CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 28th July, 1966, at 9.45 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 (Items 1 and 2)
The Right Hon. The Earl of Longford, Lord Privy Seal (Items 1 and 2)
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Cledwyn 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 Healey, M.P., Secretary of State for Defence (Items 1 and 2)
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 (Items 1 and 2)
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 Lee, M.P., Secretary of State for the Colonies (Items 1 and 2)
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 (Items 1 and 2)
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (Items 1-3)

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. R. T. Armstrong
<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>OVERSEA AFFAIRS</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>The Government's Economic Measures</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
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</tr>
<tr>
<td>2</td>
<td>PRICES AND INCOMES POLICY</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Prices and Incomes Standsill</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>PARLIAMENTARY BUSINESS</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>AIRCRAFT INDUSTRY</td>
<td>11</td>
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<td></td>
<td>Re-equipment of British European Airways</td>
<td></td>
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The Foreign Secretary said that there had been a general recognition overseas of the severity of and the sacrifices entailed by, the Government’s economic measures. The first reaction in Governmental circles had been cordial, but the measures had been less warmly received in financial and industrial circles and the subsequent reaction of Governments had in consequence been more hesitant. The main concern overseas was in respect of the effectiveness of the proposed standstill of prices and wages: there was also concern at what the trade figures for the next few months might prove to be. In general, there was some scepticism about whether the measures had been taken in time and, in some quarters, concern that severe though they were, they might still not be severe enough to meet the present need. Nevertheless, the general feeling was that the measures would give us a breathing space and an opportunity to solve our longer-term economic problems: in these circumstances, it would be regarded as reasonable that we should draw upon the Basle credits for the next few months to tide us over immediate difficulties. In the constituent countries of the European Free Trade Association there was widespread relief that we had not, as it were, exported our economic difficulties by placing further restrictions upon our trade.

The new Indonesian Cabinet had now been formed. It was considerably smaller than its predecessor and all but one of the main supporters of President Sukarno had been dropped from it. The new Minister of Finance was expected to be more effective than his predecessor in dealing with the country’s economic problems and was also known to be sympathetic to the view that compensation should be paid for the assets of United Kingdom firms in Indonesia which had been nationalised. In sum, the new appointments represented a further setback to President Sukarno, but the outcome was still uncertain.

The Cabinet—

Took note of these statements.
its working. They were, however, insisting as a condition of their support that there should be no exceptions from the standstill on incomes, except for scale and age pay increments. He had taken note of their views. The General Council of the Trades Union Congress (TUC) had decided to acquiesce in the standstill, but were pressing for provisions which would allow at least increases of incomes for lower-paid workers and increases related to productivity agreements even during the period of the standstill.

The Cabinet might wish to direct their attention mainly to the nature of the new powers which it was proposed to add to the Prices and Incomes Bill, to the arrangements for bringing those powers into effect, and to the manner in which existing commitments should be treated under the incomes standstill. They might wish then to consider the draft White Paper in detail. It was proposed to publish the White Paper during the course of the morning of 29th July, and to table amendments to the Prices and Incomes Bill shortly before the House of Commons rose on that same day.

In discussion the view was expressed that the proposed additions to the Prices and Incomes Bill were considerably more drastic than might have been expected from the references to “strengthening the Prices and Incomes Bill” in previous Cabinet discussion and in the Prime Minister’s statement of 20th July, and it was suggested that in the form proposed they had alarming implications. Employers were to be placed under legal obligations not to pay increased wages, and a trade unionist who sought to bring pressure to bear upon employers to pay increased wages despite these obligations would render himself liable to the payment of a fine; if he refused to pay a fine he could be committed to prison. The Cabinet had accepted arrangements of this kind in relation to Part II of the Bill, but it was another matter to contemplate the extension of these arrangements in the much wider context covered by Part IV of the Bill. It was argued that the provision would in practice be unenforceable: if a union leader were determined to force a challenge to the standstill and laid himself open to the penalties, the Government could hardly do otherwise than prosecute him, and there was a danger that a successful prosecution in these circumstances would lead to widespread official or unofficial industrial action. It could be argued that the Government should not take powers which it was hardly conceivable that they should wish to exercise. In addition, the introduction of these powers could jeopardise the acquiescence of the TUC General Council in the standstill; even if the General Council’s acquiescence were confirmed, there would be a danger of adverse votes at the TUC Annual Congress and at the Annual Conference of the Labour Party, which would seriously undermine not only the credibility of the standstill policy but also confidence in sterling and even the authority of the Government.

A number of suggestions for avoiding or minimising these dangers were considered. It was suggested, for example, that the Government should take powers to enforce only a standstill on prices, relying upon the psychological impact and upon the pressure
which such a standstill would put upon employers to ensure that this led to an effective standstill on wages and salaries. In this event the Government would have to be prepared to stand out against strike action in pursuance of wage claims, and would be unable to exercise any conciliation functions. The objection to this was that over a wide range of goods a rigid standstill on prices could not in practice be enforced, though it could be applied in relation to certain basic commodities such as bread and coal. It was likely that employers would not stand up to demands for wage increases, and the standstill would break down. It was also suggested that the Government might take powers to enforce a standstill on prices and also to require employers not to pay increases, but refrain from taking powers to prosecute union leaders for bringing pressure on employers to pay in spite of their legal obligations to do so. To this it was objected that Part IV of the Bill so amended would seem to opinion both at home and overseas to be one-sided in its impact; this would both be grossly unfair and would reduce its credibility. It would put employers in an intolerably difficult position, where many of them would prefer to concede wage increases and risk a fine. In the circumstances fines imposed by the courts might well be derisory. Moreover, it was pointed out that, if the clause providing for a specific sanction on trade unionists were removed, trade unionists who sought by pressure upon or collusion with employers to secure wage increases would render themselves liable to prosecution for criminal conspiracy: this would frustrate the object of the change and could lead to industrial chaos. The provision included in Part II of the Bill (Clause 16 (4)), which it was now proposed to extend to Part IV, had been designed specifically to avoid this difficulty, and it was hardly possible to withdraw that provision at this stage.

If it were accepted that none of these suggestions should be adopted, the choice would lie between introducing amendments to the Bill on the lines of the draft before the Cabinet or dropping the proposal to strengthen the Bill and relying on voluntary co-operation. While the second alternative would avoid many difficulties, it would seriously diminish the credibility of the standstill, and it would manifestly fail to fulfil the Prime Minister's pledge to prevent the selfish from taking advantage of the co-operation of the rest.

It was further suggested that, if it were decided to proceed with the additions to the Bill on the lines proposed, some of the potential embarrassment might be avoided by making the operation of the sanctions upon trade unionists, or the operation of the whole of Part IV, subject to affirmative resolution in both Houses of Parliament. As drafted, Part IV of the Bill enabled the First Secretary of State to introduce Orders applying the section to particular prices or incomes; these Orders were to be subject to negative resolution, in order that there should be no delay in becoming effective. It would not be desirable to make only the sanctions on trade unionists applicable by Order subject to affirmative resolution, leaving the remaining sections of Part IV applicable by

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Order subject to negative resolution. But if the Bill were altered so that Part IV came into effect only upon introduction of an Order subject to affirmative resolution, this would give point to the Government's declared intention of proceeding in the first instance by voluntary means. It was to be expected that the Government would in due course need to have recourse to statutory powers, but it might be possible to defer the making of an Order bringing Part IV into effect until later in the year, relying upon voluntary co-operation in the meantime. One major difficulty about this was that Part IV included provisions enabling employers to withhold increases of remuneration which had been conceded but not paid, without rendering themselves liable to be sued for breach of contract. This would be likely to mean that deferment of existing commitments could not be operated in the private sector, even though it was being operated in the public sector, until such time as Part IV became operative.

It was for consideration, if it were decided that Part IV of the Bill should become operative only upon laying an Order subject to affirmative resolution, whether those resolutions should be required to be passed within 28 sitting days or 28 calendar days. If the resolutions had to be passed within 28 sitting days, the Government would be able to introduce an Order at any time during the Recess without recalling Parliament. On the other hand it was suggested that it would be preferable for the resolutions to be required within 28 calendar days. This would make it clear that the Government regarded the introduction of Part IV of the Bill as being a matter of such moment that, if it were required in the middle of the Recess, Parliament should be recalled. This might help to allay misgivings about the nature of the powers to be taken.

In discussion of the treatment of existing commitments it was strongly urged that firm settlements concluded before 20th July for increases with an operative date on or before 20th July should be allowed to stand. On this basis less than 10 per cent of those covered by existing commitments would escape the standstill. If on the other hand cases of this kind were to be caught by the standstill, the effect would be particularly severe in the public sector: the increases for doctors would be deferred (though not those for dentists, since they were already in payment); and so would increases for a number of National Health Service classes, including nursing tutors and dispensing assistants, and increases for manual workers in the gas supply industry and municipal busmen. The increases for multiple bakers would also be caught; but there was a real danger that the baking employers would pay these increases before the Bill became law in any event.

The Minister of Health pointed out that he, and indeed the Government, were committed by firm pledges to the payment of the first instalment of the increases to the doctors. Deferment would affect not only the general practitioners but also the hospital doctors, including the house officers (whose increases had been generally approved) and the middle grade hospital doctors. There would be a serious danger that many of the younger hospital doctors would
emigrate, and that a large number of general practitioners would resign from the National Health Service and seek their fortunes in private practice through Independent Medical Services Limited, a private insurance scheme sponsored by the British Medical Association. In the case not only of the doctors but also of the other National Health Service grades, the reason why the increases were not already in payment was the delay in the issue of instructions to paying offices, for which the Government was responsible. It would be hard to justify enforcing a deferral of implementation in these circumstances.

It was also pointed out that there were some groups of workers where increases were already being paid to some members of the group but not to others. In these cases it would be indefensible to withhold the increase from those members of the group who had not yet received it.

It was further suggested that in view of the difficulty of deferring existing commitments the best solution might be to authorise payment of all the increases agreed before 20th July with effective dates before 20th July. It was pointed out, however, that an exception as large as this from the standstill would make it difficult for the Government to resist pressure for other exemptions (such as increases for lower-paid workers and increases related to productivity agreements), and might jeopardise readiness to acquiesce in the standstill, particularly among those groups with existing commitments for increases to come into effect after 20th July. If it was desirable to have no exceptions to the policy, then the Government should stand fast on the deferral of existing commitments. It might be that a particular difficulty arose in the case of the doctors, but it also had to be recognised that the increases agreed for doctors had been particularly contentious. It was accepted that, if as a result of the decision to defer existing commitments the first instalment of the increases for doctors were deferred, it should be made clear that the second instalment, due on 1st April, 1967, would be paid on the due date.

In discussion of the draft White Paper the following points were made:

Section II

(a) The Minister of Agriculture, Fisheries and Food would agree with the First Secretary of State upon the treatment of the early warning and constant watch arrangements applicable to commodities in the food sector.

(b) The limit in paragraph 8 (b) should be 100 workers.

(c) It might be desirable to strengthen paragraph 9 in the light of the powers which the Government were proposing to take.

(d) Paragraph 10 should include the proposed additional sentences, save for that in which it was stated that the imposition of a general standstill would be inappropriate. It should be made clear that the paragraph applied to rent increases already announced, but
not yet put into effect. The final decision on increases of public sector rents should remain with local authorities, but words should be inserted to make it clear that local authorities would be expected to consult, and make a case to, the Minister of Housing and Local Government or the Secretary of State for Scotland.

(e) Paragraph 12 should be included as drafted, with the words "and other" inserted after "agriculture".

(i) The proposed paragraphs 13 and 14 on prices of houses and loan charges were so inconclusive that they would be better omitted.

Section III

(g) Paragraphs 5–7 would need to be recast in the light of the Cabinet’s decision on the treatment of existing commitments.

(ii) It would be desirable to include in paragraph 11, or at some other appropriate point, a reference to the strengthening of the National Board for Prices and Incomes.

(i) It should be made clear in paragraph 15 that the standstill applied in principle not only to salaries of company directors and senior executives but to all executives in industry and commerce.

(j) The section on profits and dividends should be redrafted so as to make it clear that as a result of fiscal measures already taken it was expected that there would not be an increase in average dividends in the succeeding 12 months. It would be necessary to retain the footnote making it clear that distributions by "closely controlled companies" might have to be excluded from the standstill. The White Paper should not recognise in terms that there might be other cases in which it would be in accordance with the national interest to permit an increased distribution, but it should be made clear that any company which contemplated an increased distribution should inform the Government.

(k) Paragraph 17 should refer to "the scales of charges and fees" rather than to "the incomes" of self-employed persons.

(l) It was agreed that it would not be appropriate to include in this White Paper a reference to the economic case for profitability, though occasion might arise in speeches for such a reference.

Section IV

(m) An amendment to paragraph 3 proposed by the Minister of Transport was accepted.

Section VI

(n) This section of the White Paper would need to be redrafted in the light of the Cabinet’s decision on the arrangements for bringing Part IV of the Prices and Incomes Bill into operation.

The Prime Minister, summing up the discussion, said that the balance of view in the Cabinet was in favour of introducing into the Prices and Incomes Bill the additional Part IV as proposed in the draft amendments before them. It was, however, the Cabinet’s view
that Part IV of the Bill should come into operation only on the introduction of an Order, which would come into effect immediately it was laid but would lapse unless it was confirmed by resolution of both Houses of Parliament within 28 calendar days. No course open to the Government was free from difficulty or risk of embarrassment, but this would enable the additional provisions to be presented as a balanced combination of powers bearing upon both employers and employees, and as a demonstration of the Government's preference for proceeding by voluntary means and of their determination to enforce the standstill by statutory powers if voluntary means broke down. On existing commitments in the incomes field, the general principle in the Cabinet view should be that payment should be deferred for six months from 20th July or from the operative date, whichever was the later, and that no retrospection should be paid in respect of the six months' delay due to the standstill. This meant that:

(a) In the case of firm commitments entered into on or before 20th July for increases to become operative on or before 20th July:

(i) where increases were already in payment to some members of a group of workers they should not be withheld from others;

(ii) where increases were not yet in payment for any members of a group of workers, the operative date of the increases should be deferred for six months and no payments should be made until the end of the first six months of the standstill period.

(b) In the case of firm commitments entered into on or before 20th July for increases to become operative from a date after 20th July, the increases should become operative and could be paid from a date six months after the agreed operative date. Increases due under contractual commitments entered into before 20th July to become operative after the end of the six months period of standstill should be operative and payable from the agreed date.

The draft White Paper should be revised in accordance with these decisions and in the light of other points made in discussion, and should be published as soon as possible on 29th July. The draft amendments to the Prices and Incomes Bill should be revised to take account of the Cabinet's decision on the arrangements for bringing them into operation, and tabled in the House of Commons on 29th July.

The Cabinet—

(1) Agreed that the proposed Part IV of the Prices and Incomes Bill should be on the lines of the draft amendments before them, save that provision should be included whereby Part IV of the Bill would be brought into operation by an Order which would come into effect upon its being laid but would lapse unless confirmed by affirmative resolutions of both Houses of Parliament within 28 calendar days of being laid.
Agreed that, in the case of firm commitments entered into on or before 20th July, 1966, for pay increases to be operative from a date on or before 20th July, 1966:

(a) where an increase was already in payment to some members of a group concerned, it should not be withheld from the remainder;

(b) where an increase was not yet in payment for any of those concerned, the operative date should be deferred for six months and no payments should be made until the end of the six months' period of standstill.

Agreed that, in the case of firm commitments entered into on or before 20th July, 1966, for pay increases to be operative from a date during the standstill period of six months from 20th July, 1966, the operative date should be deferred for six months.

Agreed that, in the case of firm commitments entered into on or before 20th July, 1966, for pay increases to be operative from a date after the end of the standstill period of six months from 20th July, 1966, the increases should be operative and payable from the agreed operative date.

Invited the First Secretary of State to revise the draft White Paper attached to his memorandum (C (66) 122) to accord with these decisions and with other points made in discussion, and to arrange for publication as indicated in the Prime Minister’s summing up.

Invited the First Secretary of State to arrange for the draft amendments to the Prices and Incomes Bill to be revised to accord with the decision at (1), and to table the amendments so revised in the House of Commons on 29th July.

The Cabinet were informed of the business to be taken in the House of Commons in the following week.

In discussion it was agreed that the amendments to the Prices and Incomes Bill which had been approved by the Cabinet under the previous item of their agenda might now be handed to the Opposition. Unless agreement could then be reached with the latter on an acceptable time-table for dealing with all the further stages of the Bill a guillotine motion in respect of it should be tabled for debate on the following Monday.

In further discussion the Cabinet were informed that while it was still uncertain when Parliament would rise for the Summer Recess, this would probably be on Friday, 12th August. Parliament would resume after the Summer Recess on Tuesday, 18th October.
4. The Cabinet had before them a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 119) on the aircraft industry.

The First Secretary said that Cabinet might wish to consider the last two issues set out in the memorandum, namely the proposed merger of the aero-engine interests of Rolls-Royce and Bristol Siddeley, and the reorganisation of the airframe industry at a later meeting. The Minister of Aviation, however, had to make an announcement about the future equipment of British Overseas Airways Corporation (BOAC) (which had already been decided) and of British European Airways (BEA) in the early part of the following week. It would, therefore, be desirable to come to a decision on the latter question at their present meeting. After a full discussion of this question the Ministerial Committee on Economic Development had unanimously come to the conclusions set out in his memorandum, namely that despite the economic and financial disadvantages, it would be right to require BEA to buy United Kingdom aircraft in re-equipping their fleet. Coming on top of the purchase of long-haul United States aircraft already authorised by BOAC, a similar purchase by BEA would not only involve a substantial cost in foreign exchange, but would also seriously, and perhaps irreparably, damage the prospects of the United Kingdom aircraft industry in the medium-haul civil airline field. The Committee accepted that if BEA were required to buy United Kingdom aircraft, they would have to be given an assurance that the Government would be willing in principle to assist them to deal with the problems with which this decision would present them; and had recommended that there should be further study of the problems which would be raised and the means by which assistance would be given.

The Cabinet—

(1) Invited the Minister of Aviation to inform BEA of their decision that their fleet should be re-equipped with United Kingdom aircraft, and in consultation with the Chancellor of the Exchequer, to assure them that the Government were willing in principle to assist them to deal with the problems with which this decision would present them.

(2) Invited the Minister of Aviation to make an announcement to that effect in Parliament in the early part of the following week, and to concert the terms of the announcement with the First Secretary of State, the Chancellor of the Exchequer, the President of the Board of Trade and the Minister of Technology.

(3) Invited the First Secretary of State, in consultation with the Minister of Aviation, to arrange for a further study to be
made of the means by which assistance should be given to BEA, of the size, constitution and timing of BEA orders and of the implications of postponing re-equipment for domestic routes.

(4) Agreed to resume their discussion of C(66) 119 at a subsequent meeting.

Cabinet Office, S.W.1,
28th July, 1966