CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 19 October, 1971,
at 10.30 a.m.

Present:
The Right Hon. EDWARD HEATH, M.P, Prime Minister

The Right Hon. REGINALD MAUDLING, M.P, Secretary of State for the Home Department

The Right Hon. LORD HAILSHAM OF ST. MAYLEBONE, Lord Chancellor

The Right Hon. WILLIAM WHITELAW, M.P, Lord President of the Council

The Right Hon. SIR KEITH JOSEPH, M.P, Secretary of State for Social Services

The Right Hon. ROBERT CARR, M.P, Secretary of State for Employment

The Right Hon. GORDON CAMPBELL, M.P, Secretary of State for Scotland

The Right Hon. PETER WALKER, M.P, Secretary of State for the Environment

The Right Hon. JAMES PRIOR, M.P, Minister of Agriculture, Fisheries and Food

The Right Hon. SIR ALEC DOUGLAS-HOME, M.P, Secretary of State for Foreign and Commonwealth Affairs

The Right Hon. ANTHONY BARBER, M.P, Chancellor of the Exchequer

The Right Hon. LORD CARRINGTON, Secretary of State for Defence

The Right Hon. GEOFFREY RIPPON, Q.C, M.P, Chancellor of the Duchy of Lancaster

The Right Hon. MARGARET THATCHER, M.P, Secretary of State for Education and Science

The Right Hon. LORD JOSEPH, Lord Privy Seal

The Right Hon. PETER THOMAS, Q.C, M.P, Secretary of State for Wales

The Right Hon. JOHN DAVIES, M.P, Secretary of State for Trade and Industry and President of the Board of Trade

The following were also present:
The Right Hon. CHRISTOPHER CHATAWAY, M.P, Minister of Posts and Telecommunications (Item 1)

The Right Hon. THE VISCOUNT ECCLES, Paymaster General (Item 1)

Mr. MAURICE MACMILLAN, M.P, Chief Secretary, Treasury

The Right Hon. FRANCIS PYM, M.P, Parliamentary Secretary, Treasury
Secretariat:

Sir Burke Trend  
Mr. P. E. Thornton  
Mr. N. F. Cairncross  
Mr. B. G. Tucker  
Mr. K. T. Barnett  
Mr. J. Anson  
Mr. I. T. Lawman  
Mr. P. F. Owen

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1. The Cabinet considered a memorandum by the Chief Secretary, Treasury (CP (71) 103), on the 1971 public expenditure review. They also had before them memoranda by the Secretary of State for Defence on the defence budget (CP (71) 107 and 113) and a memorandum on the public expenditure review by the Central Policy Review Staff (CP (71) 108).

The Chief Secretary, Treasury, said that at their meetings on 29 June and 22 July the Cabinet had decided as a matter of policy to establish for annual public expenditure the totals set out in CP (71) 103 and had invited him to arrange for an interdepartmental study of the means by which the outstanding proposals for additional public expenditure could be matched by reductions. He had also been asked to deal in this study with the problem of the aid programme and to take account of the possible need for further savings both to offset increased steel investment and to replace savings previously assumed from cost-related prescription charges. Officials had now completed the study and had identified net reductions sufficient to cover the proposals for additional expenditure on health, education, legal aid and voluntary social service. If, however, the outstanding proposals for overseas aid, defence and steel investment, together with the recent proposal for a regional development agency, were also accepted, total public expenditure would exceed the annual target figures by amounts rising to £254 million by 1975–76.

As regards overseas aid, the Cabinet had already accepted that the programme should not be adjusted with each revised forecast of gross national product (GNP); but they had also been concerned about the likely fall in the proportion of GNP represented by the planned figure for 1972–73. In order to avoid such a fall an additional £9 million would be needed in that year. For 1975–76, he had already proposed an extra £8 million.

As regards defence, the Cabinet had approved at their last meeting increases in the defence budget totals for the years 1972–73 to 1974–75. This would accommodate the additional expenditure of £70 million which had recently been authorised for ships. More additional proposals for defence expenditure, such as the extra £105 million sought for 1975–76, could not be accommodated without seeking further offsetting reductions in other programmes; and this raised a major issue of Government priorities.

The general problem of containing public expenditure would also be eased if the Government were to revert, as soon as price restraint allowed, to the policies on charging for public services announced in the White Paper “New Policies for Public Spending” (Cmnd 4515). The Cabinet might therefore wish to resume their previous discussion of prescription charges, which they considered on 15 July, and also to consider moving towards the objective in Cmnd 4515 of covering the running cost of school meals.

As regards steel investment, the estimates had again been revised; but they were still provisional. There were also uncertainties in the forecasts of housing investment.
As a result of these factors total public expenditure seemed likely to be somewhat above the target annual totals, while the medium-term economic prospect appeared marginally, but not significantly, less difficult. In the circumstances he did not feel it necessary to ask the Cabinet to consider major policy changes at the present stage in order to meet the possible additional expenditure on steel investment. Such changes would be required, however, if further substantial additions to public expenditure were contemplated; and even without such additions there would be even greater need to secure savings and to restrict demands on the contingency reserve to the inescapable minimum. There would also need to be a separate study of possible rephasing of programmes in order to provide more room for manoeuvre in 1973-74. With these provisos, he recommended that the proposals for health, education, legal aid and voluntary social service should now be accepted as set out in Table 1 of the Annex to CP (71) 103; that the additional provision for overseas aid should be limited to the amounts which he had proposed; that the outstanding additional proposals for defence should be rejected; that no offsetting savings should be sought at this stage for steel investment; but that the Cabinet should examine the possibility of increasing charges as envisaged in Cmd 4515.

The Secretary of State for Defence said that he was seriously concerned about the suggestion that the proposed additional expenditure of £105 million on defence in 1975-76 should be rejected. It was proving increasingly difficult to reconcile the defence objectives of the Government published in the Supplementary Statement on Defence Policy in October 1970 (Cmnd. 4521) with the financial targets for the years 1971-72 to 1974-75 which had been agreed and published at that time. In order to meet changes required for urgent operational reasons and to offset increased forecasts of the cost of new classes of ships, he had already pruned the long-term costings for new equipment and works programmes for those years by more than £300 million. He was not now seeking, on defence grounds, any increase in the amounts for those years which had been approved by the Cabinet at their last meeting; but additional provision might be necessary later in order to meet unforeseen requirements in Northern Ireland and Malta or an expansion of recruitment beyond present expectations. He had also circulated in CP (71) 113 proposals for possible additional expenditure on defence which the Cabinet might wish to consider primarily by reference to the contribution which they might make to the relief of unemployment. The proposed additional expenditure on Buccaneer aircraft was small; and he was prepared to finance it from within the defence budget. He hoped that the Cabinet would also agree that officials should continue to study the possibility of some modest extra expenditure for exploratory development in areas of high technology. The suggested additional expenditure on Nimrod aircraft and on the acceleration of orders for Army vehicles should be assessed in the light of the employment which it might generate, although the proposed order for Nimrod aircraft would have the additional advantage of...
avoiding a break in the production line and might thus place the manufacturers in a more favourable position in relation to potential future export orders. As regards 1975–76, the defence budget total proposed by the Treasury, which had been put forward before the costings had been completed, took insufficient account of the consequences of carrying out a more effective defence policy than that of the previous Administration. To keep expenditure within the total proposed would require still further reductions in the equipment programme and in the capability of the Services. In some critical areas it was now doubtful whether the defence programme was sufficient to sustain the healthy industrial base which was essential to future defence procurement. The Treasury proposal would also imply both a reduction in the proportion of GNP spent on defence and a fall in the actual amount spent on defence, at constant prices, between the years 1971–72 and 1975–76, compared with the substantial increases planned for some civil programmes. This would be evident from the published figures and would be bound to cause considerable concern to our allies.

In discussion of the suggested additional defence expenditure to relieve unemployment it was pointed out that the additions to public expenditure up to 1973–74 which had already been approved had absorbed the savings recorded for those years in the public expenditure review of 1970 and that this would be evident when the next public expenditure White Paper was published later in the year. Hitherto, the general reflationary measures initiated by the Government had taken the form mainly of reductions in taxation; and additions to public expenditure for reflationary purposes had been restricted to the assisted areas and had also been limited, as far as practicable, to the period up to 1972–73. Even if it were judged necessary that public expenditure should be further increased in order to encourage a revival of demand, it was questionable whether defence was the most appropriate category of expenditure for this purpose. The Nimrod aircraft, for example, were not included in the defence long-term costings and therefore did not have priority on defence grounds. But they would be equally unjustified on employment grounds, given that most of the additional employment would be outside the development areas. More generally, there were many other competing claims for expenditure, for example on regional policy and retraining, which might have a better claim for consideration.

On the other hand, the preservation of continuity in the production of defence equipment which might have an export potential was also important. Nimrod aircraft might be of interest to a number of countries, including Canada, South Africa and Australia. The present proposal emphasised the importance of early consideration by Ministers of the outcome of the study at present being carried out by officials into the future of the aerospace industry. A decision on the purchase of Nimrod aircraft could not be taken, however, until further information was available about the point at which the production line would otherwise have to come to an end. In view of the employment forecasts which the Cabinet had recently been considering in another context, consideration
should be given to the steps which might be taken to stimulate employment generally. Such a study, however, should extend more widely than the defence-based industries and the construction industry, which had hitherto tended to be regarded as the most appropriate instruments for varying expenditure programmes for economic reasons. Consideration might also be given, for example, to bringing forward orders for electricity generating equipment and to the possibility of obtaining for our industry a better share of work arising from collaborative projects with other countries.

In discussion of the longer-term prospects for defence expenditure it was emphasised that the Government were publicly committed to maintain an adequate defence capability. It was also important to encourage industries concerned with advanced technology, which might be adversely affected by a too rigorous limitation of defence expenditure. On the other hand, the Central Policy Review Staff had drawn attention in CP (71) 108 to the risk that the reduction of taxation, which was one of the Government's major objectives, would be endangered by approving totals of public expenditure in excess of the capacity of the economy. Some risk would be involved even in the amounts recommended by the Chief Secretary, Treasury, in CP (71) 103. Moreover, if our allies were likely to press us to increase our defence effort, it would be prudent to anticipate this pressure by keeping some room for future manoeuvre. If we became publicly committed now to a level of defence expenditure in 1975–76 which proved to impose an undue burden on the economy, there would be great political and presentational difficulties in subsequently reducing it. In any case, the estimates in the public expenditure White Paper for the final two years of the review period were acknowledged to be less precise than those for the earlier years. It might be possible to deal with the immediate problem, therefore, by indicating specifically that the forecast for defence in 1975–76 was provisional and was subject to subsequent reappraisal. Before the amount to be published was finally decided, however, it would be relevant to ascertain to what extent the proposed additional provision was necessary in order to enable orders to be placed in the immediate future.

The Prime Minister, summing up this part of the discussion, said that the Cabinet noted that the Secretary of State for Defence was not now seeking, on defence grounds, additions to the defence budget for the years up to 1974–75 beyond those already approved by the Cabinet. They also noted that he might need to propose additional expenditure later in respect of Northern Ireland, Malta or increased recruitment. As regards the proposals in CP (71) 113, the Cabinet agreed that officials should continue to study the possibility of modest extra expenditure for exploratory development in areas of advanced technology; and they noted that the Secretary of State for Defence did not ask for any increase in the defence budget to finance the suggested additional expenditure on Buccaneer aircraft. Before a decision was taken on the other proposals in this memorandum additional information was required about the prospects for continuity of production of, and possible export orders for, Nimrod aircraft. Consideration should also be given to possible
additional expenditure in civil expenditure programmes, such as the electricity investment programme, which might serve to relieve unemployment by taking up under-used industrial capacity. As regards the defence budget for 1975–76, any amount agreed and published at the present stage could only be provisional and subject to the reappraisal which was already in progress. The Secretary of State for Defence should therefore arrange for officials to examine how far a decision now on the defence budget total for 1975–76 would materially affect the placing of orders in the immediate future. When this information was available he should consider further, in consultation with the Chancellor of the Exchequer, the amount to be published for 1975–76 in the public expenditure White Paper and the manner in which the provisional nature of this sum could best be indicated.

The Cabinet—

(1) Took note, with approval, of the summing up of their discussion by the Prime Minister.

(2) Invited the Chancellor of the Exchequer, in consultation with the Secretaries of State for Defence and for Trade and Industry and the other Ministers concerned, to arrange for officials to carry out a fuller examination, from the standpoint of the effect on the various industries concerned, of the proposals in paragraph 2 (a) and 2 (c) of CP (71) 113 and of other possible proposals for additional expenditure in civil programmes which might take up under-used industrial capacity; and to make recommendations accordingly.

(3) Invited the Secretary of State for Defence to arrange for officials to continue their study of the possible benefits to be obtained from increased defence expenditure on development in areas of advanced technology.

(4) Invited the Secretary of State for Defence, in consultation with the Chancellor of the Exchequer, to reappraise the consequences for our defence capability and for the defence-based industries of the alternative amounts which had been proposed to the Cabinet for defence expenditure in 1975–76; and to examine, on the lines indicated in the Prime Minister's summing up, the manner in which forward estimates of defence expenditure in that year might best be publicly presented in the meantime.

In discussion of the proposals in CP (71) 103 on the civil expenditure programmes the following main points were made—

(a) It was agreed that, in order to avoid a decline in the proportion of GNP assigned to the aid programme in 1972–73, £9 million (at constant 1971 survey prices) should be added to the programme for that year. It was also agreed that £8 million should be added to the programme for 1975–76.
The outcome of the study on steel investment was still awaited. While the present expenditure provision might prove to be inadequate, the forecasts were still tentative and provisional; and it therefore seemed wise to leave the matter in abeyance for the time being, even though this involved some risk that additional provision might be required later.

The additional provision for the legal aid programme would suffice to enable the Lord Chancellor to implement the scheme proposed by the Law Society to provide legal advice and assistance to people of modest means.

Approval of the proposed additional provision for voluntary social service would enable the Government, at small cost, to take a useful initiative in this field. The Lord Privy Seal would submit to the Home and Social Affairs Committee his proposals for implementing this initiative and for ensuring appropriate public presentation for it.

The Secretary of State for Social Services would shortly circulate to the Cabinet further proposals about prescription charges, which might go some way to remedy the deficiency resulting from the abandonment of cost-related charges. Any announcement of the abandonment of cost-related charges would be better deferred until these proposals had been considered.

A substantial increase in the charge for school meals has recently been made. It seemed difficult to contemplate bringing forward the date of the next increase; but further consideration might be given to its amount. There was always the possibility, however, that, if local authorities disagreed with the Government’s proposals, they could reintroduce an element of subsidy themselves by using their power to apply the product of a 1d rate to general purposes. The treatment of this power in the legislation to reorganise local government in England and Wales was at present being reconsidered in the light of discussion in the Home and Social Affairs Committee.

Although the Cabinet had reviewed all the proposals for additional expenditure which had been put forward in the context of the public expenditure review, there was a possibility that further proposals might need to be considered later in order to implement new developments in regional policy, particularly when the Regional Employment Premium came to an end. Further proposals might also be necessary to implement the Government’s Election commitment on industrial retraining.

The Cabinet—

(5) Approved recommendations 1, 2 and 4 of CP (71) 103.

(6) Invited the Lord Privy Seal to bring before the Home and Social Affairs Committee proposals for the implementation and public presentation of the proposed new initiative on voluntary social service.
(7) Invited the Secretary of State for Social Services, in consultation with the Chancellor of the Exchequer and the Secretaries of State for Scotland and Wales, to circulate to the Cabinet his further proposals regarding prescription charges.

(8) Invited the Secretary of State for Education and Science, in consultation with the Chancellor of the Exchequer and the Secretaries of State for Scotland and Wales, to examine what further steps might be taken to implement the objective set out in Cmd. 4515 of covering the running cost of school meals; and to bring forward recommendations to the Cabinet.

2. The Cabinet had before them notes by the Lord President of the Council (CP(71) 111 and 112), to which were annexed drafts of The Queen's Speeches on the Prorogation and on the Opening of Parliament.

The Cabinet considered the draft Speeches paragraph by paragraph.

The Prime Minister, summing up the discussion, said that the Cabinet approved the drafts, subject to the various amendments which had been suggested.

The Cabinet—

Took note, with approval, of the Prime Minister's summing up of their discussion.

3. The Cabinet considered a memorandum (CP(71) 114) by the Secretary of State for Trade and Industry about Upper Clyde Shipbuilders (UCS).

The Secretary of State for Trade and Industry said that, since the Cabinet had last discussed UCS, he had met Mr. McGarvey of the Confederation of Shipbuilding and Engineering Unions (CSEU) and had informed him of the Government's willingness to enter into negotiations with shipowners about the conditions on which they would confirm their orders provided that the unions gave acceptable and public assurances of co-operation with Govan Shipbuilders Ltd. and of meaningful negotiations on working practices and wage rates. The joint statement annexed to CP (71) 114, which had been issued as a result of the meeting, had been subsequently approved by the Shipbuilding Committee of the CSEU and had been endorsed, on the recommendation of the shop stewards, at a mass meeting of workers, although with some reservations. The statement had
provided public assurances of the kind which he had requested but had also reiterated that the unions’ principal objective was to preserve employment in all four UCS yards. The Minister for Industry had in the meantime discussed with Irish Shipping Ltd. the conditions which they had earlier laid down for maintaining their orders for ships. Although they had made some small concessions, they would not increase the original contract price; and they still required a refund guarantee in respect of all payments on their four ships after liquidation together with their pre-liquidation payment of £320,000, which was covered by a bank advance. Negotiations with the other shipowners concerned, the Brazilian Government, had also begun.

Unfortunately, there was still some doubt about the real intentions of the shop stewards; and there was a risk that, once the guarantees had been given to the shipowners, they might withdraw their support from the agreement with the CSEU officials. On the other hand the undertaking from the CSEU went further than had been hoped for in giving an assurance that the work force would contribute to the timely and efficient delivery of the ships. Moreover, Govan Shipbuilders Ltd. was now in existence; and the Government had been able to make clear the responsibility of the unions in relation to its future. In these circumstances, and bearing in mind that the actual financial commitment of the Government in the event of failure to complete the ships was likely to be much less than the total contingent liability of £15–£20 million, he felt justified in asking the Cabinet to agree that he should enter into arrangements with the shipowners on the lines indicated in his earlier memorandum CP (71) 109. It was also urgently necessary to provide the Liquidator with further working capital. Subject to his colleagues’ agreement to these proposals, he proposed to make an early statement to the House of Commons, describing the latest developments and the action now envisaged and refuting recent assertions that, if UCS had been allowed to continue, it would by now have been making a profit.

In discussion, there was general agreement that the Secretary of State should proceed on the basis which he proposed. There was some hope that the shop stewards were coming to realise that they could not be certain of the continued support of the workers, many of whom now understood that the choice was in fact between the closure of all four yards and the preservation of a substantial proportion of the jobs under the Government’s proposals. In the interests of the Government’s employment and industrial relations policies generally, the shop stewards could not be allowed to dictate terms to the Government; and, if they proved unreasonable in the negotiations which lay ahead it would be better to pay compensation to the shipowners than to allow the shop stewards to dictate terms. When the Secretary of State made his Parliamentary statement he should make clear why it would not have been more practical and economical to keep UCS in being; and he would need to be prepared to deal with questions about the future of the Clydebank yard. There was still some possibility of its sale to an American company which was interested in the yard for the construction of
ships carrying natural gas. Other possibilities might be to develop the yard for the construction of oil rigs or to commission a study of the most suitable alternative uses for the site, for example as an industrial estate, by private interests. The location did not seem to be a suitable one for a retraining centre. It would be desirable for the Government to give early evidence that they were actively pursuing these various possibilities.

The Prime Minister, summing up the discussion, said that the situation was now more favourable, in that the unions had signed an agreement providing clear assurances of the kind which the Cabinet had envisaged at their earlier discussion. Provided that no Government money would be contributed to Govan Shipbuilders Ltd. until the unions had reached and signed an agreement with the company about working practices and wage rates and the Government had had the opportunity of considering the company's proposals for the future of the Govan/Linthouse, and perhaps the Scotstoun, yards in the light of the study which was now taking place, the Cabinet agreed that the Secretary of State for Trade and Industry should give the necessary guarantees to Irish Shipping Ltd. and might provide the Liquidator with increased working capital of up to £2 million. He should also make a statement in the House of Commons, as proposed.

The Cabinet—

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Trade and Industry to be guided accordingly.

Cabinet Office,
19 October, 1971