CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Wednesday, 20th July, 1966, at 9 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. LORD GARDINER, Lord Chancellor
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. WILLIAM ROSS, M.P., Secretary of State for Scotland
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. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEARL, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDDY HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALY, M.P., Secretary of State for Defence
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
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. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. FREDERICK LEB, M.P., Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:

The Right Hon. KENNETH ROBINSON, M.P., Minister of Health
The Right Hon. FREDERICK MULLEY, M.P., Minister of Aviation
The Right Hon. REGINALD PRENTICE, M.P., Minister of Public Building and Works
The Right Hon. MARGARET HERBISON, M.P., Minister of Pensions and National Insurance
The Right Hon. EDWARD SHORT, M.P., Postmaster-General
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury
SECRET

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. D. S. Laskey
Mr. R. T. Armstrong

Subject
The Economic Situation
The Cabinet resumed their discussion of Notes by the Secretary of the Cabinet (C (66) 106, 107, 108, 109, 110, 111, 112, 113, 114 and 115) on the economic situation.

The Prime Minister suggested that the Cabinet should now proceed to take decisions on the detailed measures to be included in the statement which he would be making later in the day.

Prices and incomes standstill (C (66) 114)

In discussion the following points were made:

(a) It was suggested that the statement should propose a complete standstill on increases of prices and incomes for six months, followed by a further six months of severe restraint. The standstill would rely largely on the voluntary co-operation of those concerned, although there would be some lengthening of the periods of standstill prescribed in the Prices and Incomes Bill.

(b) It was for consideration whether the statement should indicate that pay increases justified by improvements of productivity, or pay increases for workers whose earnings were substantially below the national average, were not ruled out. It was argued, however, that exceptions of this kind would weaken the effectiveness and credibility of the standstill and would tend to have the effect that the standstill penalised the public services (where it could be rigidly enforced) more stringently than the private sector. This would be contrary to the pledges which the Government had given. Exceptions for proved improvements of productivity might also work inequitably in the private sector, since improvements in the productivity of those directly engaged on a manufacturing process and paid by results (who would benefit) could also create additional work for those not directly engaged on the process and paid on time rates (who would not necessarily benefit). It would be preferable, therefore, that agreements for wage increases based on improvements in productivity should not come into operation until the end of the standstill period.

(c) It was proposed that the statement should indicate that there should be a standstill on wage increases, including existing commitments, for six months from the date upon which they were due to come into effect. This, however, might bear hardly upon groups for which increases had already been agreed to come into effect at some future date, since they would have to wait for six months from that date, not for six months from the beginning of the standstill. On the other hand other groups due to receive increases retrospectively would be aggrieved if they were now asked to wait until the end of the standstill period before receiving their increases.

It was suggested that there would be a series of difficult cases of this kind and that the statement should therefore leave some room for dealing with individual cases in negotiation and should not purport to pronounce a final and indiscriminate decision. The way in which the policy was executed would have to depend partly upon the degree
of co-operation on the part of management and unions. It was agreed that the statement should merely indicate that the standstill would be for a period of six months and should not specify whether the six months ran for all concerned from the date on which the standstill was introduced or for each group from the date upon which individual increases were due: this would be for negotiation between the Ministers concerned and the leaders of both sides of industry.

(d) There would be other difficult problems on which negotiations would have to take place. For instance, the standstill should, strictly speaking, apply to increases under sliding scale cost-of-living agreements; but, if it were enforced in relation to increases of this kind, there would be a danger of losing the co-operation of unions who had hitherto accepted the prices and incomes policy.

(e) It was proposed that the statement should include an exhortation to companies to stabilise their dividends. It was agreed that the invitation should be to hold down, rather than merely to stabilise, dividends and that it was for consideration whether it should be couched in the terms of a requirement, even though it was not proposed to seek a statutory sanction for the limitation. Dividends were in any case expected on average to be lower than last year.

(f) It might be desirable that the statement should include an indication that employers would be expected not to increase the remuneration of directors or fees of various kinds. It would be necessary to be ready to use the powers of the Prices and Incomes Bill to reinforce an indication of this kind. The proposed new Companies Bill would require more extensive disclosure of directors' remuneration; and companies should be asked to behave in accordance with the provisions of the Bill pending its entry into force.

(g) It was likely that the National Board for Prices and Incomes would need to be strengthened; it might be necessary to rely more extensively on part-time appointments to the Board to deal with a large volume of cases.

(h) In discussion of the Parliamentary timetable for the Prices and Incomes Bill it was suggested that it might be desirable that all stages of the Bill should be completed, at least in the House of Commons, before Parliament adjourned for the summer Recess. On the other hand the effectiveness of the standstill and of the Bill did not depend upon the Bill's receiving the Royal Assent earlier rather than later. It was agreed that the Committee Stage of the Bill should be taken upstairs, not on the floor of the House and that every effort should be made to achieve as much progress as possible before the Recess. Final decisions on the timetable, however, would have to be taken in the light of the reaction to the Prime Minister's statement that afternoon.

(i) The Trades Union Congress and the Confederation of British Industries should be informed about the proposal for a standstill, if possible shortly before the statement was made in the House of Commons.
It was suggested that the appeal for a standstill on prices and incomes would be reinforced if Ministers voluntarily undertook to forgo part of their salaries. There was a considerable measure of support for such a gesture, provided that it was not made the basis for an appeal for reductions in wages and salaries elsewhere in the public services or in the private sector. On the other hand a voluntary gesture of this kind would not necessarily carry conviction; and the proposed increase in surtax would be a more effective demonstration of the Government's determination to ensure that sacrifices should be made by those who could bear them. The proposal for a voluntary reduction of Ministerial salaries need not, therefore, be pursued.

The Prime Minister, summing up this part of the discussion, said that there was general agreement that his statement should include proposals for a prices and incomes standstill on the lines which had now emerged. In preparing his statement he would take into account the points made in discussion.

The Cabinet—

1. Agreed that the Government should call for a standstill for six months on increases of prices and incomes of every description and for a further period of six months of severe restraint thereafter, on the lines and subject to the points agreed in discussion.

Government expenditure overseas (C (66) 107)

The Foreign Secretary said that the memorandum by officials (C (66) 107) listed the main categories of Government expenditure overseas. Some of these, such as pensions, could not be reduced. It should be possible, however, by accelerating the redeployment decided in the Defence Review, to achieve gross savings of £46 million a year in the foreign exchange expenditure on our forces outside Europe. If we secured an increased contribution from Hong Kong the total might amount to £50 million. Against this, however, must be set some additional payments and terminal charges arising from an acceleration of the programme; and it would therefore be imprudent to count on a net saving of more than £40 million in 1967-68 as compared with 1966-67. As regards expenditure on our forces in Germany the Chancellor of the Exchequer would be discussing the issues involved with the Federal Government later in the week in Bonn. It was essential that any proposal to withdraw our forces should be in the context of the procedures prescribed by the North Atlantic Treaty Organisation (NATO) and Western European Union (WEU), which required us to secure the agreement of a majority of our allies in WEU. If we withdrew forces unilaterally, it must be expected that the Federal German Government would exercise the right to reduce their offset payments, the agreement governing these being due to expire next year. As a result we might achieve no net saving in foreign exchange unless we withdrew from NATO altogether. The consequences of any major withdrawal of forces from Germany
would be serious not only for Anglo/German relations but also for our relations with our other NATO allies, on whom we depended for support both in our European policy and for the maintenance of sterling. It should be possible, however, by a combination of some withdrawal of forces and some increase in German payments, to meet an additional £20 million of our foreign exchange costs in Germany.

The memorandum proposed annual savings of £5 million in military aid and of £1 million in the cost of our diplomatic representation and information services overseas. It also set out the implications of securing annual savings of either £10 million or £20 million in our programmes of economic aid. Such savings would be difficult to achieve; but, even at the higher level, they would represent only about one-tenth of the aid programme, compared to the defence economies proposed, which represented about one-sixth of overseas defence expenditure. On this basis the total savings would still fall short of the target figure of £100 million; but, even so, they would cause considerable political difficulties. The defence programme would then include no allowance for contingencies; and larger reductions could not be made without a radical and irrevocable change in our foreign and defence policies in the Middle East and Far East.

The Secretary of State for Defence said that the figure of £46 million should be reduced by £3 million, since we should have to maintain the stockpile in Cyprus in order to fulfil our commitment to Libya until longer-range transport aircraft came into service in 1968. The accelerated redeployment of our forces, in addition to the political difficulties mentioned by the Foreign Secretary, could have serious effects on Service morale and recruitment. The total savings envisaged should however be capable of achievement, although the figures suggested for individual theatres might be subject to some variation in practice. The proposals assumed that Indonesian confrontation against Malaysia would be ended by 1st January, 1967, at latest. This might not be an unreasonable assumption; but the Bangkok Agreement had not yet been ratified and the outcome of the struggle for power between President Sukarno and the more moderate faction within the Indonesian Government was not yet certain. It was therefore important that we should not announce our intention to withdraw forces from the Far East regardless of an effective termination of confrontation, since this would strengthen President Sukarno’s hand in opposing ratification of the Bangkok Agreement. The redeployment of our forces would present formidable physical problems, involving the movement of thousands of men and of large quantities of stores. It could not therefore in any case be complete by 1st April, 1967; and it would be some time after that date before the full rate of saving could be achieved.

His recent visit to Hong Kong had convinced him that we could reasonably ask for a larger contribution than had been envisaged in the Defence Review. The national income of Hong Kong was £550 million a year and was increasing at an annual rate of 6 or 7 per
The total expenditure of the Colony's Government was £110 million a year; and it should not be impossible for them to make a defence contribution of £10 million. This would involve an increase of £8½ million over their existing contribution of £1½ million. It would also be reasonable to look to Libya and Brunei to pay the cost of any British forces stationed there, since both States enjoyed large and increasing oil revenues. This might produce a further saving of about £5 million. On this basis the total of defence savings, if additional payments and terminal charges were excluded, would amount to about £55 million. It would be reasonable that a proportion of the total savings required should be obtained from the aid programmes, since defence changes were irreversible whereas reductions in aid could more easily be restored when resources permitted.

Defence

In discussion it was suggested that it would be unreasonable to expect a contribution from Hong Kong which would be twice as large as that envisaged in the Defence Review; this would mean increasing local taxation by 11 per cent. It was nevertheless the general view that, given the economic situation, we should be justified in pressing for a total contribution of £10 million if we were to keep our forces, all of which should in fact be counted as internal security forces, at their present level in Hong Kong.

Economic aid

The Minister of Overseas Development said that a reduction of £10 million in our programmes of economic aid could with difficulty be secured. But it would leave no provision for contingencies; and the aid programmes did not allow for rising prices. For both these reasons the reduction would involve a significant curtailment of existing and planned aid programmes. The gap between the developed and developing countries was increasing; and we were under greater pressure to increase our aid contribution. It had been expected that in the immediate future and, in particular, during the next financial year there would be a substantial increase in the aid programmes, although subsequently they might level off. Account should also be taken of the effect on industry in the United Kingdom, since a large proportion of our aid was tied to United Kingdom exports. The memorandum set out the difficulties involved in any reduction; and a reduction of £20 million would have disproportionately more serious consequences. The fact that it might subsequently be possible to restore the reductions in the aid programme would not necessarily mitigate the damage that would be done meanwhile.

In discussion it was pointed out that there was inevitably a discrepancy between the total aid programme each year and the amount actually spent. If, as was suggested, actual disbursements in 1966–67 were likely to be $180 million, the estimated disbursements...
of £215 million in 1967-68, even allowing for a cut in the programme of £10 million, would still show an increase in expenditure. It should therefore be possible to achieve a further saving of £10 million by slowing down the programme to some extent and thus increasing the “estimating adjustment”.

Germany

It was agreed that the Chancellor of the Exchequer should inform the Federal German Government, during his visit to Bonn on the following day, that, if they could not make an additional contribution to cover the whole of the foreign exchange costs of our forces in Germany in 1967-68, we should have to propose, through the prescribed NATO and WEU procedure, that substantial numbers of troops should be withdrawn. This should also be made clear in the Prime Minister’s Parliamentary statement that afternoon. It was for consideration, however, whether the statement should include any figure for the additional contribution which we hoped to obtain from the Federal Government. If a figure were given, it could obviously not be less than the amount of £50 million for which the Chancellor of the Exchequer would be asking. On the other hand the Federal Government might not agree to contribute the full amount; and, if we had committed ourselves publicly, we should then have to implement the threat to withdraw forces. In that event the Federal Government might then refuse to renew the current Offset Agreement under which we obtained some £40 million a year; and we should then be left with no alternative, if we wished to eliminate the foreign exchange costs involved, but to withdraw virtually the whole of our forces from Germany. There was also a danger that, if we exerted too much pressure under the NATO and WEU procedures, we might precipitate an overall review of military costs in Europe, in which we should be required to count £40 million spent by the United States and Canadian forces in the United Kingdom against the cost of our forces in Germany. In spite of these risks, however, public opinion would not accept that we should continue to make a large contribution across the exchanges to the Federal German Government in respect of our troops in Germany; but tactically it would be wiser not to commit ourselves publicly at this stage by mentioning in the Prime Minister’s Parliamentary statement the figure of £50 million as the Federal contribution which was our ideal objective.

In discussion the view was expressed that the implications of withdrawing forces from Germany to the United Kingdom would need further study before final decisions could be reached. If the forces were not to be disbanded, the provision of additional accommodation would throw a heavy additional burden on the construction industry; and the budgetary cost of maintaining them in the United Kingdom might well be higher than the saving in foreign exchange obtained by withdrawing them from Germany.

In further discussion it was generally agreed that the Prime Minister’s statement should contain only a total figure for the savings
to be obtained from Government overseas expenditure. This figure could not be less than £100 million if sufficient impact were to be made on the balance of payments deficit and on confidence, and if the internal measures of economy to be announced in the statement were to be accepted by public opinion as tolerable. The savings already agreed in discussion, provided that they were secured, would contribute about £80 million towards the objective of £100 million; and an additional contribution of £20 million from the Federal German Republic would suffice to meet the balance. On the other hand, it would be unwise to mention a figure above £100 million in the Prime Minister’s statement, since this might be interpreted as implying that we intended to enforce defence reductions going beyond those envisaged in the Defence Review and this would be liable to undermine confidence in the territories concerned and amongst our allies.

The Prime Minister, summing up this part of the discussion, said that the figure of £55 million for defence reductions was agreed on the basis indicated in the discussion. The precise way in which this saving should be secured would require to be worked out in detail, on the understanding that there would have to be some flexibility as between the economies attributed to individual theatres in the official memorandum. The Defence and Oversea Policy Committee would discuss the problem of Hong Kong; but it was agreed in principle that we should seek an increased contribution from the Hong Kong Government above that proposed in the Defence Review. Savings of £5 million in military aid and £1 million in the cost of our diplomatic representation and overseas information services were also agreed. As regards economic aid it was agreed that there should be a reduction of £10 million on the lines proposed in the official memorandum; but a further £10 million should also be obtained by slowing down the programmes and thus decreasing actual disbursements during 1967-68. On this basis he would indicate in his Parliamentary statement that the Government had “decided on firm programmes which will reduce Government expenditure overseas, military and civil, by at least £100 million”. The statement would also make it clear that a substantial withdrawal of forces from the Far East would take place once it was clear that confrontation was ended. But it would not include any itemisation of the total figure which would indicate the proportion as between military and civil savings or the economies to be obtained in individual areas, whether Germany or elsewhere.

The Cabinet—

(2) Agreed that Government expenditure overseas should be reduced by at least £100 million, on the lines agreed in discussion.

Exchange control measures (C (66) 113)

The Chancellor of the Exchequer said that he had considered whether a travel allowance could be introduced for travel within the
sterling area. Such a measure could not be made effective unless a general exchange control was introduced upon current transactions within the sterling area; and this was neither practicable nor desirable. It would be possible to exclude certain countries from the scheduled territories for the purposes of the Exchange Control Act, in order to make it possible to impose a travel allowance for travel to those countries; but there would be considerable political and administrative difficulties about that. In his view, for the purposes of the present measures the travel allowance could be introduced only for travel outside the sterling area.

In discussion it was argued that the allowance should be fixed at £60; but it was pointed out that average expenditure on tourism was about £45 a head (excluding fares). The Cabinet agreed, therefore, that the allowance should be fixed at £50 for 12 months from 1st November, 1966, for travel outside the sterling area and approved the transitional arrangements and consequential changes set out in C (66) 113. They also endorsed the changes proposed in respect of emigrants' remittances.

**The regulator (C (66) 108)**

In discussion it was suggested that the imposition of the regulator on the tobacco duty would help to reduce expenditure on imports. On the other hand there was some danger that tobacco had reached the limit of taxable capacity; and an increase of 10 per cent in the tobacco duty would increase the retail index price by nearly a whole point.

The Cabinet agreed that the regulator should be introduced at 10 per cent on spirits, beer and wine duties, on hydro-carbon oil duties and on purchase tax, but not on tobacco and betting and on other minor duties.

The Cabinet also agreed that there should be a rebate of the increase in the hydro-carbon oil duty for public passenger transport operators.

**Building control (C (66) 106)**

The Cabinet agreed that the limit for the purpose of the building licensing control should be reduced from £100,000 to £50,000. It was desirable that the Prime Minister's statement should emphasise that building control did not apply in development areas. An order reducing the limit should be introduced immediately the Building Control Bill received the Royal Assent.

**Office control (C (66) 110)**

The Cabinet agreed that the control of office building should be extended to the East and West Midlands Regions and to the rest of the South-East Region of England.

**Hire-purchase (C (66) 111)**

It was argued that, since the regulator would increase the purchase tax on motor cars, an increase in the minimum downpayment on cars to 50 per cent would be likely seriously to prejudice output and employment in the motor industry.
The Cabinet agreed that hire-purchase restrictions should be introduced at the levels proposed in the second paragraph of the memorandum before them.

Public sector investment (C (66) 109)

In discussion the following points were made:

(a) The Minister of Power said that reductions in the investment programmes of the electricity and gas supply industries would be liable to increase the risk of industrial dislocation in the winter of 1967–68. It would be little short of disastrous to defer a start on the Hinckley B nuclear power station. But it should be possible to reduce the investment programme of the Electricity Council in 1967–68 by £20 million and the programmes of the National Coal Board and Gas Council by £10 million in each case in 1967–68.

(b) The Postmaster-General said that reductions in his programme would have to fall upon telecommunications investment. A reduction of £20 million in 1967–68 would be intolerably severe. A reduction of £13 million should be practicable, although this was likely to increase waiting lists for telephones to 250,000. It would help to reduce the effect on waiting lists if demand were restrained by requiring a year’s rental to be paid in advance of installation of a telephone.

(c) The Secretary of State for Scotland said that it should be possible to reduce the investment programmes of the Scottish Electricity Boards in 1967–68 by £4 million.

(d) The Minister of Aviation said that the investment programme of the British Airports Authority, British European Airways (BEA) and British Overseas Airways Corporation (BOAC) could be reduced by £5 million in 1967–68. The investment programme for BEA for 1967–68 included £20 million for re-equipment, on the assumption that they re-equipped with United Kingdom aircraft. If they re-equipped with United States aircraft, no expenditure in 1967–68 would arise. If Ministers were to decide that BEA should re-equip with United Kingdom aircraft and no provision were made in the 1967–68 programme, re-equipment would be deferred and BEA earnings of foreign currency would be likely to suffer. It would be possible, however, to save £5 million if re-equipment for internal routes only were deferred, though at some loss of efficiency.

(e) The Minister of Transport said that the investment programme of the British Railways Board might be reduced by £10 million in 1967–68 provided that this economy was not necessarily achieved at the expense of the specific projects referred to in the memorandum before the Cabinet. The London Transport Board’s investment programme might be reduced by £2 million in 1967–68. The investment programme of the Transport Holding Company (THC) could be reduced by £2 million in 1967–68, by deferring fleet replacements and other measures; but it was not realistic to stipulate that the THC should be allowed to make no new acquisitions.
Investment expenditure on docks (including non-nationalised docks as well as the British Transport Docks Board) might be reduced by £10 million in 1967-68; but, if so, this would include a decision not to proceed with the Portbury project, which it was proposed to announce in the forthcoming Transport Policy White Paper.

(f) The Minister of Technology indicated that some reduction could be made in the civil research and development programme of the Atomic Energy Authority, although it was not possible at this stage to indicate a precise figure. It was suggested that a sum of £2 million might be achieved in this field.

(g) The Minister of Housing and Local Government said that the proposals in the note before the Cabinet for reducing investment by local authorities on swimming baths, offices and town centre redevelopment should be capable of being realised. The reduction of expenditure on offices could be related to the desirability of avoiding new development while the structure of local government was under consideration by the Royal Commission. Water and sewerage programmes, however, were related to housebuilding and it would be difficult to achieve a reduction of as much as the £11 million proposed. On the first three items, together with water and sewerage programmes, a reduction of £28 million might be secured in 1967-68.

(h) The Minister of Transport said that it should be possible to secure a reduction of £12 million in expenditure on the roads programme in 1967-68, although this would mean the postponement of some £60 million worth of work. The Secretaries of State for Scotland and Wales agreed that the Scottish and Welsh road programmes should be reduced by a total of £2 million together in 1967-68.

(i) The Minister of Agriculture, Fisheries and Food said that it should be possible to save £5 million in 1967-68 by postponing the move of Covent Garden Market. It would be preferable not to defer making schemes on farm structure under the Agriculture Bill; but in the light of the slowing down of the programme a reduction of £1 million in 1967-68 could be accepted without damage to the scheme.

(j) The Minister of Public Building and Works said that, since the note before the Cabinet had been prepared, it had emerged that an additional £750,000 would be needed in 1967-68 for starting new Government training centres. Nevertheless, it should be possible to secure a reduction of £1 1/2 million in his Departmental programme for 1967-68.

(k) The Minister of Health accepted a reduction of £3 million in investment on local health and welfare in 1967-68, notwithstanding the fact that the largest share of this would be secured at the expense of old peoples' homes.

(l) The Home Secretary said that it should be possible to secure a reduction of £1 1/2 million in Home Office investment programmes for
1967–68, although preferably in relation to services other than the police and prisons services.

(m) The Secretary of State for Education and Science said that the only field of higher and further education in which investment expenditure could be saved in 1967–68 appeared to be the programme of technical colleges. It might be thought preferable to make reductions in current expenditure within the education service, perhaps by increasing the charges for school meals and milk. It was pointed out, however, that the current public expenditure programme would be further considered by the Public Expenditure Committee; and an increase at this time in the charges for school meals and milk would be difficult to reconcile with the proposed standstill on prices and incomes. The Cabinet agreed that there should be no reduction in the investment programme for higher and further education in 1967–68.

The Prime Minister, summing up this part of the discussion, said that the Cabinet had now approved reductions in programmes for 1967–68 totalling £150 million as follows:

<table>
<thead>
<tr>
<th>Nationalised industries</th>
<th>£ million in 1967–68</th>
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<tbody>
<tr>
<td>Electricity Council</td>
<td>20</td>
</tr>
<tr>
<td>Gas Board</td>
<td>10</td>
</tr>
<tr>
<td>National Coal Board</td>
<td>10</td>
</tr>
<tr>
<td>Scottish Electricity Boards</td>
<td>4</td>
</tr>
<tr>
<td>Post Office</td>
<td>13</td>
</tr>
<tr>
<td>BOAC, BFA and British Airports Authority</td>
<td>10</td>
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<tr>
<td>British Railways Board</td>
<td>10</td>
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<tr>
<td>London Transport Board</td>
<td>2</td>
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<tr>
<td>Transport Holding Company</td>
<td>2</td>
</tr>
<tr>
<td>Docks (BTDB and non-nationalised)</td>
<td>10</td>
</tr>
<tr>
<td>AEA, say</td>
<td>2</td>
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<tr>
<td>Other</td>
<td>2</td>
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<tr>
<td><strong>Total, nationalised industries</strong></td>
<td><strong>95</strong></td>
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<table>
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<tr>
<th>Central and Local Government</th>
<th>£ million in 1967–68</th>
</tr>
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<tbody>
<tr>
<td>Local Government, England and Wales (Water and sewerage, swimming baths, Local Government offices, town centre redevelopment)</td>
<td>28</td>
</tr>
<tr>
<td>Local Government, Scotland</td>
<td>2</td>
</tr>
<tr>
<td>Roads (England)</td>
<td>12</td>
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<tr>
<td>Roads (Scotland and Wales)</td>
<td>2</td>
</tr>
<tr>
<td>Covent Garden Market</td>
<td>5</td>
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<tr>
<td>Farm structure payments</td>
<td>1</td>
</tr>
<tr>
<td>Public building and works</td>
<td>1½</td>
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<tr>
<td>Local health and welfare</td>
<td>3</td>
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<tr>
<td>Home Office services</td>
<td>1½</td>
</tr>
<tr>
<td><strong>Total, Central and Local Government</strong></td>
<td><strong>56</strong></td>
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</tbody>
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In his statement he would indicate that nationalised industries investment programmes were to be reduced by £95 million in 1967-68 and Central and Local Government investment programmes by £55 million in 1967-68, and that these reductions would begin to have some effect in the present financial year.

Postal charges

The Cabinet agreed that the Prime Minister should include in his statement an announcement of the proposed increases in postal charges which the Cabinet had already approved, and that the Postmaster-General should make an announcement at a rather later date about the proposed changes in the status and organisation of the Post Office, which had also been approved by the Cabinet.

Surtax

The Cabinet agreed that a surcharge of 10 per cent should be imposed upon surtax payments for the tax year 1965-66. Legislation for this proposal would be included in next year's Finance Bill.

Public expenditure

The Chancellor of the Exchequer said that at their meeting on 18th July, the Public Expenditure Committee and the departmental Ministers who had been invited to attend the meeting had accepted that the increase in the public expenditure programme in 1967-68 as compared with 1966-67 would have to be kept within a considerably lower figure than the 10.9 per cent which would result from the basic and additional programmes as they stood. If the increase were limited to 5 per cent, programmes for 1967-68 would have to be reduced by £726 million; if the increase were limited to 4\(\frac{1}{2}\) per cent, the reduction would be £819 million. It was for consideration whether the Prime Minister should indicate in his statement that the current estimates of public expenditure programmes for 1967-68 would be reduced by £726 million or £819 million.

In discussion it was suggested that an alternative might be for the Prime Minister to say that the increase in public expenditure from 1966-67 to 1967-68 would be limited to 4\(\frac{1}{2}\) per cent. On balance, however, the Cabinet agreed that there should be no reference to the public expenditure programmes for 1967-68 in the statement. But the Chancellor of the Exchequer might let it be known that the estimates for 1967-68 would be sharply scrutinised and reduced, without giving any figures in absolute or percentage terms.

Liner trains

The Cabinet agreed that any reference in the statement to liner trains would have to be carefully worded if it were not to have an adverse effect upon negotiations on the opening of liner train terminals to private road hauliers. The Prime Minister might say, however, that the Government had indicated their determination...
that the liner train programme should proceed on the basis of open terminals and, if questioned further, that negotiations to this end were in hand.

*Import controls (C (66) 115)*

The Prime Minister said that it was for consideration whether the statement on the economic situation, which he proposed to make in the House of Commons that afternoon, should include an indication that we should wish to discuss with our partners in the European Free Trade Association (EFTA) the imposition of selective import controls on certain classes of imports, notably machinery, timber and paper. It appeared, however, that it would be impossible to make such controls retrospective to the date of announcement (and so to prevent forestalling), and that there would also be grave risk of retaliation. In these circumstances it might be preferable that no reference to import controls should be included in his statement but that the Cabinet should take a decision in principle to introduce quantitative restrictions on an early date, when the temporary import surcharge expired. The Cabinet might also wish to consider bringing forward the date of expiry of the surcharge and its replacement by quantitative restrictions.

A number of Ministers favoured the introduction of quantitative import restrictions as soon as possible. It was argued that, to the extent to which imports were directly restricted, it would be possible to rely less heavily on restrictions on domestic demand to ease the balance of payments; and it was suggested that the inclusion in the Prime Minister's statement of an indication that we intended to introduce direct import controls would greatly increase the impact of the statement on overseas opinion.

On the other hand Ministers had stated in public more than once in recent weeks, both at home and overseas, that the Government had no intention of replacing the temporary import surcharge, when it expired, by quantitative restrictions on imports. To introduce quantitative restrictions immediately upon expiry of the surcharge, and particularly to bring forward the date upon which the surcharge expired and immediately thereupon to introduce quantitative restrictions, would therefore be a considerable shock to overseas opinion and would be likely to antagonise Governments who might otherwise welcome the proposed statement. If there were signs that imports were rising significantly after the end of the surcharge it might be necessary to introduce quantitative restrictions; and this could be done, without a breach of our international obligations, if we could show that we were in serious balance of payments difficulties. But it would be necessary to allow some period to elapse after the expiry of the surcharge in order that the rising trend in imports could be demonstrated. In the meantime any indication that the Government were contemplating the introduction of quantitative restrictions could lead to heavy forestalling. In answer to questions,

* Previously recorded in a Confidential Annex.
therefore, the Government would have no alternative but to maintain that there was no intention of replacing the surcharge, when it expired, by quantitative restrictions.

There was general agreement on the need to pursue, urgently and by all possible means, opportunities for economising in the use of imported goods and materials and for substituting domestic production for imports.

The Prime Minister, summing up this part of the discussion, said that there was general agreement that there should be no reference to import controls in his forthcoming Parliamentary statement and that in answer to questions it would be necessary, in order to avoid forestalling, to continue to state that the Government had no intention of replacing the surcharge by quantitative restrictions. It was clear, however, that, if it appeared after the end of the surcharge that the level of imports was rising (apart from the immediate but temporary increase which could reasonably be expected to follow the withdrawal of the surcharge), the Cabinet would need to be in a position to introduce quantitative restrictions, if necessary, without delay. Preparations should be put in hand accordingly. In addition the Ministers concerned should put in hand a detailed study of the types of machinery being imported and should consider urgently how to ensure that a larger proportion of the requirement might be met from domestic production.

Export incentives (C (66) 112)

In further discussion it was suggested that it would be desirable to include in the Prime Minister’s statement some indication of positive and constructive action in relation to export incentives. It might, for instance, be possible to revive a proposal that firms who observed an agreed code of practice in relation to prices and incomes, productivity, export promotion and import substitution might receive favourable tax treatment. On the other hand a great deal of Governmental action had already been taken in order to encourage exports; and proposals for a new form of indirect taxation (the value-added tax) and the institution of a central export corporation seemed to offer better prospect of progress than suggestions for discriminatory tax treatment, which would be clearly contrary to our international obligations. In the meantime it would be preferable to include no reference to export incentives in the Prime Minister’s statement than to mention aspirations which would not match well with the firm decisions already taken on the other measures to be included in the statement.

The Cabinet—

(3) Agreed that no reference should be included in the Parliamentary statement to be made by the Prime Minister later that day to the possibility that the Government might introduce either quantitative restrictions on imports or special incentives to exports.

(4) Invited the First Secretary of State, in consultation with the President of the Board of Trade and other Ministers

SECRET
concerned, to ensure that preparations were made for the introduction of import controls if it became necessary to implement the Cabinet's decision in principle to this effect shortly after the removal of the import surcharge in the autumn.

(5) Invited the First Secretary of State, in consultation with the Minister of Technology and other Ministers concerned, to give further consideration to possible means of ensuring economy in the use of imported goods and substituting domestic production for imports, particularly in relation to machinery.

Summing up and conclusions

The Prime Minister, summing up the main discussion, said that the Cabinet had now approved a series of measures relating to demand in the private and public sectors which should reduce the pressure on domestic resources by over £500 million. The reduction of domestic demand would itself help to relieve the balance of payments by curtailing the demand for imports and releasing capacity for production for export. In addition, direct action on Government expenditure overseas, on travel allowances and on emigrants' remittances should improve the balance of payments by at least £150 million. In the situation which faced the Government, where the restoration of confidence was one of the prime objectives, the presentation of the measures to be introduced was no less significant than their real impact upon domestic demand and the balance of payments. The measures constituted a determined attack on the excess of domestic demand and on the deficit in the balance of payments; and in his Parliamentary statement, which would take account of the points made in the Cabinet's discussion, he would seek to present the proposals as not only of substantial significance in their economic impact but also as convincing indications of the Government's resolution to deal with the economic problems which confronted the country.

The Cabinet—

(6) Agreed that a travel allowance of £50 on travel outside the sterling area should be introduced for 12 months from 1st November, 1966.

(7) Approved the transitional provisions and consequential changes set out in paragraphs 7 and 10 of the Note attached to C (66) 113.

(8) Approved the change in the arrangements for emigrants' remittances set out in paragraphs 12 to 19 of the Note attached to C (66) 113.

(9) Agreed that the regulator should be applied at 10 per cent with effect from midnight on 20th/21st July, 1966, on Customs and Excise duties on spirits, beer and wine and hydrocarbon oil and on purchase tax.
(10) Agreed that legislation should be introduced at an appropriate opportunity to refund the surcharge on hydrocarbon oil duties to public passenger transport operators.

(11) Agreed that the limit for exemption from building control should be reduced from £100,000 to £50,000 by an Order to be introduced as soon as the Building Control Bill received the Royal Assent.

(12) Agreed that the control of office building should be extended to the East and West Midlands Regions and to the rest of the South-East Region of England.

(13) Agreed that minimum down-payments on hire-purchase should be increased on cars to 40 per cent, on domestic appliances to 33½ per cent and on furniture to 20 per cent and that the maximum period of repayment should be fixed at 24 months for each of these groups of articles—all with effect from midnight on 20th/21st July, 1966.

(14) Approved reductions totalling some £95 million in 1967-68 in nationalised industries' investment programmes and some £55 million in 1967-68 in Central and Local Government investment programmes, as agreed in discussion.

(15) Agreed that a year's rental should henceforward be required in advance of installation of a telephone.

(16) Agreed that a surcharge of 10 per cent should be imposed in relation to surtax for the year 1965-66.

(17) Took note that the Prime Minister would announce the measures to be taken in a statement to be made later that day in the House of Commons.

Cabinet Office, S.W.1,  