CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Wednesday, 1st September, 1965,
at 10.30 a.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. JAMES CALLAGHAN, M P, Chancellor of the Exchequer
The Right Hon. Sir FRANK SOKICKE, Q C, M P, Secretary of State for the Home Department
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. 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. 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 Commonwealth 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. ANTHONY CROSLAND, M P, Secretary of State for Education and Science
The Right Hon. DOUGLAS HOUGHTON, M P, Chancellor of the Duchy of Lancaster
The Right Hon. FRANK COUSINS, M P, Minister of Technology
The Right Hon. FRED PEART, M P, Minister of Power
The Right Hon. BARRABA CASTLE, M P, Minister of Overseas Development

The following were also present:
The Right Hon. EDWARD SHORT, M P, Parliamentary Secretary, Treasury
Mr. CHARLES LOUGHLIN, M P, Parliamentary Secretary, Ministry of Health

Secretariat:
Sir BURKE TREND
Mr. J. H. LOCKE
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1. The Prime Minister said that the Cabinet had been invited to reassemble rather earlier than had been contemplated at their last meeting in order to take stock of developments in the economic situation. During August sterling had begun to recover strength; and this process had been reinforced by the publication of the statistics of exports during July, which had been exceptionally favourable. As a result it was now reasonable to hope that the deficit on the balance of payments in 1965 might be rather less than the £300 million which had been contemplated hitherto and that in 1966 we should achieve a balance on external account at a rather earlier date than we had so far expected. At the same time the measures which the Government had taken earlier in the year were now beginning to exert a visible effect; and it should be possible in the not too distant future to initiate some degree of reflation of the economy. On the other hand unemployment was still lower than a year ago; the pressure of demand within the economy remained high; and there was a continuing risk that speculative pressure against sterling might be renewed. In these circumstances it was essential that the improvement in our balance of payments should not be endangered by any excessive rise in our costs of production; and it was no less important politically to anticipate any undue rise in the cost of living. It would now be appropriate, therefore, to intensify the Government's policy in relation to prices and incomes by giving it a degree of statutory foundation; and for this purpose it was proposed that as soon as possible after Parliament resumed legislation should be introduced giving the Government power:

(i) to require notification of any intention to increase prices or charges and to require notification of claims relating to pay, hours of work or other major improvements in terms of employment, together with the prospective terms of settlement of wage claims;

(ii) to refer to the National Board for Prices and Incomes (NBPI), in the national interest:
   (a) any price, whether existing or proposed; and
   (b) any claim or settlement;

(iii) to require the proposed price or pay increases to be deferred until after the Board had reported;

(iv) to give the Board power to collect all necessary information and to call witnesses to give evidence.

These proposals were not only desirable on merits but would also serve to reinforce the revival of international confidence in sterling, which could now expect to command the support of other Central Banks against speculative attack if the Governments concerned were convinced that we were resolved to take adequate steps to maintain the basic improvement in our economy.

The Chancellor of the Exchequer endorsed the Prime Minister's statement. Despite the recent recovery of sterling, there was no scope for any relaxation of our efforts to rectify the imbalance on
our external account, since our reserves were insufficient to withstand any renewed speculative attack on sterling and we could no longer afford to borrow abroad for this purpose. The level of unemployment, although gradually rising, was still very low; and the continuing pressure of demand within the economy made it desirable to take the further steps now proposed in order to keep our costs of production under reasonable control.

The First Secretary of State said that the policy of voluntary restraint of prices and incomes, on which the Government had embarked earlier in the year, was probably proving more effective than was commonly supposed. On the other hand it was not possible to quantify its results or to demonstrate the extent to which, if it were not in operation, prices and incomes might rise. It was therefore desirable for the further development of the policy that the Government, while retaining the voluntary principle as its essential foundation, should now take statutory powers to enforce an interval for consideration before any proposal to increase prices or incomes could become effective; and this was the purpose of the new measures now proposed. The principle of advance notification should not only provide the Government with valuable information but should also reinforce the authority of both the employers and the trade unions in resisting unreasonable claims; and it was clearly preferable to any attempt to impose a complete ban on all increases in prices and wages, which would be wholly unrealistic on both political and administrative grounds. It would not be easy to enforce the new policy; but such sanctions as it might incorporate must appear to relate to incomes no less than to prices; and the policy must be seen to apply not merely to the public, but also to the private, sector. It was essential to launch the policy forthwith, since the annual conference of the Trades Union Congress (TUC) was due to be held in the next few days and it would be unwise to allow the TUC to discuss prices and incomes policy on the basis of incomplete knowledge of the Government’s intentions. It was uncertain how far they would endorse the new policy; but there were grounds for hoping that they could be persuaded to acquiesce in it, although both they and the employers were more likely to offer their co-operation if the proposed measures could be shown to be not merely desirable in the interests of the Government’s plan for the development of the economy in the longer term but also required by the exigencies of our immediate financial situation.

In discussion there was general agreement in principle with these proposals. The following main points were made:

(a) It could not be assumed that speculative pressure on sterling would not recur at some point in the future. The measures now proposed should reduce this risk by stabilising the costs of production and so increasing the competitive power of our exports. If the balance of payments nevertheless deteriorated again, it would probably be necessary to take direct remedial action, e.g., by way of restraint on imports; but there should be no question of any further action to compress internal demand in order to rectify any external imbalance.
(b) In this connection it would be important that such reflationary measures as the Government might adopt in the coming months should not recreate the external imbalance which we were now beginning to rectify. All possible measures should therefore be taken to improve our exports; and from this point of view it was arguable whether the present proposals to stabilise prices and incomes would suffice or whether they might need to be intensified at a later stage. On the other hand the measures which the Government had taken in recent months to control transactions on capital account should do much to prevent a further deterioration in the balance of payments; and, provided that these measures were maintained in force, that we succeeded in keeping production costs under control and that we adopted a critical attitude towards defence expenditure, it should be possible to embark on a process of controlled reflation in due course without undue danger.

(c) The scope of the measures now proposed in relation to prices might need further consideration, since it would be impossible to refer every price increase, however insignificant, to the NBPI. It might therefore be necessary to draft the new legislation in terms which would give the Ministers concerned power to decide, by Order in Council, which price increases should be referred for consideration by the Board.

(d) The prices charged by nationalised industries, e.g., in the case of coal, would have to be referred for consideration by the NBPI no less than the prices charged by firms in the private sector. But it would not always be easy to reconcile this principle with the requirement imposed on the nationalised industries to attain specific targets in terms of the return on capital employed.

(e) Public opinion might well expect dividends to be subjected to at least the same degree of control as was now envisaged for wages and incomes generally. To some extent the proposed restraint on prices should prevent excessive increases in dividends; and this process should be reinforced in the longer term by the combined effect of the capital gains tax and the corporation tax. If excessive increases in dividends nevertheless persisted, further fiscal action might become appropriate; and this could, if necessary, be made clear.

(f) If it became necessary to adopt some sanction, against price increases which the NBPI judged to be excessive, a system of price control might be instituted, either as part of the legislation envisaged to put the NBPI on a statutory basis or by means of a separate Bill. On the other hand this would tend to attract attention to the question of a corresponding sanction in relation to wage increases; and there could be no question of seeking to impose a statutory control on wages, since it would be unacceptable in principle and unenforceable in practice.

(g) Further consideration would have to be given to the position, in relation to the new policy, of arbitration tribunals and comparable bodies which at present enjoyed a relatively independent status in
deciding the remuneration of individual staffs and professional organisations. It would not necessarily be practicable to allow them to retain indefinitely their present degree of independence; but it should prove possible to arrange some accommodation between their functions and those now envisaged for the NBPI.

The Prime Minister, summing up the discussion, said that there was general agreement on the action now proposed to make the Government's policy in relation to prices and incomes more effective. It was essential, however, that it should be presented not as a further measure of restriction required in order to reinforce international confidence in sterling in the short term but as a positive development of the Government's policies for the planned and controlled increase of incomes within an economy which would be able to expand without fear of adverse repercussions on sterling if other Governments were convinced of our ability to keep our costs and prices under control and to increase the competitive power of our exports. It would be desirable, from this point of view, that the proposed measures should be reinforced, as rapidly as possible, by steps to emphasise the importance of an increase in productivity and to identify all sections of the working population with the Government's policies for this purpose.

The Cabinet—

(1) Approved the measures proposed to place the Government's policy in relation to prices and incomes on a statutory basis.

(2) Invited the First Secretary of State, the Chancellor of the Exchequer and the Minister of Labour, in consultation with the other Ministers concerned, to arrange for the Government's intentions in this connection to be communicated, at the appropriate point, to arbitration tribunals and similar bodies; and to consider how the functions of these bodies might best be related to those now envisaged for the National Board for Prices and Incomes.

2. The Cabinet considered a memorandum by the President of the Board of Trade (C (65) 122) on the detailed arrangements for restraining imports of cotton textiles after the end of 1965.

The President of the Board of Trade said that preliminary discussions had been held with the Governments of India, Pakistan and Hong Kong about possible quota arrangements for cotton textiles after 1965 on the lines approved by the Cabinet at their meeting on 13th May, 1965. In the light of these discussions he now suggested that India and Hong Kong should retain their present country quotas; that there should be a global quota for other countries; and that Pakistan should be offered the option of retaining her existing country quota or participating in the global quota.
and Hong Kong were satisfied with this proposal; but Pakistan had rejected both alternatives. It was essential to begin formal negotiations with all our supplying countries forthwith; and for this purpose the proposals which had already been put to the Governments of India, Pakistan and Hong Kong should be tabled as the basis for the initial discussions. It might emerge that modifications of these proposals would be necessary in order to secure general agreement; and it might at that time be possible to move towards an arrangement more acceptable to Pakistan. But to amend our original proposals at the outset in order to conciliate Pakistan would be regarded as a serious breach of faith by India and Hong Kong. Moreover, there was no justification on merits for offering Pakistan more favourable treatment, particularly since the country quota for Pakistan would be 6 per cent of their production whereas the Indian quota would be only 4 per cent.

The Commonwealth Secretary said that, if we ignored the views of the Government of Pakistan by putting forward as a basis for formal negotiations proposals which we knew that they would not accept, there was a risk that their reactions would be seriously detrimental to United Kingdom, and indeed to Western, interests. It was unlikely in any case to be possible to negotiate a quota scheme which gave India and Hong Kong 100 per cent of their present country quota. It would therefore be a mistake to start on this basis; and it would be preferable that our proposals should incorporate some concession to Pakistan from the beginning of the negotiations.

The Colonial Secretary said that the suggested quota for Hong Kong had already been published in the Colony; and any curtailment of it, as proposed by the Commonwealth Secretary, would be regarded as a serious breach of faith.

In discussion the following points were made:

(a) There would be some advantage in delaying the circulation of formal proposals until our attempts to relieve the present tension between the United States Government and Pakistan on the question of aid had made further progress.

(b) All possible combinations of country and global quotas had been considered; and further informal discussions with India, Pakistan and Hong Kong could not be expected to result in any solution agreeable to all three countries.

(c) The interests of Pakistan in increasing their exports to this country should not be satisfied by raising the total of import quotas at the expense of textile manufacturers in the United Kingdom.

The Prime Minister, summing up the discussion, said that the majority of the Cabinet endorsed the proposals in C (65) 122. The manner in which these proposals should be put forward should be discussed by the President of the Board of Trade and the Commonwealth Secretary in order to reduce as far as possible the unfavourable reaction which might be expected from the Government of Pakistan.
The Cabinet—

Approved the proposals in C (65) 122, about import quotas for cotton textiles, subject to further consideration by the Commonwealth Secretary and the President of the Board of Trade of the manner in which they should be tabled in negotiation.

3. The Minister of Labour said that the frequency of industrial disputes in the motor industry gave serious cause for concern. Already in 1965 there had been 112 stoppages, of which only five had been official strikes. It was privately acknowledged by the leaders of the unions concerned that they no longer had adequate control over the actions of their members in the industry. It was desirable for the Government to consider whether any action could be taken to improve the situation in this important section of the economy. One possibility would be a general inquiry into the structure of the industry, in relation to both the trade unions and the employers. Such an inquiry, however, would need to comprise a very wide range of firms and would be a lengthy and complicated process. Alternatively it might be possible to establish fact-finding teams which could be sent by the Minister of Labour to investigate unofficial stoppages as soon as they occurred. But this concept had been opposed in the past by both trade unions and employers on the grounds that it would confer a quasi-official status on irresponsible action. Legislation to deal with the situation represented a third possible course of action; but it would require very careful consideration in view of the obvious difficulties which would be involved.

The Prime Minister and he had therefore arranged to see representatives of the employers and the trade unions involved on 3rd September in order to review the situation and to ascertain whether the industry had any other suggestions for remedial action. Even if the industry could not offer any proposals, it might still be desirable for action to be taken by the Government.

The Prime Minister said that he would review the position with the Minister of Labour in the light of the forthcoming discussion with the industry and would subsequently arrange for the Cabinet to discuss any proposals for action by the Government which might be thought desirable.

The Cabinet—

Agreed to resume their discussion at a later meeting.

Cabinet Office, S.W.1,
2nd September, 1965.