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CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on

THURSDAY 18 OCTOBER 1979

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the Home Department

The Rt Hon Lord Hailsham  
Lord Chancellor

The Rt Hon Lord Carrington  
Secretary of State for Foreign and  
Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon Francis Pym MP  
Secretary of State for Defence

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP  
Lord Privy Seal

The Rt Hon Peter Walker MP  
Secretary of State for Agriculture, Fisheries  
and Food

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP  
Secretary of State for Northern Ireland

The Rt Hon Patrick Jenkin MP  
Secretary of State for Social Services

The Rt Hon Norman St John-Stevas MP  
Chancellor of the Duchy of Lancaster

The Rt Hon John Nott MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon Mark Carlisle QC MP  
Secretary of State for Education and Science

The Rt Hon John Biffen MP  
Chief Secretary, Treasury

## THE FOLLOWING WERE ALSO PRESENT

Mr Percival QC MP  
 Director General (Item 4)

The Rt Hon Norman Fowler MP  
 Minister of Transport

The Rt Hon Michael Jopling MP  
 Parliamentary Secretary, Treasury

## SECRETARIAT

Sir John Hunt  
 Mr M D M Franklin (Items 2 and 3)  
 Mr P Le Cheminant (Items 4 and 5)  
 Mr P J Harrop (Item 1)  
 Mr P Mountfield (Items 4 and 5)  
 Mr D E R Faulkner (Item 1)  
 Mr R M Hastie-Smith (Items 2 and 3)

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1. THE CHANCELLOR OF THE DUCHY OF LANCASTER said that Legislation Committee had this week approved six Bills for immediate introduction when Parliament returned the following week, including the Bills on Industry, Shipbuilding and European Communities (Greek Accession). Five more should be approved next week, among them the Education, Civil Aviation and Protection of Official Information Bills. The Companies and Competition Bills were already before the House. Among the Government's other major Bills, the Local Government, Planning and Land and British Aerospace Bills should be ready during the first half of November; and those on Trades Unions, Social Security, Transport, National Heritage Fund and Health Services in time for Second Reading before Christmas. The Housing Bill, and probably the Coal Industry, Submarine Pipelines, Wildlife and Broadcasting Bills should be published before Christmas. A Bill would be ready on Rhodesia if it were needed, for which drafting authority had been given. Some of these Bills were later than originally planned, but there was no question at this stage of having to drop any Bills for lack of Parliamentary time. There would, however, be difficulty in meeting the deadlines for some of those Bills which required early Royal Assent, such as the Industry, Education, Transport, Aerospace, Shipbuilding and Coal Industry Bills. Priority would be given to the Industry Bill and to others which were needed to secure early financial benefits; but where it was possible to make alternative financial arrangements to cover a delay in presenting a Bill for Royal Assent it would be prudent to do so. It was essential to prevent any further slippage, which could affect not only the timetable for a particular Bill, but also the programme as a whole. A Bill should not be delayed on account of provisions which could be deferred until later in the Parliament. Any major Bills which could start in the House of Lords should do so. Some difficulties with the Parliamentary timetable were to be expected as the Session proceeded: he would keep in touch with the Ministers concerned and requested that his colleagues should immediately inform him if they foresaw difficulties with their particular Bills.

In discussion, it was pointed out that it had been necessary to withdraw the Protection of Official Information Bill from Legislation Committee at short notice because of an unresolved question of policy. Unless policy issues were settled in good time before Bills reached the Committee, valuable Parliamentary time would be lost. It was noted that some Bills, especially those requiring Royal Assent before Easter, might need the use of the guillotine in the House of Commons. There were arguments for deferring its use until the New Year in the wider interests of Government business in both Houses.

THE PRIME MINISTER, summing up the discussion, said that the Home Secretary would arrange for the outstanding policy matter on the Protection of Official Information Bill to be resolved, and for the Bill to be made ready for early introduction. The use of the guillotine should be considered when the need arose by the Chancellor of the Duchy of Lancaster, the Chief Whip and the Minister concerned. At this stage, the first priority was to get Bills drafted, introduced and brought to Second Reading. The Government had a heavy legislative programme before them and it was essential to maintain the present timetable.

The Cabinet -

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

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

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that having made it clear to the Patriotic Front that discussions on the next stages would proceed without them if they did not accept the proposed constitution they would probably return to the negotiations. However the remaining stages would be much more difficult and if we had to reach a settlement which did not involve the Patriotic Front some of our friends and allies might turn out to be fair weather ones only. Meanwhile some progress on possible transitional arrangements was being made with Bishop Muzorewa and General Walls. The South African attitude was difficult to assess as they appeared to be simultaneously threatening military intervention and withdrawal. No British commitment had been made about a Land Fund for compensating dispossessed white farmers in Rhodesia.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the speech by the Soviet President, Mr Brezhnev on 6 October in Berlin had had some effect on current discussions within the North Atlantic Treaty Organisation (NATO) on modernisation of its long range theatre nuclear weapons. The Belgians in particular were showing signs of nervousness. It was important to avoid a repetition of the events surrounding the earlier discussion within NATO on the "neutron bomb".

In a brief discussion it was pointed out that the United States were adopting a robust tone in the current NATO discussions and this had been reflected in the attitude taken by West Germany at the trilateral discussions which had just taken place in Hamburg. We should be similarly robust.

The Cabinet -

Took note.

3. THE PRIME MINISTER said that during her recent visit to Rome, she had made it very clear to the Italian Prime Minister that we expected movement towards resolving our Budget problem at the Dublin European Council. The Italians would press for less emphasis on expenditure on price guarantees within the Common Agricultural Policy and we would be able to give them some support; but we could not allow the Italians to impede progress towards a solution of our problem.

THE CHANCELLOR OF THE EXCHEQUER, reporting on the meeting of the Council of Ministers (Finance) on 15 October, said that the process of considering the Commission's first report had been completed and they should now come forward with proposals for solutions for the November meeting of the Finance Council. It had been a discouraging debate: while everyone had reluctantly acknowledged that the United Kingdom had a problem there was no disposition to recognise how substantial and urgent it was. The other member States were clearly hoping to dispose of the matter at the European Council with only a very modest alleviation of our net contribution. An extremely tough negotiation was therefore in prospect.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, at the meeting of the Council of Ministers (Agriculture) earlier in the week, he had raised the failure of the French Government to implement the judgment of the European Court that their measures restricting imports of sheepmeat from the United Kingdom were illegal. In a restricted meeting of Ministers the French failure to comply had eventually been condemned by most other member States and by the Commission. The French Minister of Agriculture had merely said that the matter was being considered by his Government. A special session of the Agriculture Council had been fixed for 29 October to discuss a Community sheepmeat regime: the situation would undoubtedly be very difficult if the French had not previously announced their intention to comply. It was likely that they would announce the lifting of the ban as from about the middle of November when the market normally became firmer: but if they still continued to apply levies to our exports this would equally be illegal. It would be helpful if, when the Prime Minister saw the President of the Commission on 22 October, she could stress the responsibility of the Commission to ensure that the French Government complied with the Court's ruling and withdrew both the ban and the levy arrangements.

In a brief discussion the seriousness of the French position was stressed. If member States refused to accept the clear findings of the European Court the very basis of the Community would be called into question. Our compliance with Community law could not then be easily defended to public opinion in this country where the European Economic Community was in any case not popular. In particular, we faced a difficult political problem in the next few weeks in passing the necessary legislation to implement the ruling of the European Court on the use of tachographs. There was already concern about the attitude of Government supporters in view of the

French failure to comply with the Court ruling on sheepmeat. We should not however threaten to disobey Community law ourselves otherwise we should lose the support we had secured from other member States.

In reply to a question about the recent European Court ruling on fisheries, the Minister of Agriculture said that the Court had criticised the procedures we had followed in 1977 rather than the national conservation measure itself. The European Court was due to rule on other United Kingdom national conservation measures in January and it was likely that they would rule that a member State needed to obtain the approval of the Commission rather than simply to consult them, before taking national action. With this in prospect, he was anxious at the forthcoming meeting of the Council of Ministers (Fisheries) to discuss conservation measures on a Community basis. The position of the French was not strong since the trawlers which we had arrested were contravening conservation measures which dated back to 1963.

The Cabinet -

Took note.

4. The Cabinet had before them a memorandum by the Secretary of State for Employment, C(79) 43, setting out his proposals on the four outstanding points in his intended Industrial Relations Bill.

THE SECRETARY OF STATE FOR EMPLOYMENT said that Ministers had already generally approved his proposals for legislation on picketing, the closed shop and union ballots. He intended to introduce the necessary legislation in December, but the timetable was now very tight and he needed urgent decisions on four outstanding issues.

i. Closed shop: The Cabinet needed to decide how wide should be the objection on conscience grounds to union membership which would protect against unfair dismissal, and whether they should be limited to objection to belonging to any union at all or could include objection to belonging to a particular union. He suggested that the formula should cover those who 'had religious, ethical or moral objections to being a member of any union whatsoever or of a particular union'.



In discussion, it was argued that the original 'conscience clause' had not gone far enough. It would not have covered, for example, the firemen at Rhyl who had refused to join the previous year's strike. At the same time, exemption should not go so far as to allow a man to leave a union simply because of a personal quarrel. Against this, it was argued that, ideally, the Government would protect the rights of anyone who wished to leave or remain out of a union. But it was necessary to proceed cautiously. The course proposed was about as far as the Government could go. However, the wording of the proposed 'conscience clause' could still be criticised. It was not easy to define ethical and moral objections, which appeared to mean the same thing. It might be preferable to redefine the exemption to cover 'deeply held sincere and disinterested personal convictions'. This formula had the advantage of incorporating words which already had some legal significance, in the context of conscientious objection to military service, while retaining a common sense meaning which would be readily understood by the tribunals which would administer the proposed code of practice. They were also close to the language of the Party Manifesto, and there was much advantage in sticking to words which had already been used in public before.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet agreed with the intention of the Secretary of State's proposals but would have liked a more widely drawn definition if this was possible. He should consult with the Lord Chancellor and other interested Ministers, on the basis of alternative drafts prepared by Parliamentary Counsel following the lines suggested in discussion, and bring fresh proposals before Ministers in due course.

- ii. Unreasonable exclusion or expulsion from a union.  
The proposal before the Cabinet was to include in the Draft Statutory "Code of Practice" on the closed shop, guidance to the effect that disciplining by expulsion should be regarded as unreasonable behaviour if taken solely on such grounds as that a member crossed a picket line or refused to take part in industrial action in breach of a procedure agreement. It was intended that a plaintiff should be able to draw attention to this code in pleading his case before the tribunal. The test of 'reasonableness' would be for the tribunal or the High Court to interpret. This proposal had the support of the Confederation of British Industry.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed with this approach to the problem.

iii. Closed shop in the newspaper industry. The Secretary of State's proposal was to reinforce the general provisions on the closed shop by providing a separate section in the 'Code' which would relate specifically to the position of journalists. It would make it clear that genuine beliefs concerning Press freedom would be a suitable conscientious ground for objecting to becoming or remaining a member of a particular union or of any union at all.

THE PRIME MINISTER, summing up a brief discussion on this point, said that the Cabinet approved this approach to the problem, subject to the Secretary of State for Employment satisfying himself that his proposals were consistent with undertakings given to previous Conservative Party Conferences.

iv. SLADE. The Secretary of State for Employment had circulated to the Cabinet, under cover of a minute dated 12 October, the report of Mr Andrew Leggatt QC into the recruitment activities of the Society of Lithographic Artists, Designers, Engravers and Process Workers (SLADE). This report had since been published. As a result there had been considerable public criticism of the undesirable practices of this union in enforcing union membership against the wishes of employers and employees in particular firms.

THE PRIME MINISTER, summing up this part of the discussion, said that there was general agreement that the correct approach to this problem lay in statutory action to remove the immunities of a union acting as SLADE had done, thus making it possible for an injured party to take civil action against it. There were several possible ways in which this might be done, further consultation would be needed to identify the best approach. The Cabinet authorised the Secretary of State for Employment, in consultation with the Solicitor General, to consult the various interested parties accordingly.

Summing up the whole discussion, the Prime Minister said that the Secretary of State for Employment should now proceed in the manner agreed by Cabinet, consulting where necessary, and reporting on these and any other outstanding points to the Cabinet or the Ministerial Committee on Economic Strategy in the middle of November, with a view to introducing legislation and securing a Second Reading before Christmas.

The Cabinet -

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

LIMITED CIRCULATION ANNEX

- 5. The Cabinet's discussion and the conclusions reached are recorded separately.

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Cabinet Office

18 October 1979

CABINET

## LIMITED CIRCULATION ANNEX

CC(79) 17th Conclusions, Minute 5

Thursday, 18 October 1979 at 10.30 am

PUBLIC EXPENDITURE  
1982 TO 1983-84:  
OUTSTANDING ISSUES

previous  
reference:  
CC(79) 15th  
conclusions,  
Minute 6

The Cabinet had before them a memorandum by the Chief Secretary, Treasury (C(79) 42) setting out the result of his bilateral discussions with spending Ministers following the Cabinet's previous discussion, and making proposals to resolve the outstanding issues on five major programmes. They also considered a memorandum (C(79) 44) by the Secretary of State for the Environment about council house rents.

THE CHANCELLOR OF THE EXCHEQUER, by way of general background to the Chief Secretary's paper, said that the latest forecasts indicated a need to secure all of the proposed reductions in expenditure if there was to be any hope of keeping the public sector borrowing requirement (PSBR) at a manageable level and without allowing room for any reduction in the net burden of taxation. While theoretically it was attractive to allow Government borrowing to increase in a time of recession, this was not a practicable course, given the very high level of borrowing already needed to finance Government expenditure.

THE CHIEF SECRETARY, TREASURY, said that Cabinet had agreed at its discussion in September to stabilise public expenditure at roughly its present level. With the co-operation of spending Ministers, he had been able to make good progress towards this target, and savings of some £4-5,000 million had already been agreed. There were, however, five main outstanding issues, which together left a margin rising from £1,000 million at the beginning of the period to £1,500 million at the end, on which decisions were now needed. For 1983-84 this margin was equivalent to 3-4p on the standard rate of income tax. In his discussion he had tried to reflect the broad priorities indicated by the Cabinet. Defence expenditure would, on his proposals, rise by 3 per cent in volume terms starting from 1978-79 and Law and Order by 2½ per cent; but reductions would be needed elsewhere to accommodate the increases, while maintaining

overall stability. He had left a reasonable margin for contingencies, to cover such possible claims as those of British Leyland and of Rolls-Royce, of uprating of Child Benefits, and of the possible higher costs of unemployment benefits. The five issues outstanding were the Defence Budget, Agricultural support, Housing and Council House rents, Education and the Earnings Related Supplement (ERS).

In general discussion, it was argued strongly that the only alternative to the cuts proposed by the Chief Secretary, Treasury, were increases in taxation, in local authority rates, and in the level of interest rates. This would run counter to the Government's general policy, and to the Manifesto on which it had been elected. Against this, it was argued that there were inevitable inconsistencies within the Manifesto policies, and that the situation had deteriorated since the Election. The Government had to carry the country with it, if only to secure its own re-election: its economic policies could not be carried to fruition within the lifetime of a single Parliament. Some of the measures proposed by the Chief Secretary were so politically sensitive that the Cabinet would have to balance them against the risk of increasing taxation.

THE CHIEF SECRETARY, TREASURY, said that his proposals would enable the defence budget to increase by 3 per cent annually on average in volume terms over the period, starting from 1978-79. The North Atlantic Treaty Organisation (NATO) target, to which the Government had subscribed, required an increase "in the region of 3 per cent". By 1984, the defence budget would have risen from 4.8 to 5.5 per cent of Gross Domestic Product (GDP), a higher proportion than that of any other NATO partner. This was a reasonable and defensible stance.

THE SECRETARY OF STATE FOR DEFENCE said that the technical interpretation of this NATO commitment was open to debate. NATO had always worked in volume terms, as had the present Government when it extended the 3 per cent commitment in the light of the growing Soviet threat. If the Government now published future figures on the basis proposed by the Chief Secretary, Treasury, it would be impossible to conceal a unilateral decision to go back to something like a 2 per cent annual growth rate. This would be very damaging, both to our relations with our allies and to the morale of the armed forces. In his view, the figures he had proposed, which rose to £160 million a year more than those of the Chief Secretary, Treasury in 1983-84, were the minimum necessary to honour our commitments and to meet the real need.

In discussion, it was argued that the Government was heavily committed, by its statements in Opposition, and its actions since the Election, to maintaining the 3 per cent target in the sense understood by the Secretary of State for Defence. It would be difficult to defend, either to our allies, to the armed forces or to the Government's own supporters, any change in Ministers' interpretation. Against this, it was argued that the Chief Secretary, Treasury's proposals were defensible in terms of the commitments made and of the interpretations which our allies were placing on their own parallel commitments. The alternative was further cuts in, for example, the Education Budget, which would be even more unpalatable. Nobody disputed that the Defence programme should have high priority: the question was the exact amount of resources to be allocated to Defence in the next four years. The United Kingdom already devoted a higher proportion of GDP to Defence than any other NATO ally, although its per capita contribution was smaller than some, because of its relatively low GDP. The rate of growth of the Defence programme exceeded that of all other public expenditure programmes.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet noted the serious reservations of the Secretary of State for Defence but the majority view seemed to be that it would be best to plan on the basis of the figures proposed by the Chief Secretary, Treasury.

THE PRIME MINISTER said that, as the Cabinet had agreed on 4 October, a general review of Agricultural Support Policy was under way. Discussion of the Chief Secretary, Treasury's proposals should be postponed until this had been carried further.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the only issue on new construction concerned the level of approvals for new council houses from 1979-80 onwards. During this period, the rate of slum clearance would have fallen off, private house building would be running at between 120 and 145 thousand houses a year, the overall housing stock situation would have moved even further into surplus (despite local shortages in some areas) but there would be a need to concentrate local authority housing as far as possible to help special groups like the elderly and the disabled.

THE PRIME MINISTER, summing up a brief discussion on this point, said that the Cabinet agreed to a rate of new approvals of 45,000 a year from 1979 onwards.

THE CHIEF SECRETARY, TREASURY, said that the major remaining issue was that of council house rents. His own proposal assumed that rents would have risen to 11 per cent of average earnings by the final year of the Public Expenditure Survey period. It was common ground that rents were at present unrealistically low. If they were to rise, it would be best that they should do so quickly. The effect on wage demands need not be large: there was no evidence that rent control in the past had moderated the pressure on wages. The poorest council house tenants would be protected by the existing rent rebate arrangements.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that an increase of this scale in council house rents was the single most explosive political issue which faced the Government. It was a matter of political judgment. In his paper he had set out five options, showing the consequences for each in terms of public expenditure, effect on rates, and phasing. His own preference was Option B, under which rents would be returned by 1983-84 to a level which would be the same proportion of average earnings as in 1974 when the Conservative Government left office - 8.6 per cent of earnings. This would produce savings of £1 billion over three years. It meant committing the Government now to average increases of £1.80, £1.55 and £1.45 in council house rents in each of the next three years. This would increase the Retail Price Index (RPI) by 0.7 per cent by 1983-84, whereas the Treasury proposals would amount to an increase of 1.6 per cent. These figures assumed that about 100,000 council houses would be sold each year. He did not believe it was practicable to move any faster than this.

In discussion, there was general agreement on the political sensitivity of the subject. In favour of a faster move, it was argued that higher rents would encourage the move towards greater home ownership. The 1974 level of rents as a proportion of average earnings were artificially low and had come at a time of rigid incomes policy. By contrast, the post-war Labour Government had set a target of 10 per cent of earnings. There were already wide discrepancies between the level of council rents in different cities, and no evidence of adverse political reaction. It was quite wrong that Labour authorities should buy votes by maintaining artificially-low rents. There was no case for protecting this particular part of local authority activity at a time when personal social services and transport had been so drastically reduced. The poorest part of the population was well protected by the existing rent rebate arrangements. The alternative to the course proposed was to add substantially to income tax.

Against this, it was argued that the council house tenant on average earnings represented the core of the trade union movement, whose support it was important to secure. The Government's success at the recent General Election had depended on this group. The effect of higher rents could not be seen in isolation. It must be added to the impact of higher school meal charges, charges for school transport, increases in value added tax, and the general level of inflation. The overall effect on wage demands could be very damaging. Charges in the public sector were automatically blamed on the Government of the day. The Government's political commitments were not limited to reducing taxation. It had other objectives too, and must be careful not to appear as an uncaring Government. The Cabinet had ruled out any change in the present tax relief arrangements for mortgages, but this simply highlighted the different treatment given to council house tenants and to owner-occupiers, despite the importance attached to home ownership. In political terms there was a psychological barrier, which might be identified with rent increases of £2 a week or more, comparable to the 50p ceiling on rent increases set in the 1974 Rent Act. The Government should be careful not to break this barrier.

THE PRIME MINISTER, summing up this part of the discussion, said that the Secretary of State for the Environment and the Chief Secretary, Treasury, should between them agree on a course which fell somewhere between Option C and Option D as set out in the Secretary of State's paper. In doing so, they should provide for a steady rate of increase in rents, preferably of less than £2 per week, or alternatively expressed in percentage rather than in cash terms. They should report their joint recommendation to Cabinet as soon as possible.

The Prime Minister, summing up the whole discussion, said that the Cabinet did not have time to complete their discussion of the disputed points at the present meeting. They would resume their discussion on council house rents, of Education and of the Earnings-related Supplement and reach final decisions on all the programmes at a subsequent meeting.

The Cabinet -

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

Cabinet Office

19 October 1979