SECRET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 15 July, 1971, at 10.30 a.m.

Present:
The Right Hon. EDWARD HEATH, M.P., Prime Minister
The Right Hon. REGINALD MAULDING, M.P., Secretary of State for the Home Department
The Right Hon. LORD HAILSHAM OF ST. MARYLEBONE, 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 (Items 1-4)
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. THE EARL JELLICOE, 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:
Mr. MAURICE MACMILLAN, M.P., Chief Secretary, Treasury (Items 6 and 7)
The Right Hon. FRANCIS PYM, M.P., Parliamentary Secretary, Treasury

Secretariat:
SIR BURKE TREND
Mr. N. F. CAIRNCROSS
SIR PHILIP ADAMS
Mr. B. G. TUCKER
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The Prime Minister said that the Confederation of British Industry (CBI) intended to hold a special meeting of their Grand Council that afternoon, at which they would propose to their members that they should enter into voluntary undertakings not to raise prices during the 12 months ending 31 July, 1972, wherever this was possible; to limit unavoidable price increases to a maximum of 5 per cent; and, where in exceptional circumstances a particular increase had to exceed 5 per cent, to ensure that the weighted average of increases for all the related products should still not do so. The CBI had informed Ministers privately some weeks ago of their proposal to take this initiative. They had said that they believed the Government should seek to achieve a faster rate of economic growth but that they accepted the Government's difficulty in moving in this direction in a period of high inflation. They also appreciated the difficulty of carrying de-escalation of wage settlements further while prices continued to rise steeply. Accordingly, they saw their proposed initiative as a way of helping to break into the inflationary cycle and of assisting managements to secure lower wage settlements; and they hoped thereby to create conditions in which the Government might feel able to take steps to stimulate more rapid expansion of the economy. They hoped also that the Government would respond by arranging for the nationalised industries to observe similar price restraint. In preparation for their Grand Council meeting the CBI had already sounded their leading members privately and had obtained a satisfactory response. If the Grand Council now endorsed their proposal, it was likely to be made public at a Press conference that evening.

The Ministerial Committee on Economic Strategy (ES) had considered what response the Government should make in those circumstances in respect of the nationalised industries. Although price restraint would have severe effects for some industries, the Committee had concluded that it would be right to arrange for them to make a broadly matching response. The Chancellor of the Exchequer was in consultation with the Ministers responsible for nationalised industries for the purpose of settling the detailed arrangements for particular industries. It might be necessary to make certain exceptions, for example for international air fares and the nationalised ports; but a matching response by the nationalised industries generally was both economically and politically desirable.

The Chancellor of the Exchequer was also considering the economic situation more generally, in the light of the mid-July economic forecasts. It was proposed that he should announce his conclusions, together with the Government's decision to match price restraint by the private sector in the nationalised industries, in a Parliamentary statement on 19 July and that the Lord President of the Council should so indicate in the business statement in the House of Commons, announcing at the same time that there would be an economic debate on 20 July. Members of the Cabinet should therefore hold themselves available for a possible Cabinet meeting.

* Previously circulated in a Confidential Annex.
on the morning of 19 July. In the meantime they should be particularly careful to avoid any premature disclosure of the Government’s intentions.

The Chancellor of the Exchequer said that the chairmen of the main nationalised industries were members of the CBI Grand Council and had been privately informed of the CBI’s proposals. Together with the responsible Ministers he had discussed the proposals with the chairmen confidentially. All of them had recognised the political necessity for the nationalised industries to match the CBI’s initiative; and at the Grand Council they would respond to it in a generally favourable sense, while stressing that price restraint would have major financial implications for their industries about which they must consult the Government. He had given the chairmen assurances that, if they adopted measures of price restraint, the Government did not intend the investment programmes of the industries to be affected thereby or to increase their own controls; and he had undertaken that the corporations would be allowed additional borrowings from the National Loans Fund to finance investment which they might otherwise have been able to finance from internally generated sources. But he had also emphasised the benefits which price restraint should yield by providing increased scope for faster growth and for a reduction in unit costs; and he had made it plain that the Government would expect the nationalised industries to maintain a fully commercial approach in the pursuit of efficiency and reductions in the level of wage settlements and other costs. He would try to defer until his Parliamentary statement on 19 July the announcement of the proposed application of price restraint to the nationalised industries; and if other Ministers were questioned about the CBI’s initiative and the Government’s attitude towards it, it would be appropriate that they should confine themselves to saying that any move of this kind which was designed to reduce inflation was welcome to the Government. The CBI were that morning informing the General Secretary of the Trades Union Congress of their proposed initiative; and he himself proposed to discuss its implications with the General Secretary before making any announcement on behalf of the Government.

The Prime Minister, summing up a short discussion, said the Cabinet agreed that the Government should welcome the CBI’s initiative to secure voluntary price restraint by private industry and should arrange for the nationalised industries to make a broadly matching response. It was not proposed, and the CBI did not expect, that the Government would extend these arrangements to other charges in the public sector, such as those made for school meals and social services. The application of price restraint to the nationalised industries should not be regarded as a reversal of present policies for the industries, although it would postpone the date by which their operations could be placed on a more commercial footing. In present economic circumstances, however, even if general price restraint were not to be imposed on nationalised industries, it was unlikely that the Government would have been able to approve in full price increases of the order which many of the Boards were contemplating. The CBI’s proposal related to a
period of 12 months; and, if it were generally adopted by their Grand Council, the Government, like the CBI, would need to review the policy in about March 1972.

The Cabinet—

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

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

3. The Home Secretary said that the traditional parades in Belfast on 12 July had been well handled by the security forces and serious disorder had been avoided. The repeated attacks on army posts in Londonderry, however, were a cause for growing concern, since they suggested that the “Provisional” group of the Irish Republican Army were intensifying their campaign of terrorism. The Social and Democratic Labour Party were withdrawing from the House of Commons at Stormont (which was now in Recess), justifying their action by reference to the Government’s failure to order an independent inquiry into the deaths of two men in recent riots in Londonderry. At Westminster there was some discontent among the Ulster Unionist Members about the lack of firmness, as they saw it, on the part of the United Kingdom Government in dealing with terrorism in Northern Ireland. Together with the Secretary of State for Defence, he was considering legislation to provide for the formation of a full-time unit of the Ulster Defence Regiment in spite of the unfavourable initial comment on this proposal. He would also take an early opportunity to discuss with the General Officer Commanding, Northern Ireland, whether it was desirable that the traditional procession which was due to take place in Londonderry on 12 August should be prohibited.

The Cabinet—

     Took note of the Home Secretary's statement.

4. The Foreign and Commonwealth Secretary said that the new Prime Minister of Malta, Mr. Mintoff, had informed us that he wished to replace the 1964 Defence and Financial Agreements and had asked that a British Minister should go to Malta for the negotiation of a new agreement, to be concluded by the end of July. Mr. Mintoff’s replies to messages from the Prime Minister, designed to establish a satisfactory basis for negotiations in preparation for a Ministerial visit to Malta, had been churlish and increasingly abrupt; and it had become necessary to suspend preparations for the visit at the last moment. By contrast, our own position throughout the exchanges had remained moderate and reasonable.
He would seek to demonstrate this in reply to a Private Notice Question in the House of Commons that afternoon by reference to the text of the Prime Minister's latest exchanges with Mr. Mintoff.

In discussion it was agreed that we should continue to demonstrate that we were prepared to adopt a reasonable attitude towards a possible renegotiation of the 1964 Agreements, provided that Mr. Mintoff was correspondingly co-operative. From the defence point of view, however, the facilities in Malta which we enjoyed were not vital to us; and their significance lay rather in their value to the North Atlantic Treaty Organisation (NATO), particularly in so far as the Agreements enabled us to deny the use of the islands to the Soviet Government. If the latter could establish themselves in Malta, they would greatly increase their military strength in the Western Mediterranean. Nevertheless, there might be advantage in our letting it be known publicly, at the appropriate stage, that we had no wish to keep our Forces in Malta if this did not accord with the wishes of the Malta Government.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the Foreign and Commonwealth Secretary should make a Parliamentary statement on the lines which he proposed. Publication of the full sequence of his own exchanges with Mr. Mintoff should be withheld for the time being; but, if Mr. Mintoff's reply to the latest message was negative, it would be necessary to consider what further action should be taken to demonstrate publicly the obduracy of his attitude.

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

5. The Secretary of State for Education and Science said that she expected on the following day to receive the report of the arbitration on the pay of teachers. This was likely to recommend increases equivalent to 10.8 per cent, by comparison with the "without prejudice" offer of 9.7 per cent which the teachers' representatives had rejected before arbitration. This award, however, would include the assimilation costs associated with a restructuring of pay, which the arbitration body had approved on the basis of the management's proposal. The final outcome of the arbitration, therefore, was not unsatisfactory. She would consult the Ministers concerned; and if, as she hoped, it was agreed that the Government should accept the award, she had it in mind to make an appropriate announcement on 19 July, when the report of the arbitration body would be made available to the management and the teachers' panels.

The Cabinet—
Took note of the statement of the Secretary of State for Education and Science.
6. The Cabinet considered a memorandum about prescription charges (CP (71) 83) by the Secretary of State for Social Services, the Secretary of State for Scotland and the Secretary of State for Wales.

The Secretary of State for Social Services recalled that, when the Cabinet had considered proposals for graduated prescription charges in April, the Health Ministers had been invited to initiate the necessary consultations with representatives of the doctors, dentists and chemists. These consultations had made it clear that all three professions were irrevocably opposed to the principle of graduated charges. Since it would not be practicable to introduce them without the co-operation of the professions, consideration was now being directed to the system in use in Sweden under which medicines were made up in standard units and were priced appropriately before they reached chemists’ shops. Even if such a system proved appropriate for adoption in this country, however, it could not be introduced in less than three to four years; and it was therefore necessary in the meantime to find a new method of increasing the yield from prescription charges which would render it buoyant and would realise the saving of £15 million which had been envisaged when graduated prescription charges had been first suggested. The Health Ministers accordingly proposed that the forthcoming charging legislation should enable them to seek power to make regulations prescribing the relationship between a flat-rate prescription charge and the average cost of a prescription to the National Health Service and thereafter to make annual adjustments in the charge by administrative action. Since this legislation might not have been enacted by the time when it was desirable to make the first increase in the charge from its present level, that increase could be made by means of regulations under existing powers, regulations under the new powers being made a year later. The initial increase should be from 20p to 30p per item and should produce an estimated net saving of some £17 million a year. Since a charge at this level would be liable to be regarded as very high, particularly after the increase from 12½p to 20p on 1 April, 1971, it would be preferable that the necessary announcement should be deferred until October and that the new arrangements should not come into effect until 1 April, 1972. It would also be necessary to provide means of mitigating the impact of the increase on those who could less easily afford to pay it. Proposals for increasing from 30p to £1 the income limit for exemption or refund had already been agreed; and it would be appropriate that, in addition, the prepayment certificates already available for periods of 6 or 12 months should be made available on generous terms for three-monthly periods.

In discussion the abandonment, at any rate in the short-term, of any system of cost-related charges was viewed with regret. Such a system would avoid periodical increases in prescription charges, which always tended to be politically contentious; and it would impose a salutary check on extravagance by doctors in prescribing drugs. In considering whether cost-related charges were practicable it had to be borne in mind that before the establishment of the
National Health Service chemists had been obliged to compute the cost of prescriptions and, indeed, still did so for customers who did not participate in the Service. On the other hand it was clear that every effort had been made to secure from the professions the co-operation which was indispensable for the effective functioning of any graduated scheme which could be introduced in the short term.

In further discussion it was suggested that, if the flat-rate charge were increased even in April 1972, by an amount of the order proposed, the Government's efforts to contain inflationary wage claims and to achieve a greater degree of price stability would be liable to be seriously affected. Moreover, the cumulative effect of two sharp increases in prescription charges and the other unpopular measures which the Government had been obliged to take in the national interest might tend to give the Government, however unfairly, a reputation for callous indifference to the claims of those with special needs, which it would be difficult to reverse. On the other hand, if the proposed increases were not made, it would be necessary to consider how the savings in public expenditure which they would have yielded should be recovered from other programmes.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that in the short term the attitude of the professions concerned made it impracticable to introduce a system of cost-related prescription charges but that the Health Ministers should continue to study other methods of relating charges to actual costs with a view to possible changes in the longer term. As regards the flat-rate charge the Cabinet judged that the economic situation in the coming 12 months would make it impolitic to increase the charge by an amount of the order proposed by the Health Ministers. The matter should therefore be reconsidered in the autumn in the light both of the general economic situation and of the effects on public expenditure of deferring increases in the charge. Meanwhile, provision for relating charges to the average cost of prescriptions should be omitted from the Bill which it was proposed to introduce in the autumn; and the content of that Bill should be limited to the subsidiary provisions already agreed for adjusting the present law relating to optical and dental charges and to exemptions and refunds.

The Cabinet—

Took note, with approval, of the Prime Minister's summing up of their discussion.
not as representatives of special interests, a position which reflected the need for control by Parliament and the Government over a service which was largely centrally financed. In particular, since there would be only one tier of health boards, the local authorities as such would not be represented on them. There would, however, be consultative machinery through which the views of the professions would be taken into account. He hoped that the necessary legislation would be introduced in the 1971–72 Session; and he sought the agreement of the Cabinet to publication of the White Paper before the Summer Recess in order that detailed preparatory work might be begun, in conjunction with the interests affected, on the issues which required further study.

The Cabinet—

Approved the draft White Paper annexed to CP (71) 84, for publication during the last week of July.

Cabinet Office,