CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 11 JULY 1974 at 11.00 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy (Item 1)

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon Fred Peart MP
Minister of Agriculture, Fisheries and Food

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

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

Mr Robert Sheldon MP
Minister of State, Civil Service Department (Item 6)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Item 2)
Mr H F T Smith (Item 2)
Mr J A Hamilton (Items 4-6)
Mr K R Stowe (Items 1 and 3)
Mr H F Ellis-Rees (Item 4)
Mr D Evans (Item 2)
Mr R G S Johnston (Item 5)
Mr R L Baxter (Item 6)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PARLIAMENTARY AFFAIRS</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>FOREIGN AFFAIRS</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Portugal</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>European Community: Beef</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>BUILDING SOCIETY FINANCE</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>ASSISTED AREA BOUNDARIES</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>PUBLIC OWNERSHIP OF THE SHIPBUILDING AND AIRCRAFT</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>INDUSTRIES</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>LONDON WEIGHTING ALLOWANCE</td>
<td>8</td>
</tr>
</tbody>
</table>
1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. The debate on the Motion on the Counter-Inflation (Abolition of Pay Board) Order could prove difficult since it was likely that the Conservative Opposition and the Liberals would oppose it.
2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the resignation of the Portuguese Prime Minister, Dr Palma Carlos, and four of his colleagues reflected divisions within the Government on internal policies, particularly in economic matters. The Socialist Foreign Minister, Dr Soares, was in a position of some difficulty; there was a measure of agreement between Communist and non-Socialist members of the Government. The Armed Forces Movement at present tended to support the right wing on internal matters, but sided with the left wing about the need to move quickly towards decolonisation of Portugal's overseas territories. There were some indications that General Spinola might be tempted in due course to establish a presidential form of government; but at present the most likely outcome was for Dr Carlos to be asked to attempt to form another Government.

The Cabinet -

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

The Cabinet was informed that the Council of Ministers (Agriculture) on 15-16 July would be considering proposals by the Commission for changes in the arrangements for beef under the Common Agricultural Policy (CAP). The Commission proposals presented potential political risks; they included the possibility of sales of cheap beef for certain classes of organisations and consumers within the Community, and they were of special importance to the United Kingdom both because of their relationship to our proposals for the renegotiation of the CAP and because of the great sensitivity of the current beef situation. It would be particularly important to ensure that no decisions were taken by the Commission which might be shown to be comparable to the decision in 1973 to sell 200,000 tons of cheap butter to the Soviet Union.

THE PRIME MINISTER, summing up a brief discussion, said that the Minister of Agriculture would be circulating a minute to those of his colleagues most concerned setting out the approach he proposed to adopt on 15-16 July in the Council of Ministers, where the task would not be easy. It was important for the Government's policy towards the Community Beef arrangements to be fully understood and he would himself be making an appropriate reference to the subject in a forthcoming public speech. The Foreign and Commonwealth Secretary would be considering whether, in the meeting of the Council of Ministers (Foreign Affairs) on 22-23 July, to draw attention to the problem in the Community beef market as a way of exposing further the failings of the CAP and thus helping to promote our renegotiation objectives.

The Cabinet -

2. Took note.
3. THE CHANCELLOR OF THE DUCHY OF LANCASTER said that in his further meetings with representatives of the Building Societies Association he had asked them to maintain the mortgage rate at 11 per cent until about the end of the year; and in order to help them cope with the resultant pressure on building society margins had offered them a Government reserve certificate, to be encashable at the end of a society's current financial year if it were then needed, to ensure that the society's reserve ratio did not fall below the level which qualified it for trustee status. The building societies had rejected the proposed scheme, as a measure likely to lead to the Government having too much control over their activities, and had said that they expected to cope with the problems of margins, without raising the mortgage rate, for a few more months. They had agreed to recommend to their Council meeting on Friday 12 July, that the mortgage rate should be maintained at 11 per cent for three months on the understanding that matters could be further reviewed thereafter. It seemed likely that the Council would accept this recommendation, and that they would then ask the Government to make available the fourth £100 million tranche of the £500 million line of credit. It was also likely that the Council would want the Government to release the fifth tranche in August and he proposed that the Government should do so if the request were in fact made.

THE PRIME MINISTER, summing up a brief discussion, said the Cabinet congratulated the Chancellor of the Duchy of Lancaster on the outcome of these negotiations. The probability of the building societies holding their mortgage rates was conditional on the movement of interest rates generally but it was very satisfactory that the rate looked as though it would be held until the autumn. The Cabinet agreed that the further tranches of the £500 million line of credit should, if required, be made available by the Environment Secretary in consultation with the Chancellor of the Exchequer.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
4. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(74) 68) about possible changes to assisted area boundaries.

THE CHANCELLOR OF THE EXCHEQUER said that the Ministerial Committee on Economic Policy (EC) had recently discussed possible changes to assisted area boundaries on the basis of a report by officials which recommended that no changes should be made for the present, but that the matter should be looked at again towards the end of the year in the light of decisions on steel closures and of possible changes in the regional employment pattern. EC had agreed that there was a strong case for a fundamental review of assisted area policy at an appropriate time; but were divided on whether there should be some immediate changes in advance of such a review. If immediate changes were to be made the proposal was that Merseyside and North West Wales should be upgraded from development to special development areas, Edinburgh and the Cardiff travel to work area (excluding Newport) from intermediate to development areas, and Chesterfield should become an intermediate area. The cost of such a package would be about £20 million a year. The economic arguments in favour of it were not strong - it would only tend to dilute the effectiveness of existing measures - and though political advantage might be gained from making certain changes, his colleagues would wish to bear in mind that with the present constraints on public expenditure the cost would have to be met from savings in other programmes.

THE SECRETARY OF STATE FOR INDUSTRY said that the proposals now before the Cabinet stemmed from his original suggestion that changes should be made to correct three outstanding anomalies - Merseyside, Chesterfield and Edinburgh - for each of which there was a strong case both in the light of their industrial and employment problems and in comparison with similar areas which already enjoyed a higher degree of assistance. In their discussion EC had accepted that there were strong arguments for including North West Wales and Cardiff in the package; though there might be some risk that the upgrading of Cardiff would be publicly interpreted as a premonition that the East Moors steelworks would be closed. At a cost of about £20 million a year these changes would represent a modest but useful expenditure on direct assistance to areas of particular concern to the Government, and might with advantage be included with the other measures to deal with the current economic situation that the Chancellor of the Exchequer was at present considering. They would also bear out the undertaking in the Labour Party Manifesto, reinforced by the commitment in The Queen's Speech, that the Government would give a high priority to its regional policies.
THE SECRETARY OF STATE FOR SCOTLAND said that he had serious doubts about the value of these changes on regional grounds. From such a pattern Scotland was bound to lose. Of the £20 million a year that they would cost, £19 million would go to England and Wales, and the total population of the special development areas would be increased by over three-quarters of a million further diluting the attraction of the existing areas: a glance at the map showed that the areas now proposed for upgrading would act as a barrier to mobile industry, which was mainly to be found in the South East quarter of Great Britain, from moving further North to areas of greater need. Unless additional resources were to be devoted to Scotland, he would find it difficult to agree the proposals.

THE SECRETARY OF STATE FOR WALES said that on economic grounds there was a strong case for upgrading the status of South East and North East as well as North West Wales; but he recognised that the extent of the problem in North East Wales would depend largely on the outcome of the steel reorganisation, and at present he did not wish to do more than call attention to it. In the South East there had been a long campaign for improving the status of Cardiff, and although he recognised that a final decision on steel closures had still to be made, there must inevitably be a substantial loss of jobs in the next two years. Moreover, if Cardiff were to be treated dissimilarly from Edinburgh, the Government would be seriously criticised by Welsh opinion and the Nationalist Movement would benefit accordingly. The case for upgrading North West Wales was very strong: a comparatively small amount of money was at stake; but traditional industry was declining inexorably, unemployment was long established and now rising, and workers were drifting away.

In discussion there was widespread agreement that the whole pattern of regional assistance needed a thorough review; but it was recognised that such a review could not well be undertaken before the autumn. In the meantime the realistic choice lay between making all the changes canvassed, or none of them. It was urged that there were strong arguments in favour of each change, and there would be clear political advantage to the Government in demonstrating its concern for these areas: a modest degree of regional reflation would chime with the needs of the present economic situation. Although the changes would have to be notified to the Commission of the European Economic Community, it was not thought likely that any objection would be raised to them. On the other hand it was argued that changes in assisted status would bring no immediate benefit to the areas concerned, and the political advantage that would be gained in them might well be offset by ill-feeling among areas that had not been selected; there was also a risk of raising unnecessary fears about their economic condition and prospects. Granted the need for a thorough review of regional
policy, it would be unwise to anticipate its conclusions by making short-term changes whose benefits might prove to be illusory: there were more effective ways in which expenditure of this order could immediately be deployed in support of the Government's policies.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet accepted that if changes to assisted areas were now to be made, they should be those identified in C(74) 68; but the majority of the Cabinet was not at present in favour of such a step. It would in any case be inappropriate to take a decision in this field before they had been informed of certain economic measures which the Chancellor of the Exchequer was considering. If desired, the question of changes in assisted area boundaries could be reopened after the Chancellor's intentions were known.

The Cabinet -

Agreed not at present to pursue the changes to assisted area boundaries identified in C(74) 68.
5. The Cabinet had before them a memorandum by the Secretary of State for Industry (C(74) 69) about interdepartmental studies by officials of the proposals for taking into public ownership the shipbuilding and aircraft industries.

THE SECRETARY OF STATE FOR INDUSTRY said that at its meeting on 4 July (IDV(74) 2nd Meeting), the Ministerial Committee on Industrial Development had agreed in principle that the shipbuilding industry (including ship repairing and marine engineering) and aircraft industry should be taken into public ownership. A number of detailed points required further study and he had been invited to arrange for this to be carried out by two interdepartmental groups of officials. The shipbuilding group would study the structure of the proposed nationalised body; the role of the National Enterprise Board (NEB); the special requirements of warship building; the possibility of expanding into chemical as well as marine engineering; and the timing to be followed. The future of Harland and Wolff however would be excluded from the group's terms of reference, since this was best considered in the context of the economy of Northern Ireland as a whole.

The group on the aircraft industry would consider the form of legislation needed; the role of the NEB; the corporate structure of the new body; the firms to be nationalised; the reserve powers needed to safeguard military aircraft and guided weapon capability; and the likely future size and shape of the industry. Short Brothers and Harland would be excluded from the review. The principles and timing of compensation for both shipbuilding and aircraft nationalisation would be separately considered by the Department of Industry and the Treasury.

In discussion, it was pointed out that if guided weapons were included with the aircraft industry the Government might be faced with awkward choices over authorising the supply of arms to foreign countries. A distinction could be drawn between licensing private firms to sell arms, including guided weapons, and direct Government participation through a nationalised body. On the other hand, it was argued that the Government already played a significant part in arms sales; engines and airframes for military purposes were sold to foreign Governments by Rolls-Royce and Short Brothers and Harland, in which the Government directly held shares. It was unlikely that nationalisation in itself would call for any review of the policy for arms sales to overseas countries.

In further discussion, it was pointed out that the present proposals envisaged separate Bills for the nationalisation of the shipbuilding industry and the aircraft industry; and a new Industry Bill. Whether a place could be found for all three in the legislative programme for the next Session required further consideration, and no commitment to this could be given.
THE PRIME MINISTER, summing up a brief discussion, said that the Secretary of State for Industry should arrange for the group on the aircraft industry to consider whether it was practicable and desirable to differentiate guided weapons from aircraft, in view of the points made in discussion. This aspect should then be discussed further in the Ministerial Committee on Industrial Development.

The Cabinet -

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

6. THE SECRETARY OF STATE FOR EMPLOYMENT said that several difficulties had arisen in applying the recommendations of the Pay Board report on London weighting. The Government should work out a consistent line for handling the various negotiations. It would be wrong for the Government to encourage an employer to pay more than the allowances recommended by the Pay Board, but it would be unwise to seek to impose any absolute veto as he had promised that there would be free negotiations. The Government should let the negotiations continue and see what conclusion they reached. Meanwhile they should not attempt to dictate the outcome, although they might say in general terms that they would wish the negotiators to remain within the total sums recommended by the Pay Board.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that the Ministerial Committee on Economic Policy had agreed that the Ministers responsible for particular groups should seek to ensure that offers on London weighting were consistent with the principles and did not exceed the totals set out in the Pay Board report. He had acted on that decision. Although the Teachers' Remuneration Act gave him the right of veto he had avoided any suggestion of a veto in this case. He had persuaded the employers to remain within the Pay Board total at the Burnham Committees, but the negotiations would probably break down. Though the inner London employers and those in the surrounding counties might agree to remain within the Pay Board limits, the outer London employers would wish to pay more. He would find it necessary to bring the matter back to the Cabinet if other groups broke through the limit or if the teachers were to decide to call an official strike to begin next term.
In discussion it was mentioned that there were also problems affecting the police and the local authorities. It was argued that although it was Government policy to try to ensure that the total in the Pay Board report was not exceeded, any suggestion of a Government veto would cause the Trades Union Congress to discuss that rather than the merits of the case for paying more or less to those who worked in London.

THE PRIME MINISTER said that there had not been time to reach any conclusion and that the question should be brought back to the next meeting of the Cabinet if there were any further developments.

The Cabinet -

Took note.

Cabinet Office

11 July 1974