CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 25 OCTOBER 1973
at 10.30 am

PRESENT

The Rt Hon Edward Heath MP
Prime Minister

The Rt Hon Sir Alec Douglas-Home MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Anthony Barber MP
Chancellor of the Exchequer

The Rt Hon Lord Carrington
Secretary of State for Defence

The Rt Hon Sir Keith Joseph MP
Secretary of State for Social Services

The Rt Hon Margaret Thatcher MP
Secretary of State for Education and Science

The Rt Hon Peter Walker MP
Secretary of State for Trade and Industry

The Rt Hon Peter Thomas QC MP
Secretary of State for Wales

The Rt Hon Sir Geoffrey Howe QC MP
Minister for Trade and Consumer Affairs

The Rt Hon Lord Hailsham of St Marylebone
Lord Chancellor

The Rt Hon William Whitelaw MP
Secretary of State for Northern Ireland

The Rt Hon James Prior MP
Lord President of the Council

The Rt Hon Geoffrey Rippon QC MP
Secretary of State for the Environment

The Rt Hon Gordon Campbell MP
Secretary of State for Scotland

The Rt Hon John Davies MP
Chancellor of the Duchy of Lancaster

The Rt Hon Maurice Macmillan MP
Secretary of State for Employment

The Rt Hon Lord Windlesham
Lord Privy Seal
THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir John Eden MP
Minister of Posts and Telecommunications
(Items 7 and 8)

The Rt Hon Patrick Jenkin MP
Chief Secretary, Treasury
(Items 7 and 8)

The Rt Hon Francis Pym MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Item 5)
Mr H F T Smith (Items 1-4)
Mr P Benner (Items 1 and 2)
Mr J A Hamilton (Items 7 and 8)
Mr J Anson (Item 7)
Mr I T Lawman (Item 6)
Mr H F Ellis-Rees (Items 3 and 8)
Mr D Evans (Item 5)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>THE USE OF GOVERNMENT CARS BY MINISTERS</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>PARLIAMENTARY AFFAIRS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Channel Tunnel</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>FOREIGN AFFAIRS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Middle East</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Oil Supplies</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Spain</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Iceland</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>NORTHERN IRELAND</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>EUROPEAN COMMUNITY AFFAIRS</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>INDUSTRIAL AFFAIRS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Firemen in Glasgow</td>
<td>8</td>
</tr>
<tr>
<td>Item</td>
<td>Subject</td>
<td>Page</td>
</tr>
<tr>
<td>------</td>
<td>---------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>7</td>
<td>THE PROGRAMME FOR CONTROLLING INFLATION</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Stage 3</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>PUBLIC EXPENDITURE TO 1977-78</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Defence</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>Environment</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>Social Services</td>
<td>16</td>
</tr>
</tbody>
</table>
THE PRIME MINISTER said that, in the light of the recent appeal for economy in the use of oil, it was important that urgent measures should be taken and be seen to be taken to secure the maximum economy in the use of Government cars by Ministers. The Secretary of State for the Environment, in consultation with the Secretary of State for Defence and the Secretary of State for Trade and Industry, should consider what steps could be taken and how they could most appropriately be publicised. In the meantime members of the Government should keep the need for economy clearly in mind.

The Cabinet -

Took note, with approval, of the Prime Minister's statement.

2. The Cabinet were informed that serious difficulties were expected in the debate which was to take place in the House of Commons that day on the White Paper about the Channel Tunnel project. It was expected that the amendment put down by the Opposition would be defeated; but present indications were that the Government's Motion seeking Parliament's approval to the White Paper would also be defeated. A substantial number of Government supporters was likely to abstain or vote against the Motion. Of these some were opposed to the Government's European policies; others were uneasy about the implications for public expenditure; and yet others opposed the project on environmental grounds. Much would depend on the number of pro-European Opposition Members who abstained from voting. If the Government were defeated, a serious situation would arise; and a Ministerial statement as to the Government's future intentions would be necessary. Matters were complicated by the fact that on present plans the Prorogation of Parliament was to take place immediately after the division.

In discussion it was argued that a defeat in the House of Commons on this issue would be a major blow to the Government's authority; and, given the need to make very early progress with the Money Bill associated with the Channel Tunnel project, it was essential that the position should be re-established urgently. This could best be done by means of an early debate on a Motion of confidence; and, having regard additionally to the immediate damage which would otherwise be done to our standing in the eyes of our European partners and of the French authorities in particular, it was for consideration whether Prorogation should be deferred for 24 hours so as to enable such a debate to take place on the following day. On the other hand, it was argued that the Channel Tunnel was not an issue
which was regarded in the country at large as so important as to justify such drastic action, which indeed might easily be misinterpreted. A preferable course would be to arrange for the confidence issue to be raised in the course of the debate on The Queen's Opening Speech. The Government's intentions would have to be stated immediately after the division; and the arrival of Black Rod to summon Members of the House of Commons to the Prorogation ceremony would have to be carefully timed so as to ensure that any exchanges arising from that statement had been concluded.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that if the Government were defeated on the Channel Tunnel issue, means would have to be urgently considered for re-establishing their authority; otherwise their ability to give effect to major aspects of their policies, and in particular their European policies, would be called into question, and our standing in the eyes of our European partners would be seriously damaged. The right course in the event of a defeat might be to arrange for a confidence Motion to be tabled and discussed in the House of Commons during the debate on The Queen's Opening Speech, which would contain specific commitments in relation to European policies and to legislation on the Channel Tunnel. In any event, a statement of the Government's intentions would have to be made immediately after the division, and the Lord President of the Council, in consultation with the Chief Whip and the other Ministers concerned, should consider the terms of such a statement and by whom it could most conveniently be made, and should inform him urgently of the conclusions reached. In consultation with the Lord Chancellor, he should also make arrangements to ensure the suitable timing of the arrival of Black Rod.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the ceasefire appeared to be operating effectively that morning. But it remained precarious. The Israelis had made the mistake of not leaving open lines of retreat for the Egyptian forces and there were pockets of Egyptians which, being cut off from supplies, were in a perilous situation. The previous day President Sadat of Egypt had called for the introduction of peace-keeping forces from the Soviet Union and the United States. The Americans had reacted negatively, but the Russians had indicated that they might feel obliged to intervene with forces, even if they had to do so unilaterally, claiming that the behaviour of the Israelis was in violation of the ceasefire. Unilateral Soviet intervention would create a grave situation and he was considering calling in the Soviet Ambassador. Indeed, the present disposition of the Israeli and Egyptian forces made it impracticable to interpose an armed peace-keeping force of any kind between them. Before a peace-keeping force could be usefully introduced it was necessary to make room for it by separating the opposing forces. This must be part of a task to be carried out by the United Nations Truce Supervisory machinery, which would need to be augmented. There had been a move in this direction in the Security Council the previous evening, but the Council had adjourned without reaching a decision. He had asked our Ambassador in Washington to tell the American Secretary of State, Dr Kissinger, that in our view it was urgently necessary that there should be far more United Nations observers on the ground, acting under the auspices of the Secretary General, Dr Waldheim. Their immediate task would be to supervise the ceasefire. They would need to make arrangements to alleviate the supply problem facing the encircled Egyptian forces and they should seek to simplify the lines separating the belligerents. Progress might be made under a package arrangement consisting of three elements. The Egyptians might be persuaded to lift the blockade of Bab el Mandab which was denying Israeli shipping access to the Red Sea. Secondly, the exchange of prisoners, to which Israel attached particular importance, might begin. Thirdly, the disentanglement of the Israeli and Egyptian forces would meet the Egyptian interest. If progress could be made in this way it might be possible to arrange for the Israeli forces to move to positions a few miles to the east of the Suez Canal. There would then be room for peace-keeping forces to take up positions between the Israelis and Egyptians. It was too soon to say whether the peace-keeping forces would be contributed by the United States and the Soviet Union alone, or whether other contingents would be included. We had told Dr Waldheim that we would be willing to participate if that were thought to be helpful.

The Cabinet -

1. Took note of the statement by the Foreign and Commonwealth Secretary.
THE FOREIGN AND COMMONWEALTH SECRETARY said that the Saudi Arabian Ambassador had informed him that the United Kingdom was among Saudi Arabia's preferred customers for oil, and that King Faisal intended to ensure that our supplies should not suffer.

In discussion it was noted that both Kuwait and Abu Dhabi had similarly intimated that our supplies would not be cut. On the other hand the oil companies were now suggesting that by December their imports would be more seriously affected than they had earlier supposed. The true position was obscure; and clarification, whether through diplomatic channels or by other means, was urgently needed. Moreover, it might be difficult for the producing states to ensure that their friendly professions could be carried into effect: it was common practice for ships' destinations to be switched on the high seas, and there could be no guarantee that cargoes manifested for the United Kingdom would actually arrive here. The position might also be complicated by the need for us to conform with international sharing arrangements made by the Organisation for Economic Co-operation and Development.

THE PRIME MINISTER, summing up the discussion, said that there was an urgent need to establish the facts of the present position and ensure that the friendly intentions of the producing states were not frustrated. The Task Force on Oil Supplies should report, urgently, to the Ministerial Committee on Economic Strategy on the steps needed.

The Cabinet -

2. Invited the Secretary of State for Defence to arrange for the Task Force on Oil Supplies to report urgently to the Ministerial Committee on Economic Strategy -

i. The best assessment of current and prospective supplies.

ii. The action needed to ensure that the intentions of producing states to maintain supplies to the United Kingdom were fulfilled.
THE FOREIGN AND COMMONWEALTH SECRETARY said that a recent conversation he had held with the Spanish Ambassador had been moderately reassuring since the Ambassador had emphasised the desire to develop relations and had seemed to reflect a more relaxed attitude on the part of his Government in regard to Gibraltar.

The Cabinet -

3. Took note of the statement by the Foreign and Commonwealth Secretary.

THE PRIME MINISTER said that we might succeed in reaching an agreement with the Icelandic Government in the fairly near future on terms which would offer a reasonable prospect of an annual catch in the region of 130,000 tons.

The Cabinet -

4. Took note of the statement by the Prime Minister.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that progress continued to be made in his talks with the Unionist Party, the Social Democratic and Labour Party (SDLP) and the Alliance Party on the formation of an Executive. Personal relations between the leader of the Unionist Party, Mr Faulkner, and the SDLP leadership had shown a marked improvement; Mr Faulkner had been playing a useful role in the talks, and it now seemed to be accepted that he should fill the office of Chief Executive. When the talks continued the following week they would have to deal with the difficult problem of the large number of persons held in detention. Despite the difficulties, it was possible that the talks would lead to the formation of an Executive within the next month or so. The security situation in Belfast was relatively good; it was a little more difficult in Londonderry; and there were continuing problems in the Border areas.

The Harland and Wolff shipyard had again run into financial difficulty and Government assistance, of the order of £10 million, was necessary if the company was to be able to continue trading within the law. He and his colleagues most closely concerned had decided in principle that assistance should be provided, subject to stringent safeguards.
The Cabinet -

Took note of the statement by the Secretary of State for Northern Ireland.
EUROPEAN COMMUNITY AFFAIRS

5. THE CHANCELLOR OF THE DUCHY OF LANCASTER said that the meeting of the Council of Ministers (Agriculture) on 22-23 October had taken no important decisions. The main subject at issue had been the draft directive on Mountainous and Other Less Favoured Areas and a decision on this had been deferred to the next meeting. The Commission had announced that their proposals on the review of the Common Agricultural Policy would not become available before mid-November and this delay would add to the pressure of business towards the end of the year.

The Cabinet -

Took note, with approval, of the statement by the Chancellor of the Duchy of Lancaster.
6. THE SECRETARY OF STATE FOR SCOTLAND said that the mass meetings of firemen in Glasgow on the previous day had decided almost unanimously to take strike action from 8.00 am on 26 October. It was, however, possible that some of the men might nevertheless report for work. The Parliamentary Under-Secretary of State for Home Affairs and Agriculture had met national officers of the Fire Brigades Union in Glasgow, who had urged that the Government should have no direct dealings with the strikers. The Parliamentary Secretary was also discussing the situation with the Glasgow Corporation in order to establish the facts of the dispute; there was no question of the Government's attempting to conciliate, particularly since it now appeared that the allowance already offered to the men by the Corporation might not comply with the Pay Code. The firemen's leaders had said that access by their officers to the fire appliances would not be impeded, despite picketing, nor would other local fire brigades. The Corporation were hoping that it might be possible to obtain some assistance from brigades at Glasgow Airport and at the Hillington Industrial Estate. The Servicemen who would provide an emergency service, if necessary, were now at Edinburgh and undertaking familiarisation training; they would be ready if and when needed. He proposed to make a statement in the House of Commons that afternoon regretting the proposed strike action, appealing to the men to reconsider their decision and indicating that the Government were taking immediate measures to be ready to help safeguard life and property in Glasgow, if necessary.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed that the Secretary of State for Scotland should make a statement that afternoon as proposed, emphasising that this was an unofficial strike which had been denounced by the Fire Brigades Union.

The Cabinet -

Tack note, with approval, of the summing up of their discussion by the Prime Minister and invited the Secretary of State for Scotland to be guided accordingly.
7. The Cabinet considered a memorandum by the Chancellor of the Exchequer (CP(73) 112), to which was attached a note summarising the amendments which it was proposed to make to the draft Price and Pay Code for Stage 3 in the light of consultations with interested parties. They also had before them a further memorandum by the Chancellor of the Exchequer (CP(73) 114), to which was attached a revised text of the Stage 3 Code incorporating these amendments.

THE CHANCELLOR OF THE EXCHEQUER said that since the publication, on 8 October, of the Consultative Document on the draft Price and Pay Code for Stage 3 (Cmd 5444) consultations had been held with a wide range of interested organisations, as well as with the Pay Board and the Price Commission. In considering what amendments should be accepted, the Ministers concerned had had in mind the representations made by Industry that, on pay, the Code was biased in favour of the public sector as employer; and that, on prices, it should be designed to promote efficiency and investment, and there should be improvements in the administration of the control. Developments since the publication of the draft Code had underlined the need to avoid further substantial relaxations on either pay or prices. On pay, the amendments proposed were mainly technical, including a new limit on payments under pre-standstill profit-sharing schemes. It had been concluded that amendments to widen the action on pay anomalies, for example by extension to the Armed Forces, could not safely be made. The position of the Armed Forces could be considered at the time of their review in April 1974. On prices, a number of changes had been made in the interests of efficiency or investment. Amendments had also been made to the paragraph limiting the reduction of profits under the Code; and the period for consideration of applications by the Price Commission had been reduced. Paragraph 53, which was intended to restrict subdivision of an enterprise for the purpose of the Code, had not struck a wholly satisfactory balance between preventing artificial subdivision and permitting it when it was genuine; and the drafting of this paragraph had been further improved since the circulation of CP(73) 114. Subject to the approval of the Cabinet, the Order embodying the Code would be made at the end of the week and published on 30 October, to take effect for prices on 1 November and for pay on 7 November. The amendments would be explained in a Press notice, and full information would be issued by the Pay Board and the Price Commission.

In discussion the following points were made -

a. There was a case for exempting car parking charges from the Code, at least as regards charges levied by local authorities. Increases in parking charges were a central feature of transport policy, and had been relied on to achieve
public expenditure savings. While the extra cost would fall on consumers, they also had an interest in avoiding traffic congestion. On the other hand, exemption from the Code would leave decisions about charges wholly in the hands of the local authorities, and the prospect of completely uncontrolled parking charges, at a time when petrol charges were also rising sharply, would cause considerable public dismay. It would be preferable therefore to leave the matter for reconsideration in the light of the outcome of the current review of transport policy.

b. The Secretary of State for Northern Ireland had set out, in his minute dated 24 October to the Prime Minister, the case for amending the Code to allow additional payments to be made to the Royal Ulster Constabulary (RUC). The size and effectiveness of the RUC was crucial to the achievement of the Government's political objectives in Northern Ireland, including the restoration of law and order and the withdrawal of the Armed Forces. A small payment, on the lines of that conceded to the London police, would not satisfy their full claim, but would be some recognition of the quite exceptional nature of the duties which the RUC were required to undertake. It would also be helpful if the RUC could be exempted from estate duty if killed as a result of terrorist activity, as was already the case for the Army. On the other hand, while the RUC could claim to be exceptional in that they were under orders to go in and deal with very difficult and dangerous situations, members of other public services in Northern Ireland, such as Post Office workers, were also in practice subject to the same dangers, and had so far fully co-operated in providing supporting services for the RUC. The RUC should also gain more than other police forces from the "unsocial hours" concession in the Pay Code, although there was some uncertainty whether the negotiations in the Police Council would actually produce this result.

c. The Pay Board had refused to approve national agreements allowing payments to be made to administrators in the National Health Service (NHS), who had been involved in additional work and responsibility connected with the NHS reorganisation. Similar payments had been made to local authority officers in connection with the reorganisation of local government, but there was no other outstanding case similar to that of the NHS officers, who were only claiming an agreed recompense for extra work which had already been done. If the Code were not amended to allow the payments to be made retrospectively, this would be fiercely resented by
the NHS staff concerned, and they would withdraw their co-operation in bringing about the NHS reorganisation, with consequent damage to Government policy objectives in this field. On the other hand, retrospective payments had been denied to other groups, and it would appear indefensible to allow backdating for one small group of relatively high-paid staff when it was not being granted to, for example, low-paid civil servants. Moreover, a concession on the lines suggested would provide further occasion for the general criticism already voiced by industry that the Code was biased in favour of the public sector, and did not take account of equally difficult situations which arose in the private sector.

d. There was an outstanding issue relating to the remuneration of NHS opticians, which was still under discussion.

e. The provision in the Code permitting new schemes for efficiency payments had been severely criticised by the Confederation of British Industry, the Trades Union Congress, and the National Union of Mineworkers, on the grounds that they would not provide sufficient incentive to introduce new schemes, and that the detailed arrangements proposed were not practical. The mineworkers had suggested that the limit on additional payments under the scheme would introduce an element of uncertainty, since the individual worker would not know when the limit had been reached. It had also been suggested that it was unreasonable to expect workers to wait for three months before they could be sure whether they would obtain any benefit under the scheme. The arrangements would in any case need to be approved by the Pay Board in advance, and in those cases where information about the results of the scheme could be provided more quickly, there might be advantage in giving the Pay Board discretion to allow payments after a shorter delay. There might also be advantage in consulting an industrialist with experience of these matters, to verify that the arrangements now incorporated in the Code would be workable in practice. On the other hand, it seemed unlikely that the point raised by the mineworkers would be a serious problem, since the efficiency scheme in the coal industry was a national agreement whose benefits were distributed throughout the entire work force. The provisions now incorporated in the Code had been the outcome of considerable discussion with the Pay Board. They were intended to encourage the introduction of new schemes that would produce genuine results, while discouraging the schemes which would not. There was already a considerable body of
opinion that the Pay Code erred on the side of generosity, and any further relaxation on efficiency payments might be seen as creating a loophole which would further increase the overall rise in earnings during Stage 3.

The new limit on payments under pre-standstill profit-sharing schemes would not prevent payments continuing to be made under such schemes. It would however restrict to a maximum of £350 the increase in such payments during Stage 3.

In further discussion, the Cabinet were informed that the Price Commission had agreed to a further increase of ½p in the price of a standard loaf of bread. Although it had been agreed that the Commission should cease to announce individual price increases during Stage 3, they had felt that it would be imprudent to begin by refusing to announce an increase of this importance, and they were therefore proposing to announce it on 29 October. It was suggested in discussion that the fact that this new increase had been approved, and yet another increase had already been applied for, added urgency to the need to devise a system under which increases in the price of bread would be made at less frequent intervals, even if they were then larger in amount. This should be possible under the Code, if both the industry and the Price Commission were prepared to co-operate together. Moreover, given that the price of bread was bound to increase substantially over the next few months, it had already been agreed that there would be advantage in making this clear in advance rather than having to explain each successive price increase. This point had indeed already been made in Ministerial speeches, although without quantifying the total increase now expected.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Code should not be amended to exempt car parking charges, although this point might be reconsidered in the light of the outcome of transport policy review. The Cabinet sympathised with the case for a special payment to the RUC, but recognised the difficulties that this might present in dealing with other public services in Northern Ireland. It was possible that the problem might be solved by use of the provision in the Code concerning "unsocial hours". The Secretary of State for Northern Ireland should discuss further with the Secretary of State for Employment whether it would be possible to find a form of words to meet the case of the RUC in a way which would not be open to repercussions in other public services; but if this could not be done it would be necessary to leave the matter as it stood. The Secretary of State for Northern Ireland should also discuss with the Chancellor of the Exchequer his proposal concerning estate duty exemption. The Cabinet considered that, on balance,
no provision should be made for retrospective payments to administrators in the NHS. They noted that discussions were still continuing on the remuneration of opticians. On the provisions permitting new schemes for efficiency payments, the Secretary of State for Employment should discuss further with the Pay Board whether it would be possible to relax the condition precluding payment during the first three months of the scheme without effectively weakening the safeguards against abuse. The Secretary of State should also, in consultation with the Chancellor of the Exchequer, seek to enlist the advice of an independent and experienced industrialist to verify whether these provisions would be practical to operate in their present form. Subject to resolution of these points the Chancellor of the Exchequer should arrange for the Order embodying the Code to be made, as proposed in CP(73) 112. The Lord President should discuss urgently with the Minister of Agriculture whether the increase in the price of bread to be announced on 29 October could be deferred by arranging for increases to be made less frequently, even if of greater amount; and whether a clearer warning could be given in Ministerial speeches of the likely increases which would need to be made during the next few months.

The Cabinet -

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

2. Subject to any amendments necessary in the light of further discussion of the outstanding points noted by the Prime Minister in his summing up, invited the Chancellor of the Exchequer to arrange for the Price and Pay Code for Stage 3 to be made and published as proposed in CP(73) 112.

3. Invited the Lord President to discuss with the Minister of Agriculture the action to be taken regarding increases in the price of bread, as indicated by the Prime Minister in his summing up.
8. The Cabinet considered a memorandum by the Chancellor of the Exchequer (CP(73) 108) about the programme for public expenditure to 1977-78. They also had before them memoranda by the Secretary of State for Defence (CP(73) 113) about defence budget targets, by the Secretary of State for the Environment (CP(73) 111) about local authority expenditure in England and Wales in 1974-75, and a collective brief by the Central Policy Review Staff (CP(73) 109).

THE CHANCELLOR OF THE EXCHEQUER said that the programme for public expenditure in the years to 1978 which was due to be published in December would be of crucial importance to the Government. If their political, social and economic policies were to bear fruit, they must maintain a reasonable level of expansion, and reduce the rate of inflation. To this end substantial productive investment must continue, and every effort must be made to redress the current deficit in the balance of payments, which even before the recent increase in oil prices was running at about £1,000 million. Since the previous White Paper had been published, the increases in world prices of commodities, food and oil had implied a serious loss of real income for the United Kingdom, and a reduced capacity to meet all demands. If the balance of payments were not to be restored, international confidence in sterling would be put at risk, and at a critical moment for the success of their policies the Government might be faced with the need to impose stringent measures of deflation. At the same time, room must be made for some improvement in the rate of personal consumption; if an annual rate of something like 3½ per cent in real terms could not be achieved there would be serious consequences both for the Government’s policy on incomes and more widely. These considerations together meant that the rate of growth in public expenditure must be restrained. Indeed, the general tenor of comment by qualified observers was that public expenditure ought to be cut back. He believed this to be true; but he recognised that such a course would involve very great difficulties for his colleagues. It was however essential that the totals of public expenditure programmes in the forthcoming White Paper should not exceed in real terms those published the previous December, and that the projections for 1977-78 should be consistent with that rate of growth. As the Central Policy Review Staff had pointed out, this policy did not, for most programmes, imply more than a slowing down in the rate of expansion: there would still be room for increases in real terms from year to year; but the rate of increase would remain steady.

The Cabinet, following their discussions in July, had invited him and the Chief Secretary, Treasury, to hold bilateral discussions with the Ministers in charge of spending programmes. These had now been completed. Although the Cabinet had earlier accepted the necessity of reconstituting a true contingency reserve, he had found it
necessary, in order to accommodate the current programmes, to reduce the contingency reserve to the barest minimum, as well as to make the most optimistic assumptions about future levels of assistance to the nationalised industries, the disappearance of the regional employment premium, an increase in the price of milk in October 1974, and the size of shortfalls in actual expenditure.

One of the most disturbing features of the review was the large increase in the current expenditure of local authorities, over which the Government had little control. The level of expenditure for 1974-75 which had been reduced by some £81 million to meet the economies which the Government had announced in May now seemed likely to be exceeded by £140 million. The Cabinet would wish to pay close attention to this problem when they came to discuss the level of rate support grant for that year. Apart from this, he had been able to reach broad agreement with his colleagues over their spending programmes, subject to the adjustment of details, except in the fields of the social services, environment and defence. He did not however propose that the Cabinet should on this occasion seek to determine the individual expenditure programmes; but he asked them to agree that the yearly totals in the forthcoming White Paper should not exceed, in real terms, the corresponding totals in the White Paper for 1972 (Cmnd 5178); and that this decision could if necessary be reflected in public statements about the economy.

In discussion it was suggested that even the measure of restraint proposed by the Chancellor of the Exchequer might not allow the Government sufficient room to accommodate desirable expenditure in the coming year. It was noteworthy that the economies achieved in May had already been swallowed up by increased expenditure, often on programmes unrelated to those where cuts had been made. It might indeed be for consideration whether priority should continue to be given in subsequent years to the objective of keeping down prices by subsidies to the nationalised industries; and the convention of publishing expenditure programmes five years ahead undeniably restricted the Government's freedom of action and made no allowance for the changed circumstances in later years that might be expected from the success of the Government's economic strategy. Nonetheless, although there were strong arguments on economic grounds for achieving the overall degree of restraint which the Chancellor proposed, it might be inadvisable for the Government to commit itself to a given total of public expenditure before agreement had been reached on individual programmes, and their mutual relationship had been assessed.

In discussion of individual programmes the following points were made,
There was still a large difference in the later years of the programme between the proposals put forward by the Chancellor of the Exchequer and those acceptable to the Secretary of State for Defence. But our defence capability was a major factor in our international standing; and if the cuts proposed in the defence budget were likely to pose a choice between the maintenance of conventional forces and the nuclear deterrent, it might be necessary to consider savings even beyond present levels on other programmes, such as overseas aid.

The estimates of local authority expenditure for 1974-75 indicated likely rate increases of the order of 8 or 9 per cent; and the Cabinet had already discussed the possibility of shifting more of the rate burden from the domestic ratepayers on to Industry and commerce. A reduction in public expenditure on housing would be more acceptable if funds raised privately for housing associations were not included as public expenditure. Other savings would depend largely on decisions to be taken in the field of transport policy.

The Secretary of State for Social Services was prepared to meet the total of savings proposed, but the choice would depend upon a difficult assessment of the political consequences.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were disposed to accept the Chancellor of the Exchequer's objectives in principle. They would wish to reflect on the points which had been made in discussion and to resume their discussion at an early opportunity with a view to settling the programme as a whole. Meanwhile the Chancellor of the Exchequer and the Chief Secretary, Treasury, should pursue their discussion of outstanding issues with individual Ministers concerned. At their next discussion the Cabinet would wish to be apprised of the broad political considerations involved in any areas which remained to be settled; and it would assist them if the Chancellor of the Exchequer, in consultation with the Ministers concerned, could circulate a further paper identifying those issues.

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 to circulate a further paper on the issues which remained for decision, and their political implications.

Cabinet Office
26 October 1973