CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 25 MARCH 1975
at 9.30 am

PRESENT

The Rt Hon Edward Short MP
Lord President of the Council
(In the Chair)

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

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 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 Fred Peart MP
Minister of Agriculture, Fisheries
and Food
The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon John Silkin MP
Minister for Planning and Local Government

ALSO PRESENT

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury (Item 6)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Items 3 and 4)
Mr B C Cubbon (Item 4)
Mr H F T Smith (Item 3)
Mr P Benner (Items 1, 2 and 5)
Mr J A Hamilton (Item 6)
Mr E J G Smith (Items 1, 3 and 5)
Mr J A Marshall (Item 6)
Mr N P Brecknell (Item 4)
Mr I A W Fair (Item 4)

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1. The Cabinet were informed of the business to be taken in the House of Commons during the week following the Easter Recess. It was noted that there would be a free vote at the end of the debate on the Motion to approve the White Paper on Membership of the European Community and the Government's recommendation to continue membership, which was to take place on 8 and 9 April.

2. The Cabinet resumed their discussion of Civil Service pay. Their discussion is recorded separately.

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that he had discussed the situation with the American Secretary of State when the latter had stopped briefly in London on his return to Washington after the failure of his latest mission to the Middle East. Dr Kissinger had been in a very pessimistic mood. It was important to avoid any public impression that we attributed blame to one side or the other. It seemed likely, however, that the failure of the mission was finally brought about by differences within the Israeli Cabinet. Dr Kissinger had obtained Egyptian agreement to a declaration on non-belligerency in return for Israeli withdrawal from the passes and the oilfields. After protracted discussion the Israeli Government had decided that the declaration in the form proposed did not meet their requirements. We must now expect a period of heightened tension in the Middle East with the attendant danger of confrontation. President Sadat of Egypt would have less room for manoeuvre and would probably feel obliged to follow a more extreme Pan-Arab line. There was a reasonable prospect that fighting would not be resumed during the next few months: the next step would probably be a resumption of talks in Geneva, possibly on a limited agenda. The role and status of the Palestine Liberation Organisation would be an important issue. A reimposition of the oil embargo was not likely in present circumstances but it was likely, in some form, if war were to break out again.
THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in Portugal was confused and potentially dangerous. The Armed Forces Movement was subject to internal stresses and was unpredictable. Reports within the past few days that changes would be made in the Portuguese Government which would represent a step towards the establishment of a totalitarian regime controlled by the Communists, had caused alarm within the North Atlantic Alliance. He had not supported suggestions that Soviet Ambassadors in Alliance capitals should immediately be called in to receive representations and had counselled against any action which could be regarded as interference in the composition of the Portuguese Government. He had, however, instructed our Ambassador in Lisbon to urge upon the President of Portugal, Dr Costa Gomes, the importance of holding the general elections in Portugal on 25 April as planned, and to express our hope and expectation that no changes would be made in Portugal before the elections that would prevent these from being held in a stable and balanced atmosphere. Some other members of the Alliance and the European Economic Community would be sending similar instructions to their Ambassadors.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary.
4. The Cabinet had before them a note by the Prime Minister (C(75) 43), to which was attached a draft of a White Paper on membership of the European Community.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the White Paper was a supporting document to the Prime Minister's Parliamentary statement of 18 March. It was right that the Government should provide a comprehensive and authoritative statement of the facts about the renegotiated terms and of the Government's assessment. The draft was based on the conclusions the Government had reached and thus reflected the view of the majority in the Cabinet who were in favour of continued membership. The White Paper would be followed by a popular version, which would be distributed to all households before the referendum.

Chapter 2 gave the full details of the renegotiated terms. Chapter 3 set out certain other important aspects of Community development. Chapter 4 dealt with the issue of sovereignty on the lines of the Lord President's report to Cabinet following the study by the Legislation Committee. Chapter 5 set out some wider considerations, including the probable consequences of a decision to withdraw from the Community - an aspect which was attracting increasing public attention.

In discussion it was recognised that those Cabinet members who were unable to support the Government's recommendation on European Community membership were also unable to accept much of the substance of the White Paper, which had been drafted as a statement of the Government's case. In considering the draft text, a number of amendments to the draft were agreed. The following main points were made -

a. The draft used the word "our" somewhat ambiguously. The text should be amended where necessary to make clear whether this word referred to the Government or to the country as a whole. References to the "Labour Government" should be confined to references to the Government of 1964-70.

b. Chapter 4 should be amended in accordance with the corrections which the Lord Chancellor had indicated. The role of Parliament, in relation to the introduction of direct elections to the European Assembly and other institutional changes, should be made clear on the lines suggested separately in writing by the Lord Advocate. This Chapter should also mention that United Kingdom courts were required to apply Community law.
c. The references in Chapter 4 to the 1967 White Paper on the legal and constitutional implications of membership might be embarrassing, because of the objections raised by the Government, when in Opposition, during the passage of the European Communities Act 1972. But on balance it seemed right to acknowledge the clear analysis in the 1967 White Paper. Nothing in that White Paper, or in subsequent developments, altered Parliament's undoubted right to exercise its sovereign law-making powers.

d. Paragraph 5.2 should make it clear that the improvements in Community policy towards the developing world meant that countries such as India were now being helped, in addition to African countries.

e. The final paragraph should start with a statement that if the referendum went in favour of continued membership, the Government would be ready to play a "full part in developing a new and wider Europe"; as stated in the Labour Party Manifesto of February 1974. The last sentence of the present draft should be deleted.

f. On balance it seemed desirable to publish the White Paper before Easter; later publication could be severely criticised in Parliament, in view of the debate arranged for the week beginning 7 April. But the Foreign and Commonwealth Secretary should have an opportunity of examining the final text before it went to the printer. This meant that publication could not take place before Thursday 27 March; but it was not considered that publication on that date would carry overriding disadvantages from the publicity point of view.

OF THE COUNCIL

THE LORD PRESIDENT, summing up the discussion, said that the draft should be amended to take account of the corrections made by the Lord Chancellor in Chapter 4 and of the other amendments agreed in discussion. Subject to the Foreign and Commonwealth Secretary's approval of the final text, the Cabinet agreed that the White Paper should be published on Thursday 27 March.

The Cabinet -

1. Took note, with approval, of the Lord President of the Council's summing up of their discussion.

2. Authorised the publication on Thursday 27 March of the White Paper on membership of the European Community.
5. The Cabinet considered a note by the Prime Minister, circulated under cover of C(75) 41, setting out proposed guidelines on the procedure to be followed by Ministers during the period up to the referendum.

In general discussion there was wide support for the view that the proposed guidelines were insufficiently flexible; and that, if they were rigidly applied in their present form, they could increase the difficulties of the Government in present circumstances. It would be better to place greater emphasis on relying on the good sense and responsibility of all Ministers to act in such a way as to minimise the damage caused by the differences between them.

As to arrangements relating to the referendum campaign in the country, it was suggested that parts of the guidelines set out in paragraph 2(1)-(4) would prove too restrictive to be workable. While no Minister should allow himself to appear to be in direct confrontation with another Minister, it might not always be possible to avoid appearing to be in direct confrontation with a Government backbencher who took a different view, particularly since it would not be practicable to control all the arrangements made by producers of the broadcasting organisations. A restriction on Ministers appearing with representatives of different political Parties or other organisations could not work since the 'umbrella' organisations through which the referendum campaign would be conducted, both in favour of Britain's continued membership of the European Community and against it, necessarily contained representatives of several different political Parties and organisations. Against this it was argued that some restrictions or limitation of activities would be required in the interests of the Party as a whole, especially as it was now apparent that some Ministers had decided to carry their dissent from the Government's recommendation to the extent of leading the campaign against it. On balance the feeling of the Cabinet was that the restriction contained in paragraph 2(3) should be deleted, though it was recognised that all Ministers would have to exercise great care in choosing those with whom they would be associated on public occasions. On the question of speaking in a constituency represented by a Labour Member of Parliament it was felt that the normal courtesies, by which that Member would be consulted in advance, should suffice; the latter's express agreement should be sought where a Minister proposed to address a meeting of the constituency Labour Party.

As regards the Ministerial handling of on-going Community business during the period of the referendum campaign, whether within the Government machine, in Brussels or in Parliament, to which paragraphs 6 and 7 of the Prime Minister's note referred, it was pointed out that a major part of the work of some dissenting
Ministers - and in some Ministries all the junior Ministers also dissented - related to Community business; and the Ministers concerned could not abdicate their responsibility for this. There was general agreement, however, that all Ministers, in dealing with on-going Community business, whether in Brussels or in Parliament, should speak and act in accordance with the Government's decision, making it plain that they were doing so, and refusing to be drawn into statements conflicting with the Government's policy.

Given such an approach, it would not be necessary to apply a general ban to the attendance of dissenting Ministers at meetings in Brussels, particularly when the issues under discussion were of a technical nature unrelated to the main referendum issues. It was suggested instead that Ministerial attendance at meetings in Brussels should be decided after consultation, and in agreement, with the Foreign and Commonwealth Secretary. Similarly in the Parliamentary handling of Community business, such as Parliamentary Questions and Scrutiny Committee work, dissenting Ministers would have to exercise restraint and good sense, but it should not be necessary to transfer all Questions relevant to renegotiation or the referendum campaign to other Ministers. Ministers should answer Questions in as neutral a way as possible, saying if need be that they were describing the policy of the Government and, if necessary, referring supplementary questions to the Prime Minister's statement on the results of renegotiation. There would, however, be advantage in establishing under Foreign and Commonwealth Office chairmanship a committee of the Parliamentary Clerks of the Departments directly concerned to consider and refer to Ministers any Parliamentary Questions which might seem to raise particular difficulties. It should remain the responsibility of the Ministers, not of Permanent Secretaries, to ensure that the instructions and briefing for officials with business in Brussels remained in line with Government policy.

While there was no dissent from paragraphs 8-11 of the Prime Minister's note dealing with the conduct of civil servants, it was agreed there was no objection to dissenting Ministers making use of the normal office facilities, such as photocopying, available to their private offices.

In further discussion the general view of the Cabinet was opposed to the publication of the guidelines in full, but it was suggested that the gist of paragraph 2, dealing with participation in the referendum campaign in the country, could be made public with advantage, possibly by means of an answer to a Question to the Prime Minister. In the expectation that differences of view on Ministerial conduct or activities could well arise during the course of the referendum campaign, it was also suggested that it would not be productive for such issues to be pursued regularly at meetings of the Cabinet. If
a Minister felt that a colleague taking a different view had acted contrary to the guidance, he should make representations privately to the Prime Minister, for the latter to pursue as he thought fit.

OF THE COUNCIL

THE LORD PRESIDENT, summing up the discussion, said that the views of the Cabinet should now be put to the Prime Minister, who would wish to decide the final terms of the guidelines. He would report to the Prime Minister the sense of the discussion on the various aspects which had been considered.

The Cabinet -

Took note, with approval, of the Lord President of the Council's summing up of their discussion.

PUBLIC EXPENDITURE

6. The Cabinet considered public expenditure. Their discussion is recorded separately.

Cabinet Office

25 March 1975
THE LORD PRIVY SEAL said that, following the Cabinet’s discussion on 20 March, a meeting of the Ministers principally concerned, under the chairmanship of the Lord President of the Council, had considered what offer should be made to the non-industrial Civil Service. It had been concluded that the lowest offer which could be represented as within the terms of the pay agreement, and which had any chance of acceptance by the Staff Side, was 31½ per cent. It was proposed that negotiations with the Staff Side should start immediately after the Easter holiday. The initial offer would be lower than 31½ per cent, and if agreement could not be reached at or very near the latter figure the matter would be allowed to go to arbitration.

THE LORD PRESIDENT OF THE COUNCIL, summing up a brief discussion, said that the Cabinet approved the course of action which had been described by the Lord Privy Seal. Any settlement which was reached would cover a period of 15 months, and it was essential that it should be presented publicly in terms of an annual rate of increase. An overall figure of 31½ per cent was equivalent to about 25 per cent on an annual basis, and this could be regarded as just within the terms of the social contract. It was particularly important that nothing should be said at this stage about the possibility of going to arbitration.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Lord President of the Council and invited the Lord Privy Seal to proceed accordingly.

Cabinet Office

26 March 1975
The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C(75) 39) proposing a reduction of £1,000 million in planned public expenditure in 1976-77; and a memorandum by the Secretary of State for Social Services (C(75)37) seeking authority to announce the 1975-76 capital allocations to health authorities.

THE CHANCELLOR OF THE EXCHEQUER said that the country was living beyond its means by running an external deficit equal to 5 per cent of the Gross Domestic Product (GDP). This deficit was financed by overseas borrowing on the Euro-market and from the oil producers, and so far it had been possible to do this without having any political conditions attached to the loans. In the coming year it would be more difficult to borrow, both because there was less money available and because the United Kingdom's credit was low and falling. The reason for this was that the United Kingdom's rate of inflation was twice that of the other countries in the Organisation for Economic Co-operation and Development (OECD). This affected the balance of payments and the public sector borrowing requirement. The United Kingdom's balance of payments deficit, was the highest of all countries in the OECD and was expected to be of the order of £3,500 million in 1975. The public sector borrowing requirement for 1974-75 was now put at £7,500 million - higher than the estimate in November; and if policies were not changed it would be higher still in 1975-76. A continuance of this situation could lead to a collapse of confidence and a run on sterling. If that occurred, the Cabinet would be faced with a stark choice. Either they would have to adopt the policies appropriate to a siege economy, or they would have to borrow from the international institutions, and possibly the United States, on terms which would to a considerable extent dictate the economic policy to be followed. It would be far better therefore to keep control of events so that the need to make such a choice did not arise.
In his view it was necessary to relate what the Government did in 1975-76 to a plan covering a period of three to four years. He fully accepted that the necessary structural change could not be achieved without intelligent use of the new developments in micro-economic policy represented, for example, by the National Enterprise Board and the introduction of planning agreements; but by themselves these would not be enough. The central problem was inflation, particularly wage inflation. It would be necessary, before the next wage round was due to begin, for Ministers to discuss their approach to it; but there was no possibility of getting a substantial lessening of the rate of wage increases in the current round. Other action must therefore be taken in the 1975 Budget. World trade was falling, and the forecast was that it would not see an upturn until the first half of 1976, when the upturn might be quite rapid. It was essential that the country should then have the productive capacity available to take advantage of the corresponding export opportunities. The key year was likely to be 1976-77, and the proposed cut of £1,000 million in that year was an important element in achieving our objectives. At the time the White Paper on Public Expenditure, published in January, was compiled, the assumption was that the annual growth rate of GDP between 1973 and 1979 would be over 3 per cent. Such forecasts were inevitably uncertain, but it was now thought that growth was more likely to be below 3 per cent. This would imply that there was room for only a negligible increase in privately financed personal consumption. An approach of this kind would inevitably involve increases in direct and indirect taxation; but indirect tax increases fed through into wages by way of their effect on the retail price index (RPI); and the direct tax increase would need to be as much as 5p. – 12p. extra on the standard rate of income tax. Increases of this magnitude would put an end to any chance of the trades unions continuing to base settlements on comparisons with the RPI before tax and contributions. Therefore he recommended that, in order to ease the tax changes which would otherwise be necessary in the 1975 Budget, public expenditure in 1976-77 should be cut by £1,000 million. An illustrative distribution of these cuts was contained in the Annex to his paper, and he sought agreement to proceed with bilateral consultations with his colleagues on the precise reductions to be made. He pointed out that various sensitive areas - including school meals and milk, industrial support, agriculture, housing, a range of social services, and basic needs for education - had been left untouched; and he was quite prepared to see flexibility about the way in which cuts were taken on capital or current expenditure. But it was in his view essential to have overall reductions of the proposed magnitude if the Government was to start 1975-76 in control of the economy.
In discussion it was questioned whether the Cabinet could be expected to agree to public expenditure cuts of this order without the opportunity to consider the overall strategy of which such cuts were only a part. Expenditure reductions would do nothing for the balance of payments in 1975-76; nor would they moderate wage inflation in that year. Their major object appeared to be to ensure that when 1976-77 arrived the United Kingdom had sufficient productive capacity available to take advantage of the expected upturn in world trade. It was however arguable that if unemployment continued to grow for the next twelve months there would in fact be sufficient spare capacity available for that purpose without any action being taken by the Government to cut public expenditure. This was a matter on which the Cabinet needed more information, including in particular the forecast of unemployment.

It was further argued that this was not the kind of proposal which could be discussed in isolation. A special discussion of the Government's economic strategy was essential at which possible alternatives to that of which the proposed cuts were a part could be considered. The same was true of the distribution of any cuts which might be agreed, which should be made to reflect a carefully thought out view of priorities rather than the standard Treasury prescription which had been proposed. On a whole range of policies they meant that the commitments in the Party Manifesto would have to be set aside or postponed. Such changes should not be discussed bilaterally; they required collective consideration. It was true that the January White Paper had contained a warning that the Government might have to reappraise the programmes in the light of changing conditions; but it was wrong to contend that this meant the figures would be revised within three months of publication. The truth was the Government had slipped into a crisis, and on the basis of the present proposal they would never be able to build up the social wage through public expenditure as the Labour Party wished to do. The better course would be for the Government to consult fully and candidly with the trade unions, and to take the public into their confidence, confronting the unions with the choices between jobs and higher wages, and between lower taxes or higher public expenditure. There were alternative courses not covered in the papers before Cabinet which should be considered. It was recognised that, given the additional strain imposed upon the balance of payments by the oil price increases of the last eighteen months, more painful policies than simply public expenditure cuts might well be needed; but the whole complex needed discussion. The proposed cuts could be represented as abandoning the social contract completely and constituted a massive deflationary package which would increase unemployment in a way which would make it impossible to get back to full employment in the lifetime of the present Parliament. They
would cut productive capacity and cause falling investment to go even lower. They could lead to a slump of 1931 proportions. There was no question but that imports had to be reduced; the only question was how it should be done. Selective import restrictions were one possibility; and they could be combined if necessary with rationing and allocation of some imported materials, tax increases, transitional employment subsidies, control of capital outflow, control on banks to ensure funds for the public sector and the maintenance of the price code. It was essential that such alternative policies as these should be fully considered.

On the other hand it was argued that an alternative approach of this kind was not remotely viable, being not only protectionist but involving the adoption of a siege economy. A strategy of this kind was not open to a country which was overspending by 5 per cent, since it would make it impossible to borrow overseas, and this would in turn make a very severe cut in living standards unavoidable. While it was true that the expenditure reductions proposed would cause anger and dismay among some Party supporters, the same was true of any satisfactory way of dealing with the problem of inflation. The fact had to be faced that the Government was pursuing three major objectives - a voluntary incomes policy, full employment and a civilised level of public expenditure - not all of which could be simultaneously realised. It had hitherto been held that a statutory incomes policy was unthinkable because it would mean breaking faith with the unions; but the fact remained that the Chancellor's proposals involved breaking other commitments. The Government should therefore reach a judgment on the merits of the situation. Whatever else the Government did, action would be needed drastically to curtail public expenditure. No doubt there was room for discussion on just how the cuts should be applied - eg was it acceptable that, in Health and personal social services they would mean that expenditure would decrease by 0.4 per cent when an increase of 1½ per cent was necessary simply to keep pace with the growth of need?; while in education they would imply that the Government would have to deny posts to trained teachers - but given the present situation, particularly the paramount need to indicate in the April Budget how the public sector borrowing requirement was to be reduced in future, it was essential that cuts of the magnitude proposed should be agreed. Furthermore it would be wrong to regard the proposals as simply a deflationary package. They were part of a larger strategy which aimed to shift resources into export and investment. Without them the other aspects of the Budget would have to be more severe. Public opinion was in any case expecting firm action by the Government.
OF THE COUNCIL

THE LORD PRESIDENT said that insufficient time remained to complete the discussion at this meeting. The Cabinet would resume their discussion later in the day.

Cabinet Office

26 March 1975