CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Wednesday, 28th October, 1964, at 3.30 p.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. JAMES GRIFFITHS, M.P., Secretary of State for Wales
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. TOM FRASER, M.P., Minister of Transport

The following were also present:
Miss MARGARET HERBISON, M.P., Minister of Pensions and National Insurance (Item 3)
Mr. GEORGE THOMSON, M.P., Minister of State, Foreign Office (Items 1 and 2)

The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. A. A. JARRATT

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1. The Commonwealth Secretary said that his negotiations in Zambia about the payment of compensation to the British South Africa Company (Chartered) in respect of the expropriation of their mineral rights by the Zambian Government had been difficult. But the outcome, whereby the Governments of the United Kingdom and Zambia had contributed equally to the settlement, had been very satisfactory and should help to maintain friendly relations between the United Kingdom and Zambia.

The Cabinet—

Took note, with approval, of the statement by the Commonwealth Secretary about the settlement of the claim by the British South Africa Company (Chartered) in respect of the expropriation of their mineral rights by the Government of Zambia.

2. The Prime Minister said that it had become necessary to send to the Prime Minister of Southern Rhodesia, Mr. Ian Smith, on the evening of Sunday, 25th October, a statement warning him of the consequences of a unilateral declaration of independence. Since Mr. Smith had not been prepared to give an undertaking that his Government were not contemplating a unilateral declaration, it had been decided to publish the statement on the morning of 27th October, in order that the people of Southern Rhodesia might be fully seized of the consequences of unconstitutional action before a critical debate on the issue of independence started in the Legislature of Southern Rhodesia later that day. Meanwhile, the Ministers immediately concerned had reviewed the measures which we might be compelled to take if, despite the warning conveyed in our published statement, the Government of Southern Rhodesia made a unilateral declaration of independence.

In discussion it was suggested that if, in the event, the Government of Southern Rhodesia were prepared to revert to constitutional methods of conducting their affairs and to contemplate making an advance towards majority rule, we might consider providing them with additional economic aid as an inducement to maintain this attitude. Such assistance might comprise aid both for education and for the training of Africans in administration.

The Cabinet—

(1) Took note of the Prime Minister's statement about Southern Rhodesia.

(2) Invited the Commonwealth Secretary, in consultation with the Ministers concerned, to consider whether additional economic aid might be offered to the Government of Southern Rhodesia, if they proved willing to revert to constitutional methods of conducting their affairs.

3. The Cabinet considered memoranda by the Chancellor of the Exchequer (C. (64) 7) about proposals involving public expenditure and by the Minister of Pensions and National Insurance (C. (64) 8) about an increase in social security benefits.

The Chancellor of the Exchequer said that the natural expansion of the revenue in 1965-66 would be fully absorbed by the increased expenditure resulting from the programmes which the Government had inherited from their predecessors. It would be necessary, in addition, to take account of the increased pressure on prices which
was likely to result from the economic measures announced earlier in the week. It would not be possible, therefore, to endorse all the proposals for new expenditure in 1965-66 which Ministers had now submitted. Two specific questions, however, arose for immediate decision in relation to The Queen’s Speech, namely, the size of the increase to be made in National Insurance benefits and the proposal to abolish prescription charges under the National Health Service. In considering these two issues the Cabinet would also need to bear in mind other proposals for additional expenditure which were summarised in the Annex to C. (64) 7.

An increase in National Insurance benefits should admittedly be a first call on the Government’s resources. Nevertheless, the increase of 12s. 6d. proposed by the Minister of Pensions was excessive in view of the other demands which would be made upon the revenue. An increase of 10s., with effect from April 1965, would keep benefits in line with the expected growth in average earnings between that date and the earlier increase in May 1963; and it could be coupled with the abolition of the widows’ earnings rule, an increase to 30s. in the award to the “10s. widow” and an increase of 10s. in National Assistance rates. While the Government’s commitment to remove prescription charges should also be given a high priority, it would be preferable that it should not be implemented in the first Session of the new Parliament. But the proposed expenditure of £18 million to provide for the transfer of the liability in respect of old people’s homes from the local authorities to the Exchequer might be accepted.

The Minister of Pensions said that the estimated increase in the cost of living by next April, compared with the date of the last increase in benefits, would justify an addition of about 5s. to the standard rate of benefit. Recent increases in pension rates, however, had been made by reference to the rise in average earnings; and this would justify an addition of nearly 10s. to the standard benefit. An increase confined to this figure would therefore represent the minimum improvement which the Government could reasonably make. But the Labour Party, when in Opposition, had strongly criticised the amount of the increase awarded in 1963; yet it had been three times the figure justified by the increase in the Retail Prices Index and twice the amount required by the increase in average earnings. An increase of 12s. 6d., as she proposed, would not only safeguard the Government from the criticism that they were offering pensioners no more than the Conservative Administration had provided but would also ensure a sufficiently long interval, before a further increase was required, to enable the Government’s plans for a radical reconstruction of social security benefits to be thoroughly prepared. For these reasons the rate of benefit for a single person should be increased to £4 and for a married couple to £6 10s. a week. The cost to the Exchequer would be £110 million, not £126 million as was suggested in C. (64) 7.

The Minister of Health said that the Government’s attitude to the National Health Service would be regarded as the touch-stone of their attitude to the social services as a whole. It would have been preferable to abolish all charges under the Service. But, if this was not possible on financial grounds, it would be essential to proceed at least with the complete abolition of prescription charges, which had been promised in the Labour Party Election Manifesto and was confidently expected by public opinion. This step would make no additional call upon national resources and would not necessarily require legislation.

In discussion there was considerable support for the higher rate of increase in benefits proposed by the Minister of Pensions. A new basic rate of £4 would have a more dramatic impact on public opinion than a figure of £3 17s. 6d. Moreover, the increased benefits would be enjoyed by a large number of people, since they would apply not only to the old but also to the sick and the unemployed. It should not be assumed that the remedy for inflationary pressure must
necessarily lie wholly in curtailing expenditure in the public sector; the private sector also should make its contribution to a reduction in the pressure on resources, for example, by the curtailment or diminution of unnecessary office building. In addition, the revenue would be fortified by the receipts from the new import charges.

On the other hand it would be unwise to decide the amount of the increase in benefits by reference to the standards established by the previous Administration rather than in the light of the circumstances now facing the Government. There could be no certainty that it would be possible to hold Government expenditure within the limits of the present estimates or that the balance of the economy would be sufficiently redressed by the measures which had already been taken. In these circumstances an increase of 10s. in the basic rate of benefit, which was considerably greater than the relevant increase in the Retail Prices Index and was in line with the increase in the average level of earnings, could not be regarded as ungenerous.

In further discussion considerable support was expressed for the complete abolition of prescription charges. Alternative measures, such as a reduction in the charge from 2s. to 1s. or the extension of the 2s. charge to comprise the prescription form as a whole rather than each of its items separately, would not yield sufficient savings to offset the criticism to which the Government would be exposed if they failed to honour their commitment to abolish the charge in its entirety. The expenditure of £22 million which would be entailed by complete abolition could be absorbed if action was deferred to give effect to the proposal to transfer the liability in respect of old people's homes from the local authorities to the Exchequer.

The Prime Minister, summing up the discussion, said that the balance of opinion appeared to be in favour of an increase of 12s. 6d. in the basic rate of National Insurance benefit and the complete abolition of prescription charges. It would be very desirable that the increase in the rate of benefit should take effect, even if only partially, before the winter.

The Cabinet—

Agreed that—

(1) National Insurance benefits should be increased by 12s. 6d. with effect from April 1965, at the latest, but at an earlier date, if possible.

(2) The abolition of prescription charges under the National Health Service should be announced in The Queen's Speech.

(3) The transfer of expenditure in respect of old people's homes from the local authorities to the Exchequer should be deferred until a later date.

Cabinet Office, S.W.1,
29th October, 1964.