CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 10 APRIL 1975
at 10.30 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

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 James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

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 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 John Silkin MP
Minister for Planning and Local Government

ALSO PRESENT

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury
(Item 3)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Item 2)
Mr H F T Smith (Item 2)
Mr P Benner (Item 1)
Mr J A Hamilton (Item 3)
Mr E J G Smith (Items 1 and 2)
Mr J A Marshall (Item 3)

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

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that Mr Clerides seemed to be on the verge of resigning as the Greek Cypriot negotiator in the inter-communal talks. If the talks were resumed the prospects for a successful outcome were not favourable: there was no sign of flexibility on the Turkish side. Meanwhile relations between Greece and Turkey were exacerbated by the presence of Greek forces in the Dodecanese in violation of the Greek obligation to keep the islands demilitarised. The Turkish Government had sent protests to the United Nations, and to us. The situation was potentially dangerous.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Communist forces were now in a position to threaten Saigon itself. The survival of a Government under the continuing leadership of President Thieu seemed unlikely. The Communists would however probably prefer to complete their domination of South Vietnam by political rather than military means and this might happen if President Thieu were replaced by someone who was prepared to negotiate with the Provisional Revolutionary Government, with a view to forming a coalition. Such a coalition could not of course be expected to endure: the non-Communist element would in due course be eliminated from it. The implications of developments in Vietnam and Cambodia for the political future of other countries in the area must be a matter of concern.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary.
The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C(75) 46) on the results of the bilateral discussions about the distribution of the overall reduction in expenditure agreed by Cabinet on 25 March.

THE CHANCELLOR OF THE EXCHEQUER said that agreement had been reached on some £870 million towards the £1,000 million savings. On defence the Secretary of State for Defence was only prepared to agree to a cut of £100 million instead of £200 million in 1976-77 although he was willing to try to accelerate the savings of later years which would result from the recent Defence Review. Agreement had not been reached with the Secretary of State for the Environment on a cut of £33 million in the expenditure on bus subsidies and grants or on postponing plans for introducing community ownership of development land, the cost of which was an unquantified charge on the contingency reserve. There was also disagreement about two smaller amounts - £3.3 million for certain oil-related road investment in Scotland, and £3 million for motorway expenditure in Wales. This left him with a gap of some £140 million, and he invited the help of his colleagues in finding ways of bridging this. One possibility would be to abandon the mid-term census, which would save £15 million in 1976-77, and he recommended that this should be done.

In discussion the following points were made:

a. The proposed reduction was highly discriminatory. Whereas defence expenditure was only about 10 per cent of total public expenditure, a cut of £200 million represented 20 per cent of the total cuts sought. Against this it was argued that average reductions had little meaning, since the Chancellor of the Exchequer had identified and excluded a number of priority areas.

b. A £200 million cut, coming so quickly in the wake of the recent Defence Review, would destroy any confidence our allies in the North Atlantic Treaty Organisation might have in our intentions. In particular, the United States Administration had expressed the view that the Defence Review reductions represented the limit of what was tolerable. It was clear that to go further would severely strain our relationships with the United States, and this was an important consideration given the probable need for American support in other ways in the future.
c. Further cuts could only be achieved by cutting out projects; and this would in turn mean causing redundancies in productive industry. Some firms were already avoiding redundancies by stepping up their work on defence production as work on civil production fell. On the other hand it was argued that there was likely to be a marked increase in economic activity by 1976-77 and there was a risk of manpower shortages in manufacturing industry.

d. Some of the assumptions in the current White Paper on Defence were already in danger of being invalidated: for example the withdrawal of forces from Cyprus had been delayed. The extra costs thereby incurred represented a further cut in the defence budget.

e. The Cabinet had only recently accepted the concept put forward by the Chiefs of Staff of a "critical level" below which it would not be possible to maintain the United Kingdom's major defence roles in the Eastern Atlantic and in Europe, as well as lesser roles in other parts of the world. It was true that this country was the only European power attempting to cover two such major roles; but it was also clear that a reduction in expenditure in 1976-77 of the order of £200 million could only be achieved by strategic decisions which should not be taken by Cabinet on the basis of proposed blanket cuts without knowledge of the implications for the country's role in the world at large.

The £75 million reduction proposed in health and personal social services had been accepted by the Ministers concerned but it was pointed out that because the population was aging, an increase of 1½-2 per cent a year in expenditure in real terms was necessary simply to maintain an unchanged level of service: as a result cuts in capital expenditure would have to be £41 million instead of the £36 million which the standard 10 per cent reduction in capital spending would have required. For some services capital allocations for 1975-76 had already been announced, and these would have to be called in and reduced - something which had never previously been done. There would be further pressures on Health Service expenditure later in the year. Charges for dental services had been frozen, but fees to dentists were likely to have to be increased, and unless charges were also to be raised this would mean the absorption of the cost - some £18 million - in existing totals,
On the proposal to reduce bus subsidies and grants by £33 million in
1976-77, it was argued that such a move was quite impracticable.
Expenditure under this head was already planned to be very heavily
reduced between 1975-76 and 1976-77; and one consequence of this
would be a drastic increase in fares such that, if further cuts were
made, they would have to be trebled between early 1975 and 1977.
The political implications of such increases were serious. They
implied a total reversal of the Party's policy of favouring public
transport. Furthermore, there was the danger that individual local
authorities, rather than increase fares or reduce services, would in
fact maintain the services at the expense of the rates.

On the proposal to cut £3.3 million of oil-related roads investment in
Scotland, it was pointed out that in the 1974 public expenditure
exercise it had been agreed that oil-related expenditure should be
excluded from any reductions. Oil developments led to the need, not
only for roads, but for houses, schools, water supplies, police, and
a whole range of other services. In further discussion it was
maintained not only that the disputed cut of £3.3 million in road
expenditure should not be made, but that a further £2.4 million should
be agreed to enable the subsidy to McBrayne's for transport to the
Western Isles, to be increased, since this could not be accommodated
within the restricted programmes.

A cut of £3 million was proposed on motorway expenditure in Wales.
It was argued that this would be wrong in view of the importance of
the M4 to the Welsh economy. It was unfortunate that the cost was
bunched in 1976, but even so the motorway would not be completed
till after 1980. On grounds of regional support it should not be
reduced - indeed there was a case for spending more.

It was argued that, although the information which would be obtained
from a mid-term census was important for a number of Departments,
and not least for determining the allocation of expenditure to local
authorities, in view of present stringencies the proposal to hold such
a census should be abandoned.
In the course of discussion there was criticism of the way in which this, and earlier, public expenditure exercises had been conducted. Ministers generally had had no proper opportunity to consider and discuss the economic considerations which led the Chancellor of the Exchequer to propose cuts on the present scale, nor any opportunity to discuss in a considered way the public expenditure priorities which should shape the composition of such cuts. In particular, it was desirable given the constraints of short-term economic requirements, for Cabinet to give thought to the social priorities they would wish to see realised by, say, 1979, so that interim decisions could be taken in the light of the longer-term objectives. Even the Public Expenditure Survey system, which produced material for Ministerial consideration each year, gave Ministers opportunity to do little more than make small changes at the margins within a very limited timetable. Some more satisfactory procedure was required - although it was recognised that no procedure would be helpful if all spending Ministers took purely Departmental attitudes, leaving the Chancellor of the Exchequer to judge between them.

Criticism was also directed at the concept of the public sector borrowing requirement, which, it was suggested, had been allowed to become something of a fetish, forming a barrier to the realisation of sensible policies. The doctrinal basis of the borrowing requirement, its definition and its significance, all deserved further study. It should not be allowed to discourage a shift from private to public financing of investment essential to the future health of manufacturing industry in the country. There was also the question whether public expenditure discussions should not also cover those claims - such as help to ailing firms, the Crown Agents, the building societies - which made little demand on resources but increased the borrowing requirement.

Concern was expressed about the lack of control over local authority expenditure, although it was recognised that a large part of the cuts proposed by the Chancellor of the Exchequer would in fact fall on local authority services. It was also true that much of local authority expenditure, particularly in the social service field, was the result of policies which had been urged by the Government themselves. The consequences of this for rates were very serious. After an average rate increase of 25 per cent this year, an increase of 40 per cent was likely for 1976-77, and it had to be recognised that there could be serious political consequences in local elections. It was felt that there was a great deal of waste and extravagance by local authorities; and it was noted that payments to councillors introduced by the Labour Government were now being made even to meetings of Party caucuses, a development which should be stopped.
THE PRIME MINISTER, summing up the discussion, said that, of the reductions of £1,000 million in 1976-77 proposed by the Chancellor of the Exchequer and set out in Annex B to C(75) 46, Cabinet agreed to just over £900 million. This was made up of the programme cuts proposed by the Chancellor of the Exchequer, with the following exceptions. Instead of a cut of £200 million on defence, there would be a cut of £110 million; but it was accepted that the Secretary of State for Defence would initiate detailed studies to attempt to accelerate the savings in later years resulting from the recent Defence Review. The Secretary of State for the Environment had agreed to make savings totalling £10 million out of the £33 million which had been in dispute on local authority subsidies to buses and new bus grants to private operators. The Cabinet agreed, however, that there should be no postponement of the introduction of community ownership of development land. On the expenditure of the Secretary of State for Scotland, it had been accepted that the disputed expenditure of £3.3 million on oil-related roads investment should be allowed to proceed; and moreover a further £2.4 million of expenditure on the subsidy to McBrayne's had been agreed, making a total derogation from the savings sought by the Chancellor of the Exchequer of £6 million. The £3 million saving on Welsh motorway expenditure which the Chancellor of the Exchequer had asked for would be set aside. Furthermore it was agreed that the mid-term census should not be held, which would lead to a saving of £15 million in 1976-77. The net effect of all these adjustments was that the total savings, as compared with the White Paper, which the Chancellor of the Exchequer had to announce in his Budget statement, would be just over £900 million. There was clearly some dissatisfaction among members of the Cabinet about the way in which public expenditure decisions were taken. He would himself consider what arrangements should be made to enable the Cabinet in future to reach a collective view on its public expenditure strategy. There was also a need to re-examine the present definition and significance of the public sector borrowing requirement. The question of grants to bus operators to purchase new buses required review in the light of the industry’s inability to supply the growing demand for bus exports to developing countries. The Treasury, the Department of Trade and the Department of the Environment should consider this question jointly. The phasing out of private practice in the National Health Service should be considered further in the Social Services Committee and, if agreement on policy could be reached there, subsequently in Legislation Committee.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Agreed to the savings proposed by the Chancellor of the Exchequer in Annex B to C(75) 46, with the following derogations: Secretary of State for Defence £90 million; Secretary of State for the Environment £23 million; Secretary of State for Scotland £6 million; Secretary of State for Wales £3 million. The intention to hold a mid-term census in 1976 was abandoned, with a consequential saving in 1976-77 of £15 million. The net effect of these adjustments was to reduce the proposed savings in that year from £1,008 million to just over £900 million.

3. Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Trade and the Secretary of State for the Environment, to consider the justification for grants to bus operators in the light of the present inability of United Kingdom bus manufacturers to meet rising export demand.

4. Invited the Chancellor of the Exchequer to consider the definition and significance of the public sector borrowing requirement, and to report back in due course.

5. Took note that the Prime Minister would consider the arrangements which should be made to enable the Cabinet in future to reach a collective view on its public expenditure strategy.
THE CHANCELLOR OF THE EXCHEQUER reported to Cabinet that he proposed to announce in his Budget statement certain additional expenditure on retraining and restructuring. In conjunction with the Secretary of State for Employment and the Manpower Services Commission arrangements had been made for an expansion of industrial retraining by an additional 30,000 places, at a cost of £20 million in the current year. In conjunction with the Secretary of State for Industry he had arranged for £50 million to be made available for soft loans for major projects in development areas, which should lead to the generation of some £250-£300 million of additional manufacturing capacity; and for £50 million to be available for restructuring the ferrous foundries and the machine tools industries.

THE PRIME MINISTER said that these developments would be welcome; and he reminded the Cabinet of the need to maintain their complete secrecy until the following week's Budget statement.

The Cabinet -

Took note.

Cabinet Office
11 April 1975