CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 13th July, 1967, at 10 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
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. RICHARD MARSH, M.P, Minister of Power

The following were also present:

The Right Hon. KENNETH ROBINSON, M.P, Minister of Health
The Right Hon. JOHN DIAMOND, M.P, Chief Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Miss J. J. NUNN
Mr. K. BARNES
Mr. L. ERRINGTON
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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, while the date of the adjournment for the Summer Recess depended on the progress of Parliamentary business, it was hoped that the House might adjourn on 28th July. It was proposed that the House should resume on Monday, 23rd October.

2. The Cabinet resumed their consideration of memoranda by the Minister of Transport (C (67) 122) and by the President of the Board of Trade (C (67) 127) on the revision of the present road haulage carriers' licensing system.

The Minister of Transport said that at the Cabinet's previous discussion she had outlined her proposals for a revised road haulage licensing system comprising two types of control—quality licensing and quantity licensing. When this issue was considered by the Ministerial Committee on Economic Policy, there had been general support for the proposals on quality licensing. Quantity licensing would apply to vehicles of over 5 tons unladen weight which were engaged either on hauls of over 100 miles or on the carriage over shorter distances of certain types of bulk cargo. When the operators of these vehicles applied for a licence, the application would be open to objection by the railway operators on the grounds that they could provide a service which would be equally satisfactory as regards speed, cost and reliability. The system would apply not only to public hauliers but also to firms carrying their own goods in their own vehicles ("own-account" operators). Some of her colleagues had doubted the desirability of extending this system to own-account operators. But the object of her proposals was to secure the diversion to rail of some 30 million tons of traffic now carried annually by road, which was essential if we were to avoid under-use of rail freightliner services representing a very large investment. Over one-third of the traffic in question was carried by own-account operators and this objective could not be secured if these vehicles were exempted. The British Railways Board believed that they could secure the diversion to rail of about half the traffic at issue by ordinary promotional methods, but licensing would be necessary if they were to secure the remainder in view of the long-standing prejudice against the railways which was felt by many firms. The prejudice against use of the railways was illustrated by the poor response of road hauliers to the opening of freight terminals for use by their vehicles which had eventually been secured after protracted opposition by the railway unions. If own-account operators were exempted from quantity licensing, this would inevitably lead to a
further proliferation of vehicle fleets operated on own-account for which there was no economic justification. Moreover, the application of licensing to these vehicles would have a beneficial effect in stimulating greater attention by firms to their transport costs. A recent survey of a sample of firms operating own-account vehicles showed that about half of them had no knowledge of railway freight rates or how these compared with their own transport costs. There was no question of attempting to divert to rail traffic which was unsuitable for this purpose. Licences would only be refused where the case had been fully made out that the railways could offer an equally satisfactory service. If the vehicle operator could show that the freightliner services would not meet his needs—for example because his vehicles needed to make calls at intermediate points which were not served by rail—then he would be given a licence. In cases where a firm had a genuine need for a small number of vehicles to be held available to meet unforeseen contingencies, it would be open to the licensing authority to award a licence for a limited number of the operator's existing vehicles. The system should conduce to greater efficiency on the railways, since the railway operators would know that, if they failed to fulfil assurances as to the quality of the service they could offer, it would be open to vehicle operators who had been refused a licence to apply again. There should be no major administrative difficulties in operating the system which would apply to only some 70,000 vehicles as compared with 1,500,000 vehicles which were at present subject to licensing. The present licensing authorities were satisfied that it should be entirely practicable for them to form a fair assessment of the relative costs of rail and road services, provided that the railway operators did not seek to contest relatively insignificant licence applications; there was no reason to suppose that they would do this.

It was necessary to take into account broader issues than the strictly economic considerations. The introduction of quantity licensing would give a considerable measure of reassurance to both management and unions on the railways about the Government's future transport policy. The Government had rightly asked both the British Railways Board and the unions to accept some unpalatable decisions in the interests of greater efficiency, notably the continuing rundown in the railways' labour force and the admission of private hauliers to freight terminals. It would be of great assistance in carrying through these policies if the railways could be given the assurance of full economic use of the freightliner services. There would be an extremely hostile reaction from railway management and unions if quantity licensing were completely abandoned. There would on the other hand be opposition from the Confederation of British Industry (CBI) and the road haulage employers to her proposals, but she would be able to emphasise that taken as a whole they represented a considerable liberalisation of existing licensing procedures. Moreover it had to be remembered that the amount of road goods traffic which would be affected by quantity licensing was a very small proportion of the total, though it would constitute no less than 14 per cent of the present volume of rail freight traffic.
Her proposals for quality licensing were in line with practice in the European Economic Community (EEC). On quantity licensing, the EEC countries operated a quota system which at present excluded own-account operators. There was, however, a growing body of opinion in the EEC that this was completely illogical. If we were to enter the EEC, it would be preferable to have a viable system of quantity licensing of our own since this would help to prevent our being saddled with a rigid quota system.

She sought the agreement of the Cabinet to her proposals as a basis for future transport policy and for the consultations with industry which would then be necessary.

The President of the Board of Trade said that he fully supported the Minister’s proposals for quality licensing but was opposed to the imposition of quantity licensing on vehicles operated on own-account. To impose a physical restriction of this kind on the operations of private industry would be unprecedented and it was a serious matter to hand over, in effect, management decisions in individual firms to a licensing authority. A control of this kind would be inconsistent with the Government’s general policies for increasing productivity and helping exports. The right course was to leave the railways to attract traffic to the new freightliner services by demonstrating in practice that these were efficient and reliable. If they were, there was no reason to suppose that suitable traffic would not be secured. The reluctance of many firms to use the railways was not due simply to conservatism, nor were they primarily influenced by relative costs. The most important factor from their point of view was that they needed an absolute assurance that goods would be delivered by a particular time, since factory production would often depend on this. In view of the unreliability of railway services in the past, the reluctance of firms to divert their traffic to rail was understandable and in many cases justified. The great increase in the number of own-account operators which had taken place since the introduction of the present licensing system in 1947 showed that there was a genuine economic requirement for firms to be able to operate their own vehicles. The assurance that they would have control of their own means of transport was frequently a crucial factor in persuading firms to move to development areas and the introduction of quantity licensing would therefore have adverse effects on the Government’s policies for distribution of industry. A better alternative to the proposed licensing system would be to increase the licence duty on goods vehicles. This would encourage the diversion of suitable traffic to the railways but would still leave it open to a firm to retain its own goods vehicles where it had good reasons for doing so; it would also bring in additional revenue to the Exchequer.

In discussion there was general support for the Minister’s proposals on quality licensing. On quantity licensing, while it was generally agreed that the objective should be to secure the maximum practicable diversion from road to rail of suitable traffic, it was
argued nevertheless that the Government would not be justified in introducing a system which would force firms to use the new freightliner services before these had proved themselves in practice, particularly as regards reliability, which was a more important factor than cost from industry’s point of view. The operation of the proposed licensing system would be likely to have adverse effects on industrial efficiency and exports unless the railways proved more reliable in the future than they had been in the past; and it was wrong to assume in advance that they would prove to be so. The mistrust of the railways felt by many firms rested on past experience of unreliability and high cost and these factors went far to account for the proliferation of vehicles operated on own-account since the present licensing system was introduced in 1947. It was an inadequate defence of the proposed system to say that, if the freightliner services were in the event to prove unsatisfactory, a firm which had been obliged to use them by refusal of a licence would be free to renew its application, since by that time the firm would have disposed of its vehicles. In many cases it was crucial to a firm’s efficiency to have control over its own transport in order to cope with unforeseen contingencies or to have an absolute assurance of delivery of raw materials or components at a particular time in order to maintain production. The risk that firms might be obliged to use the railways would deter them from moving to development areas. There was already a considerable volume of complaints from firms in the remoter parts of these areas about the unsatisfactory nature of rail services. Quantity licensing would provoke strong and continuing opposition from industry, which would be reinforced whenever there was disruption of freightliner services, for example because of strikes. Morale in industry generally was low at present; the introduction of quantity licensing would be an additional blow at a time when a revival of confidence was essential if we were to secure the economic rate of growth at which we were aiming. Instead of introducing licensing before the freightliner services had had an opportunity to prove themselves, it would be preferable for the Government to announce their intention to introduce it at some future date—say after 12 months—when there had been sufficient experience of the new services to justify this. In this way there would be time for public opinion to be prepared.

On the other hand it was argued that it would be impossible to carry through an integrated transport policy without a system of quantity licensing which covered own-account operators. It was justifiable to allow considerations of public policy to be taken into account in determining whether firms should be permitted to use their own vehicles, since the roads on which they travelled were maintained at public expense. A system of licensing on the lines proposed was fully justified as an alternative to the nationalisation of road haulage. Too much weight should not be attached to the needs of firms to maintain their own vehicle fleets; this was often done for reasons of prestige or as a form of advertising rather than because of any genuine advantage in cost or efficiency. But the primary argument for quantity licensing was the need to ensure the full utilisation of the large investment in freightliner services and
the heavy cost to the nation if these facilities were under-used. An increase in the vehicle licensing duty was a matter of taxation policy, but it should not be regarded as a substitute for licensing: it would penalise many firms who could not possibly divert their traffic to the railways and who would have got licences under the proposed licensing system. For the Government to announce that a licensing system was its ultimate objective but to defer introducing it for a considerable period would give an appearance of vacillation and would allow the maximum opportunity for opposition to the proposals to develop.

In further discussion it was suggested that the best course would be to introduce in the forthcoming Transport Bill provisions for quantity licensing on the lines proposed by the Minister of Transport, but to provide that they should only come into force on a day to be appointed by Order. A period could then be allowed for further experience to be gained of the operation of the freightliner services. The Minister could give an approximate indication during the passage of the Bill through Parliament of the time at which the Government would intend to bring the provisions into force if the new services developed satisfactorily. This might perhaps be about a year ahead, but it would be wise to avoid commitment to a specific date. The effect of proceeding in this way would be that the railways would be put on their mettle by the knowledge that, if the freightliner services did not prove their efficiency and reliability and if there were disruptions, the implementation of the licensing provisions would be deferred.

The following additional points were also made:

(a) It would be important for the licensing authorities in dealing with applications for quantity licences to take account of the speed and reliability of the rail services not only as regards the carriage of goods between freight terminals, but also as regards delivery from the terminals to the ultimate destination.

(b) In the consultations with industry which would be necessary before licensing provisions could be introduced, the present proposals on quantity licensing should be made more flexible in order to meet the difficulties which would undoubtedly arise in some cases—for example, where a firm needed to maintain a limited number of vehicles to provide stand-by capacity which it would be uneconomic for them to maintain unused save in emergency. Consideration should be given to the desirability of special concessions for firms considering a move to a development area and firms already established in the remoter parts of the development areas.

(c) Consultations should take place initially with the CBI: their views would carry greater weight than those of the road haulage employers, who were interested parties.

(d) In view of the strong criticism from industry which the licensing proposals were bound to evoke, it would be important in presenting them to emphasise the degree of liberalisation which they represented, as compared with the present licensing system.
(e) If quantity licensing were introduced, it would be essential to emphasise to the railway management and unions the need for their fullest co-operation in measures to increase efficiency and reduce costs.

The Prime Minister, summing up the discussion, said that the Cabinet endorsed the proposals by the Minister of Transport for the introduction of quality licensing. They also agreed on balance that provision for quantity licensing broadly on the lines proposed in C (67) 122 should be introduced in the forthcoming Transport Bill. However, in order to allow a period of time during which the freightliner services would have an opportunity to demonstrate their efficiency, the provisions should not come into force immediately on the passage of the Bill but should be activated on an appointed day by Order. The Minister of Transport could then indicate during the passage of the Bill through Parliament the approximate time at which the Government would intend to bring the provisions into force but should make it clear that they would only do so if they were satisfied that it was then appropriate in the light of the efficient and reliable working of the railways in the intervening period. The Minister should now proceed with her consultations with industry and in the course of these consultations she should consider what modifications might be made to her proposals on quantity licensing in order to meet the difficulties to which the system would give rise in particular cases of the kind mentioned in discussion and any other difficulties which might emerge during the consultations. Points of importance arising from these discussions should then be considered by the Ministerial Committee on Economic Policy.

The Cabinet—

(1) Approved the proposals in C (67) 122 for the introduction of quality licensing for road haulage vehicles.

(2) Agreed that provision should be made in the forthcoming Transport Bill for the introduction of quantity licensing broadly on the lines proposed in C (67) 122, the provisions to come into effect on a day to be appointed by Order as indicated in the Prime Minister’s summing up of the discussion.

(3) Invited the Minister of Transport:

(a) To proceed with the necessary consultations with industry and to consider in the light of those consultations and of the points made in discussion what modifications might be made to her proposals on quantity licensing in order to meet particular difficulties to which the system seemed likely to give rise.

(b) To circulate any revision of her proposals resulting from Conclusion (3) (a) to the Ministerial Committee on Economic Policy.
3. The Cabinet considered memoranda by the Chancellor of the Exchequer (C (67) 128 and 131) and a memorandum by the Minister of Social Security (C (67) 132) on family endowment.

The Chancellor of the Exchequer recalled that at their previous discussion, while rejecting the application of means-testing to improved family allowances, the Cabinet had accepted in principle that there should be an increase in family endowment based on "give and take" principles, but had, in view of the public expenditure and fiscal considerations, deferred further consideration of the issues relating to the amount of the increase and the method by which it should be financed. There was currently widespread concern with the problem of child poverty and he had given much thought to the best method of improving family endowment selectively so as to concentrate on the most needy the limited additional resources which could be made available. He had been driven to the conclusion that the most effective, most politically acceptable and the most economical answer lay in the adoption of a means-tested scheme, involving the introduction of a new housing allowance. Under such a scheme, a family would get an allowance for rent and rates of 30s. a week (which was the average rent) or more if the actual rent were greater, where its income did not exceed £9 a week for a married couple and one child; the qualifying level of income would be increased by £1 for each child after the first and, in computing family income, family allowances would be disregarded. The housing allowance would taper off for families with higher incomes. While the scheme would benefit some 300,000 families with incomes a little above the supplementary benefit level, it would effectively concentrate help on the neediest 160,000 families with incomes below that level. It would bring 86 per cent of such families up to the present supplementary benefit level at a cost of no more than £32 million, and would, in particular, benefit families with only one child who could not be helped by any increase in family allowances. While any such scheme, the details of which would need to be more fully worked out, might require the employment of an additional 600-700 staff and would involve certain administrative difficulties, adoption of the alternative "give and take" approach would also involve a substantial increase in Inland Revenue staff because of the additional numbers brought into the income tax field and would itself be accompanied by administrative difficulties. While applicants for a housing allowance would have to take the initiative in claiming, it should be possible, by simplifying the procedure and by publicity, to make people aware of their rights and to ensure that the great majority of those who were qualified claimed the allowance. In so far as the introduction of the allowance might discourage local authorities from introducing rent rebate schemes, no new issue was involved, since the new supplementary benefit scheme was already having this effect; and the method would be discussed with the local authorities. Only 5 per cent of council tenants would, however, benefit from the housing allowance. The allowance would be
available to tenants in the private housing sector where the rent rebate scheme did not apply.

If, however, despite its advantages of doing more for the neediest families at lower cost than any other scheme, the Cabinet still rejected the means-testing approach, he would accept as an alternative a 5s. or 7s. all-round increase in family allowances, financed by a combination of reductions in income tax child allowances and reduction in the reduced rate band of income tax, with perhaps an increase in personal allowances and some addition to corporation tax or other adjustments. As compared with a housing allowance scheme, however, such increases would cost respectively some £62 million, and £87 million a year net after payment of income tax, and would lift only some 35 per cent and 44 per cent of deficient families up to the present supplementary benefit level. A 5s. increase would restore family allowances to their value in 1956, when they were last increased, whereas a 7s. increase would match the rise in average earnings since 1946. On public expenditure grounds he could not accept a greater increase; a 10s. increase would cost £160 million a year gross, or £120 million a year net after payment of tax. Nor could he accept that the cost of such an increase should be financed by a directly matching reduction in income tax child allowances; he accepted, however, that it would be necessary to make an interim increase in family allowances and he proposed that family allowances should be increased at the end of October by 5s. for fourth and subsequent children at a cost of £13 million in a full year.

The Minister of Social Security said that the Government were committed to announce their new scheme of family endowment before the Summer Recess. A housing allowance, subject to a means test, would be widely unpopular with the Government supporters and in the country, and would be ineffective because people would be reluctant to apply for it. There was disturbing evidence that despite the publicity for supplementary benefit, a substantial number of qualified people were not applying for it. Any means-tested allowance would have a disincentive effect on families with low incomes who could none the less increase their earnings; and her Department's survey had disclosed that only about one-sixth of the breadwinners of such families were physically or mentally handicapped. Local authorities would be reluctant to introduce rent rebate schemes, and both they and private landlords would be less hesitant about increasing their rents. On the other hand a 10s. increase in family allowances would bring 65 per cent of children in families with incomes below supplementary benefit standard up to that level and that part of its cost (£32 million a year) which would fall on general taxation under a "give and take" scheme would be less than that of the housing allowance scheme combined with the interim increase of 5s. for fourth and subsequent children. In so far as a "give and take" scheme represented simply a switch of income within the family from husband to wife, there was no loss of taxable capacity and no increase in public expenditure. Indeed, on this basis, a 15s. increase in family allowances would cost no more than the Chancellor of the Exchequer's proposals and would be nearly as effective in bringing families up to supplementary benefit level. Further, it would help the substantial number of families with incomes...
only just above that level who would otherwise be adversely affected by the proposed increases in the charge for school meals and welfare milk prices.

In discussion, there was general agreement that, whatever approach to family endowment was adopted, it was essential that it should be capable of presentation as a selective improvement which would not benefit the well-to-do. The difference of view was essentially whether selectivity should be achieved through direct means tests applied to the lower income families (the "means test" approach), or by adjusting the income tax liability of the higher paid to offset the benefit of improved family allowances (the "give and take" approach). In discussion of the means test approach, it was pointed out that its effectiveness depended on the extent to which potential applicants were aware of their rights and were prepared to take the initiative in making claims which could involve an approach to both employers and landlords; and in the light of experience of such schemes in other fields it was questioned whether a reluctance to claim could be sufficiently overcome. While, therefore, a scheme of the housing allowance type might be potentially more effective than a "give and take" scheme, this might not in practice prove to be the case. It was further pointed out that while the proposed housing allowance might none the less prove to be the most effective and economical approach to the problem of child poverty, as well as offering a means of modifying the regressive effect of rent and rates, a scheme on these lines would have to be fully studied interdepartmentally before there could be any assurance that the difficulties could be solved. It was suggested that there was a need for a comprehensive review of policy in the field of rent and rates and for rationalisation of the various means tests applying in this and other related fields. The problem should be dealt with as a whole and not piecemeal and any announcement of a housing allowance so soon after other recent changes, and in particular after the recent circular to local authorities suggesting a model rent rebate scheme, would only create confusion and give the appearance of vacillation. It was suggested, therefore, that the possibility of introducing a housing allowance should be considered in a more general study of the problem of rent and rates with a view to promulgating a policy statement in two or three years' time on the position of tenants generally. While there was a risk that a housing allowance might provide an incentive to landlords to put up rents and to tenants to move into more expensive accommodation, it was suggested that even if local authorities tended to exclude the poorest families from rent rebate schemes, this might have the effect of encouraging the development of such schemes for other tenants.

In further discussion it was suggested that since the proposed housing allowance scheme would need further detailed study, and in view of the doubts which were felt about its effectiveness and acceptability, there was no alternative to the adoption of the "give and take" approach if an announcement of the Government's proposals for improved family endowment were to be made, as promised, before the Recess. This would be in line with the closer
integration between the income tax system and social security payments which would eventually have to come. On the other hand, it was argued that, in so far as the "give and take" approach involved the financing of increased family allowances by increasing the tax liability of families with children, particularly those only just above the level at which liability for the standard rate was incurred, it would be widely resented. The selective effect of "give and take" schemes was, however, dependent on the reduction of child tax allowances in order to offset the benefit to better off families of higher family allowances. It was suggested that in view of the difficulties inherent in the "give and take" approach, there should only be a limited increase in family allowances, perhaps confined to the older children of larger families and financed from general taxation.

The Prime Minister, summing up the discussion, said that while there was a difference of view on the merits of the proposed housing allowance as a means of alleviating family poverty, there was general agreement that any such scheme would require further detailed study before its effectiveness and acceptability could be satisfactorily assessed. The Government were, however, committed to announcing their proposals before the Summer Recess. In these circumstances, the Cabinet were inclined to favour a general increase in family allowances, provided that a form of finance could be designed which met the objections to a fully equivalent reduction of income tax child allowances and which could still be presented as sufficiently selective in its effect. They should therefore consider the alternative approach suggested by the Chancellor whereby an increase in family allowances would be financed by a combination of adjustments of child allowances and personal allowances, with a reduction in the reduced rate band of tax and possibly other changes in the tax structure. They should consider how far, consistently with the need to preserve the Chancellor's freedom to determine how expenditure should be financed, this alternative could be presented as a selective approach to family endowment in conjunction with some extension of the present arrangements for remission of charges for school meals and welfare milk. A draft statement should be prepared for their consideration accordingly by the Minister without Portfolio, in consultation with the Chancellor of the Exchequer, the Lord President, the Secretary of State for Scotland, the Secretary of State for Education, the Minister of Housing, the Minister of Social Security and the Minister of Health. The draft statement should include, for consideration, a reference to further study of a housing allowance.

The Cabinet—

(1) Invited the Minister without Portfolio, in consultation with the Ministers principally concerned, to prepare a draft statement on family endowment in accordance with the summing up of their discussion by the Prime Minister.

(2) Agreed to resume their discussion at a later meeting.

Cabinet Office, S.W.1,