CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street on Tuesday, 27 June, 1972
at 11 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. ANTHONY BARBER, M P, Chancellor of the Exchequer
The Right Hon. ROBERT CARR, M P, Lord President of the Council
The Right Hon. GEOFFREY RIPPON, Q C, M P, Chancellor of the Duchy of Lancaster
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. MAURICE MACMILLAN, M P, Secretary of State for Employment

The following were also present:
The Right Hon. CHRISTOPHER CHATAWAY, M P, Minister for Industrial Development (Item 3)
The Right Hon. FRANCIS PYM, M P, Parliamentary Secretary, Treasury

LADY TWEEDSMUIR, Minister of State for Foreign and Commonwealth Affairs (Items 3–5)
The Right Hon. SIR PETER RAWLINSON, Q C, M P, Attorney General (Item 2)
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The Tax-Credit System
Draft Green Paper

1. The Cabinet considered a memorandum by the Chancellor of the Exchequer and the Secretary of State for Social Services (CP (72) 61), to which was annexed a draft Green Paper on the proposed tax-credit system.

The Chancellor of the Exchequer said that in his Budget speech he had put forward proposals for a new tax-credit scheme, which would combine for the first time the systems of personal taxation and social security in this country. He had also undertaken that the Government would publish a Green Paper setting out the details of the new arrangements and would refer them for consideration by a Parliamentary Select Committee. The tax-credit scheme represented a new approach to the integration of tax and social security which had hitherto not been attempted in any country. It would provide, without means-testing, a substantial and comprehensive benefit to many retirement pensioners, an improved system of family support for lower-paid workers and a greatly simplified tax system for most of the population. It should also make for more efficient administration and save between 10,000 and 15,000 civil servants. It raised, however, three important issues, which would need to be judged in the light of public reaction. On the treatment of married women's earnings the Green Paper favoured maintaining the wives' special earned income relief as a tax allowance within the new scheme. On the sensitive question of the parent to whom child credits should normally be paid it argued for payment normally to the father but reserved the final decision to be taken in the light of the Select Committee's views and public comment generally. On the coverage of the scheme the Green Paper explained why it was proposed that the self-employed and those outside the field of employment should be excluded, at least initially. Final decisions on these points, however, could not be taken until after the Select Committee had reported.

While the Government could not be committed at this stage to any specific level of tax-credits, the scheme was bound to be expensive. Its cost was estimated in the Green Paper as being in the region of £1,000 million in relation to present circumstances and on the basis of the levels of tax-credit used for illustrative purposes. It seemed more likely, however, to approach £1,250 million in fact.

It was proposed that the Green Paper should be published by the end of June in order to enable the Select Committee to be appointed in sufficient time to commission evidence before the Summer Recess and to make an early start on their work when Parliament reassembled. This was necessary if they were to report in time to enable the Government to introduce legislation in the following year in order that the scheme might be brought into operation in April 1977.

The Secretary of State for Social Services said that the proposals would make it possible for the Government to help, without means-testing, the large group of hard-pressed individuals, particularly retirement pensioners, who did not qualify for supplementary benefit although their income was below the tax threshold. The scheme
would also substantially reduce the number of people who needed to draw supplementary benefit; and it would have the advantage of making short-term social security benefits liable to tax. The remission of charges for medical prescriptions and school meals, however, would need to remain as separate means-tested benefits, at least for the time being, in view of the difficulty of integrating them into the new scheme.

In discussion it was generally agreed that the scheme would make a constructive and imaginative contribution to the Government’s social policy and would help to reduce the gap, which would become apparent when we joined the European Economic Community (EEC), between our social benefits and those of the present EEC countries. On the other hand the cost of the scheme would be very substantial and could involve considerable problems of economic management. If the introduction of the scheme happened to coincide with a period when the economic situation would in any event have called for tax reductions, there might not be too much difficulty in accommodating the cost; but, if not, it would be necessary either to devise means of absorbing the additional public expenditure or to find alternative sources of taxation. If the scheme had to be financed mainly by raising the level of indirect taxation, this would greatly reduce its presentational impact. Moreover, against the current economic background, the publication of a Green Paper indicating that the Government intended to inject an extra £1,000 million or more of spending power into the economy would inevitably be open to misunderstanding. The only Government commitment on the timing of publication was an undertaking that the Green Paper would be presented before the end of the year. Deferment of publication until the autumn would admittedly delay the report by the Select Committee and, therefore, the timetable for legislation; but such delays might well have arisen in any event.

In further discussion it was suggested that the presentation of the scheme in the draft Green Paper needed to be improved, particularly in chapters 5 and 6. The social impact of the scheme was not sufficiently indicated by ranges of mere examples of income support; and the cost estimate was not itemised in such a way as to show the manner in which different categories of individual would benefit. The arrangements for publicity also needed to be carefully examined. Consideration should be given to distributing copies free to organisations concerned with social welfare; and the possibility of producing a popular version of the Green Paper should be examined.

In subsequent discussion the following points were made—

(a) The draft Green Paper did not indicate the implications of the scheme for the financial position of strikers. The practical effect would be that those on strike would be eligible to receive tax-credits but would no longer receive the existing family allowances or Pay As You Earn refunds. In total, therefore, their position would not be greatly affected; but it would be necessary to be prepared for critical questions on this point.
(b) The Green Paper left open for further study the treatment of dependants abroad. Existing family allowances, unlike income tax child allowances, were granted only in respect of children in this country. Because of the amount of abuse of the present tax allowances, the administrative arguments favoured the exclusion of dependants abroad from the new scheme, except possibly to the extent that there might be a commitment to pay them under EEC arrangements. This, however, would imply that those at present legally receiving income tax child allowances would be worse off; and the point would need further consideration.

(c) There was likely to be considerable public support for the contention that the child credits should be paid to the mother, as were the existing family allowances. Since this point might well have to be conceded before legislation was introduced, it might be preferable to modify the Green Paper in this respect forthwith, in order to anticipate the risk that argument about the mother's entitlement might obscure the real advantages which the scheme would offer to families as a whole.

The Prime Minister, summing up the discussion, said that the Cabinet recognised the social advantages of the proposed tax-credit scheme but considered that further study should be given to the issues raised in discussion and to the arrangements for public presentation. In any case, publication of the Green Paper at the present time could lead to misunderstanding. Publication should therefore be deferred until the autumn; and in the meantime a group of Ministers under the chairmanship of the Home Secretary should examine the draft Green Paper in the light of the points made in discussion and should consider the publicity arrangements in greater detail.

The Cabinet—

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

The Lord President said that three possible courses of action were open to the Government. First, they could reject the Committee's recommendations and leave the existing sub judice rule as it stood. Second, they could accept the Committee's proposals in full. This would imply relaxing the rule in relation to proceedings (other than for defamation) in civil courts generally, including proceedings before the Industrial Relations Court, subject to the safeguard that the Chair would exercise its discretion to prevent any real and substantial danger of prejudice to the proceedings. Third, they could accept the Committee's proposals in relation to proceedings before the Industrial Relations Court but could reject, or possibly defer for further consideration, any relaxation of the rule with regard to proceedings in other civil courts. To take the first course would mean rejecting the unanimous recommendations of an all-Party
Select Committee. It would be strongly argued in the House that an urgent reconsideration of the existing sub judice rule was required in view of the increasing involvement of Ministers as parties to court proceedings on financial and economic matters, particularly as regards actions before the Industrial Relations Court, and that the retention of the rule in its present form seriously inhibited the House in debating matters of current national importance. It would be difficult to refute these contentions, particularly if the effect was to prevent discussion in Parliament of matters of wide public concern which were already the subject of general public discussion and comment in the Press. It would be particularly difficult to seek to maintain that Ministers were not accountable to Parliament even on issues on which they could not be “assailed” in the Industrial Relations Court. Moreover, the present rule did not in fact prevent Members who were determined to find means of doing so from making comments about matters before the courts under the guise, for example, of points of order; and it was frequently only the refutation of such observations which Mr. Speaker was able to prevent.

The principal issue in considering whether to accept the Committee’s recommendations in full was whether the proposed relaxation of the rule and the proposed degree of discretion on the part of the Chair to refuse questions and to prevent debate on matters before the civil courts where there was a real and substantial danger of prejudice to the proceedings would incorporate sufficient safeguards to ensure that the integrity of the judicial procedure was not affected. The extent and possible effect of any such risk, however, would need to be weighed against the countervailing consideration that, except for the most powerful and overriding reasons, Parliament should not be inhibited from discussing matters of national importance. The remaining course was to accept the recommendations in relation to the Industrial Relations Court alone. But this would imply treating that Court in such a way as virtually to concede the claim of the Opposition that it was outside the normal judicial process and was in some special sense a political court. This would entail a considerable risk of undermining its authority. For these reasons, the least disadvantageous course, on balance, would be to accept the Select Committee’s recommendations in full.

The Lord Chancellor said that, in accordance with the suggestion made by the Cabinet at their earlier discussion, he had consulted senior members of the judiciary about the Select Committee’s recommendations. They were unanimous in their view that no case had been made out by the Select Committee for a modification of the sub judice rule over the whole range of civil proceedings; and they considered that it would be desirable to postpone a final decision on this matter until the Phillimore Committee on the law of contempt had reported, since it would be only then that it would be possible to take a rational decision on the extent to which public discussion and comment could properly be allowed without prejudicing such proceedings. The judiciary saw no objection, however, to a relaxation of the sub judice rule in relation to matters brought before the Industrial Relations Court; and they considered that the risk of appearing to give exceptional treatment to proceedings in that Court could be averted if there were to be a general relaxation of
the sub judice rule in relation to any matters which were brought before the civil courts on the application of Ministers or involved issues of national importance, such as damage to the national economy or national security. The proposed exclusion of defamation proceedings from the relaxation of the sub judice rule seemed to be based on the assumption that all these cases were tried by juries; but in fact some such cases were tried by judges alone.

In discussion there was general agreement that an acceptance of the Select Committee’s recommendations in so far as they related to certain cases before the civil courts which either derived from applications by Ministers or involved issues of public importance would be desirable. While there might be strong feeling in the House of Commons that the present sub judice rule was too restrictive and that the Select Committee had proposed safeguards which should prevent any real danger of prejudice to proceedings in the civil courts, it could be made clear in the course of debate on the Report that the Government had not rejected these recommendations but considered it desirable to await the Phillimore Committee’s Report. That Report would examine the question of possible prejudice to proceedings arising out of public discussion and comment; and it would therefore be preferable to defer consideration of the relaxations which might be made in the House of Commons’ sub judice rule until the general recommendations of the Phillimore Committee were available. The risk of difficulties occurring in relation to proceedings in the Industrial Relations Court, particularly as respects the position of trade unions who were not prepared to appear before the Court, might be avoided if the Speaker were to refuse to allow an emergency debate under Standing Order 9 to take place between the time of the application to the Court and the date of the hearing.

The Prime Minister, summing up the discussion, said that the Cabinet considered that to implement the recommendation made by the Select Committee on Procedure in relation to matters awaiting or under adjudication in all civil courts might involve some risk of prejudicing proceedings in those courts. The risk of prejudice to proceedings arising from public discussion and comment outside Parliament was being considered by the Phillimore Committee on the law of contempt as a whole; and, since similar considerations would be relevant to the question of prejudice arising as a result of discussion and comment within Parliament, it would be preferable for a decision to be deferred on this recommendation, in so far as it would apply to proceedings in civil courts generally, in order that the question could be considered in the light of the recommendations made by the Phillimore Committee. As regards the application of the recommendation to certain proceedings which were brought before the civil courts on the application of a Minister or raised questions of national importance, such as damage to the national economy or national security, it would be advantageous for the recommendation to be accepted and for the decision to be announced immediately. On this basis it would then be possible for these matters to be referred to in Questions, Motions or debate in the House of Commons unless it appeared to the Chair that there was a real and substantial danger of prejudice to the proceedings. This course would have the advantage that the Industrial Relations
Court would not be treated exceptionally as regards the relaxation of the sub judice rule; and the recommendations made by the Select Committee on the specific matters which might be brought before the Industrial Relations Court could be accepted in full. While the recommendation made by the Select Committee that the sub judice rule should continue to apply to matters before criminal courts, courts martial and judicial bodies such as tribunals under the Tribunals of Enquiry (Evidence) Act, 1921, was acceptable, it might be desirable to consider, in due course, whether defamation proceedings should be divided into two categories, namely those which were tried by juries and those which were not.

The Opposition had informally indicated that, subject to the Government's accepting the Select Committee's Report, they would agree to a short debate on the matter in the House of Commons on the following day after 11 o'clock. It might still be possible to secure their agreement to this course on the basis of the decisions now reached by the Cabinet. The Lord President should consult urgently with the Lord Chancellor, the Secretary of State for Employment and the Attorney General about the terms of the Motion which should be tabled for the purposes of the debate.

The Cabinet—

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Ministers concerned to be guided accordingly.

3. The Cabinet had before them a memorandum by the Secretary of State for Trade and Industry (CP (72) 64), to which was annexed a memorandum by the Minister for Industrial Development about support for International Computers Limited (ICL); and a Note by the Central Policy Review Staff (CPRS) (CP (72) 65) on the same subject.

The Minister for Industrial Development said that the Ministerial Committee on Economic Policy, at their meeting on 20 June, had considered three possible options for the future of ICL. First, the company might accept a merger with Burroughs, with the result that it would not be possible to maintain effective United Kingdom control of the merged company's operations in this country. Second, the Government might announce their readiness to support ICL for a five-year period, with a view to the company's establishing partnership arrangements with computer firms in Europe. Third, the Government might confine their immediate commitment to supporting the company for a more limited period, while they explored the possibility of forming an early partnership with a United States, European, or Japanese firm which would obviate the need for longer term Government financial support. A majority of the Committee had favoured the third of these options, on the ground that ICL could not survive indefinitely except in a partnership which would provide them with larger resources and a wider market. But the Secretary of State for Trade and Industry and he himself had doubted whether there would be any prospect of retaining a real
measure of United Kingdom control in any merger with a substantial United States or Japanese company; and, by adopting the third option, therefore, we should merely defer an ultimate choice between the other two courses of action. Since CP (72) 64 had been circulated, however, the Managing Director of Univac in the United Kingdom had said that his firm would be prepared to accept a minority holding in two United Kingdom companies, one a marketing and one a manufacturing company, in which ICL could retain majority holdings; and this arrangement should enable us to retain in this country a substantial computer manufacturing and research and development capability under United Kingdom control. The discussions with Univac had so far been in general terms; and it would be necessary both to confirm that the Managing Director's statement had been made with full authority and to obtain fuller details of the firm's intentions before forming a final judgment on their acceptability. Nevertheless, since it now appeared that there might be some possibility of promoting an acceptable international partnership more quickly than had earlier seemed likely, it would be more reasonable that the Government should make only an interim promise of financial support for ICL, which might be in the terms of the draft Parliamentary statement annexed to the letter of 26 June from the Department of Trade and Industry to the Prime Minister's Office, a copy of which had been circulated to members of the Cabinet.

This provided for Exchequer support of £14.2 million for ICL in the period to September 1973, in the form of a grant for the company's research and development programme, in return for which royalties would eventually become payable to the Government out of the proceeds of sales or profits. When this statement was made the company would be informed that the Government wished to see all possibilities for partnership fully explored before entering into any further commitment; but there should be no public intimation to this effect, since this would risk undermining the company's position. It would also be necessary to ensure that negotiations with Univac or any other potential partner did not reach the point of a public announcement until the prospective discussions with the French and German Governments had taken place. Whether or not those Governments were interested in working for closer association between ICL and the computer interests in their own countries, it would be desirable from the standpoint of our wider European policies that we should be seen to have discussed the possibilities with them; and, meanwhile, ICL should not become publicly committed to a United States company.

In discussion the following main points were made:

(a) It was important that the Government's general objectives of fostering European collaboration in high-technology industries and of taking a major initiative on industrial policy at the forthcoming European Summit should not be jeopardised. From this point of view it might be preferable that any negotiations between Univac or any other prospective partners with ICL should be postponed until after the forthcoming discussions with the French and German Governments. These discussions, however, were to be preceded by
exchanges between officials in which it should be possible to take the first steps in persuading the French and German Governments that our purpose in seeking other partners for ICL was to promote a stronger unit which could become in due course a member of the wider European grouping which we wished to promote. A weak European group would have little chance of withstanding the competition of International Business Machines.

(b) The reference in the draft Parliamentary statement to the finance required “if a substantial indigenous capability” which already existed in ICL was to be maintained might be taken to imply a commitment to United Kingdom ownership. The essential requirement was that the capability should be not necessarily United Kingdom owned but United Kingdom based. The wording should be amended to make this clear.

(c) Even so, our hope of successfully promoting a European computer industry would depend on retaining United Kingdom control over a merged company; and it would not be acceptable that negotiations with Univac or other prospective partners for ICL should proceed on any other basis.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the Government should provide interim support for ICL in the form of a research and development grant of £14.2 million during the period to September 1973 and that a Parliamentary statement should be made on the lines of the draft annexed to the Department of Trade and Industry’s letter of 26 June, amended as necessary in the light of the Cabinet’s discussion. The Cabinet further agreed that ICL’s viability in the longer term depended on their finding suitable international partners and that the Minister, in making this clear privately to the company, should arrange for the possibilities in this respect to be urgently explored. In particular, the proposal by the Managing Director of Univac in the United Kingdom should now be more fully discussed; but an essential condition of any merger arrangement between ICL and this or any other United States or Japanese company was that it should provide for a substantial computer manufacturing and research and development capability in this country which would be under United Kingdom control. A merger on that basis should enhance ICL’s attraction as a potential partner in a wider European computer industry; and our objective in this respect should be made clear both to Univac and to the French and German Governments. It was important, however, that the negotiations with Univac or other potential foreign partners should not become publicly known and that no final commitment should be made in advance of the Minister’s discussions with his French and German colleagues. The Minister should arrange for the Civil Service Department and the CPRS to be associated with the negotiations and should also consider obtaining professional financial advice for this purpose.

The Cabinet—

Took note, with approval, of the Prime Minister’s summing up of their discussion and invited the Minister for Industrial Development to be guided accordingly.
4. The Minister of Agriculture, Fisheries and Food said that, since the Cabinet had authorised the Foreign and Commonwealth Secretary to make a further attempt to secure an agreement with the Icelandic Government about interim fishing arrangements for British vessels in Icelandic waters after 1 September, the Icelandic Fisheries Minister had revealed certain details of the inter-Governmental discussions on 19-20 June. As a result, the Press had formed the impression that the British Government were ready to accept the area limitation which the Icelandic Government had proposed. In fact, we had rejected this suggestion; but the British fishing industry were now understandably alarmed and in this situation the further round of discussions contemplated on 1 and 3 July could not take place without damaging the Government’s credibility with the industry. Before renewed discussions could begin, therefore, it would be necessary to reach an accommodation with the industry on area limitations and to convince them that the negotiating position endorsed by the Cabinet was the least damaging which could be devised. Moreover, there now seemed a serious risk that on 1 July the Icelandic Fisheries Minister would promulgate fishing regulations establishing new limits. In these circumstances we should inform the Government of Iceland that the Fisheries Minister’s action made it necessary for us to reconsider our position.

The Minister of State for Foreign and Commonwealth Affairs said that, given goodwill on both sides, a satisfactory interim arrangement should be feasible. But the Icelandic Fisheries Minister appeared ready to obstruct any agreement which was acceptable to British interests; and, if he persisted in promulgating regulations purporting to establish Icelandic jurisdiction within new limits, it would be difficult to see what further negotiations might achieve. If the discussions ended in deadlock, however, it was important that the responsibility should be seen to attach to the Icelandic Government and not to ourselves.

The Prime Minister, summing up a brief discussion, said that action by the Icelandic Fisheries Minister had created a new situation in which it might be even harder to obtain a satisfactory interim agreement. We might need to defer the next round of inter-Governmental discussions for a time. But we should take care to avoid any action which would make an agreement more difficult; and the Minister of Agriculture, Fisheries and Food should explain the Government’s position to the industry and seek their agreement to proceed on the lines approved earlier.

The Cabinet—

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

(2) Invited the Minister of Agriculture, Fisheries and Food and the Minister of State, Foreign and Commonwealth Office, to proceed accordingly.
5. The Chancellor of the Exchequer said that, in the light of the decision at the end of the previous week to abandon a fixed parity for sterling for a temporary period, he had discussed the situation on the previous day with the Finance Ministers of the Six member countries of the European Economic Community (EEC) in Luxembourg. He had initially encountered some criticism on the part of the French Government that we had not conducted any prior consultation with the Community before abandoning the fixed parity. But this had disappeared when he had explained why, in the circumstances, we should have found it impossible to enter into any realistic discussion about an appropriate new parity for sterling and had therefore had no effective alternative to allowing the exchange rate to "float" for a time; and, for the rest, the Finance Ministers of the Six had been prepared to accept our action without complaint. They themselves intended both to maintain the parities and margins which had been agreed with the United States Government in the "Smithsonian Agreement" and to continue to observe the system of even narrower margins within the Community itself. Special measures of assistance, however, might be required in order to enable the Italian Government to conform to this policy. Of the countries contemplating accession to the EEC Norway would face no problems; Denmark apparently intended to observe the Smithsonian margins but not the narrower margins within the Community; while Eire would follow the course which we ourselves had adopted. In general, the attitude of the meeting had been co-operative; and the discussion had revealed a substantial degree of understanding and acceptance of the action which we had judged it wise to take.

Cabinet Office,
27 June, 1972.