CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 6th July, 1967, at 9.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade (Items 3 and 4)
The Right Hon. ANTHONY GREENWOOD, 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. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development (Items 3 and 4)
The Right Hon. MARGARET HERBISON, M.P., Minister of Social Security (Item 4)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 4)

The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M.P., Lord President of the Council
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, M.P., Minister without Portfolio
The Right Hon. ANTHONY CROSSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. RICHARD MARSH, M.P., Minister of Power

The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development (Items 3 and 4)
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Item 4)
The Right Hon. REGINALD PRENTICE, M.P., Minister of Public Building and Works (Item 4)
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury
## CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>PARLIAMENTARY BUSINESS</strong></td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Medical Termination of Pregnancy Bill</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td><strong>OVERSEA AFFAIRS</strong></td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Middle East and the United Nations Assembly</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Approach to Europe—Draft Opening Statement to the Ministerial Council</td>
<td></td>
</tr>
<tr>
<td></td>
<td>of the Western European Union</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Congo</td>
<td></td>
</tr>
<tr>
<td></td>
<td>South Arabia</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nigeria</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Zambia</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td><strong>DEFENCE</strong></td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Draft White Paper</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td><strong>PUBLIC EXPENDITURE</strong></td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Economic Outlook to 1972 and Civil Reviews</td>
<td></td>
</tr>
</tbody>
</table>
1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

The Lord President said that, despite the provision of additional time by the Government for the debate of Mr. Steel's Medical Termination of Pregnancy Bill, the House of Commons had failed to reach a conclusion on it. It was for consideration whether further Parliamentary time should be provided by the Government to enable the House to reach a decision on the Bill before the Summer Recess. It was clear from the amount of support which the Bill received that if it failed in this Session it would be revived in subsequent Sessions until the House reached a decision and from the point of view of Parliamentary business there was therefore a strong argument in favour of allowing finality to be reached this time. Furthermore, it was arguable that, in the case of a Bill which attracted this degree of support, time should as a matter of principle be provided to enable Parliament to reach a conclusion. In these circumstances the balance of advantage appeared to lie in providing further limited time for debate on the Bill.

In discussion it was urged that for the Government to allow yet further time for this Bill would be taken by the public as implying a degree of governmental support for it. The Cabinet had not debated the Bill on merits and in view of its highly controversial nature it would be unfortunate if without such discussion the Government were publicly assumed to have taken a decision to support it. It was, however, the general view that the question of governmental support was neither at issue nor would be seen to be implied. The basic principle was that of enabling Parliament to reach a conclusion on a measure which attracted such a wide measure of support. The Government's neutrality on the merits of the Bill could be demonstrated, more particularly if in the event some Ministers were to vote in favour of the Bill and some against it. In these circumstances, further Parliamentary time should be allowed and it was indeed questionable whether it should not be made clear, in order to forestall further filibustering, that the additional time would not be limited, but would be sufficient to enable Parliament to reach a decision one way or another. This could be achieved by making it clear that the debate could continue over the night of Thursday, 13th July and throughout the following Friday (or indeed Saturday) if necessary. This course was, however, open to the objection that it would involve the sacrifice of Government business on the Friday and though on this occasion the business in question was only of minor importance, its sacrifice might be taken as prejudicing the Government's neutrality on the substance of the Bill.

In further discussion it was urged that consideration should be given to the possibility of changes in Parliamentary procedure which would provide better opportunity for Parliament to reach
conclusions on Bills of this nature. This might involve the appointment of a Standing Committee for the preparation of legislation. This and other suggestions could well be considered by the Ministerial Committee on Parliamentary Procedure.

The Cabinet—
(1) Agreed that further Parliamentary time should be provided by the Government for the Termination of Pregnancy Bill, on the basis that this time was allowed solely in order to enable Parliament to reach a conclusion on a Bill which had attracted considerable Parliamentary support.

(2) Invited the Lord President of the Council to consider in the light of the discussion the extent to which the statement of the Government's intention to provide further Parliamentary time for this purpose should indicate that the time would be limited.

(3) Invited the Lord President of the Council to arrange for the Ministerial Committee on Parliamentary Procedure to consider, in the light of their discussion, Parliamentary arrangements for facilitating Private Members' Bills.

2. The Foreign Secretary said that the resolution on the Middle East introduced in the Special Session of the United Nations General Assembly by the non-aligned nations had achieved only a bare majority of the total votes cast, substantially short of the two-thirds majority which was necessary to give it effect. The alternative resolution sponsored by the Latin American nations, which was acceptable to us in its broad sense though not in all its details, had just failed to achieve a two-thirds majority. The only resolutions which had been passed were one limited to humanitarian considerations and one in respect of the status of Jerusalem. Attempts were now being made to achieve a consensus on a resolution which would balance a recall for the withdrawal of Israeli forces on the one hand with the need on the other for agreement on conditions which would make possible the continued security of Israel and a peaceful settlement in the Middle East. If such a resolution could be achieved it would be worthwhile the Special Session of the General Assembly continuing, but if these attempts failed in the course of the next two days or so, it might be preferable for the Special Session to come to an end and for the issue to be taken back to the Security Council. The United Kingdom vote had been cast in favour of the Latin American resolution, but a great effort had been made both in New York and in all the capitals concerned to minimise the effect of that vote on Arab opinion and it appeared that these efforts had been largely successful.

The Permanent United Kingdom Representative at the United Nations and Minister of State for Foreign Affairs (Lord Caradon) deserved great credit for his achievement in maintaining British
interests during the highly charged atmosphere of the recent debates in the General Assembly.

In discussion the question was raised of the prospect of re-opening the Suez Canal, particularly in view of the effect of its continued closure on our own balance of payments. The Cabinet were informed that at the present time it did not appear practicable for us to take any specific action to achieve the re-opening of the Canal, but a relaxation of tension in the Middle East, to which our efforts were primarily directed, might then open the way for a specific approach on this issue.

The Foreign Secretary said that his statement to the Ministerial Council of the Western European Union (WEU) at The Hague on Tuesday, 4th July, about the United Kingdom’s applications for membership of the European Communities had been very well received. Our friends on the Council had been agreeably surprised by its European tone and had responded with firm declarations of support. The representative of France, M. Bettencourt, had spoken in friendly terms in stating his Government’s position, though in the session the following morning he had, perhaps after instructions overnight from Paris, objected to the statement being regarded as having the status of an official document of the European Communities. But copies of it had been asked for in their speeches responding to the statement on Tuesday afternoon, 4th July, by Herr Brandt, the Chairman of the Ministerial Council of the Community, and by M. Rey, the President of the unified Commission, who had made a particularly helpful speech, including a reference to the usefulness of the statement in the Commission’s task of giving an opinion on the British application. In replying to the speeches made in response to his statement, he himself had said that he was formally conveying the text of his statement to the Chairman of the Ministerial Council and the President of the Commission and had done so. M. Luns, the Chairman of the Ministerial Council of the WEU, had ruled in reply to the French objection in the session of Wednesday morning, 5th July, that the Six were seized of the statement and that it was impossible to deny that it had become a document of the European Communities or to prevent any country from submitting documents to them, as indeed often happened.

The Foreign Secretary said that renewed hostilities had broken out in the Congo but the situation was highly confused: we were seeking to obtain clearer information. Meanwhile, it appeared that few if any of the foreign mercenaries involved were British, nor were British subjects otherwise specifically concerned.

The Foreign Secretary said that British forces had planned and timed their operation to regain control of the Crater area of the town of Aden with great care and skill. They had re-occupied the area without provoking mutiny or open opposition by the armed Arab police, who were now co-operating with our forces in maintaining control.
The Commonwealth Secretary said that Shell/BP had given to Colonel Ojukwu, the military Governor of the Eastern Region of Nigeria, which had recently declared its independence, a letter of intent, by which they undertook to make an advance payment of royalties in respect of oil shipments. This had provoked Major-General Gowon, the Head of the Federal Military Government of Nigeria, to institute a complete blockade of the Eastern Region and no oil was now being shipped in consequence. We had advised Shell/BP not to make a payment, but it was understandable that they had felt constrained to do so, under protest, in view of the threats to their installations and to the safety of their staff in Nigeria. Major-General Gowon had requested the United States Government and ourselves to provide arms for the Federal forces. We had refused the request to ourselves, save that we were considering the possibility of providing anti-aircraft guns. The Minister of State for Commonwealth Affairs was flying to Nigeria that day and would make every effort to obtain agreement that oil shipments should be resumed.

The Commonwealth Secretary recalled that the Cabinet had previously taken the view that Mr. Simbule, the Zambian High Commissioner designate in the United Kingdom, should be asked to give a formal expression of regret in respect of his derogatory statements about this country before he could be accepted as High Commissioner. Mr. Simbule had subsequently expressed regret at his statement in terms which sufficiently met our requirements and he would now be accepted as High Commissioner.

The Cabinet—

(1) Took note of the statements by the Foreign and Commonwealth Secretaries.

(2) Invited the Foreign Secretary to convey to the Minister of State for Foreign Affairs (Lord Caradon) an expression of their appreciation of the work which he had carried out during the current debates on the Middle East in the United Nations General Assembly.

*3. The Cabinet had before them memoranda by the Defence Secretary (C (67) 117) covering a draft White Paper on Defence, by the Lord President of the Council (C (67) 116) on defence withdrawals and by the Commonwealth Secretary (C (67) 119) on consultations with Allied Governments on Far East defence. They also had before them notes by the Secretary of the Cabinet covering memoranda on defence and the balance of payments (C (67) 121), aid and the balance of payments (C (67) 120) and the defence expenditure studies (C (67) 118).

* Previously recorded in a Confidential Annex.
The Defence Secretary said that the background to the decisions of policy to be announced in the White Paper before the Cabinet was very different from that of the earlier Defence Review. Then it had been possible to find £300 million out of the saving of £400 million (at 1964 prices) in the defence expenditure for 1969-70 involved by the plans of the previous Administration mainly by obtaining better value for money, leaving something under £100 million to be saved by changes in policy and commitments and in the size of the forces following the end of confrontation with Indonesia. There was now no further scope for savings without cutting the capability of the forces and the proposals before the Cabinet to reduce defence expenditure in 1970-71 by a further £200 million, rising by 1975-76 to £300 million, would have to come entirely from reductions in our military capability, with consequent reductions in our commitments and changes in our overseas policy.

Over the decade 1965-75 the uniformed strengths of the forces would on these proposals have declined by 110,000, consisting of 80,000 in the strength of the British forces themselves and 30,000 Gurkhas and local forces; and civilian backing for the forces would have dropped by a total of 100,000, 45,000 of which was in United Kingdom manpower and 55,000 in locally engaged personnel. By 1975-76 the Royal Navy would cease to have any aircraft carriers and there would have been a reduction of 20 per cent in its number of ships, which would also, on average, be smaller. The Army would have lost 25 per cent of its major units and there would have been a reduction of 35 per cent in the frontline strength of combat aircraft of the Royal Air Force. Overall, the volunteer regular strength of the three Services would have dropped by 20 per cent and, after allowing for wastage, between 19,000 and 25,000 officers and men would be made redundant. It would be very apparent to the Services that they were making big sacrifices. Civilian employment as well as uniformed manpower and equipment was affected.

About two-thirds of the reduction in expenditure now being proposed would flow directly from a decision to withdraw from Singapore and Malaysia; by 1975 we were planning also to have withdrawn from the Persian Gulf, and apart from Hong Kong, which was being considered separately, and certain staging posts, we should then have no forces permanently stationed abroad outside Europe; we should however retain the ability to discharge our responsibilities for the defence of our remaining dependent territories, to British communities abroad and to make a contribution to peace-keeping. We should not decide now whether the naval and amphibious element of the military capability that it was proposed should be available for use in the Far East after we had withdrawn from Singapore/Malaysia should be based on locally provided facilities in Australia, or possibly Singapore, or on this country; but, in any event, these forces would be part of those earmarked for assignment to the North Atlantic Treaty Organisation (NATO)
and not additional to them. If we were to be able to justify these reductions in the size of our forces and changes in their deployment, it was essential that the tasks of the forces should be reduced in step with them; in particular it would be necessary to scale down progressively our force declarations under the South-East Asia Treaty Organisation (SEATO) and to change drastically the scale and timing of the military assistance that we would provide to Malaysia and Singapore.

Defence expenditure would fall from 7 per cent of the Gross National Product (GNP) under the previous Administration to 5 per cent and, by 1975, it was estimated that the level would be about £800 million less than under the plans of the previous Administration; between 1964-65 and 1970-71 we should have cut defence expenditure by 5 per cent while, even with the reductions proposed to the Cabinet by the Chancellor of the Exchequer, civil expenditure would have risen by 25 per cent. Although the proposed saving of £200 million in defence expenditure was lower than had been hoped for when the defence expenditure studies were initiated, it was still the higher figure of the range of saving which the Cabinet had envisaged when they last considered the matter. This had been achieved despite the fact that there would be a peak in expenditure on equipment about the end of this decade; allowance was also included for £40 million on the Harrier (P-1127) aircraft which had been included in the programme for non-military reasons, £13 million of expenditure hitherto financed outside the defence budget for service housing and £2 million on account of the decision taken on political grounds to delay our rundown in Malta. If allowance was made for these items the saving in the defence programme in 1970-71 was about £255 million and if it were decided not to replace the Anglo-French variable geometry aircraft project with another involving expenditure on research and development in that year a further £17 million could be saved. The gross stationing costs of our forces overseas would fall from £252 million currently, to £191 million in 1970-71 and £130 million in 1975-76. This made no allowance for various foreign exchange receipts that could be set against the gross figures and, although the detailed calculations were to be discussed further by the Ministers concerned, it could be claimed that by 1975-76 the overseas costs in the defence budget would not be significant for our balance of payments. This in no way suggested however that the savings were not important or that it was not right on other grounds to plan for the force withdrawals that were proposed.

The Lord President said that, although he recognised that the policies that had emerged from the defence expenditure studies were less inadequate than those which had resulted from the earlier Defence Review, the new proposals would not stand the test of time. It had been his understanding that it would be open to the Cabinet on this occasion to adopt more radical proposals than those before them, but it appeared to be claimed that in consulting our Allies we had already committed ourselves too far to allow of this. Nevertheless it would not be credible either in this country or
abroad to announce a plan to withdraw slowly from the Middle
and Far East over a period of eight to ten years, during which
time our military strength would steadily and obviously diminish.
Events would overtake us and we should be forced to withdraw
more quickly; it would therefore be better to decide now on a
plan for as rapid a withdrawal as possible. Recent events in the
Middle East had shown that our military presence there was an
embarrassment to our friends in the area and harmful to our
political and oil interests; we should withdraw from the area
quickly and from Cyprus also as soon as we could. As regards
the Far East, there were special considerations affecting Hong
Kong and strong social and political arguments for a withdrawal
from Singapore carefully calculated to maintain political stability
there. We should not commit ourselves to maintain large and
expensive amphibious and air forces in the Far East after 1970;
it would be wrong, particularly in view of recent events in the Middle
East, for us to have as part of our role the provision of
sophisticated forces which the local Governments could not afford.
There should be a study of a revised timetable envisaging complete
evacuation of the mainland within five years. Our attitude to aid
for Singapore and Malaysia should not be that we had a
responsibility for making good the damage to the economies of these
two countries which the withdrawal of our forces would cause,
since this would involve us in heavy and increasing expenditure
on aid; instead we should adopt the principle that we were
prepared to pay somewhat higher amounts of aid if the Governments
concerned co-operated with us in a rapid withdrawal of our forces
and that these would be reduced if the rundown went more slowly.

In discussion there was some support for the view that we
should plan to withdraw more rapidly from the Middle and Far East
than was envisaged in the proposals before the Cabinet and make
the additional saving of some £100 million in defence expenditure
by 1970–71 that it was estimated would result from this. It was
argued that, since we had declared our intention to withdraw, we
should effectively have destroyed any influence based on military
strength in the areas concerned. The general view was however
in favour of the proposals outlined by the Defence Secretary:
to plan on the basis of a faster withdrawal would not be realistic.
There was general acceptance that if, as might happen, events
made it possible for us to withdraw more rapidly we should
welcome it; but the Cabinet had agreed that consultations with our
Allies should take place on the basis of obtaining their
acquiescence in plans to reduce our force levels in Singapore by
about half by 1970–71 and to withdraw from Singapore and
Malaysia by 1975–76. Our Allies had accepted the plan for 1970–71
but were much concerned at our proposal for final withdrawal and
in particular unanimously opposed to any announcement of a date
for that withdrawal. On this ground alone, we could not now
contemplate going back to our Allies with proposals for an earlier
final withdrawal. In any event, on practical grounds also we
could not usefully plan for an earlier withdrawal, particularly from Singapore where employment was very heavily dependent on the presence of British forces; if in present circumstances we were to withdraw substantially more rapidly than was proposed the decline in confidence and the extent of local unemployment which would inevitably be involved would result in economic and social chaos. We would be faced with the collapse of the present Government in Singapore, on whom we were relying to enable us to make an orderly withdrawal, the lives of British civilians might well be heavily at risk and we should probably lose some £700 million of British assets in the Far East.

In further discussion the Cabinet considered the advantages and disadvantages of including in the Defence White Paper specific dates for our withdrawal from the Middle and Far East. As regards the Middle East there was general agreement that no date should be given. Withdrawal from this area did not involve serious logistic problems for the forces, nor lengthy planning and preparation such as were involved in the Far East. There was therefore no requirement to take a decision on withdrawal until events made it in accord with our interests to do so; and such a decision could be supplemented quickly. As regards the Far East it was argued that in view both of the strongly expressed views of our Allies and of the desirability of leaving ourselves room for manoeuvre it would be better not to publish any date for withdrawal. On the other hand it was strongly urged that unless a date was indicated our position would be open to damaging misconstruction, the basis of our planning and consequently the achievement in practice of these savings would progressively be eroded, nor could we publish the financial and manpower savings that were to be made by 1975. On balance there was agreement that we should announce in the forthcoming Defence White Paper that we were planning to withdraw from Singapore and Malaysia in the middle 1970s.

The Cabinet then turned to discussion of the text of the draft White Paper.

A number of amendments were agreed and the following main points were made.

**Paragraph 2**

The final sentence should be re-ordered to deal first with the political aspect.

**Paragraph 4**

The final sentence should be amended to avoid any implication that new defence arrangements in Europe were involved if we should enter the European Economic Community.

**Paragraph 8**

Further consideration should be given by the Foreign Secretary, the Chancellor of the Exchequer and the Defence Secretary to the terms of the reference to the offset costs of our forces in Germany.
Paragraph 10

The Defence Secretary should consider, in consultation with the Chancellor of the Exchequer, whether the final sentence might be redrafted to lay greater emphasis on the extent to which our influence in the world would depend on our economic strength.

Paragraph 11

The middle section should be revised to remove any implication that it committed us to maintain a continuing presence in the Far East, as distinct from a military capability for use there.

Paragraph 13

The Cabinet were informed that, although the King of Libya had requested us to leave our bases there, it appeared that this was mainly a gesture of Arab solidarity; and we were not at present being pressed to withdraw. It would not necessarily accord with our interests to do so.

Paragraph 15

Further consideration would be given by the Defence Secretary to the reference to the Commonwealth Brigade, in consultation with the Commonwealth Secretary.

Paragraph 24

The Defence Secretary said that he was considering the addition of an annex to the White Paper listing the infantry battalions that would be disbanded as a result of the proposed cut in the strength of the Army.

Paragraphs 25 and 26

The Defence Secretary said that the types of aircraft required by the Royal Air Force between now and 1975 were not dependent on the point between 1970 and 1975 at which we withdrew from the Far East, nor had the defence expenditure studies altered the roles of the RAF as distinct from the types and numbers of aircraft required to carry these out. The case for proceeding with the development of an aircraft similar to the Anglo-French variable geometry aircraft had however been much weakened by the reduction in our role East of Suez. He would redraft paragraph 26 of the White Paper on the lines of the statement that he had made in Parliament on the previous day.

Paragraph 28

The Cabinet were informed that a reduction worldwide of 25 per cent in the supporting services of the forces was planned; it would probably be necessary to close one dockyard in this country.

Paragraph 37

The presentation of the figures of costs and savings would be revised in consultation between the Chancellor of the Exchequer and the Defence Secretary.
Paragraph 40

The reference to our role in the maintenance of peace should be revised, or suitably transposed to paragraph 41, after consultation between the Foreign, Commonwealth and Defence Secretaries.

The Prime Minister, summing up the discussion, said that the Cabinet approved the draft Defence White Paper, subject to the amendments agreed in discussion, to further consultation by the Defence Secretary with the Ministers concerned in respect of particular passages which it had been agreed to amend and to such further changes of a purely drafting nature as the Defence Secretary might subsequently wish to make. The defence expenditure studies had involved an immense amount of work, on the outcome of which the Defence Secretary was to be congratulated.

The Cabinet—

(1) Invited the Defence Secretary to amend the draft of the White Paper on the lines agreed in discussion, in consultation as necessary with the Ministers concerned.

(2) Subject to Conclusion (1), approved the draft of the Defence White Paper attached to C (67) 117.

(3) Invited the Defence Secretary, in consultation with the Foreign and Commonwealth Secretaries, the Chancellor of the Exchequer and the Lord President of the Council, to arrange for its publication.

4. The Cabinet resumed their discussion of the public expenditure programme to 1970-71. They had before them the following memoranda by the Chancellor of the Exchequer:

C (67) 97—Public Expenditure: Civil Reviews: Health and Welfare

C (67) 98—Public Expenditure: Civil Reviews: Social Security

C (67) 99—Public Expenditure: Civil Reviews: Housing

C (67) 100—Public Expenditure: Civil Reviews: Education and Science

C (67) 101—Public Expenditure: Civil Reviews: Roads

C (67) 102—Public Expenditure: Areas of Choice

C (67) 103—Public Expenditure: Continuation of Existing Policies

C (67) 104—Public Expenditure

C (67) 105—The Economic Implications of Public Expenditure (covering a note by officials)

C (67) 109—The Economic Implications of Public Expenditure and a Memorandum by the First Secretary of State (C (67) 108) on the Economic Outlook to 1972.

In discussion support was expressed for the argument advanced in the Cabinet’s previous discussion that the reduction to be sought in the total programme of public expenditure for 1970-71 should be
in the region of £300-£350 million rather than the £500 million which had been proposed by the Chancellor of the Exchequer. It was argued that the Government’s basic policy involved a transfer of resources from private consumption to the public sector; yet some of the main social programmes such as those for education and health were expanding more slowly than had been envisaged in the National Plan and any further slowing down of these programmes would be unacceptable. A reduction of £300-£350 million would imply over the period to 1970-71 an average annual increase in personal consumption per head of 2 per cent as compared with an average increase of 2-2 per cent which would be possible if a reduction of £500 million were secured; the lower reduction would also imply an increase in taxation. But these consequences would be more acceptable to the public and to the Government’s supporters than damaging reductions in provision for the social services, which would have a direct impact on the ordinary citizen and would in many fields bear heavily on people of modest means. The yield of existing rates of taxation would rise automatically as the national income rose, particularly if tax allowances were held at their present levels; but in any case some increase in rates of taxation would be tolerable, bearing in mind that the country was by no means over-taxed compared with other comparable countries. A major difficulty confronting the Government arose from the exceptionally steep increase in public expenditure which was expected in 1968-69, although to the extent that some slack in the economy persisted during that year a substantial rise in public expenditure would have beneficial effects. But it would be wrong to impose reductions in expenditure affecting the whole period to 1970-71 on a scale which was related primarily to the special difficulties in 1968-69. With many categories of capital expenditure in the public sector, once reductions were imposed it would not be practicable, because of the inflexible nature of the programmes concerned, to restore them before 1970-71, if the general economic situation should warrant this: any subsequent upward revision of public expenditure could only be effected by increasing other kinds of programme which could be quickly adjusted, such as the provision of cash benefits, and this would itself involve a switch of expenditure from investment to consumption which had not been planned and might not be desirable.

On the other hand, it was argued that it would be unwise to seek a reduction in the programme for 1970-71 of less than £500 million. The Government had already made dramatic progress in expanding the social services, as could be demonstrated by comparing the record during their first three years of office with the record during the three preceding years. But the point had now been reached where some action was needed to maintain a reasonable balance between further expansion of these services, involving higher taxes, and the growth of personal consumption. The proposal for a reduction of £500 million was in no way a proposal for a standstill in the growth of public expenditure and
public services. Even with such a reduction, the burden of taxes and other public levies would still increase substantially: household rates were expected to increase by an average of 5 per cent per annum up to 1970; besides the increase in national insurance contributions in October 1967 there would have to be a further increase before 1970: there were also bound to be increases during this period in the prices charged by the nationalised industries, including fares and fuel costs. There was growing resistance, not only among the higher income groups but also among people of modest means, to making further inroads on disposable incomes, and there was evidence of a considerable shift of opinion among the Government’s supporters in favour of a more moderate increase in the social services coupled with some relief from taxation. A reduction in the programme of only £300-£350 million would leave insufficient margin against unforeseen contingencies and would entail increases in rates of taxation, certainly in 1969-70 and possibly in 1968-69, on a scale which would alienate wide sections of the public. The right course therefore was to plan for a reduction of £500 million and if our economic progress warranted it subsequently to expand spending programmes, rather than to risk incurring the consequences of a rate of spending that was currently excessive and to hope to be able to reduce spending when those consequences materialised. It was true that any subsequent easement would have to be concentrated on those programmes which could be adjusted quickly, but increases in social security benefits, which were the main item in this category, would themselves involve some increase in personal consumption and thus help to redress the balance with the demands of the public sector.

In further discussion it was suggested that, in determining the size of reduction in the programme of public expenditure which should be sought, account should be taken of the investment programmes of the nationalised industries. While these programmes were to a large extent directly relevant to increasing the productive potential of the economy, this could be argued equally in relation to some elements of public expenditure as conventionally defined. The Cabinet were informed, however, that a searching scrutiny of the nationalised industries’ programmes was now proceeding, that it was clear that a reduction in these programmes of the order of £100 million could probably be secured by 1970-71 and that this had been taken into account in the considerations which had led up to the proposal for a reduction in the programme of public expenditure (excluding expenditure by the nationalised industries) of £500 million. It was also suggested that the discussion had made clear that a decision on the total reduction to be made in public expenditure as between a cut of some £500 million and one of some £300-£350 million could not be made without consideration of the constituent elements of the reductions, since in many cases the relative weight to be attached to the political, economic and social factors involved needed to be assessed for each item separately. It was not possible to make any decisive overall assessment of priorities.
The Prime Minister, summing up the discussion, said that after the Cabinet’s general discussion of the considerations affecting the order of magnitude of the reduction in the programme of public expenditure at which we should aim, there was general agreement that it was necessary to have a clearer idea of the reductions which might be secured in particular fields before a decision could be taken on the size of the reduction in total. The Ministerial Steering Committee on Economic Policy had been considering possible reductions in particular fields, but this would in no way prejudice the Cabinet’s final decision. The Chancellor of the Exchequer should now circulate a memorandum to the Cabinet making proposals for specific adjustments in the programme up to 1970-71, on the basis of which it should be possible for the Cabinet to take their decisions during the next two weeks. It would also be useful if the Chancellor could circulate to the Cabinet a memorandum comparing achievements in the social services and related fields during the first three years of the present Government with the record during the preceding three years.

The Cabinet—

Invited the Chancellor of the Exchequer to circulate memoranda to the Cabinet:

(i) making proposals for adjustments in the public expenditure programme to 1970-71; and

(ii) comparing achievements in the social services and related fields during the first three years of the present Government and the three preceding years.

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