CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Friday, 5th January, 1968,
at 2.00 p.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, Secretary of State for the Home Department
The Right Hon. ROY JENKINS, M P, Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M P, Secretary of State for Defence
The Right Hon. PATRICK GORDON WALKER, M P, Secretary of State for Education and Science
The Right Hon. GEORGE THOMSON, M P, Secretary of State for Commonwealth Affairs
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 Right Hon. MICHAEL STEWART, M P, First Secretary of State
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M P, Lord President of the Council
The Right Hon. WILLIAM ROSS, M P, Secretary of State for Scotland
The Right Hon. ANTHONY CROSALAND, M P, President of the Board of Trade
The Right Hon. PETER SHORE, M P, Secretary of State for Economic Affairs
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. CLEDWYN HUGHES, M P, Secretary of State for Wales
The Right Hon. ANTHONY WEDGWOOD BENN, M P, Minister of Technology
The following were also present:
The Right Hon. REGINALD PRENTICE, M P, Minister of Overseas Development
The Right Hon. JUDITH HART, M P, Minister of Social Security
The Right Hon. ROBERT MELLISH, M P, Minister of Public Buildings and Works
The Right Hon. SR ELWIN JONES, Q C, M P, Attorney-General (for part of discussion)

The Right Hon. KENNETH ROBINSON, M P, Minister of Health
The Right Hon. EDWARD SHORT, M P, Postmaster-General
The Right Hon. JOHN DIAMOND, M P, Chief Secretary, Treasury
The Right Hon. JOHN SILKIN, M P, Parliamentary Secretary, Treasury
SECRET

Secretariat:
Sir Burke Trend
Mr. W. A. Nield
Miss J. J. Nunn
Mr. E. M. Rose
Mr. H. L. Lawrence-Wilson
Mr. K. Barnes
Mr. P. E. Thornton

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The Cabinet resumed their discussion of the post-devaluation measures proposed by the Chancellor of the Exchequer in C (68) 5.

The Cabinet considered a memorandum by the First Secretary of State (C (68) 1) on the consequences of devaluation in the field of social security.

The Minister of Social Security said that an increase of supplementary benefits would be required in the autumn or early winter of 1968 but the amount of the increase should be determined later. It would be preferable, however, not to specify a date for the increase in supplementary benefits in the Government's statement on their economic measures but to say only that they would be increased at the right time.

In discussion it was suggested that some more specific indication of the timing of the increase would assist in maintaining the incomes policy; if no indication were given the Government would be questioned on their intentions. There was general agreement that the statement on the Government's economic measures should include a reference to the increase in supplementary benefits in the autumn of 1967 and should say that these benefits would be further increased in the autumn of 1968.

The Cabinet—

(1) Agreed that supplementary benefits should be increased in the autumn or early winter of 1968 and that the statement on the Government's economic measures should say that supplementary benefits would be further increased in the autumn of 1968.

The Minister of Social Security said that she accepted that National Insurance benefits should not be increased before October 1969 but this should not be announced now, because there would be pressure to advance the date. She also agreed that the standard of living of National Insurance beneficiaries should not be improved in this period as compared with that of the working population generally. But it would be unwise to announce now that the increase of National Insurance benefits would be related to the movement of prices instead of earnings. This would create pressure for a benefit increase early in 1969 when the rise in prices would be likely to exceed the value of the recent increases in benefit. Moreover, the basis of previous benefit increases was not generally understood, and to announce now that the next increase would be related to the movement of prices might be taken as meaning that
there would be no reduction of expenditure in this field. The Government's statement of their economic measures should therefore say only that National Insurance beneficiaries could be given no increase in their standard of living as compared with that of the working population. It was desirable to preserve the maximum flexibility in this way, because of uncertainties as to the future movement of prices and earnings.

In discussion, while there was general agreement that benefits should not be increased before the autumn of 1969 and that the increase should be related to the movement of prices, it was questioned whether, in view of the recent increase, it was necessary to make any public reference to a further increase of benefits two years ahead. It was pointed out, however, that unless some specific indication were given of a restriction on the next benefit increase, credit could not be claimed for the resultant saving. To say no more than that benefits would be increased in two years' time and would take account of the movement of prices might be taken as an indication that there was no change of policy and as over-generous. But if the statement said explicitly that benefit increases would be related strictly to prices, this treatment of existing pensioners would be difficult to reconcile with the treatment of future pensioners that would be promised in the White Paper on earnings-related pensions which it was planned to publish later in the year.

The Prime Minister, summing up this part of the discussion, said that the Cabinet were agreed that National Insurance benefits should not be increased before the autumn of 1969 and that the increase should be related to the movement of prices. The Government's statement on the economic measures might be on the lines that benefits would be increased in two years' time and would enable the increase in prices over that period to be dealt with, but that the standard of living of those on benefit would not be allowed to improve relative to that of the working population. The precise form of the statement, which should enable a saving of £35 million to be claimed, should be considered further by the Chancellor of the Exchequer, in consultation with the Minister of Social Security, in the light of the Cabinet's discussion.

The Cabinet—

(2) Agreed that National Insurance benefits should not be increased before the autumn of 1969 and that the increase should be related to the movement of prices since the previous increase.

(3) Invited the Chancellor of the Exchequer in consultation with the Minister of Social Security, to consider the terms in which this decision might be reflected in the announcement of the Government's economic measures so as to indicate a saving of £35 million in accordance with the summing up of their discussion by the Prime Minister.
The Minister of Social Security said that she accepted that the benefit of the 7s. increase in family allowances which would take effect in April should if possible be confined, by means of tax adjustments, to families with low incomes and that this principle should in due course be extended to the whole family allowance. A further increase of about 3s. a week would be needed in the autumn, however, if the Government were to fulfil their specific commitment to protect families with very low incomes against the effect of devaluation. The increase in supplementary benefits would not help those with low earnings and those affected by the wage stop. The purchasing power of earnings of £12 per week would fall by 7s. and men with low earnings were commonly in employments in which it was difficult for them to increase their earnings or suffered from physical or mental disabilities. The poorest families could not be helped by extension of the rate rebate scheme, which was not designed for this purpose. Such families could be helped selectively only by means of an increase in family allowances combined with compensating tax adjustments to offset the benefit to the wealthier families. By this means the cost of a 3s. increase in family allowances would be reduced from £35 million to £9 million a year.

The Chancellor of the Exchequer said that adjustment of tax allowances would not reduce the cost of any family allowance increase as reflected in the Estimates. In view of the rise in the forthcoming Estimates for 1968–69, and in particular of the rise in the Family Allowance Estimate in consequence of the increase already given, he could not accept that there should be any further improvement in family allowances. It would not be practicable in the coming year to introduce any scheme of options which might reduce the cost of any further family allowance increase falling on the Estimates although he was considering this possibility for the longer-term. If any increase in family allowances was considered essential it could only be given on a means-tested basis. The statement on the Government's economic measures should say that consideration was being given to the possibility of introducing selectivity into the coming 7s. increase and subsequently into the payment of the whole family allowance. He would be prepared to consider incorporating into the supplementary benefit scheme a 3s. child's allowance which might be paid, subject to means test, notwithstanding that the father was in full-time work; this, if practicable, would be an interim measure pending the reshaping of the Family Allowance scheme on more selective lines and could be announced in the Budget.

In discussion it was suggested that, while some of the objection of principle which the Cabinet had previously seen in the application of a means test to family allowances might be removed if it were plainly only an interim measure, it would be unduly expensive to set up the necessary additional administrative machinery temporarily. It was also suggested that alternative means of helping the poorest families might be identified in the Cabinet's subsequent consideration of expenditure on other services.
The Cabinet—

(4) Agreed to resume their consideration of family allowances in the light of their subsequent discussion of expenditure on other services.

The First Secretary of State said that it would be desirable to increase the income limits for rate rebate to take account of changes in earnings and prices since the scheme was introduced. The original scope of the scheme would be restored if the income limit applicable to single and married householders were increased by £1 a week in each case. The allowances for children should be increased by either 10s. or £1 bringing the additional cost to £7.5 million or £10.4 million in a full year.

The Cabinet—

(5) Agreed to consider rate rebates when they resumed their discussion of family allowances in accordance with Conclusion (4).

The Cabinet considered a memorandum by the First Secretary of State (C (68) 2), to which was annexed a memorandum on the postponement of the raising of the school leaving age.

The Secretary of State for Education and Science recalled that the Government were at present committed to raising the school leaving age from 15 to 16 in 1970-71. Deferment for three years would release to the labour market an additional 400,000 15-year-olds at a time when the working population was expected otherwise to be virtually static and there was likely to be a large demand for manpower. Deferment would also postpone the temporary deterioration in the pupil-teacher ratio and in the problem of accommodation that would otherwise occur. On the other hand, raising the age would have less effect on the productive potential of the economy than on the total numbers in employment, since 15-year-olds were less productive than the average worker. Moreover, the places in which voluntary staying on at school beyond 15 was least marked were the development areas and areas of high unemployment. In the long run raising the age would help to produce a better-educated working population. There was a marked difference in voluntary staying on after 15 as between income groups, and as between the North of England and the South; deferment would prolong these social and geographical differences and would leave the less well-off areas with a less well educated labour force. There were therefore strong social and economic arguments against deferment to balance against the savings that would accrue. The plans for raising the age were closely connected with those for comprehensive reorganisation, and the effect of deferment on the latter could be very marked after the first year; while the Chancellor of the Exchequer proposed offsetting additional expenditure of £3 million in 1968-69 and £8 million in the next two years to ensure that policies on comprehensive reorganisation and for the relief of the educationally deprived areas could proceed, it was likely in practice that the whole of this sum would be directed to comprehensive reorganisation.
While educational opinion was divided on the issue, and there was some expectation that raising the age would be deferred, it was desirable to examine the possibilities of achieving comparable saving by alternative methods. He had proposed a cut of 50 per cent in the cost-of-living increase due in the autumn of 1968 in student awards, which would save about £4 million; the Chancellor of the Exchequer had included this among his present proposals, but if the increase were totally withheld there would be a saving of some £8 million in the first year and £12 million in the next two years. There were also possibilities of further savings of university expenditure, but it was unlikely that substantial savings could be achieved on capital account; as regards current expenditure, a new quinquennial agreement had recently been made and there would be strong criticism if this agreement were to be broken. It had to be borne in mind, however, that if the rate support grant were also reduced as the Chancellor of the Exchequer proposed, this too would result in further restrictions on educational expenditure.

In discussion it was suggested that deferment raised important issues of principle and social justice, since the different educational opportunities available to the children of the middle class and of manual workers respectively were the main source of class division. It would be wrong for 400,000 children a year to be deprived of educational opportunity which should be available to all. Further, unless the leaving age were raised there was likely to be a shortage in industry of workers with middle-range ability. It was essential, for economic reasons, that industry should secure better educated young entrants; this would, for example, enable major improvements to be made in apprenticeship schemes. Unemployment had been shown to be related to the time spent at school, and over the next 20–30 years there was likely to be substantial redundancy in the unskilled labour group. The starting date 1970–71 had been proposed after a full study of its practical implications. Because in the next decade the school population would rise, this was the most favourable year from the point of view of the pupil-teacher ratio; deferment would only postpone and increase the practical difficulties. If a decision to defer were taken, it would be difficult subsequently to establish a firm starting date. It was pointed out that raising the age had had the support of all parties and to defer the date would be strongly criticised by progressive educational opinion. Provided that alternative compensating savings could be found, raising the age in 1970–71 was unlikely to affect confidence in the Government's economic measures, and indeed could be presented as beneficial to the country's economy. It was therefore suggested that the possibility should be explored of achieving comparable savings either outside the educational service or elsewhere within it, and in the field of university expenditure and research in particular. The recent increase in the number of arts students, the scale of research projects and of post-graduate grants were all calculated to divert graduates away from industry. Even if fewer university places were then available, this would be preferable to deferment of raising the
leaving age and so depriving 15-year olds of educational opportunity, since places would be available in colleges of further education and teacher training colleges for those who would have otherwise gone to a university. Financial provision for university education was now out of scale with provision for schools. Additionally, it was suggested that there would be advantage in replacing student grants by loans; in reducing the support given to direct grant schools; and in abolishing the tax reliefs that could be claimed for educational expenditure.

On the other hand, it was pointed out that the issue was one of the limited deferment, and not of the abandonment of the raising of the age. Adherence to 1970-71 would create shortages of accommodation and of teachers in some areas which, combined with the element of compulsion involved, would substantially reduce the initial educational value of the change. It was suggested that expenditure on educational priority areas, on comprehensive reorganisation, and on teacher training was of greater importance than the leaving age in achieving educational equality, and that increasing numbers of children were remaining at school voluntarily beyond age 15. Additional possibilities of achieving comparable further savings elsewhere in the field of education, including university expenditure, had been explored, but were not to be found. There was a risk that the total public expenditure saving now proposed might be too low in the present economic situation, and it was important not to reduce it. It was suggested that deferment could not be avoided if the educational service was to make its appropriate contribution to the total saving, in the light of the reduction in expenditure that was being sought elsewhere in the social services. The deferment should, however, be limited to two years and should be accompanied by a firm commitment that no further deferment would be made.

The Prime Minister, summing up this part of the discussion, said that the Cabinet were reluctant, on grounds of social justice, to defer raising the leaving age. However, for reasons of economic necessity, and in the absence of any prospect of securing alternative additional savings of the same order elsewhere in the educational or other services, there was a balance of view in favour of deferment by two years, subject to a firm public undertaking that there would be no further postponement.

The Cabinet—

(6) Agreed that the raising of the school leaving age should be deferred for two years from 1970-71.

In discussion of means of reducing educational expenditure other than by the deferment of raising the school leaving age, it was suggested that a reduction in the sums made available for post-graduate research would reduce the tendency of the universities to retain graduates who were needed in industry.

The Cabinet—

(7) Agreed that free milk should be withdrawn from secondary schools with effect from September 1968.
(8) Agreed that reductions in planned capital expenditure, in England and Wales but not in Scotland, for further education, libraries and the Youth Service should be made on the scale proposed.

(9) Agreed that the cost of living increase for student awards, due in September 1968, should compensate for only 50 per cent of the rise in the cost of living.

(10) Agreed to consider further, at the same time as they considered again the proposals relating to family allowances, the proposal to increase the price of school meals by a further 6d. in April 1969.

(11) Invited the Chancellor of the Exchequer and the Secretary of State for Education to consider ways and means of saving a further £10 million a year on university (including student and research grants) and Research Councils expenditure.

The Minister of Health said that in his opinion the cut proposed by the Chancellor of the Exchequer was disproportionately high. The proposed increase for health and welfare expenditure in 1968–69 over 1967–68 was only 4 per cent in real terms, which was substantially less than that for most of the other major programmes. Nevertheless he was reluctantly prepared to accept a cut of the order proposed although he disagreed with the method suggested: the saving of some £50 million on doctors’ prescriptions. The reintroduction of prescription charges was a tax on the sick, imposed when they were least able to bear it. The limited exemptions proposed by the Chancellor—for those on supplementary benefits, those with incomes at or below supplementary benefit level and war pensioners in respect of their disabilities—were those given when prescription charges were last made. They did not however go wide enough to cover many categories of patients who would be seriously affected but, as the previous Government had discovered, there were serious practical difficulties in the way of extending the scope of these extensions. The doctors had been unwilling to co-operate in the past in such an extension and would probably be equally unwilling now. Any widespread scheme of exemption would in any event require substantial additional staff to administer. Although he thought it might be possible to find some means now of exempting those over 65, this would still leave the chronic sick and children subject to prescription charges. In any event there were serious objections in principle to a general reintroduction of prescription charges which discouraged the sick from seeing their doctors without necessarily discouraging the irresponsible, and which once reimposed would be very difficult to remove again.

He suggested therefore that instead of reintroducing prescription charges they should raise the sum required by increasing the health service contribution which had remained unchanged since 1961 at 3s. 4d. a week. An increase of 1s. a week would produce the £50 million a year for which the Chancellor had asked. His
The proposal would have the additional advantage that, since children, chronic sick and the elderly did not in any event pay this contribution, it would not be necessary to exempt them. The proposal involved no additional work and therefore no additional staff. It had been argued that unless prescription charges were reintroduced the credibility of the Chancellor's whole package of measures would be in danger. In his opinion this demonstrated a failure on the part of the Government to defend their policies vigorously enough over the last three years and they should not take the wrong measures now simply for presentational reasons. They should not forget that the Government had very recently given a pledge that the most vulnerable sections of the community would be protected from the aftermath of devaluation.

The Chancellor of the Exchequer said that the reintroduction of prescription charges had, rightly or wrongly, come to be regarded as a symbol—at home and abroad—of the Government's determination to take all the measures required to restore the economy. Failure to introduce prescription charges now would therefore undoubtedly affect confidence. But in any event the proposal put forward by the Minister of Health amounted to additional taxation and would thus reduce taxable capacity in a way which reintroduction of the prescription charge would not. He could not afford the reduction in taxable capacity on this scale at this time. He had however offered to examine with the Minister of Health whether it was administratively practicable to give additional exemptions costing £15 million a year. They had come to the conclusion after careful examination that this was not practicable in the short term, that is, in time to reintroduce prescription charges in the spring as required. But it might be possible to make wider exemptions in the longer term and, once the scheme on the lines he proposed had been introduced, he was ready to examine further with the Minister of Health the possibility of amending it to extend exemptions at a later date. While he recognised that the reintroduction of charges would bear hardly on some people there was no doubt that free prescriptions had led to considerable wastage and some of the saving of £50 million expected would come from a reduction in the amount of medicines prescribed. Finally, he pointed out that he was seeking no contribution at all in the form of cuts in the hospital building programme.

In discussion it was urged that while it might well be necessary in present circumstances to reintroduce prescription charges, the scheme should be more selective than that proposed by the Chancellor. The general principle should be that those at work should pay for their medicine while the chronic sick, the retired, expectant mothers and children should not. Doctors should have little difficulty in recognising these additional exempt categories and a special prescription form might be provided for them on which chemists would make no charge. The reduced saving could be made good by a smaller increase in the health service contribution than that proposed by the Minister of Health. It would be necessary to rely on the co-operation and honesty of the doctors but sample
investigations could be carried out to check abuse without additional staff beyond the 250 required to administer the exemptions proposed in the Chancellor's scheme.

On the other hand it was argued that past experience had shown that the doctors would not willingly co-operate in a massive exemption scheme of this kind and would resolve their difficulties with their patients, if it were introduced, by exempting wherever possible. In any event it would be extremely difficult to define the chronic sick satisfactorily for this purpose. For example, should diabetics who were regularly taking drugs and continuing at work be treated as chronic sick? Married women, including many of those gainfully employed, did not pay the health service contribution, but if qualified as chronic sick might nevertheless be automatically exempted from paying prescription charges which they might well be able to afford. The general public were now ready to accept far-reaching and severe economic measures, and the reintroduction of prescription charges would not be generally unwelcome; and we should bear in mind that while we were living on foreign credit we were in no position to ignore the views of our creditors. A compromise on the lines which had been suggested in discussion—widespread exemption financed by an increase in the health service contribution—would be more unpopular than the original proposal. It would also pre-empt substantial taxable capacity at a time when the Chancellor would find it difficult to raise additional revenue on the scale required.

The Prime Minister, summing up this part of the discussion, said that there should be a further examination of the compromise solution on the lines discussed. The compromise would involve the introduction of a prescription charge of 2s. 6d. an item with the exemptions already proposed by the Chancellor of the Exchequer. But the elderly, children, expectant mothers and, if feasible, the chronic sick would also be exempted. The cost of these additional exemptions would be made good by an addition of say, 6d. a week in the employee's health service contribution. The Chancellor and the other Ministers concerned should examine the feasibility and cost of a compromise on the above lines and report back to the Cabinet to enable them to give further consideration to the matter at their meeting on Thursday, 11th January. There was general agreement with the Chancellor's other proposals relating to health and welfare, subject to further examination by the Chancellor and the Minister of Health of the advisability of holding down local health and welfare expenditure on capital account by about £12 million instead of £20 million between 1968-69 and 1970-71 as proposed by the Chancellor.

The Cabinet—

(12) Invited the Chancellor of the Exchequer, in consultation with the Minister of Health and the Minister of Social Security, to examine the compromise solution in respect of prescription charges, outlined in the Prime Minister's
summing up, and to report on it in time to enable the Cabinet to consider the matter further at their meeting on Thursday, 11th January.

(13) Invited the Chancellor of the Exchequer and the Minister of Health to examine further and, if possible, reach agreement on the extent to which capital expenditure on local health and welfare should be held down between 1968–69 and 1970–71.

(14) Approved the proposal to increase dental charges to 30s. per treatment.

The Minister of Housing said that the Government were deeply committed to the target of 500,000 houses in 1970, and there had been a good prospect that this target would be achieved until the reductions in the housing programme which had been agreed as part of the Government's review of public expenditure in July 1967. The further reductions now proposed would mean that the target could not be achieved: if they were implemented, housing completions in the public sector in Great Britain would be unlikely to exceed 210,000 in 1970, and the total of completions in both public and private sectors, and including Northern Ireland, would probably be about 430,000 to 440,000. He would have preferred a smaller reduction than that proposed in 1969–70; however, subject to decisions on the rest of the package, he was prepared to accept the reductions proposed.

If the reductions were agreed, there were a number of important points affecting presentation: the Government should not commit themselves to a revised housing target for 1970; they should make clear their intention to protect the priority areas from the effects of the cuts; and they should stress the fact that we were now moving into a period where, because of the developing excess of households over houses, it would be right to switch the emphasis of the programme from the building of new houses to the improvement of the existing stock.

The Secretary of State for Scotland said that it would be wrong to expect savings comparable to those proposed in England and Wales to be secured in Scotland by administrative means. Eighty per cent of houses built in Scotland were provided by local authorities—a much higher proportion than in England and Wales—and accordingly a comparable reduction in the public sector programme would mean a more severe reduction in Scotland in terms of total housing output.

The Chancellor of the Exchequer said he agreed that the Government should announce their intention to switch the emphasis of housing policy outside the priority areas from new building to repairs and improvements, but it should be understood that any increase in expenditure on the latter should be balanced by corresponding reductions in expenditure elsewhere in the housing field.

In discussion it was argued that the proposed cuts in the programme for England and Wales represented the maximum which
could be reasonably imposed, bearing in mind that there were still some 1¼ million houses in the slum category. The rate of expansion in the construction industry was very sensitive to changes in the housing programme and if the industry were given the impression that there were to be widespread and severe reductions, there could be a considerable loss of confidence leading possibly to unemployment in the industry. On the other hand, it was argued that if present plans were adhered to, housing expenditure would be increasing much faster than expenditure on other social services at a time when we were moving into a period of housing surplus. There was a danger that over the next two years the construction industry would become overloaded as industrial investment recovered. Accordingly, the implications of a bigger reduction in approvals than that proposed—for example, by an additional 5,000—should be examined.

As regards Scotland, there was support for the view that a smaller reduction would be justified; but if Scotland were to be given more lenient treatment, it would be necessary also to consider whether this should be extended to development areas in the rest of Great Britain.

There was general agreement that in presenting the Government’s decision, emphasis should be laid on the points referred to by the Minister of Housing. In particular, the Government should make it clear that the priority areas would be sheltered from the effects of the cuts to the maximum possible extent. It seemed likely that some of the local authorities in these areas, especially where there had recently been a change in political control, would in any case cut back their programmes: but it was right that if they did so, the responsibility should be seen to be theirs and not the Government’s.

The Prime Minister, summing up this part of the discussion, said that the Cabinet agreed that reductions should be made in the housing programme for England and Wales not less than those proposed by the Chancellor of the Exchequer; but the implications of a further reduction of 5,000 approvals should be examined. Since a comparable cut in public sector approvals would bear more heavily on total housing output in Scotland than in England and Wales, the case for reductions in the programme for Scotland should be considered further, together with the position in development areas in the rest of Great Britain.

The Cabinet—

(15) Agreed that reductions should be made in local authority housing approvals in England and Wales in 1968 and 1969 not less than those proposed in C (68) 5.

(16) Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Scotland and the Minister of Housing, to report to the Cabinet in the following week on—

(i) the implications of reducing housing approvals in England and Wales by a further 5,000; and
The Foreign Secretary said that a group of Ministers under his chairmanship had considered the case for withdrawing from the Concorde aircraft project. They had before them the memorandum by the Minister of Technology and the report by officials which were attached to C(68) 4. There were at present no grounds on which the Government could legally terminate the treaty which governed their participation in the project. If nevertheless we were to abrogate the treaty unilaterally, the French Government would be able to bring an action before the International Court who could be expected to award damages against us which might amount to as much as £200 million. We should also have to pay cancellation charges amounting to some £50 million to the British firms involved in the project. This nugatory expenditure would probably wipe out the savings to the Exchequer from cancellation which might be of the order of £200 million. If we continued with the project until the spring or early summer of 1969, there might then be an opportunity of abandoning it without risking liability for damages, if the technical problems proved to be so great as to make the aircraft virtually unsaleable: it would be clear by that time whether or not this was the case. Meanwhile, however, the Government would have spent a further £100 million on development and production, and would still incur cancellation charges of £50 million to British firms.

Against this background, his colleagues had not been able to reach agreement on the course the Government should follow. Some felt that, given the amount of damages for which we should be at risk, the impact of unilateral abrogation of the treaty on our international standing and the effects of cancellation on our position as an advanced industrial Power, it would be wrong to withdraw at this stage and we should continue at least until the spring or early summer of 1969. Other Ministers felt that we should be justified in withdrawing now, given the virtual certainty that the costs of the project would escalate further, the overriding need for savings in the next two years, and the fact that cancellation would undoubtedly secure substantial savings in those years whereas it would probably be three years before we had to pay any damages.

It had been suggested that we might seek to mitigate the amount of damages which would be awarded against us by offering technical assistance and facilities to the French if they wished to carry on alone. His own view, however, was that it would be unacceptable to opinion in this country to make any such offer.

Since his discussion with the Ministers concerned, he had obtained the views of our overseas posts on the likely reaction to our unilateral abrogation of the treaty by the Governments of the European Economic Community (EEC) other than the French. The view of our representatives was that the Governments of the Five, with one exception, would be likely to react adversely: they
would probably interpret our action as being motivated mainly by pique at the French veto of our application to join the EEC and as a sign that we were no longer seriously interested in European collaboration in the technological field.

*The Attorney-General* confirmed that there were no legal grounds on which we could terminate the treaty at the present time. If we were not prepared to offer assistance to the French to help them to complete the project alone, we could not expect any mitigation of the amount of damages which would be awarded against us. If on the other hand we continued until 1969 and it became clear by that time that the project was not likely to be commercially viable, this would provide us with legal grounds for abrogating the treaty; and if in those circumstances we were to withdraw unilaterally the Court would be likely to find in our favour. In the light of these considerations, his advice as lawyer to client would be against cancellation at the present time.

*The Minister of Technology* said that he was opposed to cancellation now, not only because of the political and financial implications, but also because of the consequences for the airframe and aero-engine industries. By the spring or early summer of 1969, it would be clear whether the technical problems had been sufficiently overcome to make the project viable and this would be reflected in the extent to which the airlines were prepared at that time to place firm orders for Concorde. The right course was for him to hold discussions now with the French authorities with the object of laying down conditions which would have to be fulfilled if we were to continue with the project after the spring or early summer of 1969. These conditions should be expressed in terms of a minimum number of firm orders for the aircraft. If the French Government agreed to such conditions, but when the time came were not prepared to abide by them, it should then be possible for us to abrogate the treaty unilaterally without risking the award of damages against us. If the French declined to accept the conditions in the first place, he would still recommend that we should withdraw in 1969 if the conditions were not met, and the fact that the French had declined to accept such conditions should then tell in our favour in any legal proceedings.

In discussion it was argued that the estimates in C (68) 4 of the additional expenditure which the Government would incur if the project continued for a further 18 months were almost certainly too low. Moreover, it was unlikely that it would be possible in 1969 to demonstrate conclusively that the technical problems were such as to render the project no longer viable: it would always be urged that, given more time and money, the technical problems could be overcome. On the other hand, if we cancelled now we should be securing savings in the short term which would be offset in later years by payment of damages: this would simply be tantamount to raising a forced loan from the French. That was an unattractive prospect, and the Government should not put itself in
the position of being held accountable for payment of heavy damages across the exchanges in 1970 or 1971. As regards the objection that we should be told in 1969 that any outstanding technical problems could be overcome given more time and money, this would lose its force if conditions for the continuation of the project could be established on the lines proposed by the Minister of Technology: any substantial delays to deal with technical difficulties would progressively reduce the lead which Concorde was now expected to have over the American supersonic transport, and this would be reflected in a reduction in the number of firm orders for Concorde; if this went far enough, the conditions for continuing the project would not be met and we should have a clear case for withdrawal.

The Prime Minister, summing up this part of the discussion, said the Cabinet agreed that we should not at this stage unilaterally abrogate the treaty governing the Concorde project. The Minister of Technology should consider with the Attorney-General the drafting of conditions, preferably to be expressed in terms of a minimum number of firm orders for Concorde, which should be met if we were to continue with the project beyond the spring or early summer of 1969; this should be the subject of early discussion with the French.

The Cabinet—

(17) Agreed that the Government should not at this stage withdraw from the Concorde project.

(18) Invited the Minister of Technology to consider, in consultation with the Chancellor of the Exchequer, the Attorney-General and other Ministers concerned, what conditions we should seek to agree with the French Government for continuance of the project beyond the spring or early summer of 1969.

The Prime Minister said that the Cabinet should resume their discussion of measures to restrain public expenditure in the civil field on the afternoon of Tuesday, 9th January, when they should also complete their discussion of family allowances. They should consider the measures as a whole, including those relating to defence, on the afternoon of Friday, 12th January, by which time the Foreign Secretary, who had been able to rearrange the timetable of his consultations overseas, would have returned to London.

The Cabinet—

(19) Agreed to continue their discussions on the lines indicated by the Prime Minister.

Cabinet Office, S.W.1,
8th January, 1968.