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CM(73) 43rd
Conclusions

COPY NO 83

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 2 OCTOBER 1973
at 10.30 am

PRESENT

The Rt Hon Edward Heath MP
Prime Minister

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

The Rt Hon Anthony Barber MP
Chancellor of the Exchequer

The Rt Hon Robert Carr MP
Secretary of State for the Home Department

The Rt Hon James Prior MP
Lord President of the Council

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

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

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

The Rt Hon Gordon Campbell MP
Secretary of State for Scotland

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

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

The Rt Hon Maurice Macmillan MP
Secretary of State for Employment

The Rt Hon Joseph Godber MP
Minister of Agriculture, Fisheries and
Food

The Rt Hon Sir Geoffrey Howe QC MP
Minister for Trade and Consumer Affairs
(Item 5)

The Rt Hon Lord Windlesham
Lord Privy Seal

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THE FOLLOWING WERE ALSO PRESENT

| | |
|--|---|
| Mr Paul Channon MP Minister for Housing and Construction (Item 5) | The Rt Hon Ian Gilmour MP Minister of State for Defence (Items 1-3) |
| The Rt Hon Patrick Jenkin MP Chief Secretary, Treasury (Item 5) | The Rt Hon Francis Pym MP Parliamentary Secretary, Treasury (Items 1-4) |

SECRETARIAT

Sir John Hunt
Mr H F T Smith
Mr P Benner
Mr I T Lawman

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OVERSEA
AFFAIRS

United
States
and
Europe

1. THE FOREIGN AND COMMONWEALTH SECRETARY said that on his recent visit to the United States to attend the General Assembly of the United Nations, he had found the morale and state of mind of the United States Administration very disturbing. Preoccupation with the consequences of the Watergate affair and the charges being levelled against the Vice-President, Mr Agnew, were preventing the Administration, with the exception of the Secretary of State, Dr Kissinger, from taking a grip on affairs. Nevertheless, some progress was being made on the definition of the relationship between Europe and the United States, after a slow start and some misunderstandings. The meeting of the Foreign Ministers of the Nine, held in Copenhagen on 10 and 11 September, had made good progress in the preparation of a document on the European identity and of a draft declaration on the joint purposes of the Nine and the United States. Dr Kissinger had shown some irritation at the decision of the Nine to prepare, jointly, a draft declaration to put to the Americans for discussion, but he now understood the reason why they had to proceed in this way. The French Government had shown themselves more co-operative than had at one time seemed likely and with their agreement discussion with the Americans was being carried forward by the Political Directors of the Nine. There was a reasonable prospect that a satisfactory statement on defence would be produced in the North Atlantic Treaty Organisation (NATO) for use if and when the President of the United States, Mr Nixon, visited Europe. The timing of the President's visit was, however, still uncertain. There was little doubt that he would like to make an early visit but it seemed doubtful whether the political situation in the United States would allow him to come to Europe before the end of the year.

The Cabinet -

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

Iceland

Previous
Reference:
CM(73) 42nd
Conclusions,
Minute 1

THE FOREIGN AND COMMONWEALTH SECRETARY said that the United States Secretary of State, Dr Kissinger, had expressed to him his anxiety about the future of the American base at Keflavik, although no suggestion had been made to us that we should change our stance in the fishing dispute. Nevertheless the dispute was being exploited by some elements to put pressure on the Icelandic Government to terminate the agreement on the base. Concern on this issue was also felt in NATO where a recent review had emphasised the importance of the base to the defence of the Atlantic area. On 25 September the Prime Minister had suggested in a message to the Prime Minister of Iceland, Mr Johannesson, that

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we should try to reach a modus vivendi under which we would withdraw naval protection and restrict voluntarily the size of our fishing effort, and Iceland would stop interfering with our trawlers. Mr Johannesson had indicated that he would like to have a modus vivendi; but he had said that it was politically impossible for him to give a public undertaking to stop interfering with the trawlers, although he would do his best to ensure that if naval protection was withdrawn, such interference would cease. It had therefore been decided to send a further message to the effect that in an effort to find a way of breaking out of the present impasse we had decided that the Royal Navy would be withdrawn from the disputed area at 1500 hours on 3 October; that the withdrawal would be made on the assumption that the Icelandic authorities would not take any measures against British trawlers fishing or which had fished, in the disputed area; and that the Navy and the tugs would return if that assumption proved to be wrong. The message also stated that an important objective was to establish conditions which would enable Mr Johannesson to visit London for talks with the Prime Minister directed towards achieving a modus vivendi. Before the message was sent the Foreign and Commonwealth Secretary had held a meeting with representatives of the industry who had accepted the reasons for sending it and who had been given an assurance that naval protection would be restored if the trawlers were subjected to harassment.

THE PRIME MINISTER said that he had spoken by telephone with Mr Johannesson who welcomed the message and agreed to come to London for talks on 15 October. He had emphasised to Mr Johannesson the extreme importance of avoiding incidents in the disputed area. The Secretary General of NATO, Dr Luns, who had discussed the matter with the Prime Minister on 30 September, had given us an assurance that if, after we had withdrawn naval protection, our trawlers should be harassed and we were therefore obliged to restore protection, he would support us. It would now be necessary to work out in detail what limitation of our fishing effort we would be prepared to accept as part of a modus vivendi.

The Cabinet -

2. Took note, with approval, of the statements by the Prime Minister and the Foreign and Commonwealth Secretary.

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Gibraltar

Previous
Reference:
CM(73) 26th
Conclusions,
Minute 3

THE FOREIGN AND COMMONWEALTH SECRETARY said that although the Spanish Foreign Minister, Senor Lopez Rodo, had taken a predictably hard line on Gibraltar in his speech to the United Nations General Assembly, they had held a private conversation in which Senor Rodo had refrained from any threats to interfere with our trade and other relations and had, on the contrary, expressed a desire to develop our relations so far as possible. They had agreed that there would be no point, at this stage, in continuing the meetings on Gibraltar which he had had with Senor Rodo's predecessor, but he had undertaken to send a paper to Senor Rodo which would offer suggestions on ways in which Spain might improve her relations with Gibraltar.

The Cabinet -

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

Visit
of the
Japanese
Prime
Minister

THE PRIME MINISTER said that his talks with the Japanese Prime Minister, Mr Tanaka, who was here on an official visit, were going well. An interesting proposal put forward by Mr Tanaka was that Japan should be allowed to invest in the exploitation of North Sea oil; that Japan would not have a right to acquire any of the oil thus produced, but that there would be offset arrangements with British Petroleum or Shell, under which Japan would obtain oil produced elsewhere; and that as part of the package Japan would also invest in development areas in Britain. This proposal was being examined. We were also trying to persuade Mr Tanaka to acquire fissile material from the Anglo-German-Dutch centrifuge, and we were urging him to retain an interest in the Concorde.

The Cabinet -

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

Austria

THE FOREIGN AND COMMONWEALTH SECRETARY said that the undertaking recently given by the Austrian Government to Arab terrorists, that in return for the release of hostages they would close the camp used for the reception of Soviet Jews emigrating from the Soviet Union, had come under severe criticism and created a dangerous precedent. He was himself visiting Austria on 16 October, and was instructing our Ambassador to inform the Austrian Government now of our concern at the problems created by the undertaking. The Leader of the Opposition had suggested

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that facilities should be provided in camps in this country to receive Jewish immigrants on their way from the Soviet Union to Israel. This proposal would raise practical difficulties; the numbers involved were large; and we would be creating a target for Arab terrorism in this country. Consideration would have to be given to the line to take if Mr Wilson's proposal attracted support; but in the meantime there was a possibility that the Austrians might find ways of continuing to help the immigrants on their way to Israel.

The Cabinet -

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

NORTHERN
IRELAND

The Irish
Case at
Strasbourg

2. THE PRIME MINISTER said that the European Commission on Human Rights was starting its hearings on the Irish complaint that there had been grave infringements of human rights in Northern Ireland. When he had visited the Prime Minister of Ireland, Mr Cosgrave, on 17 September, they had reached agreement that the case should be set aside on the basis of a friendly settlement. Mr Cosgrave had said that for his own political reasons he must not appear to be acting in collusion with us and we had therefore agreed that we would take the initiative in asking the Commission to pursue the possibility of arranging a friendly settlement, on the understanding that the Irish Government would respond favourably. Subsequently, however, Mr Cosgrave had informed him that this procedure would not be acceptable: the present stage of the hearings, which consisted of the Irish presentation of their case and our response, must go ahead, but the Irish Government would accept a move towards a friendly settlement after the conclusion of the present stage and before the next stage, at which individual witnesses would offer evidence in support of the Irish complaint. Although this change in the Irish position was regrettable, it was the next stage of the hearings which it was particularly important to avoid, since the witnesses would include extremists whose evidence would create publicity prejudicial to the fulfilment of our constitutional policies in Northern Ireland. There remained the possibility that in presenting his case at the present stage the Irish Attorney General, Mr Costello, would fail to observe proper restraint. The Attorney General had warned Mr Costello that the tone of our reply would depend upon the tone of his statement.

The Cabinet -

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

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Formation
of an
Executive

Previous
Reference:
CM(73) 42nd
Conclusions,
Minute 3

THE PRIME MINISTER said that on 5 October the Secretary of State for Northern Ireland would hold his first joint meeting with representatives of the Unionist Party, the Social Democratic and Labour Party and the Alliance Party to discuss the formation of an Executive.

The Cabinet -

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

CONFIDENTIAL**MONETARY
MATTERS**

3. **THE CHANCELLOR OF THE EXCHEQUER** said that the meeting of the International Monetary Fund in Nairobi had, as expected, failed to make any substantial progress on the subject of monetary reform. The Committee of Twenty were to meet again in January 1974. There had however been useful meetings of small groups on the side. The meeting of Commonwealth Finance Ministers had led to a useful discussion, conducted in a friendly spirit. There had been some muted complaints about our alleged failure to consult fully on the sterling arrangements, but we had not come under serious pressure.

The Cabinet -

Took note of the statement by the Chancellor of the Exchequer.

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INDUSTRIAL
AFFAIRS

The Motor
IndustryPrevious
Reference:
CM(73) 42nd
Conclusions,
Minute 4

4. THE SECRETARY OF STATE FOR EMPLOYMENT said that, although the decision of the electricians at Chryslers' Linwood factory to remain at work had enabled production to be maintained and the start of the dismissals to be postponed, inter-union discussions at Coventry on the previous day had failed to lead to a settlement of the dispute about the electricians' pay increment. There were to be further negotiations between Chryslers and representatives of the Electrical, Electronic, Telecommunications and Plumbing Union later that day.

The British Leyland Motor Company had now told their workers at their Longbridge factory that they had decided to challenge in the High Court the Pay Board's interpretation of the Pay Code in refusing to allow the whole of the agreed pay increase of £4.00 a week to be back-dated to July. Although the unions had accepted this course there were still some doubts about the legality of such a challenge. It was, however, hoped that these could be overcome with the co-operation of the Pay Board. This should allow further industrial action to be avoided.

Agreement had been reached that the sacking of the worker concerned in the dispute at Fords should be referred to arbitration, and this had enabled production at Dagenham to be resumed.

The Electricity
Industry

The Electrical Power Engineers Association (EPEA) were disgruntled over the industry's inability under the Pay Code to implement an agreement for increased allowances for standby duties reached during the previous December, and were also seeking to restore a 25 per cent lead in pay over the manual workers in the industry. Although it would be possible to go some way towards meeting their demands under the Stage 3 Pay Code, this could not be done until their next pay settlement was due in the following February; and in the meantime the EPEA were threatening to ban out-of-hours working from 1 November. This would be likely to lead to some interruption of supply, although maintenance work on safety grounds would be undertaken. Consideration might be given to the possibility that the Pay Board might take some account of the engineers' grievances during their study of relativities.

The Railways

He and the Minister for Transport Industries would be meeting the Chairman of the British Railways Board (BRB) that afternoon to discuss the negotiations on the restructuring of drivers' pay. The BRB had already offered the drivers increases of up to £6.20 a week, in addition to any annual pay increase which might become due on 1 May 1974, to be paid in 3 annual instalments starting on

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1 January 1974. The Associated Society of Locomotive Engineers and Firemen (ASLEF) had rejected both the amount and the staging of the proposed increase, which appeared to be in breach of the Pay Code. Some branches of ASLEF were already demanding that industrial action be taken, and unofficial action before the end of the month appeared possible. Official action might be delayed either by a reference of the case to arbitration, or by a decision by ASLEF to await the outcome of the Special Congress of the Trades Union Congress (TUC) which was to consider the TUC attitude to the Stage 3 policy. A full-scale national strike did not, however, seem likely.

The Coal Industry

There was to be a meeting between the National Coal Board and the National Union of Mineworkers (NUM) on 10 October about the mineworkers' pay claim. Although there was pressure for industrial action from militant branches of the NUM there was hope that the provision for shift allowances made in the Stage 3 Pay Code would persuade the NUM Executive not to take industrial action. They would in any case need to conduct a ballot of their members on whatever offer was made.

He considered that the scope for taking action to treat particular pay problems as special cases had now been exhausted, since the Stage 3 Code had already been weighted significantly in favour of workers in the public sector.

THE PRIME MINISTER said that he had recently met the 3 Chairmen of the Pay Review Bodies and they had agreed that, before submitting their proposals to the Government, they would assure themselves, by consulting the Pay Board, that their recommendations were in conformity with the Pay Code. He had also met the National Staff Side about the pay of civil servants under Stage 3; they had adopted a reasonable attitude, in which the Government's undertaking to take steps to protect the pension position of those whose salary on retirement had been affected by the pay policy had played a part.

He had also had further discussions with the representatives of the TUC and the Confederation of British Industry (CBI) on the Stage 3 Pay and Prices Code, but had not disclosed the Government's thinking about the level of the pay limit. The TUC, capably and effectively led by their new General Secretary, were expecting freer, rather than wholly free, collective bargaining to be introduced in Stage 3. There was a genuine anxiety on the part of the CBI about the impact of the Price Code on investment, at a time when the Stage 2 Code was beginning to take effect. The CBI had also been concerned about the effect on profitability of any increase in the productivity offset. Whereas the TUC wanted flexibility on

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pay and rigid control of prices, the CBI could envisage only very limited relaxation of the pay limits and, ideally, would have liked the Price Commission to be disbanded and for the Government to have relied upon competition to achieve the necessary restraint on prices. They were, however, right to stress the importance of profits in securing greater investment.

The Cabinet -

Took note of the statements by the Prime Minister and the Secretary of State for Employment.

MORTGAGE AND
MORTGAGE
LENDING

5. The Cabinet had before them a memorandum by the Secretary of State for the Environment about mortgages and mortgage lending (CP(73) 93).

Previous
Reference:
CM(73) 40th
Conclusions,
Minute 5

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that his memorandum recommended that, subject to a satisfactory response from the building societies, the Government should endorse the Memorandum of Agreement on Stabilisation which had been prepared following discussion with the Council of the Building Societies Association (BSA); and that the preparation of legislation giving appropriate reserve back-up powers should be put in hand. As regards more immediate action, there did not seem to be grounds for shielding the generality of existing owner-occupiers from present interest rates. There was, however, a strong case for selective assistance to first-time purchasers, and a possible scheme was described in Appendix D of his paper. Such a scheme could be based either on grants or loans. His preference was for the latter. It had until recently been envisaged that the cost would have to be met by the Government; but there were now indications that the building societies might prefer to organise and finance such a scheme themselves. If so, this would be the preferable solution; no public expenditure would be involved; legislation would not be necessary; and the arrangements could be brought into effect much more quickly. The building societies would no doubt require an Exchequer guarantee; but this would cost little and should be provided. As a third measure he proposed that no steps should be taken to restrict lending by local authorities to owner-occupiers, even though it would shortly exceed the total sum for which provision had been made in 1973-74. If no restrictions were imposed the excess lending during the year was likely to amount to about £130 million. Finally, the time seemed to have come for a radical review of some important longer-term issues, including the organisation of the building societies themselves and the methods used for conducting their financial affairs, neither of which might now be suitable for modern needs. A study should therefore be set on foot at once, with a view to an early report being made to the Cabinet.

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In discussion it was argued that the proposed scheme for helping first-time purchasers was unlikely to make a major impact. The indications were that the number of houses started in 1974 might, if no action were taken, fall to about 150,000, compared with some 215,000 this year. The scheme might well fail to produce any substantial increase in this very low figure for 1974, and in that event the Government's reputation might be damaged by accusations that the action taken had been ineffective and half-hearted. As against this, it was argued that the scheme was on balance likely to make a significant impact on the number of starts since, although it could not of itself remedy the present shortage of housing finance - in which no immediate improvement seemed likely in view of the unfavourable September investment figures - it would channel the available finance where it was most needed. It would bring into the market for houses a substantial number of first-time purchasers who would otherwise have been excluded and thus foster confidence amongst builders and moderate the decline in the number of houses started. Such a scheme would moreover be a valuable element in the package of proposals which the Government would be putting forward for Stage 3 of their counter-inflationary policies. The Government should if necessary be prepared to provide finance for the scheme, which should be based on loans rather than on grants. It would however be much preferable for the building societies themselves to finance and run the scheme. It would then be possible to avoid the need for legislation, and this was highly desirable, bearing in mind the political embarrassment which would be caused by the amendments which would no doubt be moved to widen the scope of the scheme. Moreover, it was important that the scheme should become effective quickly, and this would not be possible if legislation were a prerequisite.

In further discussion, it was argued that if the building societies declined to finance the scheme even with an Exchequer guarantee and it consequently became necessary for the Government themselves to finance it, it might be preferable to provide in the legislation for the scheme to come to an end after a fixed period - perhaps two or three years - unless it were renewed by affirmative resolution. Changes might well become necessary in the light of changing circumstances, but it would be more difficult to make them if the legislation provided for the scheme to continue unchanged indefinitely unless specific action were taken to alter or discontinue it. It was noted that a scheme on these lines would require significant public expenditure, and that offsetting savings would have to be sought.

In subsequent discussion, there was general agreement that it would not be practicable to restrict lending to house purchasers by local authorities. It was noted that early action might be needed to authorise continued lending by the Greater London Council, which had already made loans up to the limit authorised by the Department

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of the Environment for the year 1973-74. Increased lending by local authorities would significantly offset the shortage of private housing finance and, since it was restricted to priority categories, would be directed where the need was greatest. As regards the longer term, there was general agreement that a radical review of the organisation and financial methods of the building societies should be undertaken. The societies were highly conservative in their outlook and had so far set their faces against changes in methods which had been found desirable in foreign countries. It was doubtful whether, as at present constituted, they were capable of meeting contemporary needs, and it was important that in the course of discussion about short-term measures no assurances would be given which would preclude the Government from seeking radical changes in the longer term.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that, in the light of the present shortage of housing finance, the danger of a serious decline in house building and the political difficulties caused by the increase in the mortgage rates to 11 per cent, measures must be taken on the lines proposed by the Secretary of State for the Environment. The Memorandum of Agreement on Stabilisation should be put into effect as soon as possible, and the preparation of legislation conferring back-up reserve powers should be pressed forward. The provision of help for first-time purchasers was a matter of urgency. It should take the form of interest-reducing loans, and the arrangements should if possible be financed and run by the building societies themselves. An Exchequer guarantee should be made available to the building societies if they sought one. If in the end the building societies proved unwilling or unable to finance a loans scheme themselves, Government moneys should be made available. The Government's decision on stabilisation and on help for first-time purchasers should be announced in the forthcoming White Paper on Stage 3 of counter-inflationary policies, a draft of which was due to be considered by the Cabinet on the following Thursday. Before then, there should be urgent consultations with the BSA in order to discover how far their leaders were prepared to go in undertaking to recommend to their members an interest-reducing scheme for first-time purchasers financed and run by the building societies themselves. The precise terms of the passage in the White Paper would depend on the outcome of these consultations. The Cabinet also agreed that restrictions should not be imposed on lending to owner-occupiers by local authorities and noted that the public expenditure provision made for 1973-74 was likely to be exceeded by £130 million. It would be presentationally desirable to lay stress on the extent to which public expenditure was thus being used to make good the current shortage of housing finance in the private sector. As regards the longer term, a study should be arranged on the

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general lines which had been proposed. It should cover all aspects of private sector housing finance and should not shrink from making radical proposals involving, for example, major changes in the structure of the building societies and in their financial methods. Its findings should be reported to the Cabinet at an early date.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for the Environment, in consultation with the Chancellor of the Exchequer:-
 - a. In the light of early consultations with the building societies on the lines indicated in the summing up to prepare a suitable passage for inclusion in the draft White Paper on Stage 3 of counter-inflationary policies.
 - b. Subject to the response of the Building Societies Association to the Memorandum of Agreement on Stabilisation, to arrange for the preparation of the necessary back-up legislation.
 - c. To arrange for a radical study of the longer-term problems of private sector housing finance and to report the conclusions to the Cabinet by the end of the year.

Cabinet Office

2 October 1973

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