CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 15th June, 1965,
at 10.30 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister (Items 1-6)
The Right Hon. George Brown, M.P.,
First Secretary of State and Secretary
of State for Economic Affairs (In the
Chair for Item 7)
The Right Hon. James Callaghan, M.P.,
Chancellor of the Exchequer
The Right Hon. Denis Healey, M.P.,
Secretary of State for Defence
The Right Hon. William Ross, M.P.,
Secretary of State for Scotland
The Right Hon. Anthony Greenwood,
M.P., Secretary of State for the Colonies
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Douglas Houghton,
M.P., Chancellor of the Duchy of
Lancaster
The Right Hon. Frederick Lee, M.P.,
Minister of Power
The Right Hon. Herbert Bowden, M.P.,
Lord President of the Council
The Right Hon. Michael Stewart, M.P.,
Secretary of State for Foreign Affairs
The Right Hon. Arthur Bottomley,
M.P., Secretary of State for Common­
wealth Relations
The Right Hon. James Griffiths, M.P.,
Secretary of State for Wales
The Right Hon. Douglas Jay, M.P.,
President of the Board of Trade
The Right Hon. Richard Crossman,
M.P., Minister of Housing and Local
Government (Items 1-6)
The Right Hon. Frank Cousins, M.P.,
Minister of Technology
The Right Hon. Tom Fraser, M.P.,
Minister of Transport
The Right Hon. Barbara Castle, M.P.,
Minister of Overseas Development

The following were also present:
The Right Hon. Margaret Herbison,
M.P., Minister of Pensions and
National Insurance (Item 5)
Mr. Richard Marsh, M.P., Joint
Parliamentary Secretary, Ministry of
Labour (Items 5-7)
Mr. John Diamond, M.P., Chief
Secretary, Treasury (Item 5)
The Right Hon. Edward Short, M.P.,
Parliamentary Secretary, Treasury

Secretariat:
Mr. P. Rogers
Miss J. J. Nunn
Mr. J. H. Locke
## CONTENTS

<table>
<thead>
<tr>
<th>Minute No.</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Parliament</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Oversea Affairs</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Vietnam</td>
<td></td>
</tr>
<tr>
<td></td>
<td>United Nations Peace Keeping</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Public Expenditure</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Responsibilities of Ministers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Review of Defence Expenditure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Review of Public Expenditure</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Economic Situation</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Trade Figures for May</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Workmen's Compensation—&quot;Old Cases&quot;</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Transport Policy</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Road Transport</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Prices and Incomes Policy</td>
<td>9</td>
</tr>
</tbody>
</table>
1. The Cabinet were informed of the provisional programme of business to be taken in the House of Commons in the following week.

2. The Prime Minister said that the situation in Vietnam gave cause for grave concern, although there were indications that some further hopeful initiative might be possible before long.

The Foreign Secretary said that the current discussions on financial contributions to the United Nations Organisation (UNO) in accordance with Article 19 of the United Nations Charter and on future peace-keeping procedures offered no prospect of success, owing to the irreconcilable difference of views between the nations concerned. It was now clear that neither the Soviet Union nor France was prepared to make appropriate payments in respect of previous peace-keeping activities and the Afro-Asian countries were primarily concerned that meetings of the Assembly should be resumed without regard to the basic principles which were involved in the dispute. Meanwhile, the financial position of the UNO was serious. In these circumstances, approval had been given to a proposal by the Minister of State for Foreign Affairs (Lord Caradon) that the United Kingdom should inform the Secretary-General that they would be prepared to pledge unconditionally a voluntary contribution of $10 million as a positive indication of their support for the UNO and to help to restore it to solvency. This pledge would be accompanied and followed by statements of our future objectives over the whole field of peace keeping. It was hoped that a number of other nations might be induced to make similar unconditional payments. The United States Government had been informed of our proposal and welcomed our initiative, though they were not likely to take similar action at this stage. It would be appropriate for our statement to be made before the twentieth anniversary on 24th June of the establishment of the UNO, and probably on the 21st June. Parallel statements would be made in Parliament and at the Meeting of Commonwealth Prime Ministers.

This action implied the end of the current attempt to obtain agreement on the payment of contributions in accordance with Article 19 and on the principles on which future peace-keeping activities should be financed. It would, however, be a dramatic indication of our support for the United Nations where our reputation was now high. It should lead to a substantial improvement in the general climate affecting the future of the Organisation, which would provide the best prospect of reaching an acceptable compromise on the future approach to UN peace-keeping activities. In particular, the pressure of Afro-Asian countries was likely to move in our favour and this factor might well influence the attitude of the Soviet Union.
The Cabinet—

Took note, with approval, of the Foreign Secretary’s statement.

3. The Prime Minister said that the Minister without Portfolio (Sir Eric Fletcher) had been assigned specific Ministerial duties in the Treasury in order to assist the Chancellor of the Exchequer and other Treasury Ministers at a time of exceptionally heavy pressure upon them. A note would be circulated to other Ministers on the division of responsibility between them.

The Prime Minister said that the informal meeting at Chequers during the previous weekend of the Ministers concerned with our defence expenditure and oversea commitments had given preliminary consideration to the measures which would be necessary to enable defence expenditure to be reduced by 1969-70 to £2,000 million at 1964 prices. While it was clear that this would involve painful decisions on priorities, the meeting had disclosed a broad measure of agreement both that it should be achieved and on the way in which it should be pursued. Further studies were now being undertaken by the Ministry of Defence and would be subsequently considered with other Departments concerned with a view to the crystallisation of the issues in a form which would facilitate discussion, and the taking of decisions, by the Cabinet.

The Prime Minister said that during July it would be necessary for the Government to consider the programmes of public expenditure between now and 1969-70. It would be helpful if, before they came to Cabinet, they were first examined and analysed by a small committee of senior Ministers who were not departmentally closely involved: he had therefore asked the Chancellor of the Exchequer to act as Chairman of such a committee and the following Ministers to be members:

First Secretary of State
Lord President of the Council
Secretary of State for Scotland
Chancellor of the Duchy of Lancaster
Minister of Labour
Minister of Technology
Chief Secretary to the Treasury

The Chancellor of the Exchequer would in addition discuss the departmental programmes with the Ministers directly concerned and recommendations would be made to the Cabinet as early as possible in July.

The Cabinet—

Took note of these statements.
4. The Prime Minister said that the trade figures for May, which would be published later in the day, were disquieting. There had been a substantial rise in imports, particularly of manufactured goods, and no rise in exports, with the result that the gap in the visible trade figures was the worst on record. The position reflected the industrial situation which had been inherited by the Government and the fact that their longer-term measures had not yet had time to be effective. It would be necessary to pay particular attention to the manner in which the figures should be presented, since their publication would affect confidence in sterling. The trade gap for the first five months of 1965 was however only half that of the similar period in 1964 and exports showed an increase of 4 per cent. Furthermore, the figure for imports undoubtedly showed a temporary increase as a result of the recent reduction of the import surcharge to 10 per cent. The longer-term situation was therefore less discouraging. Further consideration was being given by the Ministers immediately concerned to the manner in which we should deal with the situation.

In discussion the Cabinet were informed that there had apparently been a leakage of information to the Press about the trade figures and that the appropriate procedure of enquiry had been instituted.

The Cabinet—

Took note of this statement.

5. The Cabinet considered a memorandum by the Chancellor of the Duchy of Lancaster (C (65) 82) on the position of men who became entitled to workmen's compensation before 1948.

The Chancellor of the Duchy of Lancaster said that the Social Services Committee had been unable to agree on proposals for legislation in the current Session to improve the position of men injured at work before 1948 who were compensated under the Workmen's Compensation Acts at a level considerably lower than that of benefits under the Industrial Injuries Scheme. Supplementary allowances introduced since 1948 had not wholly removed this disparity, and the allowances were not payable in all cases. The previous Administration had initiated investigations through selected employers and trade unions into the practicability of widening the field in which the Industrial Injuries Fund could be used to supplement workmen's compensation, and proposals had now been worked out for absorbing the earlier arrangements and covering an additional category of men whose compensation was inadequate. The cost of rather more than £1 million a year would be met out of the Industrial Injuries Fund and the necessary legislation would be short and uncontentious. The Minister of Pensions and National Insurance considered that the strong case for early legislation on social grounds was reinforced by the political
advantage of demonstrating the Government's intention to take action before the annual meeting of the National Union of Mineworkers early in July and that of the Trades Union Congress in September. It was known that the problem had been under consideration, and both meetings were likely to be critical if no action had been taken. She found it difficult to argue that the money could not be found in the face of the forthcoming publication of the Government Actuary's Quinquennial Report on the Industrial Injuries Fund, which would show substantial and increasing balances, and of the recent increases in the maintenance allowance for students. The Chief Secretary, Treasury, had been unable to agree, however, that a decision should be reached in advance of the review of public expenditure in July, since from a budgetary point of view there was no difference between expenditure out of the Industrial Injuries Fund and other forms of public expenditure. He considered that there was no analogy between the Minister's proposals and the cost of living increase given to students, which did not affect the forecasts of expenditure at constant prices on which the control of public expenditure was based. He also feared that the acceptance of this proposal would lead to increased pressure on behalf of other classes, such as those with latent rights to workmen's compensation and old people not at present entitled to pensions.

The Minister of Pensions and National Insurance said that the proposed Bill was unlikely to attract opposition or amendment and would remove grievances on which there was strong feeling in mining areas and among their representatives in Parliament, without exposing the Government to repercussions, since the compensation cases could be distinguished from both latent cases and non-pensioners. It was well understood among the miners that nothing could be done at present for the latent cases.

The Chief Secretary, Treasury, said that he doubted whether other pressures could in fact be resisted, and emphasised that it would in any event be wrong to anticipate the review of public expenditure in respect of one among a number of proposals.

In discussion it was pointed out that early legislation would be an encouragement to the mining industry in facing the problems before it, in particular the more rapid closure of redundant pits which aggravated the difficulty of finding work for partially disabled miners. On the other hand, it would be wrong in principle to depart from the arrangements which had been made for establishing priorities in Government expenditure. It would not in any event be possible to pass the proposed legislation during the present Session, the programme for which was already overcrowded, and, since to announce the Government's intentions some months before a Bill could be introduced would be liable to attract criticism, it would in the event of a decision in favour of the proposed scheme be preferable to defer any announcement until shortly before the Conference of the Trades Union Congress in September. It should be possible for a decision on the proposals to be reached early in the review of public expenditure.
The Prime Minister, summing up the discussion, said that, while the Cabinet were in sympathy with the proposal to improve the position of men who were inadequately compensated under the Workmen’s Compensation Acts, it was clear that there could be no legislation in the current Session, and in these circumstances the balance of advantage lay in deferring a decision until the review of public expenditure and any announcement, if the decision were then in favour of the proposed scheme, until the autumn. In order to reduce the interval between the passage of legislation and subsequent payments under it, however, the necessary preparatory work should be put in hand as soon as possible after the consideration of the proposals in the course of the review of public expenditure, on the assumption that the necessary legislation would be passed substantially in the form in which it was introduced.

The Cabinet—

(1) Agreed that the proposals for improving the position of men drawing compensation under the Workmen’s Compensation Acts should be considered in the course of the review of public expenditure.

(2) Subject to Conclusion (1), invited the Minister of Pensions and National Insurance to put in hand preparatory work with a view to bringing the new arrangements into operation at the earliest practicable date.

6. The Cabinet considered a memorandum by the Minister of Transport (C (65) 83) on the Government’s attitude to the Report of the Geddes Committee on Carriers’ Licensing. Attached to the memorandum was the draft of an oral statement on the subject.

The Minister of Transport said that the Committee had been appointed by the previous Administration in October 1963 to review the present licensing system. They recommended its abolition since it had failed to achieve any of the relevant objectives of Government policy, but proposed the introduction of permits to ply in order to enforce safety requirements. There was general agreement that the present system had serious defects and that changes would be needed but the Report was irrelevant to the Government’s aim of a co-ordinated transport policy. He therefore proposed to make a statement indicating that a total absence of regulation over road goods transport was unacceptable to the Government and that until an alternative to the present system was devised, the Government did not propose either to abolish it or to endorse it.

The investigations now being undertaken by Lord Hinton on the co-ordination of road and rail transport had so far proved disappointing and had failed to provide the detail needed for informed judgment on the problems of co-ordination. He had now asked Lord Hinton, in conjunction with British Railways and British...
Road Services, to do a detailed study of the movement of parcels and sundries on which British Railways were on a turnover of £40 million currently making a loss of £20 million whereas British Road Services were making a profit of some £3 million on a smaller turnover of some £20 million. This was the field in which the most effective short-term results might be found in the field of road-rail co-ordination. He hoped the Report would be completed by August. This would still leave untouched, however, the wider problems of such co-ordination.

Discussion showed general agreement that the Report was unacceptable. The following points were also made:

(a) The Committee had been asked to produce a report on the wrong questions.

(b) The study of the parcels and sundries services should take account of the operation of the Post Office parcels service which also ran at a loss.

(c) The Ministry of Transport had commissioned an expert study on the question of relative track costs for road and rail which had not been covered properly in the Geddes Report.

The Prime Minister, summing up the discussion, said that it was generally agreed that the Report would have to be published and a statement made by the Ministry of Transport. It might be more appropriate for this to be written rather than oral. The Minister should also ascertain the cost of the Committee. The statement annexed to C (65) 83 should be revised to bring out more clearly that the Committee had been given the wrong terms of reference and therefore did not make any real contribution to transport policy. The Government were seeking a positive policy for the co-ordination of road-rail transport in the interests of the country as a whole. It seemed clear that the one man enquiry by Lord Hinton was no longer appropriate to the situation and it might be desirable to bring it to a close as soon as practicable. Transport questions had an important bearing on many issues, including the handling of traffic in urban centres, regional development and even local government finance and it would be desirable therefore to establish a Committee of Ministers on Transport Policy. The Chancellor of the Duchy of Lancaster might take the chair and it should function under the Economic Development Committee. A supporting committee of officials should also be established and this might include some of the Government's economic advisers.

The Cabinet—

(1) Invited the Minister of Transport to arrange for the early publication of the Geddes Report and to redraft the statement of Government policy annexed to C (65) 83 on the lines indicated in the Prime Minister's summing up of their discussion.

(2) Invited the Minister of Transport to ascertain the cost of the Committee.
(3) Invited the Minister of Transport, in consultation with the Postmaster-General, to arrange for the enquiry into the carriage of parcels and sundries to cover the operations of the Post Office in this field.

(4) Took note that the Prime Minister would appoint a Committee of Ministers, with a supporting official Committee, to consider questions of transport policy.

7. The Cabinet considered a memorandum by the First Secretary of State (C (65) 81) about the intensification of pressure on incomes and prices.

The First Secretary of State said that prices had risen by over 5 per cent in the past year and that recent wage increases were averaging nearly 6 per cent. The movements of both were carefully watched overseas and had an important bearing on confidence in sterling. The Government's policy on prices and incomes was in great danger: it was essential that the position should be brought under control, and that the policy should be seen to be having an influence on individual cases.

The National Board for Prices and Incomes was now in operation. The report by the Board on road haulage rates should be available early in July and that on both prices and wages in the printing industry by mid-July. Urgent consideration was being given to references to the Board in several other cases, including the London Electricity Board tariffs, the Midland Bank employees' claim, the claim for administrative and clerical workers in the electricity supply industry and the atomic energy workers' claim. Other cases would be considered later, including iron and steel and coal day workers. Difficult decisions would be involved and the full support of Ministers would be necessary for the success of the Government's policy.

The Prime Minister (who was unable to stay for the discussion of this item) said that the position was extremely serious. If wages continued to outstrip the increase in productivity the resultant rise in prices would create a serious short-term threat to our external economic position and a longer-term threat to the country. It was particularly necessary to consider how best to achieve the abolition or mitigation of restrictive practices by both sides of industry. The Cabinet should give full support to the prices and incomes policy.

In discussion there was general agreement on the seriousness of the situation and on the need for the Government to show its determination to achieve the success of the policy. The following points were also made:

(a) It would be wrong to conclude from the figures for the first quarter of 1965 that wages and salaries in the public sector were
increasing more slowly than in the private sector. In the previous quarter the relative position had been reversed.

(b) It was particularly disturbing that long-term wage agreements were being reopened.

(c) The current rush of wage claims might be partly attributable to a desire to get them settled before the prices and incomes policy was fully effective. It was now important to call a halt to increases not justified by the terms of the agreed policy.

(d) It would be important to convey more effectively to the country the facts of the situation. A quarterly statement to Parliament about trends might be helpful.

(e) It was particularly important to obtain understanding that when taxes were increased and led to rises in prices such rises could not justify an increase in incomes.

(f) The effect of the recent increase of social benefits was rapidly being eroded and it was important that the scheme for an income guarantee should be brought into effect before any further increase became inescapable.

(g) It might prove impossible to obtain a settlement of the wage claim in the atomic energy industry on the basis of the Government's present offer.

(h) The effect of holding prices in the nationalised industries might well result in their failure to achieve their financial targets.

The First Secretary of State, summing up the discussion, said that there was general agreement that the situation was serious and that the Government must show that it intended the policy on prices and incomes to be effective. Further consideration should be given to all aspects of the problem by the Economic Development Committee. In the meantime it was important to seek to create the best possible climate of opinion in which references could be made to the National Board for Prices and Incomes.

The Cabinet—

(1) Took note of the First Secretary's summing up and of the points made in discussion.

(2) Took note that the First Secretary would arrange for the Economic Development Committee to consider further the issues involved.

Cabinet Office, S.W.1,
15th June, 1965.

SECRET