the status of skilled workers when they are employed on skilled work. This opposition is misguided as it discourages workers from coming forward for retraining to the skilled level and reduces the ability of industry to grow and adapt itself to technological change or even to set up establishments in certain areas. The Government believes that the least required now is the freer implementation of existing dilution agreements but also that in the longer term these should be replaced by more flexible arrangements designed to see that men and women are employed according to their ability to do skilled jobs. For this reason the Government has welcomed the recent statement by the Central Training Council on the urgent need to develop new attitudes to training for skilled work and is discussing with the T.U.C. and the C.B.I. the best way of making progress on the problem of adult trainees.
The Need for an Extension of Collective Bargaining

48. Even though well ordered and effective collective negotiations and discussions are the best method so far devised for the involvement of employees in the objectives of industry and in the acceptance of the changes necessary for economic progress, for many workers such arrangements do not exist. Major changes in the composition of the labour force have steadily reduced the relative size of many traditional areas of trade union membership — for example mining, the railways and the docks. At the same time the number of employees in areas traditionally difficult to organise into unions has been increasing — most notably in the field of white collar employment. The result has been that the proportion of the total labour force belonging to trade unions has actually declined in the last few years.

49. Yet this does not mean that trade unionism is not needed by those who have so far not been able to develop effective organisation. On the contrary, the number of recognition disputes, and the continued growth of the white-collar unions, show that this is not so. White-collar employees have to overcome strong prejudices among many managements to gain recognition of their right to bargain. The Government will encourage and help the extension of collective bargaining, and intends to take steps to remove unjustifiable obstacles to the growth of collective bargaining based on strong and independent trade unions. If unions had to rely on industrial sanctions to compel employers to recognise them or if they engaged in unrestricted competition among themselves, the result would be serious damage to the industrial relations system. With the help of the C.I.R. the Government will therefore seek to avoid this situation. It looks to unions, with the guidance of the T.U.C., to co-operate in using the new opportunities that will be created to extend their role and membership, without wasting their energies, and resources, in unnecessary competition.

Trade Union Membership

50. The Industrial Relations Bill will lay down the principle that no employer has the right to prevent or obstruct an employee from belonging to a trade union. This principle will become a part of all contracts of employment, and the Bill will provide that any stipulation contrary to it should be void in law. The Bill will further provide that no Friendly Society should have a rule debarring trade unionists from membership. Employees will also be given a remedy if they are dismissed on account of trade union membership.
Recognition of Trade Unions by Employers

Recognition disputes are of two kinds:

(a) where an employer refuses to engage in genuine collective bargaining with any unions, and
(b) where he bargains with some unions but excludes others.

In both cases the Government will empower the C.I.R. to investigate and report on such disputes referred by the Secretary of State. It will be able to take evidence from management and unions, and to look into the facts of the situation, such as the degree of support for the union or unions involved. It will be empowered to hold a secret ballot, if this is thought to be desirable.

In cases of type (a) the Government will expect the C.I.R. normally to favour recognition, if the union is appropriate and can establish that it has reasonable support. A ballot is one way of showing this, but the question cannot be settled by ballot alone, for a union can often find little immediate support where there has hitherto been little hope of recognition and, perhaps, little opportunity for recruitment; increased support and membership follow, not proceed, recognition.

The Government expects that in such cases most employers will agree to accept an independent and unbiased recommendation by the C.I.R. It proposes, however, to provide in the Industrial Relations Bill that where, despite a C.I.R. recommendation in favour of recognition, the union meets continuing refusal to recognise, or a refusal to enter into genuine negotiations, the Secretary of State should be able to take action to break the deadlock. It has been suggested that in such circumstances the Secretary of State should order the employer to bargain in good faith, subject to a penalty if he does not. But this would be an inadequate way of resolving the position, since it would often be very difficult for the courts to decide whether the employer was refusing to bargain in good faith or simply taking a tough bargaining position. Instead, therefore, where the C.I.R. recommends in cases of type (a) that a union or unions should be recognised, the Industrial Relations Bill will enable the Secretary of State by Order to require the employer to recognise and negotiate with the union. If he does not the union will be able to take him to compulsory arbitration before the Industrial Court. Employers will usually prefer negotiation to arbitration.
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54. In cases of type (b) where a union is seeking recognition and negotiating rights instead of, or in addition to, an already recognised union, the Government will look to the T.U.C. where appropriate, to seek to resolve the conflict between the unions. If they fail to do so within a reasonable time the matter will be referred by the Secretary of State to the C.I.R., which will take full account of any action the T.U.C. have taken or recommendations they have made. In these conflicts which stem from the problem of multi-unionism, the C.I.R. will often be able to produce a durable solution only if its recommendations exclude one or more unions from recognition. If such a recommendation is initially not accepted, the T.U.C. will be invited to use its influence to secure acceptance. To deal with cases where this is inappropriate, e.g. where a union is not affiliated to the T.U.C., or where the T.U.C.'s efforts are unsuccessful, the Industrial Relations Bill will propose a power for the Secretary of State where necessary to give effect by Order to the C.I.R.'s recommendations. The employer will then be liable to a fine if he refuses to recognise the union or unions which the C.I.R. recommended should be recognised, or recognises one against which it recommended. A union which used coercive action to obstruct the implementation of the C.I.R.'s recommendations would also be liable to a fine.

55. It has been suggested that inter-union disputes should be tackled by amending the legal definition of a "trade dispute" to exclude disputes between workmen and workmen. People who went on strike in an inter-union dispute might then be liable in some circumstances to be sued for damages, and even to be prosecuted. However, as already explained in paragraph 40, employers have shown little enthusiasm for using the law in industrial relations problems, particularly against their own employees. But the chief objection to the suggestion is that it makes no contribution to finding a fair solution to the point at issue between the unions. Their dispute may involve difficult questions of industrial relations which require careful examination by people who are familiar with the problems. If such an examination is available, it will often be possible to avoid a strike altogether; this is much better than changing the law to make strike action in these circumstances liable to penalties, while leaving the basic problem untouched. In disputes over recognition, which are the most important type of inter-union dispute, the procedure proposed in the previous paragraph will permit a full examination of the dispute by the T.U.C. and if necessary the C.I.R.
The Royal Commission also recommended that the Secretary of State should give the power on the advice of the C.I.R. to make unilateral legally binding arbitration available by an Order in industries, sections of industry, or undertakings where the C.I.R. has advised, after investigation, that it would contribute to the growth or maintenance of sound collective bargaining machinery. The Industrial Relations Bill will include a provision for the selective introduction of unilateral legally binding arbitration before the Industrial Court. The Government will have further consultations with both sides of industry about the situations in which this provision should be used.

Wages Councils

The Royal Commission drew attention to ways in which the Wages Councils system has impeded the growth of voluntary collective bargaining and of strong trade unionism in the industries covered, to the detriment of the workers in those industries. It recommended:

(a) that the law should be amended to make it easier to abolish Wages Councils;
(b) that the Wages Inspectorate should be empowered to enforce statutory minimum rates for a limited period following abolition;
(c) that it should be possible for undertakings with satisfactory collective bargaining arrangements of their own to be excluded from the scope of Wages Councils; and
(d) that Wages Councils should be empowered to establish voluntary disputes procedures.

The Government's objective is to stimulate and strengthen voluntary collective bargaining in Wages Council industries to the point where a statutory Wages Council is no longer necessary. The Royal Commission's recommendations are in line with this policy, and the Government is consulting the T.U.C., C.B.I. and Wages Councils about them.

Section 8 of the Terms and Conditions of Employment Act 1959

Section 8 of the Terms and Conditions of Employment Act 1959 enables a trade union to oblige an employer to observe the recognised terms and conditions (or others not less favourable). The Government accepts that the Section should be amended to provide that in the consideration of claims not only the particular term or condition to which the claim relates but the terms and conditions observed by the employer as a whole should have to be taken into account. This change will be included in the Industrial Relations Bill. The Government is consulting the T.U.C., C.B.I. and Wages Councils about the recommendation that, as one way of strengthening voluntary collective bargaining, the provision which prevents Section 8 applying in Wages Council industries should be repealed.
AIDS TO COLLECTIVE BARGAINING

The Need for Further Aids

59. When the State has intervened in industrial relations, it has often done so in order to assist employers and unions in the conduct of collective bargaining. The development of the Ministry of Labour's conciliation service and of arbitration facilities and, most recently, the establishment of the D.E.P.'s Manpower and Productivity Service are all examples of this. The reforms proposed above will increase the need for further bargaining aids, particularly in the fields of trade union development and industrial relations training.

Employers' Associations

60. Employers' associations are closely linked with industry-wide bargaining. The changes that are made in collective bargaining in their industries will decide their future role. Amalgamations and changes in organisation will be needed. Many associations will in future find that their main work lies in assisting members to develop collective bargaining machinery and to improve industrial relations in their undertakings. Associations should carefully review the adequacy of their advisory services to meet such needs. The Government will consider these questions with the C.B.I. and, where necessary, individual associations. It intends to ensure that general references to the C.I.R. concerning an industry or a part of an industry include consideration of changes needed in employers' organisations.

Trade Union Re-organisation

61. On the trade union side the problem is different. British trade unions are undermanned and under-financed, even in relation to their present functions. As the Donovan Commission showed, most comparable countries have two or three times as many full time officials in relation to the number of members as British unions. It is true that in Britain great reliance is placed on voluntary officials, for the most part shop stewards, but the Donovan Report also indicates that contacts between stewards and their officials are often infrequent and that they vary very much from union to union. There are also very considerable communication problems arising from many unions' defective
and out-dated organisation. It would often be better for union branches to be based on the place of work. Too often the existence of multi-unionism means that in order to discuss common problems and work out a response to management initiatives shop stewards and their members have to meet in 'unofficial' ways which cut across the formal provisions of union constitutions and are outside the framework of the formally constituted negotiating machinery.

62. This means that to take their full part in a reformed and extended system of collective bargaining trade unions themselves need to be reformed and extended. Among other things they need fewer areas of overlap, more amalgamations, additional officials, specialised services, improved constitutions, better communications, and more adequate contributions and funds.

63. As the Royal Commission said, the initiation and encouragement of trade union reforms of this sort are in the first place the responsibility of individual unions. The Government looks to their executives to take urgent action. A major role could be played by the General Council of the Trades Union Congress. It could urge upon member unions the Royal Commission's proposals for the reduction of areas of competition over membership, the rationalisation of recruitment policies and the improvement of career prospects for full-time officers. It could also encourage unions to make better provision for dual membership or easy re-admission where this would help job mobility. The Government will pursue these questions with the T.U.C. and individual trade unions as appropriate.

A Trade Union Development Scheme

64. But the Donovan Report does not go far enough in its recommendations for modernising the trade union movement. The Industrial Relations Bill will provide for grants and loans to be made for this purpose by the C.I.R. These grants and loans will be made on the advice of a committee of independent and trade union members of the C.I.R.

65. The Bill will define the purposes for which assistance can be provided; these are expected to include the stimulation of union mergers, the expansion of training for union officials including shop stewards, the employment of management consultants and the development of research facilities.
66. Unions will be able to apply to the C.I.R. for grants or loans. By analogy with the I.R.C., the C.I.R. will make sure that what is asked for will help to improve union efficiency. Unions wanting assistance will therefore have to submit a scheme to show how they intend to use the money, and to satisfy the C.I.R. that they will be able to carry through the scheme; the C.I.R. will ensure that the grants or loans made are used in accordance with the scheme. The C.I.R. will take account of a union's own financial resources and the scope for increasing subscriptions; it will normally provide only part of the total funds required. There will be no conditions intended to influence a union's behaviour in day-to-day collective bargaining.

67. Any union or federation of unions will be able to apply for development aid. The T.U.C. itself will also be eligible. The Government will have further consultations with the T.U.C. on the details of this radical new scheme and the provision to be made for its administration by a Trade Union Development Office within the C.I.R., including the ways in which the T.U.C. might most usefully be associated with its operation.

68. Any union that regards all forms of state aid as undesirable and unnecessary will of course be free not to make use of this scheme. But the Government hopes that unions generally will share its belief that such help will contribute to greater trade union effectiveness without compromising trade union independence.

Training in Industrial Relations

69. Most training of full-time trade union officials, and much of the training of shop stewards, is undertaken by the T.U.C. and the unions themselves. Courses for trade unionists including shop stewards are also provided by adult education organisations, technical colleges and other bodies. The Industrial Training Boards are making increasing contributions towards the cost to employers of sending shop stewards on training courses. A reform of the collective bargaining system will make it even more necessary than it is now that trade union officers at all levels, full-time and voluntary, should be well trained. The Trade Union Development Scheme will be able to help with the cost of new courses provided by the T.U.C. and the unions.
The Government will also consider whether additional help should be given from public funds for courses provided by other bodies. It attaches particular importance to the provision of sufficient teachers for this type of course, and the development of suitable teaching methods and materials. The Government will also discuss with Industrial Training Boards how their help can best be developed.

Some employers find it useful to give their employees, for example during induction training, some guidance on the main provisions of the collective agreements which apply to them. Such guidance, which need not be elaborate, helps to avoid misunderstandings and to develop a sense of participation. Other employers should consider introducing it in co-operation with unions.

On the management side there is an equally urgent need for training in the techniques of industrial and human relations. Few companies in Britain have senior managers with a knowledge of the full range of options available to them as a result of recent developments in payment systems, manpower planning, industrial sociology and psychology, or ergonomics. Particularly where company and factory-wide bargaining needs to be put on an orderly and equitable basis, management at all levels and especially at the top will need more systematic training in these matters. The Government is considering urgently ways of improving the situation, including the possibility of grants to encourage more training in industrial relations.

NEW SAFEGUARDS

Tackling Strikes

Strikes are inevitable in a system of free collective bargaining. But many strikes in contemporary Britain are avoidable. No Government concerned with the economic advancement and prosperity of the country can afford to neglect any reasonable and practical proposal for reducing their incidence and effect.

The solution lies in the re-structuring of our present system of disordered and defective collective bargaining. Out-dated and overloaded procedural systems, such as that in engineering, can no longer be accepted as reasonable means of resolving disputes. Wage systems which are out of control...
control produce unstable and inequitable pay differentials which create serious and continuing problems for management and unions. National wage negotiations are increasingly irrelevant in many industries. In situations of this sort the occasional use of the strike weapon is understandable, even by men who would welcome alternatives. But in addition to the changes in collective bargaining already outlined, the Government proposes new developments which it believes will enable it to deploy its services more effectively and intends to take new powers.

/The Services of the B.E.F.
The Services of the D.E.P.

74. The Department of Employment and Productivity has recently re-examined the services it and other Government-sponsored agencies provide to industry. As one aspect of this it has considered the nature and adequacy of its services for tackling strikes, lock-outs and other forms of industrial action. The aim of the Department's conciliation service is to assist the parties to a dispute to reach a settlement for themselves or to persuade them, where appropriate, to allow it to be referred to arbitration. Where a dispute concerns a matter of major importance affecting the public interest and it cannot be settled in other ways, the Secretary of State may order an inquiry. The Conciliation Act 1896 and the Industrial Courts Act 1919 provide the statutory framework for these services and no major amendment of these Acts is proposed.

75. The conciliation work of the Department's Manpower Advisers (formerly known as Industrial Relations Officers) very often makes a valuable contribution to promoting good industrial relations and to settling a dispute. No basic changes are proposed, but the following important developments are to be introduced:

(1) In the past the Department has preferred to act only if invited by one or both parties. In future the Department will be more ready to take the initiative and to proffer its help.

(2) Manpower Advisers will continue to encourage observance of agreed procedures for dealing with disputes. They will however recognise that, as some existing procedures are defective, "following procedure" should not be regarded as an end in itself. In disputes where this applies they will regard working for a satisfactory settlement as more important. They will, of course, do all they can to secure the introduction and observance of improved procedures; and conciliation will often provide opportunities for this.

(3) In some circumstances other independent persons might with advantage be used to chair negotiations, and Manpower Advisers will suggest this where appropriate.

(4) In some
In some cases prompt informal investigations may avert a strike or help to promote a settlement. Where possible it is preferable for this to be done before a dispute has resulted in a dislocation of work. Where appropriate such informal investigations will be carried out by Manpower Advisers (with employer and union representatives where this would help). In the light of experience the Government will consider whether further statutory powers are needed for this purpose.

76. The Service will be adequately staffed at all levels with officers trained and experienced in conciliation and with knowledge of the functions of managers and trade union officials. The development of the Manpower and Productivity Service will make technical knowledge available when needed, for example on work study or job evaluation.

77. Strikes are often evidence of fundamental weakness in the system of industrial relations in an undertaking, e.g., defective disputes procedures, or unsatisfactory pay structures. Manpower Advisers will consider what assistance they can give in remedying such underlying problems. In appropriate cases references will be made to the C.I.R.

78. The Government will examine further the extent to which other Government-sponsored technical advisory services can be co-ordinated with the resources of the Manpower and Productivity Service in the interests of simplicity, efficiency and economy.

Strikes and the National Interest

79. The reforms the Government intends to initiate and encourage may take some time, and even when they are complete there is still the possibility of disruptive and economically disastrous strikes which Britain can ill afford. Strikes may be official (i.e., sanctioned by the union or unions concerned in accordance with their rules) or unofficial; they may be constitutional (i.e., called only after the exhaustion of any appropriate procedure for handling disputes agreed by the union or unions and the employer or his association) or unconstitutional, or may take place where there is no agreed procedure. Unconstitutional strikes are usually also unofficial. 95% of all strikes are unofficial, and three-quarters of the working days lost because of strikes are due to unofficial strikes.
80. There have been suggestions that the Government should take powers, on the American pattern, to delay a major official strike for two or three months while further negotiations take place and a ballot is taken on the employer's last offer. The Royal Commission examined this but concluded that the Government's powers of conciliation, arbitration and inquiry, and its power to declare an emergency, were adequate, and that it was preferable that the Government's freedom of action should be preserved. The Government agrees with this view. Major official strikes normally occur in this country only after full negotiations. If the Government took powers of the sort proposed, it would be easy for unions to allow for them by introducing the threat of strike action at an earlier stage of negotiations than at present. If they did this, the actual strike would be no more delayed by a statutory procedure than it is at present by the normal course of negotiations. Even if this were not done, there is no reason to think that in this country a period of delay between the end of normal negotiations and the beginning of a strike would significantly increase the chances of an agreed settlement. The situation is different in the United States where agreements normally run for a fixed period and a strike may quickly follow if a new agreement has not been negotiated by the time that the old one expires.

81. It is, however, a matter for concern that at present it is possible for a major official strike to be called when the support of those concerned may be in doubt. The Industrial Relations Bill will therefore propose powers for the Secretary of State, where an official strike is threatened, to require the union or unions involved to hold a ballot on the question of strike action. The ballot will be conducted by the union, in accordance with rules approved by the Registrar of Trade Unions and Employers' Associations and in consultation with the D.E.P., which would have to be satisfied on the question to be put to the vote. This power will be discretionary and will only be used where the Secretary of State believes that the strike proposed would involve a serious threat to the general economy or public interest, and there is doubt whether it commands the support of those concerned. The Secretary of State will be able to stipulate the majority needed before a strike could go ahead, which will be either a majority of the union members involved in the dispute or two-thirds of those who voted, depending on the circumstances. Where there is no doubt
about this support, and the union itself sees no need to call a ballot, there is
nothing to be gained by imposing one. The object of the legislation is not to
place a bar on such strikes, but to help to ensure that before strikes of this
importance take place the union members themselves are convinced that they are
right to go on strike.

82. For the most part unconstitutional strikes - i.e. strikes which involve
breach of procedure - take place suddenly and without the permission of the body
authorised under union rules to sanction them. Most unions are not prepared to
recognise or support strikes in breach of procedure. Yet strikes of this sort are
increasing in many industries and their effect can be very serious.

Technological change and economic progress are leading, over much of industry, to
an increasing interdependence between firms. This is true both within manufacturing
industry, and between manufacturing industry and the services such as transport on which it depends. A strike by a key group in the long chain of production and
distribution can thus put many people out of work in other firms and even other
industries. It has a cumulative effect which can lead to disproportionate harm
elsewhere and can be extremely costly to the nation. In such circumstances the
Government needs a reserve power to avoid precipitate strikes and to create
an opportunity for further negotiation on the grievance at issue. Such a power
would not be justified where a strike, whether official or unofficial, is
constitutional and takes place after the exhaustion of an agreed disputes
procedure: it would be an intolerable interference with the right to strike in
circumstances where employees might have no other way of remedying a legitimate
grievance. It is however quite a different matter for the community to have a right, through the Government, to insist that groups of workers shall not take strike action which may seriously damage the economy and their fellow workers in circumstances where an agreed procedure for handling disputes has not been observed or does not exist.

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63. The Government will therefore propose in the Industrial Relations Bill the introduction of a further discretionary reserve power for the Secretary of State for Employment and Productivity for use where groups of workers strike without the use of procedure and the effects are likely to be serious. In such cases the Secretary of State will be able to issue an order requiring those involved to desist from any strike or lock-out. For a period of up to twenty-eight days, renewable for a similar period by a further order. This peace pause will enable every opportunity for negotiation to be explored. In particular, it will allow time for any disputes procedure to be used. Under a good procedure, it should be possible for an urgent matter normally to be fully considered within twenty-eight days, or within fifty-six days if it is particularly complicated. Unless the Secretary of State is satisfied that adequate machinery for reaching a settlement exists and will be used, a suitable form of public inquiry or investigation will be held. The terms to be observed during such a peace pause will be those that existed before the dispute arose, so that the delay will not protect an employer who takes provocative action. After the maximum period there will be no further power to delay or restrict a strike or lock-out arising from the dispute in question.

84. In both cases the requirement will need to be backed by financial penalties. In the case of the compulsory ballot in respect of official strikes this will take the form of a fine against the union or unions concerned, if they fail to comply. In the case of the peace pause, if the requirement is not complied with individual strikers will be liable to fines.

85. The Government believes that these two measures, taken together, represent a sensible, fair and practical policy for tackling serious strikes. They have the merit of being capable of being used flexibly, when required, to help deal with individual strikes. In this respect they are greatly to be preferred to measures, such as have been proposed in some quarters, which would penalise important and unimportant, justifiable and unjustifiable strikes alike; or would be invoked haphazardly; or (if they depended upon employers) might not be invoked at all.

The Present Law on Strikes

86. The new powers proposed above are selective. They will reduce the harm caused by too precipitate decisions to strike, without limiting the basic freedom to strike or giving employers a free hand to take provocative action. This is the only acceptable way to change the law on strikes.
87. The Government has therefore decided not to accept the Donovan Report's majority recommendation in favour of limiting to trade unions the protection given by Section 3 of the Trade Disputes Act 1906 and by the Trade Disputes Act 1965 in relation to inducement of breach of a contract of employment. The implementation of this recommendation would place leaders of all unofficial strikes at risk of being sued by employers for inducing employees on strike to break their contracts. The Government does not believe that this would improve industrial relations. In the first place, the great majority of employers would probably not be prepared to take advantage of the change in the law; this change would therefore be useless in practical terms, while creating uncertainty and thus worsening the general atmosphere in industrial relations. For example, unions might declare all strikes by their members official to safeguard them from legal action; or groups of unofficial strikers might constitute themselves as trade unions, in order to obtain the law's protection. Far from helping to establish greater order in collective bargaining, therefore, the limitation of the protection given by Section 3 of the Trade Disputes Act 1906 and the Trade Disputes Act 1965 could have a seriously disruptive effect.

88. The Government has reviewed the law on picketing, but does not propose to make any changes in it. It believes that the present law does not place any unreasonable limitations on picketing, and that properly enforced it provides sufficient safeguards against violent or intimidatory behaviour.

89. The Government has decided to accept the recommendation of the Royal Commission that the inducement of breach of a commercial contract in the circumstances of a trade dispute should be protected in the same way as the inducement of breach of a contract of employment. The law on this is complicated; sympathetic strikes and other ways of bringing indirect pressure on an employer during a dispute are regarded by the present law as legitimate, but they face legal hazards in some circumstances. This anomalous situation must be resolved. The alternative is to outlaw sympathetic action. But trade unions have a long tradition of relying on the solidarity of union members working in different places, and it would be wrong to attach legal penalties to the practical expression of this. It will of course be open to the Secretary of State to require a ballot before an official, or a peace pause in an unconstitutional, sympathetic strike.
The Royal Commission recommended changes to Section 22 of the National Insurance Act 1965, which concerns the disqualification of persons for receipt of unemployment benefit when there is a trade dispute at their place of work. If these changes were made, a claimant for benefit would no longer have to prove that he is not a member of a "grade or class" of workers any of whom are participating in or financing or directly interested in the dispute; and a claimant would not be regarded as "financing" a trade dispute simply because he is a member of a trade union paying strike pay to those on strike.

The Government is considering these recommendations in the light of comments so far made by the C.B.I., T.U.C. and nationalised industries, and it intends to have further consultations with them on this matter.

Safeguards against Unfair Dismissal

The Government proposes to end the anomalous situation by which, although the individual employee is protected in many other ways by legislation or collective agreements, he often has no effective safeguard against arbitrary or unfair dismissal. While it is desirable that voluntary procedures relating to dismissal should be improved and extended, the development of such procedures is much too slow. There is a need for legislation to establish statutory machinery to safeguard both unionists and non-unionists against unfair dismissal. In a period when increasing and necessary change must be accepted by large numbers of people legislation will provide some guarantee that the inevitable uncertainties which this situation creates will not be added to by an employer's high-handedness or prejudice. One effect of legislation will undoubtedly be to encourage the development of clear rules as to the circumstances in which employees may be dismissed and for what reason.

The Industrial Relations Bill will state that dismissal is justified only if there is a valid reason for it connected with the capacity or conduct of the employee or based on the operational requirements of the undertaking, establishment or service; and that in the absence of such valid reasons it is unfair. Certain specific reasons which are not valid will be laid down, such as trade union membership, race, colour, sex, marital status, religious or political opinion, national extraction or social origin. Employees who consider themselves unfairly dismissed will have a right to complain to the present Industrial Tribunals, which will have to be extended and equipped to deal with this additional role. Compensation or re-instatement may be awarded by the Tribunals. The exact form of the procedure and the machinery to operate it, and the extent to which voluntary procedures can be exempted, will be discussed in detail with the C.B.I., T.U.C., nationalised industries and other interests.

Contracts of Employment Act

There is a strong case for revising the Contracts of Employment Act, for example to increase long-service employees' entitlement to notice before dismissal, to shorten the minimum period of service needed to benefit from the Act, and to require employers to give employees fuller particulars of their contracts of employment. This will be considered further in consultation with both sides of industry.
The Government in principle accepts the Royal Commission's view that it is desirable to improve the present arrangements for the judicial determination of disputes arising out of individual contracts of employment and statutory claims between employers and employees at present dealt with in the ordinary Courts. For this purpose the Report proposed that the Industrial Tribunals' jurisdiction should be extended to cover such disputes. This will require further consultations.

Trade Union Rules and Registration
96. Prejudices and unfair treatment are not a management monopoly. They can arise among employees and in trade unions. The Donovan Commission found no evidence of widespread abuse of union power. But when union membership is accepted as desirable and actively encouraged, it is essential that unions should be able, and be seen to be able, to conduct their business according to clear and comprehensive rules, and to deal fairly with any dispute between the union or its officers and the individual member.

97. This must be done in ways that are compatible with trade union internal self-government and independence. Employees must retain the right to combine together in ways that seem to them to advance their interests. But this must also be seen to be compatible with generally accepted standards of tolerance and fair-play. For this reason, while the Government does not propose to regulate union rules in detail, it considers that the present legal requirements relating to the rules of trade unions are inadequate, and should be extended in the interests both of the unions and their members.

98. The Industrial Relations Bill will therefore propose that trade unions should register with a new Registrar of Trade Unions and Employers' Associations within a prescribed period. In view of the experience gained by the Registrar of Friendly Societies in dealing with trade union matters, the new post will for the present be combined with that of the Registrar of Friendly Societies. Refusal to register will lay a trade union open to a fine. Registered unions will be required to have rules governing admission, discipline, disputes between the unions and their members, elections, strike ballots, and the appointment and functions of shop stewards. Unions will be free to frame these rules to meet their own requirements and (except in the case of strike ballots - see paragraph 81) it is not proposed that the Industrial Relations Bill should enable them to be challenged except...
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of the ground that they do not adequately cover the subjects mentioned. This
right will lie with the Registrar of Trade Unions and Employers' Associations,
whom unions will be required to submit their rules. If he refuses to register
union, appeal will lie to the Courts. Trade unions will be allowed reasonable
time to make any necessary amendments to their rules. Employers' associations
dll also be required to register and to comply with appropriate requirements
about rules.

59. The Royal Commission recommended that trade unions should be given corporate
status. The T.U.C. has represented that this would be undesirable, as it would
have no significant advantages and would not be appropriate to unions' constitu­
tional structure. The Government accepts these arguments and does not propose to
implement the Royal Commission's recommendation.

100. The Industrial Relations Bill will further propose that all but the smallest
unions should be required to employ professional auditors and that new requirements
regarding superannuation funds for their members should be introduced.

101. At present trade unions are protected from actions in tort by Section 4 of
the Trade Disputes Act 1906. This means, for example, that a union cannot be sued
for libel or negligence (although it is possible in some circumstances to sue the
trustees or the officers). This restriction is unrealistic, and the Industrial
Relations Bill will provide for removal of the immunity except in the circumstances
of a trade dispute. The Government agrees with the T.U.C. that this change will
only be acceptable if the definition of a trade dispute is watertight, and will
consider carefully what changes (if any) should be made in the present definition
for this purpose.

An Independent Review Body

102. These reforms will provide additional safeguards for union members, and do
much to enable unions themselves to escape unjustified suspicions. But for them
to be seen to deal fairly with members, it is necessary that the administration
of their rules should be subject to independent review. This does not imply that
there is any reason to suspect frequent injustice any more than the creation of the
Parliamentary Commissioner implies that maladministration is common in Government
departments. But it is right and healthy in a democracy that any powerful body
should be subject to outside scrutiny where abuse of its power can most harm the
individual.

/103. Complaints
103. Complaints by individuals against trade unions will be considered in the first instance by the Registrar, who will have the duty of advising the complainants and trying to promote an amicable settlement. In some cases where this cannot be achieved there is already a legal remedy in the ordinary courts, but in others there is no remedy at present. The Industrial Relations Bill will provide for a new independent review body to which may be referred complaints by individuals of unfair or arbitrary action by trade unions resulting in substantial injustice.

104. In cases heard by the independent review body, every opportunity will be given to the trade unions concerned to prepare their own answers to complaints. The object will be to ensure fair play and justice, rather than to put obstacles in the way of unions. If complaints are found to be justified, the review body will have power to award damages, or admission or re-instatement in a union.

105. The review body will be headed by the President of the Industrial Court, and its membership will consist of the members of the trade union panel of the Industrial Court. Each case will be considered by the President or a legal chairman drawn from the independent panel of the Industrial Court plus two members of the trade union panel.

106. The Donovan Commission rejected the prohibition of the closed shop and said that, under proper safeguards, it could serve a useful purpose. A closed shop might be needed by a union to establish an effective and stable organisation or in order to deploy workers' bargaining strength to the full. Nevertheless the Commission recognised that the closed shop was liable from time to time to cause injustice to individuals and it therefore proposed safeguards. The Government generally agrees with this assessment. It has proposed above in paragraphs 96-98 measures to protect the trade union member; it is also necessary to consider those who have conscientious grounds for not joining a union and who are dismissed from their employment in consequence.

107. Before agreeing to a closed or union shop, employers should seek to obtain suitable protection for people who refuse to join trade unions on conscientious grounds. Many unions are prepared to accept such people in a closed or union shop, if they in their turn are prepared to show good faith, for example by contributing to charity instead of paying a union subscription. When such employees are dismissed from employment because they will not join a union, the Government proposes that the initial right of complaint should be to an Industrial Tribunal as a case of alleged unjust dismissal.

/ The Government
The Government agrees with the majority of the Donovan Commission that the Tribunal should have power to award compensation to be paid by the employer since it is his responsibility in concluding a closed shop agreement to bear in mind the interests of existing employees who are not in the union, and to ensure that they are adequately safeguarded. It will also be possible for the Tribunal to award compensation to be paid by the employer if the closed shop is not a formal one established by agreement with a union, but an informal one resulting from the unwillingness of employees to work with a certain non-unionist. The Tribunal will have to consider whether the employer should in any way be liable for acquiescence in the development of such a closed shop, and the extent to which the employer should compensate an employee whom he has dismissed because he considered it to be in the advantage of his business to do so in the circumstances.

A NEW OPPORTUNITY

108. These are the major measures, initiatives and policies which the Government proposes to deal with the industrial relations problems now facing this country. They are intended to retain the best aspects of our traditional system - its freedom, its flexibility, tolerance and general sense of reasonable compromise. At the same time they should enable us to grapple with what is wrong; with disorder, injustice, occasional near chaos and damaging disruption. They involve the Government more closely in the processes of industrial relations, but they do so without weakening the responsibility of management and unions for the proper conduct of their affairs. On the contrary they are designed to highlight and strengthen that responsibility. In effect they offer both management and unions an opportunity and a challenge. The Government proposes a joint effort to remake and improve the relationships of people at work.
Proposals for an Industrial Relations Act

The Government intends, after further consultations, to introduce an Industrial Relations Bill, including provisions:

1. To establish a Commission on Industrial Relations (paragraphs 29-34);
2. To require employers to register procedure agreements and arrangements with the Department of Employment and Productivity (paragraphs 35-37);
3. To modify section 4(4) of the Trade Union Act 1871, to facilitate the direct legal enforcement, where the parties wish, of agreements between trade unions and employers' associations, and to provide that agreements should only be legally binding if they include an express written provision to that effect (paragraph 42);
4. To give trade unions the right to have certain sorts of information from employers, subject to safeguards for confidential commercial information (paragraph 44);
5. To facilitate the appointment of trade union representatives on boards of undertakings (paragraph 45);
6. To establish the principle that no employer has the right to prevent or obstruct an employee from belonging to a registered trade union (paragraph 50);
7. To stop Friendly Societies from having rules debarring trade unionists from membership (paragraph 50);
8. To empower the Commission on Industrial Relations to look into recognition disputes, and to arrange a secret ballot if it thinks this desirable (paragraph 51);
9. To enable the Secretary of State, where the Commission on Industrial Relations recommends that an employer shall recognise a union but there is continuing difficulty,
   a) to make an order requiring the employer to recognise and negotiate with the union and, in default, giving the union the right to take the employer to arbitration at the Industrial Court (paragraph 53), and
   b) if necessary to make an order excluding one or more unions from recognition, with penalties for breach of the order by either the employer or a union (paragraph 54);
10. To enable
(10) To enable the Secretary of State by order to make unilateral legally
binding arbitration before the Industrial Court available in some
situations (paragraph 56);

(11) To amend the law relating to Wages Councils and section 8 of the
Terms and Conditions of Employment Act 1959 (paragraphs 57-58);

(12) To provide for the Commission on Industrial Relations to make grants
and loans for trade union development (paragraphs 64-69);

(13) To empower the Secretary of State, where an official strike is
threatened, to require a ballot (paragraph 81);

(14) To enable the Secretary of State to require those involved to
desist for up to 28 days (and for a further period of up to 28 days
if necessary) from a strike or lockout without the use of procedure
(paragraph 83);

(15) To protect inducement of breach of a contract other than a contract
of employment, in the circumstances of a trade dispute (paragraph 89);

(16) To introduce safeguards against unfair dismissal (paragraph 92);

(17) To require trade unions to register, and to have rules concerning
admission, discipline, disputes between union and member, elections
and strike ballots, and shop stewards (paragraph 96-98);

(18) To create a new Registrar of Trade Unions and Employers' Associations
the post to be combined for the present with that of Registrar of
Friendly Societies (paragraph 98);

(19) To require all but the smallest unions to have professional auditors,
and to make new provisions regarding superannuation funds for members
(paragraph 100);

(20) To enable a union to be sued in tort, except in the circumstances of
a trade dispute (paragraph 101);

(21) To make any necessary amendment to the definition of a trade dispute
(paragraph 101);

(22) To establish an independent review body to hear complaints by
individuals of unfair or arbitrary action by trade unions
(paragraphs 102-107).
APPENDIX 2

Incidence of Strikes in the United Kingdom

1. A country's pattern of strikes and other stoppages due to trade disputes can be analysed in various ways, for example according to the number of stoppages in relation to the number of employees, the average number of persons involved per stoppage, the average duration of stoppages and the number of working days lost in relation to the number of employees. The following table comparing the strike patterns of different countries is based on one published in the Donovan Report, brought up-to-date as far as possible.

INTERNATIONAL COMPARISONS OF STATISTICS RELATING TO STOPPAGES DUE TO INDUSTRIAL DISPUTES IN MINING, MANUFACTURING, CONSTRUCTION AND TRANSPORT

Average annual figures based on latest available information supplied by International Labour Office

<table>
<thead>
<tr>
<th>Name of Country</th>
<th>(1) No. of Stoppages per 100,000 employees</th>
<th>(2) Average No. of persons involved per stoppage</th>
<th>(3) Average duration of each stoppage in working days</th>
<th>(4) No. of working days lost per 1,000 employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.K.</td>
<td>16.8</td>
<td>3.4</td>
<td>1.8</td>
<td>13</td>
</tr>
<tr>
<td>Australia</td>
<td>63.8</td>
<td>680</td>
<td>14.0</td>
<td>362</td>
</tr>
<tr>
<td>Belgium</td>
<td>7.0</td>
<td>430</td>
<td>7.3</td>
<td>379</td>
</tr>
<tr>
<td>France</td>
<td>15.8</td>
<td>370</td>
<td>2.1</td>
<td>341</td>
</tr>
<tr>
<td>Germany</td>
<td>7.5</td>
<td>1,090</td>
<td>0.8</td>
<td>104</td>
</tr>
<tr>
<td>Ireland</td>
<td>10.8</td>
<td>360</td>
<td>2.1</td>
<td>414</td>
</tr>
<tr>
<td>Italy</td>
<td>21.8</td>
<td>1,090</td>
<td>0.8</td>
<td>347</td>
</tr>
<tr>
<td>New Zealand</td>
<td></td>
<td>1,090</td>
<td>0.8</td>
<td>104</td>
</tr>
<tr>
<td>Netherlands</td>
<td></td>
<td>1,090</td>
<td>0.8</td>
<td>104</td>
</tr>
<tr>
<td>U.S.A.</td>
<td></td>
<td>1,090</td>
<td>0.8</td>
<td>104</td>
</tr>
<tr>
<td>Canadian Republic of Germany</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public of Ireland</td>
<td></td>
<td>256</td>
<td>15.2</td>
<td>1,210</td>
</tr>
<tr>
<td>Denmark</td>
<td>32.9</td>
<td>720</td>
<td>5.3</td>
<td>1,045</td>
</tr>
<tr>
<td>Finland</td>
<td>7.6</td>
<td>1,210</td>
<td>2.9</td>
<td>200</td>
</tr>
<tr>
<td>Norway</td>
<td>2.2</td>
<td>720</td>
<td>5.3</td>
<td>1,045</td>
</tr>
<tr>
<td>New Zealand</td>
<td>25.8</td>
<td>260</td>
<td>2.1</td>
<td>280</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.6(6)</td>
<td>570</td>
<td>35.5</td>
<td>570(6)</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.5(7)</td>
<td>470</td>
<td>35.5</td>
<td>570(7)</td>
</tr>
<tr>
<td>New Zealand</td>
<td>15.2(7)</td>
<td>570</td>
<td>35.5</td>
<td>570(7)</td>
</tr>
</tbody>
</table>

Because countries adopt different statistical practices, the figures are not strictly comparable in every respect. The most important variation is in the level below which strikes are regarded as too small to be included; some other countries adopt levels lower than the United Kingdom, notably Australia, Canada, Japan, Norway and the United States. Some countries, unlike the United Kingdom, exclude from their statistics workers laid off as a result of stoppages at their place of work. The footnotes which follow record the more important other variations.

1) Including electricity and gas.
2) Manufacturing only.
3) Figures not available.
5) All industries.
6) Including electricity, gas, water, sanitary services.
Column (1) of this table shows that in comparison with many other countries the U.K. has a fairly large number of strikes in relation to the size of its workforce. In this respect the U.K. has in recent years been worse off than nine of the other countries listed, but better than five (Australia, France, the Republic of Ireland, Italy and New Zealand). As regards average number of employees involved per stoppage (column 2), the U.K. figure falls below the figures for twelve of the other countries; and as regards the average duration of each stoppage (column 3) our figure falls below those for nine of the others. Judged in terms of number of working days lost in relation to numbers employed (column 4), the U.K.'s record has been about average compared with other countries. The pattern which emerges for the U.K. is therefore one of a comparatively large number of short stoppages involving, on average, a fairly small number of employees.

2. The number of stoppages in industries other than coal-mining has increased steadily over the last few years, as the following table shows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of stoppages due to industrial disputes, 1957 to October 1968</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coal-mining</td>
</tr>
<tr>
<td>1957</td>
<td>2,224</td>
</tr>
<tr>
<td>1958</td>
<td>1,963</td>
</tr>
<tr>
<td>1959</td>
<td>1,357</td>
</tr>
<tr>
<td>1960</td>
<td>1,666</td>
</tr>
<tr>
<td>1961</td>
<td>1,438</td>
</tr>
<tr>
<td>1962</td>
<td>1,203</td>
</tr>
<tr>
<td>1963</td>
<td>967</td>
</tr>
<tr>
<td>1964</td>
<td>1,058</td>
</tr>
<tr>
<td>1965</td>
<td>740</td>
</tr>
<tr>
<td>1966</td>
<td>553</td>
</tr>
<tr>
<td>1967</td>
<td>554</td>
</tr>
<tr>
<td>1968</td>
<td>173</td>
</tr>
</tbody>
</table>

Source: Department of Employment and Productivity
3. One important feature of the strike pattern in the U.K. is that the great majority of strikes (about 95%) are unofficial, (that is, not sanctioned or ratified by the union or unions concerned), as illustrated by the following table:

### OFFICIAL, UNOFFICIAL AND OTHER STOPPAGES OF WORK DUE TO INDUSTRIAL DISPUTES

<table>
<thead>
<tr>
<th>Type of Stoppage</th>
<th>No. of Stoppages</th>
<th>No. of Workers Involved</th>
<th>No. of Working Days Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official Strikes</td>
<td>82</td>
<td>84,700</td>
<td>643,000</td>
</tr>
<tr>
<td>Partly Official</td>
<td>2</td>
<td>600</td>
<td>6,000</td>
</tr>
<tr>
<td>Unofficial</td>
<td>2,125</td>
<td>663,300</td>
<td>1,857,000</td>
</tr>
<tr>
<td>Others: i.e. lookouts or strikes by unorganised workers unclassified</td>
<td>24</td>
<td>3,200</td>
<td>24,000</td>
</tr>
<tr>
<td><strong>All</strong></td>
<td><strong>2,233</strong></td>
<td><strong>751,300</strong></td>
<td><strong>2,530,000</strong></td>
</tr>
</tbody>
</table>

Source: Department of Employment and Productivity.

(1) Figures relate to stoppages beginning in years covered and the total number of working days lost due to them.

(2) Includes workers thrown out of work at establishments where stoppages occurred, although not themselves parties to the dispute.

(3) i.e., Strikes involving more than one union and recognised as official by at least one but not all the unions concerned.

These unofficial strikes are also nearly always unconstitutional - i.e. they take place in breach of the appropriate procedure for dealing with disputes.

4. Official strikes, although few in number, tend to involve more employees and to last longer than unofficial strikes. An official strike, because of the number of employees involved, can often result in a very large number of working days lost. For example, the total number of working days lost through stoppages in the first eleven months of 1968 was 4,570,000; of this, the one-day engineering strike in May accounted for about 1½ million.

5. Official strikes have not shown any consistent tendency to grow in number in recent years, the figures since 1960 being as follows:

42.
The figures include "partly-official" strikes, i.e., strikes involving more than one union and recognized as official by at least one but not all the unions concerned.

By contrast, the numbers of unofficial strikes have steadily risen in recent years. The general increase in the number of strikes in industries other than coal-mining has been almost entirely due to an increase in unofficial strikes. Certain industries have been especially prone to unofficial strikes, as the following table shows:

### Average Annual Figures Relating to Industries in Which Most Unofficial Strikes Took Place in Relation to Numbers Employed, 1964-1967

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of unofficial strikes per 100,000 employees</th>
<th>Number of days lost in unofficial strikes per 1,000 employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal mining</td>
<td>127.7</td>
<td>416</td>
</tr>
<tr>
<td>Docks (port and inland water transport)</td>
<td>65.6</td>
<td>1,766</td>
</tr>
<tr>
<td>Shipbuilding, ship repairing and marine engineering</td>
<td>45.2</td>
<td>412</td>
</tr>
<tr>
<td>Motor vehicle manufacturing</td>
<td>34.3</td>
<td>831</td>
</tr>
<tr>
<td>All industries</td>
<td>9.2</td>
<td>84</td>
</tr>
</tbody>
</table>

Statistics relating to the causes of strikes have to be used with caution; a strike may have several causes, and the immediate cause (according to which the strike is classified) may not be the most important one. Most official strikes result from a breakdown of negotiations at industry level about trade union claims for improved terms and conditions of employment.
As far as unofficial strikes are concerned, nearly half of them in recent years have been due to disputes over pay. The other most frequent causes are "working arrangements, rules and discipline" (about 30%) and "redundancy, dismissal, suspension etc." (about 15%). Other causes, including recognition, demarcation questions, hours of work and closed shop issues account for about 8% of unofficial strikes.
CABINET

UNITED NATIONS CONVENTION ON RACIAL DISCRIMINATION

Memorandum by the Secretary of State for the Home Department

On 13th December the Home Affairs Committee considered a proposal by the Minister of State for Foreign and Commonwealth Affairs to ratify the United Nations Convention on the Elimination of all Forms of Racial Discrimination before the end of the year, subject to a reservation to cover our Commonwealth immigration legislation. At Home Affairs I had to reserve my position on the need for this reservation. Accordingly, it was announced in a Written Answer on 19th December that we hoped to be in a position to deposit the instruments of ratification early in the New Year, and I now seek the views of my colleagues on the question of the reservation.

2. The suggestion that a reservation might be necessary arises on Article 1(l) of the Convention which defines "racial discrimination" as any distinction, exclusion, restriction or preference based on race, colour, descent or national or ethnic origin which has the purpose or effect of nullifying or impairing the recognition, enjoyment or exercise, on an equal footing, of human rights and fundamental freedoms in the political, economic, social, cultural, or any other field of public life; and, in particular, from Article 5(d)(ii) under which States undertake to guarantee the right of everyone, without distinction as to race, colour, or national or ethnic origin, to equality before the law, notably in the enjoyment of the following rights.... "... The right to leave any country, including one's own, and to return to one's country."

3. The proposal before Home Affairs was that our ratification should be subject to a reservation that Her Majesty's Government "do not regard the Commonwealth Immigrants Acts, 1962 and 1968, or their application, as involving any breach of the Convention and fully reserve their right to continue to apply those Acts". In brief the arguments for entering this reservation are that if we were to ratify without a reservation, and if a formal complaint by a State were considered by the Committee which will in due course be set up to implement the Convention, or by the International Court of Justice, there would be a risk that the Commonwealth Immigrants Act, 1968 might be said to be incompatible with the Convention. This would leave us with the alternatives of rescinding or modifying the Act, or denouncing the Convention by giving a year's notice under Article 21. The memorandum by the Minister of State for Foreign and Commonwealth Affairs did not suggest that the risk...
of such a complaint being made was great, and brought out the point that if a complaint were made there would be a whole range of possibilities for settlement short of the stark alternatives of our having to modify our legislation or denounce the Convention. From the making of a complaint or, in the final resort, a decision by the International Court, the whole procedure is estimated to take at least three years.

4. Ratification with the reservation proposed would no doubt provide us with the best protection against future embarrassment under the Convention (unless it were itself declared incompatible with the Convention by the formal objection under Article 20 of two-thirds of the States who were parties); but in my view it would be wrong to enter any reservation. The possibility that the Commonwealth Immigrants Act, 1968 might create difficulties for us in relation to this Convention was foreseen from the outset. The Attorney-General circulated a paper (C(68) 36) to Cabinet which was considered on 15th February (CG(68) 13th Conclusions). In it he said: "In the case of the Convention on Racial Discrimination we can argue that the proposed legislation is based on criteria of territorial connection with the United Kingdom and does not discriminate on grounds of race, colour or national or ethnic origin". The minutes record the Attorney-General as saying that our position in relation to this and other international agreements and declarations would be "difficult but not impossible".

5. The relevance of the Bill to our existing and prospective obligations under international instruments was hardly referred to in the debates on the Bill. But the extension of immigration control to United Kingdom passport holders not having a close connection with the United Kingdom was misrepresented as a racially discriminatory measure. This we have firmly and consistently denied. I said in the House (Official Report: 27th February, 1968, column 125): "It has been suggested that this is a racist conception. That is not so. It is true that Clause I does not apply to Australian or New Zealand or Canadian citizens because all of them are already subject to control. The test that is adopted is geographical not racial. Those who, or whose fathers or fathers' fathers were born, naturalised, adopted or registered in the United Kingdom will be exempted whatever their race .... It is a wild exaggeration to refer to this legislation as racialist!". But if we now expressly reserve our position under the Commonwealth Immigrants Acts, in ratifying this Convention, we shall be going out of our way to invite the criticism that we ourselves recognise that our legislation is open to legitimate attack on grounds of discrimination. To draw attention to the matter by entering a reservation is to invite a re-opening of the issue, and would be inconsistent with the firm line that we have hitherto taken. And to cover the Act of 1962 also in the reservation seems quite unjustifiable. It is the maintenance of our Commonwealth immigration control on a non-discriminatory basis that causes us such embarrassment with Australia and New Zealand from time to time.

6. In my view the better course, and the one with which I invite my colleagues to agree, is to ratify the Convention without any reservation, and as the Minister responsible for immigration I am prepared to accept the consequences of this. If our legislation is challenged, we shall rely on the arguments that satisfied us that it was not discriminatory,
7. Meanwhile, with the agreement of the Secretary of State for Foreign and Commonwealth Affairs, the Channel Islands and the Isle of Man have been informed of Her Majesty's Government's proposal to ratify the Convention (which would impose obligations on them) and their formal agreement sought, with a view to ratification not later than the end of January, 1969.

Ls J.C.

Home Office, S.W.1.

31st December, 1968.
CABINET

31st December, 1968

UNITED KINGDOM PASSPORT HOLDERS IN KENYA AND UGANDA

Note by the Secretary of State for Foreign and Commonwealth Affairs

Since the paper attached to the Home Secretary's memorandum C(68) 130 was prepared, our High Commissioner in Nairobi has received further information from the Kenya Ministry of Labour which suggests that entry permits of non-Kenyans will expire at a lower rate than was at first feared. The latest figures are contained in Nairobi telegram no. 3940 of which a copy is attached.

2. It is now expected that the total demand for special vouchers in Nairobi in 1969 will be about 3020, of which 2520 will qualify for the highest priority. These totals are made up as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry permits expiring in 1969 (1300) less</td>
<td>1170</td>
</tr>
<tr>
<td>approximately 10 per cent who will choose to go to India</td>
<td></td>
</tr>
<tr>
<td>Present waiting list</td>
<td>850</td>
</tr>
<tr>
<td>Asians leaving school in 1969 who will not get permits but are too old to qualify as dependants</td>
<td>300</td>
</tr>
<tr>
<td>Tradesmen affected by the Trade Licensing Act</td>
<td>200</td>
</tr>
<tr>
<td>Total priority applications</td>
<td>2520</td>
</tr>
<tr>
<td>Applicants who are under no obligation to leave Kenya</td>
<td>500</td>
</tr>
<tr>
<td>Total demand for vouchers</td>
<td>3020</td>
</tr>
</tbody>
</table>

Some 8000 to 9000 individuals would seek entry for settlement.

3. Although a demand for 2520 priority vouchers in 1969 would create fewer difficulties than a demand for 4500 (as forecast in C(68) 130) or for 8100 vouchers, as forecast by the Permanent Secretary in the Office of the President of Kenya, it is still well beyond the quota of 1500 vouchers which was established in March to provide for applications received
throughout the world, from United Kingdom citizens subjected to immigration control by the Commonwealth Immigrants Act, 1968, and leaves no margin for demand from other countries. There has been no development in the situation in Uganda, which is potentially more serious than that in Kenya, and the general arguments set out in C(68) 130 and the suggested tactics which could be employed at the Commonwealth Prime Ministers' Meeting are still considered to be valid.

4. Commonwealth Governments have been informed of our wish to discuss the question of United Kingdom citizens in Kenya and Uganda when their Ministers are in London for the Commonwealth Prime Ministers' Meeting. Few of our High Commissioners have had any reaction to the report. The countries of the "Old Commonwealth" would be least affected by any cut back in the employment voucher scheme, but the few individuals whose entry to this country for settlement would be prejudiced might well be very angry and further restrictions on immigration would be regretted by public opinion generally as a further weakening of the Commonwealth link. Official opinion in New Delhi is that there is no numerical limit to the Anglo-Indian understanding of July, 1968, under which United Kingdom citizens of Indian origin forced to leave Kenya may opt to go to India instead, but officials were not willing to express an opinion on the possibility of the understanding being extended to cover Uganda as well.

M.S.

Foreign and Commonwealth Office, S.W.1.

31st December, 1968
Cypher CAT A
From Priority Nairobi To Foreign and Commonwealth Office
Tel. No. 3940
20 December, 1968

CONFIDENTIAL

Addressed to Priority F.C.O. Telegram No. 3940 of 20 December RFI Routine to New Delhi, Rawalpindi and Kampala.

Kenya Asians.

The Kenyans have now provided the figures requested as in paragraph 3 of my telegram No. 3761 of 2 December to F.C.O. Although they come from the same source - the Kenyanisation Bureau in the Ministry of Labour - they are very considerably at variance with the figures given by Kariithi, in a sense more favourable to us, and we should now take the later figures.

2. In summary, the latest estimates are as follows. Between the first quarter of 1969 and the end of the third quarter of 1970 (i.e. a 21 month period) about 3,300 entry permits of Asians out of a total of 5,500 for Asians and Europeans will expire.

3. Of the 3,300 about 1,300 will expire in 1969 and 2,000 in the first three quarters of 1970.

4. To estimate the demand on the quota, the following categories of applicants and potential applicants for vouchers must be added:

- 1,300 British Asian school leavers, who will not obtain entry permits
- 300 Tradesmen affected by the Trade Licensing Act
- 200

There will be some overlap between category (a) and the 1,300.

The Kenyan Government have no estimate of the consequences of the Trade Licensing Act in numerical terms and the figure of 200 is that of the Association of British Citizens. Their estimating is notoriously unreliable, but since they tend to exaggerate, and since the figure seems reasonable.

5. Of those whose entry permits expire, we estimate that about 10 per cent will go to India (the present numbers are two applications for Indian endorsements for every five voucher applications, but in the categories concerned we consider fewer will opt for India).
6. An additional category (e) will be those who, while not under any obligation to leave Kenya, will nevertheless apply to do so. They will have a lower priority than the first four categories but we should assume a figure for them of 500.

7. On these assumptions the total for 1969 will be:

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>850</td>
</tr>
<tr>
<td>(b)</td>
<td>300</td>
</tr>
<tr>
<td>(c)</td>
<td>200</td>
</tr>
<tr>
<td>(d) Entry Permits</td>
<td>1,170</td>
</tr>
<tr>
<td>(e) Others</td>
<td>500</td>
</tr>
</tbody>
</table>

Total 3,020 say 3,000

This comprises a maximum of 2,500 of High Priority but the actual figure is likely to be smaller.

8. A similar exercise for 1970, assuming 500 entry permit expiries in the last quarter, gives a maximum of about 3,000 applicants of high priority, and a total of 3,500.

9. The Kenyan figures are in some ways internally inconsistent, and we are looking into this, although the margin for error is in any case large. However, on any basis it seems certain that we shall run into difficulties on a quota of only 1,500 a year in 1969 and 1970. On the other hand, given the imponderables in these estimates, the need to keep the quota as low as possible, and the desirability of having a means of applying pressure to the Kenyans, my first reaction is to suggest that if we offer to increase the quota to 2,000 a year for each of the two years, with an undertaking to review in late 1970 for later years, that should (a) seem to the Kenyans to cover their immediate problem over entry permit expiries; and (b) consequently, if we then run into trouble over other urgent cases, enable us to ask the Kenyans to renew entry permits for at least the time necessary to see us through to 1971.

10. Further details will follow by bag, but the above gives the essential facts.

F.C.O. pass to all.

Mr. Norris [Repeated as requested]

Files
Migration and Visa Department

2.