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CM(76) 33rd
Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 23 NOVEMBER 1976
at 10.00 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot 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 Anthony Crosland MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and
Science and Paymaster General

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

The Rt Hon Eric Varley MP
Secretary of State for Industry

The Rt Hon Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Northern Ireland

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

The Rt Hon Fred Mulley MP
Secretary of State for Defence

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon David Ennals MP
Secretary of State for Social Services

The Rt Hon Edmund Dell MP
Secretary of State for Trade

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The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and
Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr D le B Jones (Item 2)
Sir Clive Ross (Item 1)
Mr J A Marshall (Item 2)
Mr C Wilson (Item 1)

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RHODESIA

Previous
Reference:
CM(76) 32nd
Conclusions
Minute 2

1. The Cabinet had before them a memorandum by the Foreign and Commonwealth Secretary (CP(76) 110) on the British role in Rhodesia during the interim period.

THE PRIME MINISTER said that there had been a preliminary discussion of the subject in the Ministerial Group on Southern Africa. Opinions had been fairly evenly divided on the Foreign and Commonwealth Secretary's proposals. Some Ministers had argued that the risks and consequences of a breakdown for which we would be blamed were such as to justify a limited move on the lines proposed. As against this, there was a substantial view that once we had made a move it would be difficult to avoid further involvement and that we should therefore refuse to do so, even if this resulted in our being blamed for a breakdown. All those present had agreed that, if we were to play a role in Rhodesia during the interim period, it should go no further than proposed in paragraphs 9 and 11 of the Foreign and Commonwealth Secretary's memorandum.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the position in Geneva was that either there would be agreement on the independence date in the next few days or, if there was not, the Chairman would, on his instructions, adjourn the talks for a week or ten days. In either case, a decision had to be made on the British role during the interim period. He was convinced that there would have to be a British presence of some kind. We had a continuing responsibility under the 1961 Constitution, which had been recognised by successive British Governments. Public opinion would not expect or want us to wash our hands of this. African Governments, the Commonwealth Secretary General and others, all considered that a solution of this issue would determine whether the conference broke down or not. This was because of the fundamental distrust by the Black Nationalists of Mr Smith and the African view that, without a British presence, Mr Smith might try to back out of any agreement reached at Geneva. If the conference were to break down in circumstances in which we were blamed, we should lose our influence and goodwill in Black Africa; relations with our European partners would be soured; the effect on our relations with the United States would be disastrous; and there would be an escalation of the guerilla war, with the South Africans coming in on one side and the Cubans on the other, which would make a shambles of Rhodesia. We should thus be faced with everything which, when embarking on the present initiative, we had hoped to avoid. He ruled out any possibility of sending British forces or officials to Rhodesia, or of assuming direct or sole responsibility for maintaining law and order. Moreover, if we were to agree to a British presence, it would have to be made absolutely clear that it would be withdrawn if the interim government

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should break down. Subject to these points, he proposed that the offer of a British presence should be made on the conditions that guerilla activity should cease as soon as the interim government had been established; sanctions should be lifted when the interim government was legalised; and the cost of the British presence should be borne by the interim government. On these conditions he proposed that we should offer to provide a British representative who would play an active part in negotiating the independence constitution and act as the chairman of the constitutional conference. The British representative would have responsibility for external affairs under the 1961 Constitution and would have ultimate responsibility for defence and internal security which would extend to exercising a veto over certain appointments and dismissals in the armed forces and having power to convene a meeting of Ministers in the event of a major threat to law and order, at which he might have a casting vote. It would only be acceptable for the British representative to exercise this ultimate responsibility provided that either a Council of State was established with executive responsibility in the fields of defence and law and order or agreement was reached in Geneva on the identity of the Ministers who would exercise day to day responsibility in these two fields. The Commonwealth Secretary General had suggested that there should be some symbolic Commonwealth presence in support of the British representative and that this might take the form of military advisers from, say, Canada, India and Nigeria. This was a helpful suggestion. There was no certainty that a package on the lines he had proposed would secure agreement. What was certain, however, was that if we were not prepared to offer something on these lines, the conference would break down. There were serious risks and he understood the argument that if we were to go this far we would be pressed to go further. The risks could be minimised if we declared in advance the limits of what we were prepared to offer. We would then be in a position to claim that our offer was a reasonable one and, if we could do this, the pressures on us would be much reduced.

In discussion it was argued that while we should be very cautious about extending our involvement, it was crucially important that the Geneva conference should be given every chance of success. We had continuing responsibility for Rhodesia; and it would be quite wrong for us not to take such steps as lay within our power to achieve a peaceful settlement. Furthermore this issue was not irrelevant to the discussion which the Cabinet would shortly be having about the loan from the International Monetary Fund: if other countries were prepared to help us in our economic difficulties this was at least partly because we stood for something in the world and fulfilled our responsibilities. The African Presidents were aware of the limitations of British power. They knew we could not

send troops and did not want us to do so. But they looked to us to take the lead and provide the focal point on which success or failure might turn. Furthermore the consequences of failure justified our taking some risks: indeed if we did not accept a British role we would still face serious risks but without any of the opportunities. There would however be advantage in some form of a Commonwealth presence alongside our own if this could be achieved. Although we could not guarantee success and might in the end be forced to pull out and admit failure, it would be shameful to do so at this stage.

It was however pointed out that we should have considerable difficulty in securing fulfilment of the condition that guerilla activity must cease. Indeed the people with whom we would be negotiating a British presence might not themselves have the power to call off this activity completely. We should certainly ensure that our requirement was understood and accepted by the Nationalist participants in the interim government as well as by the African Presidents. We should insist on a public statement from Presidents Nyerere, Kaunda and Seretse Khama, though probably not from President Machel, as well as from the Nationalist leaders in Geneva, that they would take active steps to discourage the continuation of guerilla activity. But even with such a statement the condition could not be an absolute one. Whether any continuation of guerilla activity would make it necessary to withdraw the British presence would depend on the scale. Given the circumstances we would not be able to prevent a continuation of minor activity on a sporadic basis.

Against a British presence it was argued that its objectives could only be achieved by a major exercise of power which we could not and should not exercise. It was no good saying that we should put a British representative in Rhodesia in charge of defence and then, when Rhodesian troops were fired on, pulling him out. Inevitably, a British presence would result in Rhodesian politics becoming British politics and we should be increasingly involved, with probable detriment to our relations with Black Africa. There could even be a risk that a British Commander in Chief would find himself in command of White Rhodesian forces against Black Africans which would be both politically and militarily unacceptable. We were already on a slippery slope in that the Cabinet was prepared to admit that we could not make the cessation of guerilla activity an absolute condition of a British presence.

THE PRIME MINISTER, summing up the discussion, said many of the Cabinet had earlier been opposed to the idea of a British presence in the interim government. There was however now a large majority in the Cabinet that felt that, provided we could secure the right

conditions, the risks could be minimised and should be run in the hope of achieving a lasting settlement. The Cabinet were accordingly prepared to endorse the Foreign and Commonwealth Secretary's proposals on the lines of paragraphs 9 and 11 of his memorandum, on the clear understanding that what was involved was the presence of an individual British representative and not a military force. But, before we finally committed ourselves to this, there must be agreement on the structure of the interim government and the conditions laid down in paragraph 7 of the memorandum must be fulfilled. In particular we should make it clear both in Geneva and to the African Presidents that if the interim administration broke down the British representative would be withdrawn and that the sole purpose of the British presence was to assist in the movement towards independence by March 1978. We should state publicly that this was why we were prepared to accept a role in Rhodesia during the interim period. The Foreign and Commonwealth Secretary should consider the best tactical method of presenting our offer and securing acceptance of the conditions under which it was made.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Foreign and Commonwealth Secretary to proceed accordingly.
2. The Cabinet discussed the negotiations with the International Monetary Fund. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

23 November 1976

IMF
NEGOTIATIONS

Previous
Reference:
CM(76) 32nd
Conclusions
Minute 3

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CABINET

LIMITED CIRCULATION ANNEX

CM(76) 33rd Conclusions, Minute 2

Tuesday 23 November 1976 at 10.00 am

The Cabinet had before them a memorandum by the Chancellor of the Exchequer (CP(76) 111) about the negotiations with the International Monetary Fund (IMF) over a possible drawing on the Fund by the United Kingdom.

THE PRIME MINISTER said that he must emphasise to his colleagues the need for absolute secrecy of the discussions they were about to have: any leaks of views expressed in Cabinet could only be harmful to the country and to the Government. The Cabinet faced a very serious question: did they think that they could and should afford to pay the price the IMF were asking for a loan; and if not, what were the consequences? If they failed to reach agreement with the IMF, the Government faced the risk of the exchange rate falling out of control, with reserves totally inadequate for the purposes of intervention, with implications for prices and unemployment which could break the partnership between the Government and the unions. On the other hand, if an agreement were reached on the lines at present envisaged by the IMF, this too could strain the Government's relationship with the trade union movement beyond breaking point and put the Social Contract at risk. The situation was not made easier by the need to take very early decisions. He enjoined upon his colleagues that if they rejected one course they must be ready to consider what the alternative might be.

THE CHANCELLOR OF THE EXCHEQUER said that the situation was very difficult, but it would be worse if the negotiations broke down. The IMF supported the Government's broad economic strategy; but the difficulty was that the Government would be unable to finance either the internal or external deficit over the next year without the loan. The present position with the Fund was as follows. In the view of the Fund staff, the objective should be to get the public sector borrowing requirement (PSBR) down to £6½ billion in 1978-79, which would mean a cut of £3 billion on the present forecast. For 1977-78 the present forecast was £10½ billion and the IMF would like to see

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this reduced to something lower than £9 billion, although he believed that it would probably be possible through negotiation to get them to accept £9 billion. That meant a total reduction of £1½ billion; and if £½ billion could be obtained by the sale of some British Petroleum shares, this would leave a further £1 billion to find. He thought that the IMF would want this to be obtained almost wholly by public expenditure reductions. The further reduction in 1978-79 would be assisted by the fact that the reduction in 1977-78 would lead to reduced debt interest payments the following year to the extent of some £½ billion. A further £¼ billion could be secured by adoption of his proposals for changes in the present export credit arrangements (but this would reduce the PSBR in 1977-78 only by £100 million). He shared the Fund's view that the more which could be done in 1977-78, so the better the effect on confidence would be, the easier the position in 1978-79 would become, and the less would be the risk of having to take a further bite at public expenditure. The proposals would mean that the gross domestic product (GDP) would grow at some 1-1½ per cent in 1977-78, and 3½-4 per cent in 1978-79. The lower PSBR would lead to a fall in interest rates, which would help investment. It would mean the addition of about 70,000 to unemployment at the end of 1977-78, over and above the 1¾ million already forecast. The balance of payments would be in surplus on current account by the second half of 1977, instead of in 1978 as forecast on present policies. He pointed out that if events proved that the Treasury forecast was too pessimistic, it would be possible to feed demand into the economy by tax cuts in the 1977 Budget. In his view the desirable deadline for an announcement about the IMF loan would be 7 December (before the present standby had to be repaid on 9 December), or at worst on 15 December, so that the Parliamentary Debate could take place before Christmas. It was therefore a matter of some urgency to reach agreement with the IMF on the target size for the PSBR, and very broadly on the extent to which it would be achieved through taxation or through expenditure adjustments. He reminded his colleagues that, if negotiations with the IMF failed, there was no hope of obtaining bilateral aid from other countries; whereas if agreement were reached there was a real possibility of getting an agreement on the sterling balances which could be announced simultaneously. The adjustment he was proposing would be painful but it would be made with the full endorsement of the IMF and our major allies. It could transform our international position and have a very important effect on domestic confidence.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the proposed reduction in the PSBR in 1977-78 could not be defended on any reasonable grounds. In terms of resource allocation there was clearly no need to release further resources for exports while unemployment was so high. In terms of the financial argument - that the Government would be unable to finance the prospective PSBR - no outside forecast of the 1977-78 PSBR was as high as that of the Treasury, and the National Institute for Economic and Social Research had recently reduced their estimate to £8.3 billion. This estimate would be published at about the same time as the announcement of the proposed measures. In terms of achieving a surplus on the balance of payments, it was clear that present policies would achieve that surplus in 1978, and the only effect of the IMF proposals would be to bring that improvement forward into the latter part of 1977. In terms of the industrial strategy, the effect of the lower interest rates which would flow from the IMF proposals if implemented would be as nothing compared with the effect upon productive industry of the increase in unemployment and the reduction of the growth rate to something not much above zero. In terms of the Social Contract, there was absolutely nothing to be said for the proposal. The case for a reduction in public expenditure had not been made out; and there was an impressive body of opinion among economists of all political shades against such a move. Further public expenditure cuts would have a disastrous effect upon the public service unions, and the Social Contract would certainly break down as far as the public sector was concerned. In the Parliamentary Labour Party opposition would come not only from the left wing but also from the Manifesto Group. On the other hand he accepted that the Government faced the question of maintaining market confidence, and for that reason alone, even though they might think further deflationary steps otherwise wrong, it might be necessary to take some action. He therefore suggested, as an alternative to the Chancellor of the Exchequer's proposal, that the Government should tell the IMF that they would be prepared to reduce the prospective PSBR in 1977-78 to £9½ billion, ie a cut of £1 billion which would be made up as follows: £½ billion from the sale of British Petroleum shares; £¼ billion from cuts of a kind which had no effect on demand or employment; and £¼ billion from real cuts in public expenditure. The IMF should be left in no doubt that the consequences of pressing for more could only be to drive the Government into a protectionist attitude with serious implications for the future of the EEC and for world trade. The United Kingdom's weakness was in fact its strength, as long as the Government kept their nerve, since the IMF could not afford not to make the loan available.

In discussion there was considerable support for the point of view put forward by the Foreign and Commonwealth Secretary. It was argued that the Government simply could not face publishing a forecast figure of 1¼ million for unemployment at the same time as they were announcing measures which would add to, not reduce, that figure. There would be no hope of trade union co-operation in such

a situation. Nor was there any prospect that the Government could obtain the approval of the House of Commons for the Chancellor of the Exchequer's proposals. In particular, the suggestion that the next uprating of social security benefits should be reduced or eliminated - a proposal which would require legislation - would be quite impossible to carry in the House, save perhaps as part of some totally new policy such as a 12 months freeze on wages and prices. There was no economic ground on which such a deflationary change of policy could be justified and it would split the Labour Party and destroy the Government's relationship with the trade unions. The Government needed more time in order to consult the Trades Union Congress (TUC), the National Executive Committee of the Labour Party and the Parliamentary Labour Party. To agree to what the IMF had proposed, if Cabinet did not believe that prescription to be right, would be a betrayal of the national interest and would damage national confidence. If the Government believed their present policies were right, they should say so and make it clear that, if other countries were not prepared to help, then the United Kingdom would be ready to defend herself, if need be by adopting an alternative strategy involving import controls. Nevertheless, there was a broad measure of agreement that it was necessary for the United Kingdom to get the loan and for this reason it was essential that the Government should go back to the IMF to seek to negotiate more acceptable terms. At the same time the Prime Minister should perhaps take the matter up with the Heads of friendly governments, to impress upon them the seriousness with which the Cabinet viewed the IMF position, and to solicit any help they could offer.

Against this it was questioned whether there was any viable alternative to the Chancellor's proposals. Furthermore it was argued that, quite apart from the IMF terms, some reduction in the PSBR was essential and that it would be better to go for a figure of £8½ billion in order to obtain the maximum advantage from it. It had to be remembered that it was not only the IMF which had to be persuaded to accept some less drastic figure: there was also the question of market opinion. Unless the agreement reached was one which carried conviction with the markets, it would be of no use. Economic policy had for years been mistaken because it had placed too great an emphasis on arguments about resources. The truth was that the Government was facing the question of its own survival. If a PSBR of £8½ billion in 1977-78 was right, then the Government should set out to get the support for it of the Parliamentary Labour Party; failing that it should get the proposals through with the support of other parties; or it should make way for another Government.

THE PRIME MINISTER, summing up the discussion, said that the Government had always to keep in mind both domestic opinion - without the support of which the Government could not carry its policies through - and overseas opinion, since the confidence of the markets was also of cardinal importance. The degree of interdependence in the developed world was now such that it was essential to have at least the acquiescence of the United Kingdom's partners in any action which she might take. Defiance would not do. It was a matter of judgment, not of knowledge, how far the possibilities which they had been discussing would in fact satisfy either overseas governments or market opinion; and if the IMF were persuaded to modify their terms too far as a result of political pressure the outcome would not necessarily satisfy the markets. Reference had been made to the possibility of an alternative strategy of import controls; but it had to be remembered that such a strategy would also be difficult to carry politically and would in any case take twelve months to work during which time we would have to continue to finance the deficit. He did not think the Cabinet could reach any final conclusion that day. There was widespread agreement that the Government must have the loan from the IMF, and he had received indications from President Ford and others that, if agreement were reached with the IMF, some arrangement over the sterling balances could be agreed quickly in order to be announced simultaneously. This was an important advantage. The Chancellor deserved credit for the progress already made in negotiations with the IMF. Nevertheless many of the Cabinet at present felt that the scale of the public expenditure cuts at present proposed was too great to accept. Both he and the Chancellor of the Exchequer would therefore talk further to the leader of the IMF mission with a view to getting agreement on a PSBR in 1977-78 of £9½ billion, and at the same time he would seek to reinforce the United Kingdom's position by sending messages direct to President Ford and Chancellor Schmidt asking them to bring pressure to bear on the IMF. The Cabinet could then consider the matter further at their meeting on Thursday when he and the Chancellor of the Exchequer would hope to make a joint recommendation to them. It would however then be essential to reach a conclusion on the broad shape of an agreement with the IMF, including the question whether that agreement would carry conviction in the markets and be capable of gaining the support of the Party. He was seeing Mr Len Murray of the TUC that afternoon, and would mention the situation to him in a suitably discreet manner. All that should be said to the Press was that progress was being made.

The Cabinet -

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

Cabinet Office

24 November 1976