

# THE PARLIAMENTARY DEBATES

## OFFICIAL REPORT

IN THE FIRST SESSION OF THE FORTY-THIRD PARLIAMENT OF THE  
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND,  
WHICH OPENED 27th OCTOBER, 1964

IN THE  
FOURTEENTH YEAR OF THE REIGN OF  
HER MAJESTY QUEEN ELIZABETH II

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## HOUSE OF COMMONS

*Monday, 10th May, 1965*

*The House met at half-past  
Two o'clock*

### PRAYERS

[Mr. SPEAKER *in the Chair*]

## ORAL ANSWERS TO QUESTIONS

### LAND AND NATURAL RESOURCES

#### Land Commission

1. **Mr. Evelyn King** asked the Minister of Land and Natural Resources whether, in the proposals he will bring forward for a Crown Land Commission, he will devise nomenclature to distinguish between the phrase Crown Land, as used in the older sense, and any land which may subsequently be vested in the new Land Commission.

**The Minister of Land and Natural Resources (Mr. Frederick Willey)**: Yes, Sir.

**Mr. King**: In view of the fact that confusion will be caused by the use of the word "Crown" in this highly controversial piece of party legislation based on nationalisation, will the Minister undertake not to bolster it up by using the name "Crown"?

**Mr. Willey**: This is a piece of necessary legislation which will be generally welcomed, but I appreciate the point which the hon. Gentleman has raised.

**Mr. Hector Hughes**: Is the Minister aware that there is a striking difference between the phraseology and nomenclature in English law and that in Scottish law, which is derived largely from and based on Roman law? Will he take that into account for the benefit of the ordinary citizen who will have to construe any Measures which he introduces?

**Mr. Willey**: I am aware of that, but I would ask my hon. and learned Friend to address his observations about Scottish law to my right hon. Friend the Secretary of State for Scotland.

7. **Mr. Jackson** asked the Minister of Land and Natural Resources, if he will now announce the setting up of the Land Commission; and if he will make a statement.

10. **Mr. Bence** asked the Minister of Land and Natural Resources if he will take steps to enable local authorities to acquire land for essential house building at reasonable prices.

**The Joint Parliamentary Secretary to the Ministry of Land and Natural Resources (Mr. Arthur Skeffington)**: My right hon. Friend will be introducing legislation to set up a Land Commission and to deal with the problem of land prices as soon as possible.

**Mr. Jackson**: Can my hon. Friend tell me whether during the period in which this legislation is being prepared there

has been any drying up of the land available for building development?

**Mr. Skeffington :** No, Sir. We have no such evidence.

**Mr. Boyd-Carpenter :** Will this legislation be preceded by a White Paper? If it is, in order to keep himself in the fashion will the Minister have the White Paper debated and then be prepared to listen?

**Mr. Bence :** Is my hon. Friend aware that if a White Paper were issued on land prices it would be found that in the last 15 years land prices have rocketed nearly 1,000 per cent. and that huge fortunes have been made out of land? Will he do something to stop this exploitation of people's needs for housing by stopping this racket in land prices?

**Mr. Skeffington :** The rise in the cost of land is common knowledge and the only way of dealing with it is by the legislation which my right hon. Friend has in mind.

**Mr. Boyd-Carpenter :** Will the hon. Member be good enough to answer my question as to his right hon. Friend's intention about a White Paper?

**Mr. Skeffington :** I apologise to the right hon. Gentleman for not answering the whole of his question, but I do not altogether understand the second part of it. On the purely factual part of the question, it is intended to publish a White Paper.

**Mr. A. J. Irvine :** Arising out of the supplementary question asked by my hon. Friend the Member for Dunbartonshire, East (Mr. Bence), will my hon. Friend at least agree, so that we may have it on the record, that it is entirely wrong that when a local authority compulsorily acquires land for housing or other social purposes it should have to pay, within the compulsory acquisition price, that element of value which derives from the planning permission which it itself gave?

**Mr. Skeffington :** This view is entirely shared by the Government.

### Barrage Schemes (Mersey Docks and Harbour Board)

3. **Mr. Tilney** asked the Minister of Land and Natural Resources whether the

Water Resources Board, in its study of the Dee and Morecambe Bay barrages, will consult the Mersey Docks and Harbour Board, on whose efficiency much of the wellbeing of Merseyside must depend.

**Mr. Skeffington :** The Water Resources Board is not at present directly concerned with the Dee Barrage. On the Morecambe Bay scheme the Board will of course have to consult very widely. My right hon. Friend has not thought it necessary to give the Board detailed instructions as to the scope of its consultations, but I will bring the hon. Member's Question to their notice.

**Mr. Tilney :** When the Water Resources Board ultimately looks at the Dee barrage will it also consider using sand dredged up from the Mersey, which is at present dumped in the Irish Sea, and the feasibility of taking it across the Wirral?

**Mr. Skeffington :** Now that the hon. Gentleman has made that point, I shall see that it is considered.

### Forestry, South-West

4. **Mr. Peter Mills** asked the Minister of Land and Natural Resources what plans he has for the expansion of forestry in the South-West, particularly in the Hartland and Beaworthy area.

**Mr. Skeffington :** Together with the Ministers responsible for forestry in Scotland and Wales, my right hon. Friend is reviewing the forestry programme for Great Britain as a whole. Referring to the specific districts mentioned by the hon. Member the Forestry Commission is examining various possibilities of establishing wood-using industries in the Bristol Channel area, which might help the marketing problems of the South-West, including those areas which the hon. Member has in mind.

**Mr. Mills :** Will the Minister bear in mind the very real need for an extension of forestry in the South-West, particularly in these areas, which have some of the poorer land? Will he also bear in mind that what really would help the forestry industry would be a chipboard factory in that area?

**Mr. Skeffington :** The Forestry Commission and my right hon. Friend entirely accept the latter part of the hon. Gentleman's Question. I must point out to him, however, that one real difficulty is to get owners of land, even of marginal land, in the areas which he specifies, to switch to forestry. There has been a reluctance to do so, and this is one of our difficulties.

### The Wash

6. **Sir G. de Freitas** asked the Minister of Land and Natural Resources what progress has been made in the studies of the possibility of damming the Wash to create a reservoir by holding back water from rivers such as the Witham, Welland, Nene and Ouse in order to provide fresh water for use in the dry counties of the East Midlands and East Anglia.

9. **Sir D. Renton** asked the Minister of Land and Natural Resources whether, in view of the present and prospective shortage of water supply in East Anglia, he will hasten the feasibility study of the water storage potentialities of the Wash and give this scheme priority over schemes which would benefit other parts of the country where the water shortage is less acute.

23. **Mr. Derek Page** asked the Minister of Land and Natural Resources whether, in his study of the feasibility of a Wash barrage scheme, he will pay due regard to its effect on the port of King's Lynn.

**Mr. Willey :** A preliminary report by consultants on the storage potentialities of the Wash is expected before the end of the year. The Water Resources Board has put in hand studies of the long-term water demand in the South-East and ways of meeting it. It would be premature to undertake feasibility studies, which would be expensive, until this further information is available.

Of course, any feasibility study would have to have regard to the effect of the scheme on the port of King's Lynn.

**Sir G. de Freitas :** When the Minister considers these reports, will he take into account not only their technical recommendations on water conservation—which are extremely important—but also arguments in favour of creating a

large body of water for fishing, boating and other recreation?

**Mr. Willey :** Certainly. When I have these reports about water conservation, I shall have to consider, along with my colleagues, the other factors affecting any proposed barrage scheme.

**Sir J. Maitland :** I recognise the urgent need for water conservation in this area, but is it not important in the meantime to offer better opportunities and inducements to farmers and landowners to conserve water themselves? The expense of the scheme would be enormous and might create considerable difficulty for the growing harbour and port of Boston. Therefore, is it not important to weigh up these matters and offer inducements to people to conserve water, as they can do, and are doing in many cases.

**Mr. Willey :** I agree with the hon. Gentleman. We have to take what steps we can to encourage the conservation of water. I would emphasise, as he has, that any barrage scheme on the Wash would be a long-term measure. It would not help us in our immediate difficulties.

### Land Entitlements (Register)

8. **Mr. Hamling** asked the Minister of Land and Natural Resources if he will take steps to produce a register of land entitlements in the United Kingdom.

**Mr. Skeffington :** If my hon. Friend has in mind a statistical record of the uses to which land is put, my right hon. Friend has referred to the Natural Resources Advisory Committee the question of land use surveys and statistics. If he is thinking of the registration of title, this is in the course of being effected by Her Majesty's Land Registry.

### Land (Recreation Purposes)

13. **Mr. Urwin** asked the Minister of Land and Natural Resources if he will take steps to enable local authorities to acquire land for recreation purposes.

**Mr. Skeffington :** Local authorities already have full powers to acquire land for recreation purposes, either by agreement or compulsorily. However, I am aware that some local authorities are discouraged from buying land for open

space by the price that they will have to pay for it, but for any solution of this I must ask my hon. Friend to await the introduction of legislation for the Land Commission.

**Mr. Urwin :** While thanking my hon. Friend for that reply, may I sincerely trust that he will keep in his right hon. Friend's mind the necessity to enable land to be procured at much cheaper prices than have hitherto obtained in this respect?

**Mr. Skeffington :** That is very much in the Government's mind, as I expect my hon. Friend knows.

**Mr. Corfield :** Will the hon. Member give an undertaking that his words do not imply that we shall go back to a two-tier system of prices by which the price is determined by who buys and not by the inherent value of the land?

**Mr. Skeffington :** I think I must ask the hon. Member to await the legislation and the White Paper.

**Mr. George Jeger :** Is my hon. Friend aware of large tracts of land, particularly in industrial areas, which are disfigured by spoil heaps? Is he aware that if some initiative were taken by the Government in having talks with the National Coal Board and local authorities it might well be that some of this land could be reclaimed at a reasonable price for recreational purposes?

**Mr. Skeffington :** This is one of the matters which is being considered by the Ministry.

**Mr. John Wells :** Will the Minister bear in mind the particular difficulties of areas of Kent near Maidstone and Greater London about which I have written to him recently?

**Mr. Skeffington :** We will bear that very much in mind.

### Morecambe Bay and Solway Barrage Schemes

14. **Mr. Hall-Davis** asked the Minister of Land and Natural Resources if he will publish the full terms of reference in his instruction to the Water Resources Board to undertake an initial feasibility study of a Morecambe Bay barrage project.

21. **Mr. Symonds** asked the Minister of Land and Natural Resources what are the terms of reference of the Water Resources Board in connection with their feasibility studies of the Morecambe Bay Barrage.

**Mr. Willey :** Comprehensive terms of reference for the Board's studies of the Morecambe Bay and Solway barrage schemes have now been agreed. I will, with permission, circulate them in the OFFICIAL REPORT. The Board hopes to have appointed consultant engineers and to have begun work on its other studies by the end of the month.

**Mr. Hall-Davis :** Is the Minister aware that this reply will be very much appreciated in the area? Can he give an assurance that at the same time as these initial feasibility investigations of the barrage are being conducted, preliminary initial investigations will be made of the physical consequences on the areas bordering Morecambe Bay of a barrage in respect of such things as drainage and sewerage?

**Mr. Willey :** Yes. One has to keep various studies in mind, but one must get this study going first. We shall see how it develops and, if necessary, pursue other studies.

*Following is the information :*

#### WATER RESOURCES BOARD

*Terms of Reference for studies of the Morecambe Bay and Solway Barrage Schemes*

"To examine and report upon the following matters in respect of both Schemes :

1. the feasibility and probable costs of construction ;
2. the yields and qualities of water which would be made available ;
3. the demand for water, and the rate of growth of that demand, in areas which might be supplied ;
4. the arrangements necessary to distribute barrage water ;
5. the delivered cost of treated or partially treated water ;
6. other possible sources of supply in relation to the demand at 3. above and the costs of their staged development."

#### Water Conservation

15. **Mr. Geoffrey Lloyd** asked the Minister of Land and Natural Resources what progress he has made in assessing national requirements for water conservation ; and if he will make a statement.

**Mr. Willey :** The river authorities and the Water Resources Board, whose responsibility it is to keep requirements for water conservation under review, assumed their full functions only on 1st April of this year. Nevertheless, I have asked the Board to let me have a preliminary assessment of the situation. I have just received this and am now studying it.

**Mr. Temple :** Is the Minister aware that the action of his right hon. Friend the Minister of Agriculture is in some respects running contrary to his action about water conservation? Will he take into consideration land drainage schemes which may well operate contrary to the best interests of conservation when he is studying this problem?

**Mr. Willey :** I will bear in mind what the hon. Member said, but I am not aware of any conflict between the Minister of Agriculture and myself.

**Mr. Corfield :** Will the Minister bear in mind that water conservation is the crux of the problem and that the nationalisation of water undertakings is wholly irrelevant? Will he give an undertaking that we shall not have the farce over water undertakings which we are witnessing over steel?

**Mr. Willey :** On the contrary, I am considering the reorganisation of water supplies for the very reason which the hon. Member raised—that we have to be very concerned about the conservation of water and look forward to the steps which we can take immediately to avoid a crisis in the near future.

### Building Land

16. **Mr. Boyd-Carpenter** asked the Minister of Land and Natural Resources what proposals he has for making more land available for building.

**Mr. Willey :** First we have to decide what the regional distribution of population will be and then to ensure that enough land is allocated for development in the regions. The regional organisations now established by the Government will help to ensure that this is done and the Land Commission, when it is established, will be able to ensure that the land which is allocated is indeed available for development.

**Mr. Boyd-Carpenter :** Will the Minister amplify that and say what positive proposals he has for making more land available for housing now?

**Mr. Willey :** The best contribution which I can make is to speed forward the proposed legislation on the Land Commission.

**Mr. Costain :** Does not the Minister agree that the price of land depends on the amount available? What has any nationalisation legislation to do with that factor unless it confiscates the land?

**Mr. Willey :** The right hon. Member for Leeds, North-East (Sir K. Joseph) appreciated the need for increasing the supply of land. He failed to persuade his colleagues that this was necessary and the last Government did nothing about it. We are determined that the Land Commission will help in seeing that a greater supply of land is available.

### National Parks Commission

17. **Mr. Blenkinsop** asked the Minister of Land and Natural Resources what action he proposes to take to assist the National Parks Commission in carrying out its duties under the National Parks Act.

**Mr. Willey :** I am glad to be able to tell my hon. Friend that an increase in the staff of the National Parks Commission has been authorised and the first of the new staff are already at work. They will help to speed up the present work of the Commission. I am also considering what increase should be made in the Commission's technical planning staff.

I have asked my officials to review the financial procedures to see whether they can be simplified so as to help the National Parks Commission and the Park Planning Authorities.

The National Parks information services have been increased and any further proposals which the National Parks Commission may put forward will be sympathetically considered.

**Mr. Blenkinsop :** While welcoming very much my right hon. Friend's statement about the increase in staff, may I ask whether he can do anything to press forward the work of establishing national park centres in each of our National

Parks? Does he not agree that the biggest help would be to get on with a revision of the National Parks Act?

**Mr. Willey :** Yes. I am in touch with the National Parks Commission and we are prepared to give them any assistance that we can give. But the greater issue is that which my hon. Friend mentioned—a new countryside policy. That I shall, I hope, present very shortly.

#### Land (Industrial Spoliation)

18. **Mr. Bence** asked the Minister of Land and Natural Resources what steps he is taking to restore to useful purposes land sterilised by past industrial spoliation.

**Mr. Willey :** I am, of course, concerned with the overall strategy of land use. I shall also contribute advice on techniques and the economic aspects of reclamation and in this I shall be assisted by the Natural Resources Advisory Committee.

**Mr. Bence :** Is my right hon. Friend aware that in the industrial belt of Scotland, particularly in my constituency of Duabartonshire, there are large areas of land which were spoilt in the 19th century by coal heaps? Now that many pits have closed and old industrial works have been scrapped because they are out of date, will my right hon. Friend do something to help local authorities and others to bring these areas into use?

**Mr. Willey :** I am very conscious of this dereliction and I am anxious that my Department should be able to give all the assistance it can in seeing that this problem is tackled very expeditiously.

**Mr. George Jeger :** Is my right hon. Friend aware of the very useful survey which was conducted and published about a year ago by the Civic Trust, and will he take that into account when he is considering action?

**Mr. Willey :** I am very much aware of it and I take this opportunity to say how obliged we are to the Civic Trust for the work it did.

#### Common Land

19. **Mr. Hamling** asked the Minister of Land and Natural Resources what

steps he is taking to preserve common land for recreational and other purposes.

**Mr. Skeffington :** The essential first step is to establish the facts—what land, in England and Wales, is common or a green, what are the rights of common over it and the identity of the owner of the soil. This will be achieved by the Commons Registration Bill, now before the House, which will pave the way for further legislation to provide wider facilities for public access and enjoyment, and an increase in the productivity of the land.

**Mr. Hamling :** Will my hon. Friend bear in mind the need for urgency in this matter in view of the threat of industrialisation and urbanisation of existing common land? Will he also bear in mind the possibility of extending common land by taking over some of the large estates?

**Mr. Skeffington :** The question of extending common land does not arise out of the legislation to which I have referred, but common land can be created either by deed or by local planning authorities. Some of the legislation to which reference has been made this afternoon may help in this connection.

**Mr. Allason :** Will the hon. Gentleman bear in mind that there is a conflict between the unrestricted access of the public on to common land and recreational purposes, and that one cannot have both? Of which is he in favour?

**Mr. Skeffington :** This is one of the reasons why we want, first, to establish the kind of common land that already exists and then to see that the use of it is fairly distributed between the genuine needs of the public for recreation or, in certain cases, for increased productivity. Of course, in regard to access for the less active sports, my right hon. Friend in this Ministry which has been created is in a particularly suitable position to undertake this task.

**Sir G. Nicholson :** Is the hon. Gentleman aware that while these inquiries are going on a good many commons, particularly the smaller ones, are being ruined—are being damaged by the unlicensed dumping of old building

materials and other rubbish? Although it is the responsibility of the local authority in many cases, cannot some steps be taken to enable chief constables to take more interest in them so that the police could intervene on more occasions?

**Mr. Skeffington:** The hon. Gentleman's question does not arise specifically out of the Answer which I gave. When we get to the second stage of legislation there will be schemes of management for commons so that they may be looked after very much better than they are at present, for today a large number of commons apparently have no one in charge of them. In regard to the other part of the supplementary question, I expect that the hon. Gentleman is aware that the Ministry of Housing and Local Government is already actively considering what can be done about the dumping of motor cars and matters of that sort.

**Mr. Corfield:** Will the Joint Parliamentary Secretary elaborate on the answer which he gave to the supplementary question put by his hon. Friend about the identity of ownership of soil, because that seemed to conflict somewhat with what he said on Second Reading?

**Mr. Skeffington:** I am sorry, but I do not quite get the hon. Gentleman's point.

**Mr. Corfield:** I understood the hon. Gentleman to say that the Bill provided for identifying the ownership of soil, which I understood him to say on Second Reading it did not do. Would he elaborate?

**Mr. Skeffington:** Every endeavour will be made to find the owner. First, schemes can be made to register common rights. I do not think there is any dispute about that. Secondly, owners should register, but where an owner of a common or open space does not register, the Commons Commissioners will use all the means open to them to try to discover the owner. To that extent, where the right is not claimed we will do all we can to discover the identity of the owner of the soil.

### Urban and Agricultural Land (Ownership)

20. **Mr. Shinwell** asked the Minister of Land and Natural Resources what proportion of urban and agricultural land in the United Kingdom is owned by the State and local authorities, respectively.

**Mr. Willey:** Acreage figures are available for certain classes of land in the United Kingdom owned by the State and local authorities, but they are not in a form or sufficiently comprehensive to provide the information required. I am aware of the inadequacy of the information about land at present available and the Natural Resources Advisory Committee under the chairmanship of Sir Dudley Stamp is now considering questions of the survey and statistics of land use.

**Mr. Shinwell:** Is it not remarkable that no figures or statistics have been collated of the land owned by the State or the local authorities? Is my right hon. Friend aware that we have had successive Tory Governments for 12 or 13 years and that they have never thought it desirable to collate these statistics?

**Mr. Willey:** I agree with my right hon. Friend. There is a remarkable absence of information about land in this country and I hope that my Department will help to repair it.

**Mr. Corfield:** In view of the somewhat scathing comments that have been made, will the right hon. Gentleman say to what function he proposes to put these statistics when he has them, since every Department and local authority knows its ownership? What value will there be in this collation?

**Mr. Willey:** This information is not known generally, apart from particular ownerships. It might be quite useful to know more about land ownership.

**Mr. Shinwell:** Would my right hon. Friend agree that the State should have some information about the property it owns?

**Mr. Willey:** The State has some information, but it is not adequate.

**Mr. Sydney Silverman:** Is it not the case that the last assembly of such

information as my right hon. Friend is seeking took place almost exactly 900 years ago, in the Domesday Book, and is it not time that we had another Domesday Book?

**Mr. Willey:** I think that there is a good case for a new Domesday Book. Although there were partial surveys, apart from the Domesday Book, I agree that it is time that we returned to the general question of land ownership.

**Mr. Boyd-Carpenter:** Does it follow from the right hon. Gentleman's last reply that the policy of the progressive Labour Government is back to Domesday?

### Barrage Schemes (Investigations)

22. **Mr. Monro** asked the Minister of Land and Natural Resources if he will make a sum of money available to Strathclyde University and to universities in England to enable them to investigate the Solway and Morecambe barrage schemes.

**Mr. Willey:** Not at this stage. The Water Resources Board is now conducting feasibility studies into the Morecambe Bay barrage project and jointly with the Scottish Office, into that for Solway Firth. We must first see how these studies progress.

**Mr. Monro:** Is the right hon. Gentleman aware that three Ministries have been making enthusiastic statements about these barrages for six months but that not a penny has been made available to the universities to set up study groups?

**Mr. Willey:** I am anxious to encourage co-operation with the universities, but in this particular case we have feasibility studies in hand and we must see how they go. These are properly with the Water Resources Board and the engineering consultants.

**Sir G. Nicholson:** Is the Minister aware that in Morecambe Bay there are millions of shrimps? Who will watch their interests?

**Mr. Monro:** Is the right hon. Gentleman aware that some study groups, particularly the one at Strathclyde University, are willing to move now if the Minister will give them the money?

**Mr. Willey:** We must decide, first, whether this project is feasible. Studies

are in train to determine whether that is so. When that is determined we will certainly look to further studies.

### Motorways (Shrubs and Trees)

24. **Mr. Costain** asked the Minister of Land and Natural Resources if he will take steps to encourage the planting of shrubs and trees on new motorways.

**Mr. Skeffington:** The Forestry Commission, for which my right hon. Friend is responsible, already provides extensive assistance to the Ministry of Transport in its very large programme of planting and maintenance of trees on motorways and trunk roads. He will be pleased to continue or extend this service in consultation with his right hon. Friends the Secretary of State for Wales and the Minister of Transport.

**Mr. Costain:** Does not the Parliamentary Secretary agree that this is an excellent way to avoid dazzle from headlights on dual motorways? May we have an assurance of an early development in this connection?

**Mr. Skeffington:** The Ministry of Transport takes decisions on the materials which are used to combat dazzle. The Forestry Commission is very willing and anxious to discuss with the Ministry of Transport the production in large quantities of any species which are thought suitable for this type of operation.

**Sir B. Janner:** Would my hon. Friend consult with the Ministry of Transport on this very important matter? Is he aware that the Minister of Transport previously stated that the reason why rose bushes, which are so important in the prevention of accidents in this context, have not been planted before is that not sufficient land was provided between the two carriageways? Will he see that something is done in this direction? Is he—

**Mr. Speaker:** Order. Would the hon. Member for Leicester, North-West (Sir B. Janner) not agree that it might be wise to stop his supplementary there in order to avoid trespassing on his later Question, No. 57?

**Mr. Tilney:** Will the hon. Gentleman look particularly at the new spur from London Airport, which is the modern gateway to London?

**Mr. Skeffington :** I do not mind looking at anything, but I am sure that the hon. Gentleman will realise that my responsibilities are limited in this sense only to providing the material.

**Sir B. Janner :** On a point of order, Mr. Speaker. In respect of the statement you have just made, I was referring particularly to the provision of trees, which do come within the scope of the Minister's duties. I do not know whether the Minister of Transport himself can provide the trees without my right hon. Friend's assistance; that is why I asked the question.

**Mr. Speaker :** I do not wish to mislead the hon. Member. I heard so much about the roses. We will have to exclude them. Meantime, I call Mr. Geoffrey Wilson, and will come back to the hon. Gentleman.

**Mr. Geoffrey Wilson :** Will the Cabinet be very cautious about any policy of planting trees on the edges of the motorway, because German experience was that such trees were apt to have a soporific effect, and caused a number of accidents?

**Mr. Skeffington :** I do not think that I should comment on the subject any further. I have defined the limitation of my interest in it.

**Mr. Speaker :** Sir Barnett Janner—if he will dodge the subject of *rosa multiflora Japonica* bushes, and the progress made relative to central barriers.

#### Farming Land (Non-Agricultural Use)

25. **Mr. Costain** asked the Minister of Land and Natural Resources what is the acreage of farming land which he estimates will be required annually in the next three years for industrial and domestic building and other non-agricultural use.

**Mr. Skeffington :** I understand that the annual change of land in England and Wales from agriculture to all other purposes as shown in the Agricultural Census returns has averaged over 57,000 acres in the five years 1959-60 to 1963-64. Having regard to current policies, I see no reason to expect any marked change in this rate over the next three years.

**Mr. Costain :** What steps is the Minister taking to see that the best agricultural land is not used for building purposes, and that the least productive land is used for building purposes?

**Mr. Skeffington :** As the hon. Gentleman knows, there are already procedures for examining the respective merits of different uses for development but, in addition to that, the regional administrative machinery, whereby, in time, long-term designation of land use will be possible, will go a long way to preventing many of the conflicts that have sometimes arisen in the past.

**Mr. Boyd-Carpenter :** As the hon. Gentleman's right hon. Friend is not responsible for planning decisions, will the Parliamentary Secretary tell me how the Minister, in fact, carries out this policy?

**Mr. Skeffington :** I am very surprised that the right hon. Gentleman does not seem to have understood the regional set-up in the Ministry, and the fact that my right hon. Friend has representatives upon the regional bodies which will be discharging this function of long-term land designation.

**Mr. Evelyn King :** Is the Minister aware that, apart from agricultural land, there are large areas of rural land covered by scrub and silver birch, and that owing to the negative attitude of many rural planning authorities, this land is, in fact, sterilised.

**Mr. Skeffington :** This may well be the case. I think that the sort of machinery I have outlined will help to solve some of these problems, and get the best use of land for the respective purposes we have in mind.

**Mr. George Y. Mackie :** Will the Minister consider consulting his right hon. Friend the Minister of Agriculture to see that he understands that land that is being covered with buildings in the South might well be replaced by reasonable grants for the reclamation of land in the Highlands and elsewhere?

**Mr. Skeffington :** I am quite sure that my right hon. Friend the Minister of Agriculture will take note of the hon. Gentleman's comment.

**Mr. Corfield :** Was the figure given by the hon. Gentleman an England and Wales figure or a United Kingdom figure?

**Mr. Skeffington :** It was an England and Wales figure.

### Beauty of the Coastline (National Trust Appeal)

26. **Mr. Chapman** asked the Minister of Land and Natural Resources what representations have been made to him about an Exchequer contribution to the National Trust's appeal for funds to help to safeguard the beauty of the coastline, called "Enterprise Neptune"; and whether he will make a statement.

**Mr. Willey :** My right hon. Friend the Chancellor of the Exchequer and I have received representations from the National Trust about "Enterprise Neptune", and we have informed the Trust that we are ready to recommend to Parliament that an Exchequer contribution of £250,000 be given. Provision will be made in the Estimates in due course. I hope that this contribution will be a substantial encouragement at the outset to those organising the appeal, and that it will stimulate the generosity of other donors. I am glad to make this contribution as part of the wider policy for the countryside on which I am now working.

**Mr. Chapman :** Is my right hon. Friend aware of the satisfaction and pleasure with which his Answer will be received in all parts of the House, and certainly by the National Trust and those who are organising this very worth-while venture? Can he say whether he is making progress in his own studies of coastline policy and the preservation of the coastline, and how this project fits in with his wider consideration?

**Mr. Willey :** We are obliged to my hon. Friend for his reference to the National Trust. The coast will most clearly be an essential part of any countryside policy, and in the countryside policy on which I am now working the coast will have a prominent part. We regard the work of the National Trust as being part and parcel of what we wish to do about the coast of Britain.

**Mr. Deedes :** Will this £½ million come out of the National Land Fund, because is not this object precisely what the late

Hugh Dalton had in mind when he originally established that Fund? Has the right hon. Gentleman an eye on it as a potential source for this sort of work?

**Mr. Willey :** I cannot assure the right hon. Gentleman that this comes from the Land Fund, but I am much obliged to him for calling my attention to that Fund.

**Mr. Blenkinsop :** As a member of the executive of the National Trust, may I add my thanks and those of the National Trust? May I also ask whether, in addition, my right hon. Friend hopes to try to make available some of the surplus Service Departments land on the coastline, which will help towards the same objective?

**Mr. Willey :** The land in the hands of the Services is under constant review.

**Mr. Scott-Hopkins :** What is the Minister doing to stop planning permission being given in coastal areas where this will be obviously detrimental to the beauty of the coastline?

**Mr. Willey :** That is a matter for the Ministry of Housing, but it is also a matter for me, and it is being considered in the context of the countryside policy.

### National and Regional Planning

27. **Mr. Corfield** asked the Minister of Land and Natural Resources what progress he has made in setting up the machinery that he envisages as necessary to enable him to contribute advice and information on the most effective use of land and other natural resources in relation to national and regional planning.

**Mr. Willey :** The Advisory Committee on Natural Resources, the setting up of which I announced on 25th March, in reply to my hon. Friend the Member for Birmingham, Northfield (Mr. Chapman), has met under Sir Dudley Stamp and is considering a number of questions which I have referred to it. These include the provision of information and the development of methodological techniques relating to use of land and other natural resources. A small mixed unit of administrative and professional staff is being set up in my Department, to service the Advisory Committee, to organise the necessary links with academic and other institutions, and to assist me in participating in national and regional planning.

**Mr. Corfield:** In view of the rather wide area of work which the right hon. Gentleman has given this Advisory Committee to do, will he, or it, be publishing an annual report to give some indication to Parliament of what the results of its investigations are?

**Mr. Willey:** I will certainly consider this, but I doubt whether there will be annual reports. But there will certainly be publication of reports.

### Land Uses (Evaluation)

28. **Mr. Corfield** asked the Minister of Land and Natural Resources if he will make a statement describing his plans for the development of techniques of comparative evaluation of land uses, and giving an indication to the House of the nature of the techniques involved.

**Mr. Willey:** At my request, Sir Dudley Stamp's Committee has agreed to study certain aspects of the comparative evaluation of land uses. It would be premature for me in advance of its advice to go into detail, but the Committee is at present considering the application of cost/benefit analysis to such factors as amenity.

**Mr. Corfield:** Does the right hon. Gentleman appreciate that this phrase about the techniques of comparative evaluation of land usage is open to a large variety of interpretations, and can he give some idea of the interpretation he himself puts on it, bearing in mind that the country will be interested to know exactly what this is all about?

**Mr. Willey:** I think that the best way to give a definition is by way of illustration, which I have done. Let me say at once that I am sure that the hon. Gentleman appreciates the importance of this sort of work being done. If he has any proposals or suggestions to make, I shall be very happy to discuss them with him.

**Mr. Corfield:** May I press the right hon. Gentleman a little further in that respect? He talks about cost analysis in relation to amenity. Again, it is not immediately obvious how one goes about it and what we do with the answer when we get it. Will the Minister give us a little more information?

**Mr. Willey:** Several Questions have been answered about barrages. One has to consider not only the use of a barrage, but the effect it has on the environment. This is the sort of question to bear in mind. One also has to think of the way in which to evaluate this. Other countries have made considerable use of this sort of technique. It is appalling that this country has been so far behind in this respect.

**Mr. George Y. Mackie:** In reference to his last reply, will the right hon. Gentleman say why he is not taking into account the effect on agricultural land in the first study of the Morecambe barrage scheme?

**Mr. Willey:** Because the first study is a feasibility study to see whether it is feasible for the conservation of water. Until this is determined we cannot go on to consider the other questions.

### PUBLIC BUILDING AND WORKS

#### House of Commons (Strangers' Gallery)

29. **Sir J. Smyth** asked the Minister of Public Building and Works what acoustic aids and other facilities are available for disabled persons in wheeled chairs to listen to debates from the Strangers' Gallery.

**The Parliamentary Secretary to the Ministry of Public Building and Works (Mr. James Boyden):** A miniature loud speaker has now been installed in the panelling at the back of the Strangers' Gallery where disabled persons in wheelchairs are accommodated.

**Sir J. Smyth:** Does the hon. Gentleman realise that there are two main difficulties about bringing a disabled person in a wheeled chair to hear a debate in this House? The first is that one is not allowed to park a disabled person's car in New Palace Yard, which involves the expense and delay of having a taxi to bring such a person in and out. The second was, when I put down this Question, that there was no microphone through which a disabled person could hear a debate. I am grateful to the hon.

Gentleman for having a microphone put in which enables one disabled person to hear a debate in this House.

### Government Car Service

31. **Mr. Biggs-Davison** asked the Minister of Public Building and Works what changes have been made since 15th October, 1964, in the composition and staffing of the Government's pool of cars, and in the public cost thereof.

**The Minister of Public Building and Works (Mr. Charles Pannell)**: Since 15th October the Government Car Service fleet has increased by 10 to a total of 381 vehicles, of which five are due for disposal. The number of staff has increased by 15 to 369. The annual cost is now £442,000 compared with £406,000. Of this about £10,000 of the increase is due to higher wages fixed by trade union agreements.

**Mr. Biggs-Davison**: Can the right hon. Gentleman say whether the increase is proportionate to the increase in the number of Ministers?

**Mr. Pannell**: I should say it is, but this is a trend which has been going on all the time. I could easily cite the figures for 13 years and show how they have gone up all the time. For instance, I notice that there were 18—[HON. MEMBERS: "Answer the question."] I answer a question under the guidance of Mr. Speaker, not that of hon. Members opposite. This is not a matter on which hon. Members opposite should make implied charges that we are not so fastidious as were our predecessors. In 1952 18 cars were allocated, in 1959 28 were allocated. The present figure shows a trend.

**Mr. Paget**: Can my right hon. Friend say whether there is any other European country in which Ministers are not provided with a car and a driver?

**Mr. Pannell**: I cannot say whether there are any, but hon. Members who go abroad will see how much better members of other legislatures are treated compared with those in this country. There was a famous occasion when the right hon. Member for Hampstead (Mr. Brooke) led a delegation of the Commonwealth Parliamentary Association and had to borrow a car locally.

### Admiralty House

32. **Mr. Biggs-Davison** asked the Minister of Public Building and Works what decision has now been made on the future of Admiralty House.

**Mr. C. Pannell**: No final decision has been taken.

**Mr. Biggs-Davison**: How much more delay will there be before the right hon. Gentleman comes to a decision? Many of us are anxious to know whether the Secretary of State for Economic Affairs will move into Admiralty House since he is all at sea or whether he will be moved into Steel House.

**Mr. Pannell**: I take it that part of that supplementary question is completely out of order. [HON. MEMBERS: "Oh."] I cannot understand the enthusiasm or solicitude of hon. Members opposite for the comfort of the Secretary of State for Economic Affairs.

**Mr. Shinwell**: Is my right hon. Friend aware that the delay in coming to a decision about the future of Admiralty House is because the previous occupant left such a mess behind?

**Mr. Snow**: When my right hon. Friend comes to a decision, will he be good enough to bear in mind the importance of keeping together the extremely valuable and historical collection of furniture in Admiralty House?

**Mr. Pannell**: Questions about the tenant for Admiralty House are not for me but for the Prime Minister.

**Sir Rolf Dudley Williams**: Is not the real reason for the delay that the Secretary of State for Economic Affairs may find that he is without a job and that someone is installed in his place within a short time?

### Whitehall Area (Redevelopment)

33. **Mr. Longden** asked the Minister of Public Building and Works whether he is yet able to lay before Parliament the plans for the redevelopment of the Whitehall area.

34. **Mr. Strauss** asked the Minister of Public Building and Works whether he proposes to publish the reports presented

to him by Sir Leslie Martin and Professor Buchanan.

**Mr. C. Pannell :** I am now considering the reports on the Whitehall area which I recently received from Sir Leslie Martin and Professor Buchanan and will make a further statement just as soon as I can.

**Mr. Longden :** I thank the right hon. Gentleman for that reply. Will he ensure that not a brick is touched in this heart of the Commonwealth until this House and the public outside have had an opportunity to pronounce upon the matter? Often in the past London citizens have awakened—too late—after each fresh outrage has been perpetrated. May I refer the right hon. Gentleman to a letter in which I ventured to tender some advice to his predecessor on this subject on 17th July last?

**Mr. Pannell :** I have been very particular about this. I can assure the hon. Member and the House that any published document will be available to hon. Members before it is available to anyone else, but I cannot at this stage commit myself to a date. Because I say that, to all that follows from the hon. Member's apprehensions this is the best assurance I can give now.

**Mr. Lipton :** Does my right hon. Friend take note that there appears to be a great deal of building going on at the top end of Whitehall? What is that in aid of? Is it part of the permanent future development plan of the Whitehall area?

**Mr. Pannell :** I do not think that arises from this Question, but perhaps we are not thinking of the same building.

### Industrialised Building

38. **Mr. Geoffrey Lloyd** asked the Minister of Public Building and Works what steps he is now taking to promote the industrialisation of building in the light of the recent appraisal of the problem presented to the Royal Institute of British Architects, a copy of which has been sent to him.

**Mr. Boyden :** Many of the recommendations of the report are already accepted and acted upon in this and other Departments. I am examining its detailed conclusions to see if further action is called for.

**Mr. Lloyd :** Is not this a particularly opportune moment to press on with the industrialisation of building to take up some of the gap left by the wholesale failure of the Government's housing policy?

**Mr. Boyden :** The industrialisation of building has been proceeding smoothly for some time. The answer to the second part of the supplementary question is, "No, Sir".

### Housing (European Building Methods)

39. **Mr. Carmichael** asked the Minister of Public Building and Works if he is aware that the German Federal Republic expect to reach a house building target of 700,000 houses this year; what studies his Department are making of European building methods with a view to adapting them where applicable to British conditions; and if he will seek to send a Parliamentary delegation to examine European housing standards and targets.

**Mr. Boyden :** I understand that the West German Housing Minister recently announced a target of 600,000 dwelling for 1965.

We continue to study and apply European building methods wherever we think such methods will be helpful to the British building industry.

I welcome my hon. Friend's interest in these matters, and will gladly consider with those concerned the possibility of a Parliamentary delegation.

**Mr. Carmichael :** I thank my hon. Friend for the little piece of hope he held out at the end, that a delegation to Western Germany may be considered. On my information the West Germans expect to build nearly 700,000 houses in 1965. This will bring the total over the last three years to almost 2 million. Does not my hon. Friend think that something may be available in Germany which we have not caught on to here and which will greatly increase our housing output?

**Mr. Boyden :** Conditions are very different in Germany. My Department and other Departments in the Government take every note they can of matters

that help. I doubt whether a direct comparison is as useful as my hon. Friend thinks.

**Mr. Boyd-Carpenter:** Can the hon. Gentleman say how many of the impressive total of houses built in Germany he mentioned are built by public and how many by private enterprise?

**Mr. Boyden:** No, not without notice.

**Mr. Richard:** Is my hon. Friend aware that the figure which was published by the West German Government of houses completed last year was 623,000? Can my hon. Friend say why the Conservative Government did not get anywhere near that figure in 13 years' rule?

**Mr. Boyden:** I have a feeling that at certain stages of the last Administration the housebuilding programme was used as a political card.

**Mr. Biggs-Davison:** Do these German figures apply to houses or to housing units?

**Mr. Boyden:** "Housing units" was the phrase I originally had, but "dwellings" sounded nicer.

## HOME INFORMATION SERVICES

35. **Sir J. Eden** asked the Paymaster-General how many official meetings he has had with home newspaper correspondents and overseas correspondents respectively.

**The Paymaster-General (Mr. George Wigg):** None, Sir.

**Sir J. Eden:** Did I hear the right hon. Gentleman correctly as saying "None"?

**Mr. Wigg:** None, Sir.

**Sir J. Eden:** Do I understand from that that since he has been in office the right hon. Gentleman has done nothing, for example, to co-ordinate information services for overseas correspondents, of whom there are a large number in this country? In view of the publicity given to his activities by the weekend Press, may I ask whether he has told foreign and domestic home correspondents anything at all about what he has been doing with the security services? Is it not about time that he gave a little more

information about his job and that he ought at least to come clean with the House?

**Mr. Wigg:** I am not responsible for what appears in the weekend Press about my activities. If the hon. Member is really interested, he should address his remarks to the Conservative Central Office concerning my activities. If he will be good enough to look at the reply given by the Prime Minister on 12th November, 1964, printed in col. 1186 of the OFFICIAL REPORT, he will get all the information he wants.

**Sir Knox Cunningham:** Could not the right hon. Gentleman be a little more forthcoming with the public and tell them what he is doing in all this secret work?

**Mr. Wigg:** I suggest that the hon. and learned Member should address his questions to the Chairman of the Conservative Party, who seems to have some responsibility for the publicity about my activities. Apart from that, if his question is serious I suggest that he should put down a Question to the Prime Minister.

**Mr. Speaker:** There seems to be some misunderstanding. This is not a question about secret work. It is about meetings with newspaper correspondents.

**Sir J. Eden:** On a point of order. The right hon. Gentleman has consistently referred to an Answer given by the Prime Minister on 12th November, which states that the Paymaster-General will answer Questions in the House about co-ordination of information services. So far we have had absolutely no answer from him at all.

**Mr. Speaker:** My recollection is that the Answer related to co-ordination of home information services. The only complaint that would arise would be of an inadequate answer. That is not a point for me.

## PENSIONS AND NATIONAL INSURANCE

### National Assistance

40. **Mr. Carmichael** asked the Minister of Pensions and National Insurance if National Assistance Board officers verify the actual rent charged for accommodation; and if this information is made

available on request to the local rent tribunals.

**The Joint Parliamentary Secretary to the Ministry of Pensions and National Insurance (Mr. Norman Pentland):** The answer to the first part of the Question is "Yes", Sir. As regards the second part, information given by a person in connection with his application is regarded as confidential, but the Board would be prepared to make the information given about rent available to a rent tribunal on request if the applicant agreed.

**Mr. Carmichael:** I thank my hon. Friend for that Answer. Does he realise that in many parts of the country, particularly in my constituency of Glasgow, Woodside, many people do not have a rent book. In many cases the landlord has refused to provide one. They are on National Assistance. Can my hon. Friend give me any details of the type of verification or confirmation of the rent charged which takes place?

**Mr. Pentland:** Where an applicant for assistance does not have a rent book, he is asked to obtain one from his landlord or at least to get a receipt for the rent he is paying. Failing this, the Board's officer may be able to obtain confirmation of the rent paid from the landlord or the agent.

**Mr. Lipton:** Will my hon. Friend ask the National Assistance Board to prepare annually accurate figures showing how much of the National Assistance grant is being paid by way of rent?

**Mr. Pentland:** My right hon. Friend will have heard my hon. Friend's supplementary question.

## HOSPITALS

### Medical Records (Standardisation)

42. **Mr. Pavitt** asked the Minister of Health if he has yet completed his consideration of the Report of the Standing Medical Advisory Committee, E/155/1, on the standardisation of medical records; and if he will make a statement.

**The Minister of Health (Mr. Kenneth Robinson):** The Report will be published shortly, and I shall be asking hospitals to adopt its recommendations.

**Mr. Pavitt:** When my right hon. Friend is considering the standardisation of hospital records, will he examine the possibility of having patients' records in the form of an identity card when the patient is suffering from a complaint which may be difficult to treat? If such a person is involved in an accident, he may be in danger from there being no knowledge of what previous treatment he has been given.

**Mr. Robinson:** I will certainly consider what my hon. Friend has suggested. It is a fact that the Report favours standardisation of hospital medical records and a number of its specific recommendations are directed to that end. Perhaps I could take this opportunity of thanking the members of the Sub-Committee of the Standing Medical Advisory Committee for the hard work and the enthusiasm which went into the production of this Report.

### Professions Supplementary to Medicine (University Study)

43. **Mr. Pavitt** asked the Minister of Health what support he will give to the Nottingham University study on the recruitment, training and demand for physiotherapists, radiographers, dieticians, occupational therapists and orthoptists; if he will request the University to supply him with a copy of this report; and if he will make a statement.

**Mr. K. Robinson:** My Department has given all the co-operation and guidance requested by the university; the study will take some time yet, but when it is completed I shall be getting a copy of the report.

**Mr. Pavitt:** May I ask my right hon. Friend not to await the report before coming forward with definite proposals to increase recruitment in all these professions supplementary to medicine, in view of the urgent need there is in most of these specialties?

**Mr. Robinson:** Efforts of that kind need not await the production of this report, but I am sure that the report when it comes will be a great assistance to us.

**Mr. English:** Will my right hon. Friend make it quite clear that the phraseology of this Question—

"if he will request the University to supply him with a copy of this report"

does not imply that there is any secrecy about it and that it was always intended that he should receive a copy of it?

**Mr. Robinson :** Yes, I am aware of that. It is a study sponsored by the Nuffield Provincial Hospitals Trust and there has been no request to my Department for funds.

## MINISTRY OF LABOUR

### Redundancy Payments Bill

46. **Mr. Frank Allaun** asked the Minister of Labour if he will take steps to prevent certain employers from deliberately dismissing workers before the Redundancy Payments Bill becomes operative in order to avoid such payments.

**The Joint Parliamentary Secretary to the Ministry of Labour (Mr. Richard Marsh) :** My right hon. Friend does not expect that this will be a serious problem but he will watch the situation.

**Mr. Allaun :** I thank the Parliamentary Secretary for that Answer. To prevent this kind of victimisation taking place, will he do everything possible to get the Bill through and into operation quickly? Could he give the House any idea how soon this will be?

**Mr. Marsh :** I am afraid it would be impossible to give a clear indication of when we can put the Bill into operation without knowing how much obstruction there will be from right hon. and hon. Members opposite.

**Mr. Ronald Bell :** While no one wants victimisation, would it really serve the economic purpose of the country if men were retained for an indefinite period in employment after any useful function they could perform had disappeared?

**Mr. Marsh :** I cannot see the point of the question. [HON. MEMBERS: "Answer it."] Hon. Members miss the point. If I cannot see the point of a question, it is difficult to answer it.

**Captain W. Elliot :** Has the hon. Gentleman any evidence at all that employers are carrying out this sort of action?

**Mr. Marsh :** No. At the moment we have no evidence that redundancies are

being created for this reason. My right hon. Friend would be reluctant to take any action unnecessarily which could prevent the scheme beginning in an atmosphere of trust. I repeat what I said at the beginning—my right hon. Friend is watching the position and if any evidence were to come to light he would certainly look at it.

### TSR2 Project (Redundant Aircraft Workers)

47. **Mr. Godber** asked the Minister of Labour how many redundant aircraft workers have now notified employment exchanges of their need for alternative employment in the main areas affected by the cancellation of the TSR2 project; and how these numbers compare with the number of redundancies announced by the firms concerned.

**Mr. Marsh :** According to the latest figures available, 865 workers, out of 1,693 given notice, have so far sought our Department's help at Preston, Weybridge and Woolston.

**Mr. Speaker :** Mr. Godber.

**Mr. Godber :** Question No. 48.

**Mr. Marsh :** That shows what advantage a good Answer is.

### Aircraft Workers (Employment in South Africa)

48. **Mr. Godber** asked the Minister of Labour what information he has about aircraft workers from this country seeking similar employment in South Africa at the present time; what reciprocal facilities are available for such workers seeking information about employment opportunities in South Africa; and if he will make a statement.

**Mr. Marsh :** No vacancies of any kind have been notified to our Department by any South African firm. Anyone seeking information about employment opportunities would, since no vacancies are held, be referred to South Africa House without any record being maintained of the enquiry. I hope that aircraft workers will remain in this country where there is a good demand for their skills.

**Mr. Godber :** In view of the comment the hon. Gentleman made when I did not ask a supplementary on my last

Question, may I point out that it was not the excellence of his Answer but the clock which caused me to take that action. Taking the two Questions together, does he not agree that it would be very much better if a full record were kept of exactly what these workers are going to, so that there will be a clear indication that the sort of thing that the hon. Gentleman hoped would happen is in fact happening? If he really believes that, would it not be an advantage to do what I have suggested?

**Mr. Marsh :** I am sure the right hon. Gentleman will agree that there are real difficulties in maintaining records of people who seek employment in South Africa when neither the jobs nor the men are registered with the employment exchanges. Despite all the rumours, so far as we are aware, no vacancies for any such jobs have been notified to any employment exchanges.

**Sir J. Eden :** Since one of the professed purposes of the cancellation of the TSR2 was to make available skilled labour for employment in other key industries in this country, will the hon. Gentleman ask his right hon. Friend to do his level best to keep closely in touch with the movement of anybody rendered redundant as a result of this cancellation and keep the House informed how many get transferred to other employment and, of equal importance, from which employment they have been moved?

**Mr. Marsh :** Redeployment was not the professed intention of the cancellation, although it is an outcome of it. All the evidence at the moment is that there has not been widespread unemployment as a result. The men are being redeployed into useful industry. If the hon. Gentleman looks again at some of the answers which have been given recently to Questions he will see that the effect of the TSR2 cancellation has been of great benefit indeed to the export industries of this country.

## SECURITY COMMISSION

3.31 p.m.

**The Prime Minister (Mr. Harold Wilson) :** With permission, Mr. Speaker, I wish to make a statement.

As the House will know, there have been two recent breaches of security and today, Mr. F. C. Bossard, of the Ministry of Aviation, and Staff Sergeant P. S. Allen, of the Army Department, pleaded guilty at the Central Criminal Court to offences under Section 1 of the Official Secrets Act. I have accordingly asked the Security Commission to investigate the circumstances in which these breaches of security have occurred in the public service, and to advise in the light of their investigation whether any change in security arrangements is necessary or desirable. Lord Justice Winn and his colleagues will begin their work forthwith.

I must, however, tell the House that these two cases have revealed a difficulty about the working of the Security Commission which was not foreseen when its establishment and terms of reference were announced by my predecessor in two statements on 16th December, 1963 and 23rd January, 1964. It was then envisaged that an announcement in this House would be made as soon as a reference was made to the Commission. But the House will recognise that where court proceedings are pending an announcement of this kind, involving an assertion that a breach of security has occurred, might in certain circumstances be thought capable of prejudicing a fair trial of the accused. But to delay the activation of the Commission until the matter was no longer *sub judice* might involve months of delay and seriously prejudice the effectiveness of the Commission's inquiries.

I have told the right hon. Gentleman the Leader of the Opposition about this problem, and I propose to alter the procedure so that a reference can be made to the Commission as soon as the Government are satisfied, or have good reason to think, that a breach of security has occurred in the public service. In each case I propose that the Leader of the Opposition be informed before a reference is made. But when a reference to the Commission relates to a matter which is the subject of criminal proceedings before the courts, then, for the reason I have explained, no public announcement of the reference to the Commission would be made until it is appropriate to make a statement.

[THE PRIME MINISTER.]

On the present occasion, because the Security Commission could not begin its investigation while the cases were still *sub judice*, and because it seemed to me that there might be apparent weaknesses requiring immediate remedy, I had to take other action. I decided, therefore, as soon as the arrests were made and there was a *prima facie* breach of security, that there should be a preliminary inquiry within the Government Service. I therefore appointed a committee of senior officials under the chairmanship of the Head of the Home Civil Service, Sir Laurence Helsby, to examine the circumstances in which these two men had been charged with offences under the Official Secrets Act and to consider whether, and if so what, weaknesses in the security arrangements of the two Departments were indicated by the circumstances. This Committee has now reported to me and its report, which includes a statement of certain action already taken, will be made available immediately to the Security Commission.

It is already clear that in certain respects affecting the investigations necessary before an individual public servant is put on to work involving access to highly sensitive material, and also in the variations in the procedure of individual Departments on matters affecting Departmental security immediate action needed to be taken, and has been taken. The Commission will, of course, be completely free to comment on all these matters and to advise on the adequacy of the measures which are now being put into effect. The House will understand that pending the Report of the Commission it is difficult for me to say more about these individual cases. When the Report is received, and following precedent, seen by the Leader of the Opposition, I will make a further statement to the House.

But there is one thing I want to say now. The Security Service operates far removed from public gaze. When public attention does fall on them it is through breaches of security which, whatever their nature, are bound to lead to criticism of security arrangements in the public service. It is plain that the Service deserves the thanks of us all for a job well done.

**Hon. Members :** Hear, hear.

**Sir Alec Douglas-Home :** The House will be grateful to the Prime Minister for the statement he has made. In the last Parliament we agreed upon a procedure, I think with the assent of the whole House, to try to take these matters of national security out of party conflict so that they would no longer be a matter of party dispute. As we all understand, spying cases do come up from time to time, whatever Government are in power. I think this is enormously important and in the public interest, and therefore I would say at once that I will co-operate with the right hon. Gentleman in examining any proposals which he wants to put forward for the modification of the procedure on which we decided.

The immediate question which the Prime Minister's statement raises is this: whether it is desirable to put into operation some kind of investigation between the arrest of an individual and the operation of the Security Commission. As the Prime Minister said, the trail, so to speak, may get cold and thus the Security Service may be at a disadvantage.

If the Commission were to take evidence outside Her Majesty's Services, I must say that I think it creates a presumption of guilt. I should therefore like to ask the Prime Minister whether the action which he is considering in setting up the Commission, so to speak, after the arrest but before the judgment of the court, will be solely within Her Majesty's Services.

Lastly, may I say that the balance in these matters is very fine and has to be considered by us all with the most careful judgment. We must certainly satisfy the needs for establishing the security of the nation—that is beyond dispute—but we must not begin to establish machinery which would in any way prejudice the individual or lead to the establishment of any kind of police State. I am not suggesting in the slightest bit that any of us on either side of the House has this in our minds, but it is this against which we must guard and it is this, therefore, on which I concentrate the one question that I have to ask.

**The Prime Minister :** I thank the right hon. Gentleman for what he has said. I think we are all agreed that the security of the State must be of the deepest concern of whatever Government should be

in power and whatever Opposition is co-operating with them in these matters. I agree, however, that it must be carried out in such a way that there can never be any suspicion that the right of any individual to a free trial is prejudiced in any way.

When, as the right hon. Gentleman says, the previous Government announced the establishment of the Security Commission after consultation with myself, we laid down machinery for the activation of the Commission. But this weakness has already come to light in the first case in which the Commission came to be activated. I am sure the House will agree that it would have been wrong to have announced the setting up of the Commission and activated it because one of the defences that any individual might want to raise is that there has been no breach of security. To activate the Commission involves a decision by the Government that there has been a breach of security. This has now been looked after in the way I have suggested, namely, that the Commission can be activated but that, apart from telling the Leader of the Opposition, there is no announcement until after the case is no longer *sub judice*.

I have suggested also that the terms of reference should be widened not only where the Government know that a breach of security has occurred but where there may be reason to think that it may have occurred. There may be other less clear cases than those involving decisions of the courts. This will, I think, meet the point that the right hon. Gentleman has in mind.

I certainly agree that where the Commission is activated it should not be free during the period when the case is *sub judice* to take evidence from people outside the public service because of the reason he gives. I fully agree with that, and I welcome the right hon. Gentleman's suggestion that we should keep in touch on the future procedures while these are being worked out, because this is not a matter which is really suitable for full public exchange across the Floor of the House.

**Mr. Grimond:** I should like to ask the Prime Minister two questions. First, will any part of the Helsby Report be made available to this House? Secondly,

on 23rd January last year the right hon. Gentleman particularly stressed that if there was no prosecution, an announcement of the setting up of the Commission should be made to this House. His statement today seemed only to cover the case in which there has been a prosecution and in which, therefore, no announcement will be made. But a trial might well be prejudiced by the prior setting up of the Commission, which itself might uncover evidence leading to a prosecution. Do we take it, therefore, that no announcement will be made to this House until such time as it is clear that no prosecution in any circumstances may be launched? This is rather different from what the Prime Minister has said this afternoon.

**The Prime Minister:** The Report from Sir Laurence Helsby must be regarded as an internal document. It contains a considerable amount of highly sensitive material on the operation of the security services. Just as in the past, by agreement between the then Prime Minister and the Leader of the Opposition, reports such as the Radcliffe Report were not published in full, I must take the view that the Report of Sir Laurence Helsby is not appropriate for publication.

With regard to what I said on 23rd January last year, what I had in mind then was a case, which was in all our minds, in which perhaps, a person responsible for a breach of security, or a presumed breach, had fled the country. That should not prevent the establishment of the Security Commission. I asked then that if that happened, there should be an announcement of the establishment of the Commission. I still take this view.

My own view is that while what I am now suggesting makes things slightly more flexible concerning the defence of security, in every case at the earliest appropriate moment there should be an announcement in this House that the Security Commission has been set to work.

In those obvious cases such as I have mentioned where the matter is *sub judice*, I am sure that the whole House will agree that it would be wrong to announce that the Commission had been set to work. In the case of a man who had absconded abroad leaving a pretty clear trail behind him, I think that the House could be

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told immediately or soon after activation of the Commission. There may be some doubtful cases. In those cases, the announcement would have to depend upon when the Government felt that the announcement could be made without prejudicing the right of anyone to a fair trial.

**Mr. Shinwell:** Is my right hon. Friend aware that the man Bossard to whom he referred in his original reply, and who, I understand, has today been convicted on a charge of espionage, was charged in a court at the end of March last year with dishonesty and admitted nine additional charges and that in the course of the proceedings in court he admitted having previous associations with the Nazis? Is it within my right hon. Friend's knowledge whether this man, who was still retained in the service of the Crown after the charges were preferred against him, was vetted by the authorities, and, if so, with what result?

**The Prime Minister:** One point made by my right hon. Friend needs immediate correction. There was no court case last year or in recent times. But there is reason to think that in this man's case there was a charge in 1934 and that it was stated in court, and not denied, that he was associated with Nazi activities.

One of the points which I have mentioned today as causing disturbance is the whole system of inquiry before individual members of the public are given access to sensitive material. All the facts, including those mentioned by my right hon. Friend, will be available to the Security Commission. It would be well to wait for the Commission to produce its report and to see whether, in its view, having regard to all the facts, the arrangements for individual examination in this case were adequate.

As I have already made clear, the Government took the view that there were certain loopholes, which have already been closed as a result of this particular case. It is for the Security Commission to say whether we have gone far enough in closing those loopholes.

**Sir Alec Douglas-Home:** I understand very well what the Prime Minister is getting at, and, indeed, there may be loopholes which ought to be closed. When we are considering matters, for instance,

of positive vetting, this is a procedure which should be looked at with a fresh eye to see whether this is achieving the national security which the nation has a right to expect.

I would, however, say—the Prime Minister will understand this—that enormous consideration has been given to this matter over recent years, and we must be careful that we do not prejudice the rights of the individual to a fair trial in these cases. This must be a counterbalancing factor when we are considering these matters in relation to the security of the nation.

**The Prime Minister:** It is for that reason that no public reference was made by the Government in this case until the trial was over. With regard to what the right hon. Gentleman has called positive vetting—I did not use the phrase myself—this is a matter of supreme importance in these cases, and the kind of consideration which my right hon. Friend the Member for Easington (Mr. Shinwell) has mentioned is obviously relevant.

In case there is any doubt on the matter, I want to make it clear that since there has been a reference to possible political affiliations of this man many years ago, it is absolutely the policy of the authorities that Communist and Nazi affiliations equally are regarded as anathema from the point of view of reliability for access to sensitive documents.

**Mr. Bellenger:** From what my right hon. Friend has said, it looks very much as if a great deal of investigation into individual cases will be undertaken in secret and not disclosed either to the House or to a wider public. My right hon. Friend will recollect that an hon. Member of this House was involved for a time in the Vassall case. May I ask him, therefore, whether he has any further proposals for dealing with cases like this, which affect the individual and affect a wider public than my right hon. Friend may be thinking of? Has he any proposals for altering the procedure under the Tribunals of Inquiry (Evidence) Act, 1921, in that connection?

**The Prime Minister:** Of course, this matter is not being conducted, at least so far, under the 1921 Act. This was one of the purposes of the previous Government

in setting up the Security Commission. The usual procedure with all inquiries that have been held on security matters—whether departmental inquiries, tribunal inquiries as in the case of Lord Radcliffe's tribunal or the individual inquiry conducted by Lord Denning—is that when the Report is available, the Prime Minister of the day shows it to the Leader of the Opposition in full. The Prime Minister then indicates to the Leader of the Opposition certain passages which he feels, on security grounds—for example, on the methods of operation of the security services—should be deleted before publication, if the document is being published. It is for the Leader of the Opposition then to say whether he agrees. If he did not agree, no doubt he would say so in this House. But on all the occasions of which I have experience, in the days of Mr. Macmillan as Prime Minister and subsequently, there was never any disagreement about excisions. Indeed, in the case of the Denning Report it was published in full.

With regard to the Security Commission, it was announced by the present Leader of the Opposition that the Commission would have full power to carry on with its work and to ask questions of members of the public service, but that if at any time the Commission felt that it needed more powers, particularly if there was a question of getting evidence from persons outside, the Commission would be free to report to the Government and ask to be duly constituted a tribunal and clothed with all the powers of a tribunal.

If that were to occur, we would, of course, have to consider such a proposal and come to the House about it. In the present case, however, all I can say at present is that the Commission has been set up as a Security Commission and will have full access to all departmental evidence bearing on its work.

As to the general question of the future of the Tribunals of Inquiry (Evidence) Act, 1921, this is a matter which, I have explained to the House, the Government are considering urgently. I hope that there will be a statement very soon.

**Dame Irene Ward:** The right hon. Gentleman has mentioned once or twice the word "Government". Am I to understand that the decisions really go

further than the responsibility of the Prime Minister and what he shows to the Leader of the Opposition? Am I not right in understanding that although the Prime Minister is the head of the Security Services he really does not keep this matter within his own person, so to speak, and those who are connected with the Security Services? Or does this matter run right throughout the length and breadth of all the members of the Government, from the Cabinet to Ministers and Parliamentary Private Secretaries and all the whole gamut? I want to know who knows when all these matters are being discussed?

**The Prime Minister:** In the first place, as the hon. Lady with her long experience of the House will remember, Parliamentary Private Secretaries are not members of the Government.

**Dame Irene Ward:** Well, they nearly are.

**The Prime Minister:** But they are not and they never were.

In regard to the general responsibility for security matters, there has been no change in the situation as was announced in the debate following the Denning Report. Every Minister, every head of a Department, is responsible for security within his own Department and must satisfy himself about it. That is the first point.

Secondly, responsibility for operation of the Security Services together with responsibility for the police is in the hands of the Home Secretary. That became clear during the Denning inquiry. Perhaps not many people realised it before that that was the fact.

In addition to this, the Prime Minister has a very special responsibility as head of the Security Services. I have taken certain dispositions, certain action, to make sure I am kept fully informed of everything that I feel can possibly involve any security risk, and perhaps I may say that in this particular case, because of the dispositions I took, it was possible to get on very quickly indeed with certain points which needed dealing with immediately—because it is not enough once the horse has bolted to have a high-level inquiry six months after to see what was wrong. It is the duty of the Prime Minister to see that he

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is so informed about these matters that he can take immediate action and close that door and any other doors which may be open. This we have had to do in this particular case through the machinery I have described.

**Mr. Derek Page:** The man Bossard was convicted and sentenced to six months' goal at King's Lynn court in 1934 for a cheque fraud and during the proceedings it was not merely stated that he was a member of the Nazi Party but that he had been actively employed by it in a paid position on the Continent. Will my right hon. Friend assure himself that these facts were known to the Security Services? If not, why not, and if they were known, why was this decision of the King's Lynn court disregarded?

**The Prime Minister:** Yes, I am well aware that the facts stated by my hon. Friend have been alleged in this particular case and that there is a certain amount of material evidence in support of it. The question whether the Security Services or others concerned should have been aware of them, or, if they were aware of them, took sufficient account of them is a matter of judgment on which I think it is better to await the report of the Security Commission, but everything bearing on this particular aspect of the case, including the sentence—for dud cheques, I think it was—and including the political affiliations, then known to the Government and presumably known and on the court's records, will be available to the Security Commission.

#### NEW MEMBER SWORN

Reginald Edwin Eyre, esquire, for Birmingham, Hall Green.

## ORDERS OF THE DAY

### FINANCE (No. 2) BILL

*Order for Second Reading read.*

3.55 p.m.

**The Financial Secretary to the Treasury (Mr. Niall MacDermot):** I beg to move, That the Bill be now read a Second time.

When the right hon. Gentleman the Member for Altrincham and Sale (Mr. Barber) moved the Second Reading of the 1963 Finance Bill, a modest document of some 103 pages, he succeeded in the short space of 55 minutes in explaining to the House with great lucidity and care the contents of that Bill. When my right hon. Friend the present Chancellor of the Duchy rose to congratulate him he suggested that the right hon. Gentleman's speech might have been published beforehand as a White Paper. My right hon. Friend the Chancellor has this year presented not one but two White Papers, composed, as I am sure the House will agree, in lucid prose, which explain the contents of the major part of this Bill far better than I could ever hope to do. I am tempted to sit down at once and thus earn the gratitude of hon. Members on both sides by introducing one of the longest Finance Bills with one of the shortest speeches. But I fear that the gesture might be misinterpreted.

However, the House will be relieved to hear that I do not intend to attempt a traditional Second Reading exposition of the contents of this Bill. The two great tax reforms which make up the greater part of it have already been fully outlined, not only in the White Papers but in the statement which my right hon. Friend made to the House last December, and, above all, in his masterly Budget speech. I will not seek to go over that ground again.

Equally, I think the House would find it tedious if I were to start commenting on the very many Committee points which are likely to arise at a later stage. Perhaps the most helpful course I can adopt is to comment upon some of the points of more general interest which have been the source of misunderstanding or of misguided criticism

since my right hon. Friend published his proposals.

The first point I may mention is in connection with vehicle excise duties. Some people have complained that it is inequitable that anyone whose licence expired on 31st March but who took advantage of the so-called 14-day grace period and did not renew it until after 6th April had to pay duty at the higher rate whereas someone who had renewed his before 6th April was able to do so at the old rate. In both cases the licence itself will run from 1st April, as the Vehicles (Excise) Act, 1962, does not provide for part-monthly licences.

I cannot accept that this is inequitable. Increases in the rates of tax on expenditure are normally brought into effect immediately to prevent forestalling, and this increase in the vehicle excise duties followed the general pattern in applying to all licences taken out after Budget Day. To have put off the date of operation of the increase would have enabled holders of current licences to surrender them and take out new licences valid for 12 months at the pre-Budget rate. It would have been impracticable, and also, I think, unfair, to have withdrawn all those licences running from 1st April that were issued before 7th April and compelled the holders to take out new licences at the higher rate. That would indeed have been retrospective taxation.

Perhaps the only matter on which I need comment in Part II of the Bill is Clause 14, which contains the disallowance of business entertainment with the exception of entertainment of customers, or prospective customers, from overseas. As my right hon. Friend indicated in his Budget speech, so far as possible the disallowance will be made in computing the business profits. Thus, where a company pays the bill for entertaining or makes specific reimbursement to its directors or employees for business entertaining done by them the payments will be disallowed in arriving at the tax liability of the company. The same rule would apply where a director or employee receives an allowance which is specifically earmarked for business entertaining. That is contained in subsection (3). In these cases the burden of this allowance will fall on the employer, and the closing words of subsection (3) indicates that the

tax position of the director or employee in these cases remains unaffected. It is impracticable to make the tax disallowance in this way when the director or employee receives a general expenses allowance out of which he has to meet other expenses besides entertainment and also where the entertaining is done by a director or employee out of an inclusive salary. In those cases the disallowance will have to be made in Schedule E in a tax assessment of the director or employee.

Entertaining is defined in subsection (5) as including any kind of hospitality, and gifts. I suspect that many firms feel that the practice of sending Christmas presents to customers or suppliers has been rather overdone and will be glad that it is to be discouraged. There is an exception in subsection (8) for gifts of his own products which the trader makes "with the object of advertising to the public generally". We have two things in mind here. The first is free samples which any member of the public can have and, secondly, such things as free tickets which are sent to the Press for the first night of a play.

The right hon. Member for Bexley (Mr. Heath), speaking in the Budget debate, asked why if we had found abuses we had not got the Inland Revenue to stop them. The answer is that it would be quite wrong to ask the Revenue to engage in long or detailed inquiries into the scale of necessity of this type of business expenditure. Nothing would be more calculated to cause bad blood between inspectors and the business world.

In any event, it is not always easy, when a taxpayer claims that his expenditure was necessarily incurred on business account, for the Revenue to demonstrate that it was not, and I have no doubt that there have been widespread abuses, in the sense that relief has been claimed and allowed for private expenses which do not qualify under the law. It is not merely this kind of abuse, which is simply cheating, that is in question. It is also the exploitation of the law, under which some businessmen have been giving themselves the benefit of every doubt and spending more money than is justified because the Revenue meets most of the bill. It is this kind of thing which has

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led to the lush living at the taxpayer's expense which everyone must deplore.

Clause 14 makes a clean cut and disallows entertaining expenditure generally, except for the overseas buyer. I do not think this will do any real harm to the many businesses that have been scrupulous in this matter, for the disallowance will have no great effect on them. Those who want lavish entertainment can do it at their own expense.

I come now, Mr. Speaker, to the Capital Gains Tax. I do not think I need deal at great length with this. The general purpose of this tax is well understood, and I think widely accepted. It is to tax substantial sources of revenue which have hitherto escaped the tax net and so remove an obvious social injustice and one which has been a major obstacle to achieving an incomes policy. It will also discourage or render less profitable many avoidance devices aimed at dressing up as capital what is essentially income.

There are a few matters in connection with this tax which I should like to refer to. Firstly, may I remind the House of the assets that will not be subject to charge. The tax will not apply to a person's only or main residence; to chattels disposed of for £1,000 or less; to Savings Certificates, National Development Bonds or Defence Bonds, or to the proceeds on maturity or surrender of normal life assurance policies. It will not apply to gambling winnings. [HON. MEMBERS: "Why not?"] Hon. Members ask why not. It is for the simple reason that it is not an apt subject for a capital gains tax. Such winnings are not an asset as defined in the Clause prescribing what is covered by the tax. Hon. Members who have studied tax matters know that taxation of gambling is an exceedingly complex subject with which previous Chancellors have unsuccessfully wrestled. If we had found it possible to solve that problem by the simple expedient of making the Capital Gains Tax apply to gambling no doubt my right hon Friend would have been very tempted to do so. It is not a tax apt for that purpose. He has, however, made clear that he is continuing to study this subject and hon. Members may think we have brought forward sufficient proposals for tax reform for

one Budget this year. If my right hon. Friend is minded to bring forward a general tax to cover gambling next year it would be interesting to know in view of these comments whether he will have the support of hon. and right hon. Gentlemen opposite.

In addition to exempted assets, there are also exempted bodies. Charities, approved superannuation funds, trade unions (in so far as gains are applied to approved provident benefits), friendly societies, and local authorities will be among the exempted bodies.

There is no retrospection. It will apply only to gains since Budget Day, and where an asset was acquired before Budget Day at a value greater than its Budget Day value, it is only the actual gain since acquisition which will be taxed. The same principle applies the other way to the calculation of capital losses, which can be set off against capital gains.

**Mr. Frederic Harris** (Croydon, North-West): Would the Minister say that actually applied to gifts of money from one person to another?

**Mr. MacDermot**: I do not see how a gift of money can be the subject of a capital gain, but if the hon. Gentleman has a more detailed point in mind perhaps he will write and I will be glad to help.

Some people have suggested that the rate of the tax, at 30 per cent., is on the high side. In our view it is a moderate rate; it is less than three-quarters of the standard rate of Income Tax, and for an individual who is a Surtax payer it can fairly be called light. For the less well-to-do there is the alternative of paying Income Tax—and Surtax also, where applicable—at ordinary rates on two-thirds of the gain. This means that a person whose ordinary income is not big enough to make him liable to tax at the standard rate will be able to set the balance of his personal allowances and reliefs against the two-thirds of his capital gains. For example, take a married man with two children over 16, undergoing full-time education, whose income is nearly all earned; if his earnings are £5,000 and his income from investments is £200 the alternative basis will still be to his advantage if his capital gains do not exceed £600. This shows

that the tax is by no means an oppressive burden on people of moderate means.

On the taxation of gilt-edged securities, it is argued that the Government are in some way in breach of contract, or are under some moral obligation to provide exemption for these cases. I cannot accept this. People who enter into any kind of financial transaction have always had to take their chance in regard to future changes in the tax law. In 1962 when the right hon. and learned Gentleman the Member for Wirral (Mr. Selwyn Lloyd) imposed Estate Duty on land situated abroad, he rightly refused to make any exception for land which had previously been bought in the expectation that it would be exempt from Estate Duty. On that occasion the then Attorney General, Lord Dilhorne, regarded it as a "startling proposition" that a person who entered into a transaction should claim a right to have the Estate Duty law frozen for his benefit as it stood at the time of the transaction. This was in the OFFICIAL REPORT, 3rd May, 1962; Vol. 658, c. 1348.

The introduction of the Capital Gains Tax affects other securities issued at a discount just as much as Government securities, and the fact that the Government are the borrower does not provide a valid argument for a special concession. It would rightly be considered unfair if Government securities issued at a discount were to be exempted from a new tax to which other comparable securities were made subject.

Some doubts have been expressed about the definition of the "market value" of quoted shares and securities in Clause 40(3) of the Bill. As the White Paper says, the intention is to follow the well established estate duty practice, which is briefly, that the market value is either the middle market price on the relevant day as derived from recorded bargains, or "a quarter up" from the lower price in the stock exchange quotation. The market value is whichever is the less of these two, and this is what we have intended to state in the Bill. It has been questioned whether the drafting achieves this result. We will have another look at it, and if necessary propose suitable amendments to make the meaning clearer.

I should perhaps draw attention to the relief proposed in the Bill for unit holders in unit trusts and shareholders in investment trusts, in respect of that part of the gain arising on a sale of shares or units which represents gains already taxed in the hands of the trust. The arrangements for apportioning the gains realised by the trust among the unit, or shareholders, are set out in Clause 63; the provision for the allowance to the investor is in Clause 34. Briefly, what is proposed is that each investor shall be notified by the trust of the amount of his proportionate share of the net capital gains realised by the trust in the relevant period—that is, the net amount after payment of tax by the trust. This amount will then be allowed to the investor as a deduction from the sale price of his shares or units when he comes to sell them.

We realise that the trusts would much prefer the simple solution of having their own gains exempted from tax altogether, but we do not think it would be right to go as far as that. I appreciate that the charge on capital gains raises difficulties for the unit trusts in regard to the valuation of units. Nevertheless, to exempt the trusts would place their investors in an unduly favourable position compared with other taxpayers. The taxpayer who makes his investments direct will have to pay tax when he changes his investments and realises a gain, and it would not be right to give investors in the trusts the privilege of deferring payment of tax on the gains realised for their benefit on such occasions until they sell their shares or units, or indeed until their death.

I come now to the Corporation Tax. To listen to some of the speeches of hon. Gentlemen opposite, and to read some of the criticisms in the Press, one would think that we were laying sacrilegious hands on a perfect tax system which had aroused universal admiration and respect. Memories are short, and to anyone who holds this view I would commend a study of the Press, technical journals, and the debates in this House in the past few years—not to mention the election manifestos of all the parties. There was universal agreement that our tax system was out of date and in urgent need of reform. Scarcely a voice was raised in defence of the existing

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Let me remind hon. Gentlemen that our existing income tax system was born in an era when joint stock companies as we know them hardly existed, and has never been radically overhauled. For some years there has been a growing feeling that it must be brought up to date. The right hon. and learned Member for Wirral flirted with the idea of a Corporation Tax two or three years ago, but somehow he never quite reached the point of an actual engagement.

**Mr. Selwyn Lloyd** (Wirral): It was a Corporation Tax which bore no resemblance at all to this rather ancient hag which the hon. and learned Gentleman is bringing in now.

**Mr. MacDermot**: I am sorry that the right hon. and learned Gentleman flirted with a hag. I am sure he will find that the maiden we are presenting for his attention is far more attractive.

Other Members of the party opposite have lent their support to the idea that the time had come when company taxation ought to be divorced from personal taxation. A pamphlet called "Taxes for Today" published in 1958 by the Conservative Political Centre on behalf of the Bow Group came down strongly in favour of a Corporation Tax. One of its authors was the hon. Member for Wanstead and Woodford (Mr. Patrick Jenkin). That challenging body "The Young Conservatives" in January, 1963, issued a pamphlet saying:

"A simpler direct tax system for companies is required urgently. We would support the creation of a Corporation Tax to replace the present income and profits tax."

One of a series of articles on Tory policy in the *Daily Telegraph* on 27th July, 1964, advocated the replacement of Income Tax and Profits Tax on companies by a Corporation Tax. This, it said,

"would at last enable personal taxation and company taxation to be handled separately."

There are, of course, as the right hon. and learned Gentleman indicated a moment ago, many possible varieties of Corporation Tax, and there is room for

differences of opinion on particular features, but I hope that we shall be able to count on hon. and right hon. Gentlemen opposite supporting at any rate the general idea of the Corporation Tax.

The arguments in favour of a Corporation Tax were briefly deployed by my right hon. Friend the Chancellor of the Exchequer in his Budget. First, it is a contribution towards the simplification of the tax system. [*Laughter.*] Hon. Members may laugh at the idea that this Bill represents a simplification. I did not say that the Bill was simple. I said that it would result in a simplification of company taxation. To cut a path through a jungle is not a simple matter, but once someone has succeeded in doing it, it greatly simplifies the task of anyone who has to try to get from one side of the jungle to the other.

The first and elementary simplification is that whereas at present there are two separate taxes in company profits, calculated on similar but by no means identical rules and on different and unrelated base periods, in future there will be only one. Secondly, the separation of company and personal taxation will remove some of the major anomalies in our tax system, in particular the absurdity that the Revenue may be compelled to pay large sums of so-called tax which has never been received.

One of the great advantages of the Corporation Tax is that it gives a strong incentive to all companies to plough back more of their profits for expansion. A great deal of ink has been spilt in arguing whether the Corporation Tax will in fact encourage retentions, or whether the low distributors will retain no more, and the high distributors retain even less, because they will feel obliged to keep up their dividends. The answer to all these speculations lies in past experience. When the differentiated Profits Tax was abolished in 1958, and tax incentive for retentions was removed, there was an immediate upsurge in distributions, and this has continued to the present day. There is every reason to believe that the Corporation Tax will result in an increase in retentions, and it is from retentions that the great weight of money comes for industrial and commercial expansion. Even the Issuing Houses Committee, in evidence before the Radcliffe Committee, volunteered the view that the amount of new

money raised through the market is marginal in relation to the total investment. It is retentions that are responsible for far the greater part of capital investment in the private sector.

“Ah”, say the critics, “but there is no need to believe that these retentions will necessarily be used productively”. To answer this, one need only refer to the many progressive companies who have financed virtually the whole of their expansion over a long number of years out of retentions. I do not know whether the right hon. Member for Bexley would include the oil companies in his strictures about the survival of the fittest? By and large, commercial and industrial businesses do not salt away retained profits in passive investments. They find a more fruitful use for the money.

**Sir Tatton Brinton** (Kidderminster): If one accepts the hon. and learned Gentleman's argument, may I ask why he makes such a complete differentiation in the case of what are described as closed companies? The rate of pay-out is set here as standard, at 60 per cent. of what remains after Corporation Tax. Would not the hon. and learned Gentleman agree that in the case of private close companies, which are manufacturing companies with large physical assets, this is an excessively high pay-out and must result in lower retention? Is this a good thing?

**Mr. MacDermot**: They are already manufacturing retentions for rather a different purpose. I am coming to that point in a moment. The companies to which we have been referring, apart from the close companies, by and large, do not salt away retained profits in passive investments, but use the money for more fruitful purposes. In any event, we have taken steps by our taxation of inter-company dividends to see that there will be little inducement for passive investment. In respect of closely controlled companies, to which the hon. Member referred, there may be a greater danger of retentions which are purely passive in nature. It is for that reason that we are taking adequate powers in the Bill to ensure that such investments are treated as distributions on which the company will be liable at personal tax rates.

**Sir T. Brinton**: That does not answer the question.

**Mr. MacDermot**: The reason for the separate treatment of closely controlled companies is well known. They are used as a method of avoidance of Surtax. This is the reason why they have been subject to special legislation already, in relation to the existing taxation of companies. We are continuing to apply the same precaution for preventing tax avoidance in relation to this system.

Then it has been said that we are moving over to the Corporation Tax at the very time when Western Europe is moving against it, and when influential forces in the United States would like to move against it if they could. What has happened in the past in Western Germany and in Belgium, and what may be about to happen in France, should not be exaggerated. All these countries started from the fundamental position that company taxation is divorced from personal taxation. In so far as they modify their systems, it is within the framework of a tax system such as we are now adopting. And where modifications are made in overseas systems, the reasons are often peculiar to their particular economic or fiscal needs and have no necessary relevance here. In respect of the United States the facts speak for themselves. Such tax credit as a shareholder got in respect of tax paid by the company has recently been abolished in favour of a straightforward Corporation Tax system.

There has also been some criticism of the Chancellor's proposals because he has not adjusted what is called the value of the investment allowance. It is said that, when the combined Income and Profits Tax rates stand at 56½ per cent., a company investing in new plant obtains relief from tax of just over 16 per cent. of its cost, but that when the Corporation Tax is introduced at a rate less than 56½ per cent. the percentage of relief in terms of cost will fall. This is no new phenomenon. If the rate of tax falls, so also will the value, in this sense, of tax reliefs.

This is the way in which tax reliefs work. It is a new view of tax reliefs which seeks to obtain the same cash advantage for them whatever the rate of tax. I do not recall, for example, that my right hon. Friend the Chancellor was congratulated and thanked by industry when he was obliged to increase the standard rate last November, because he

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had thereby increased the value of investment allowances. The truth is that industries who make this complaint are regarding investment allowances not as a tax relief but as a subsidy.

The substantial fall in the tax on company retentions, which will follow the introduction of the Corporation Tax, will leave more money in the hands of companies for capital investment. Moreover, it will reach them much quicker than under the scheme of investment allowances, where there is a substantial period between the investment and the reduction in tax in respect of the allowance.

Any increase in the value of investment allowances would require a higher rate of Corporation Tax to pay for it. This has not prevented at least one company chairman from demanding both a lower rate of Corporation Tax and higher rates of investment allowances. Perhaps, like myself, he was an Irishman.

As my right hon. Friend the Chancellor said in his Budget Statement, we must examine the effectiveness of the investment allowances. All the evidence arising out of a number of independent inquiries is that the great majority of businessmen, whether the business be large, medium or small, do not have regard to the tax position and, therefore, to the investment allowances, in deciding on capital projects. One can produce companies that do have regard to the tax position, and it may be that in the future industry will change its practice and have greater regard to the effects of tax incentives. But as things stand, we must base ourselves on the practice of the great majority of industrialists when we are deciding on the future of a costly concession like the investment allowances.

In our view, the right hon. Member for Barnet (Mr. Maudling) increased these allowances without any real effort to discover whether they were acting as an incentive or whether they were merely reducing the tax bill of those who received them. Investment allowances cost £80 million ten years ago; now they cost £320 million, and the cost is still rising. The Corporation Tax will serve a useful purpose, if only because it will put a brake on the growth of this relief while a review is undertaken to see whether this is the most profitable way in which to secure

the increased efficiency of British industry, which is our common aim. I suggest that the House should await the outcome of that review.

**Mr. Stratton Mills** (Belfast, North): Has the hon. and learned Gentleman considered the difficulty there may be in respect of the forward planning of business men when the whole basis of investment allowances in the future has been put in doubt by the Chancellor's speech?

**Mr. MacDermot**: The hon. Member is grossly overstating the matter to say that the whole basis has been put in doubt. There has been a reduction in its effect by these Measures. There have been complaints about that, and a suggestion that more assistance should be given. But what has been indicated is that in view of these representations we shall review the whole system of investment allowances—and that is being done—in order to see that the relief really operates where it is most needed and will most help the national economic effort.

**Mr. Stratton Mills**: That may be widely interpreted as meaning that the Government are thinking of doing away with the system of investment allowances and moving to other methods of incentive. Will he clear up the point and say this is not so?

**Mr. MacDermot**: I cannot anticipate our conclusions, arising from the review. However, it is not the intention in total to withdraw assistance from industry. What we want to do is to see that the assistance which is given is purposefully directed.

Most of the criticism of our Corporation Tax proposals has been about their effect on overseas investment. In the first place, let me emphasise what my right hon. Friend the Chancellor said in the Budget debates. The Government are fully alive to the importance of overseas investment in relation both to the encouragement of exports and to the help we all want to give to developing countries. But the fact remains that consistently, over a period of years, capital investment overseas has been proceeding at a rate which we cannot afford, and has thus served to aggravate our balance of payments position.

The Corporation Tax will act as a brake, but will not prevent desirable overseas investment. We should be shirking our responsibilities if we were to bury our heads in the sand and try to regard this as a purely temporary phenomenon, calling for some temporary palliative. It is not. There is here a chronic imbalance, which must be corrected. We believe that the Corporation Tax will provide the brake that is needed. Of course, medicine of this kind is unpalatable, and those who have to take it will naturally complain. But to depict the tax as putting an end to overseas investment is as irresponsible as it is ignorant.

Some people have complained at our reference to the bias in the tax system which favours our overseas investment. Let me explain again what we mean. The existing system treats the tax paid by a company as covering the shareholder's Income Tax liability on his dividends. One of the consequences is that the credit which is given, whether unilaterally or under a double taxation agreement, for overseas tax paid on the company's profits, may not only wipe out the company's own liability but may also free the shareholder from any Income Tax on his dividends. This treatment of the income arising from overseas investment is far more generous than any other important country in the world provides and is certainly more than we can afford in the present position of our balance of payments.

Moreover, we insist on confusing the company and the shareholder not only in relation to our own Income Tax but in relation to other country's taxes as well. Take the U.S.A., for example. The U.S.A. keeps its Corporation Tax separate from its personal tax: it does not allow one to be set off against the other, and a United States individual is chargeable to United States tax on his dividends from a United States company without any set-off or credit for the tax which the company may have paid on its profits. But under our existing tax laws we pay no attention to the way the United States regards its tax system; we refuse to recognise the distinction between the two kinds of tax. A United Kingdom individual who invests in the same United States company gets credit against his United Kingdom tax on the dividend not only for the United States withholding

tax, but also for the United States Corporation Tax. This is pushing our doctrine to absurd lengths.

Just how the new proposals will affect overseas investment is a very complex matter. It is not enough just to take the rates of Corporation Tax in an overseas country and consider the extent to which they exceed—if they do—the Corporation Tax in this country. Much depends on the allowances that are given. There are countries with high rates of Corporation Tax where, nevertheless, the tax burden on a British enterprise is below the tax that will be due from the same enterprise in this country.

Where the overseas tax is about the same or is less than the United Kingdom tax, a British company is in much the same position as a company here. Overall its tax burden—taking United Kingdom and overseas taxes together—will be the same under Corporation Tax as the tax burden of a company trading at home which distributes the same proportion of its profits. Nevertheless, to meet any hardship which may be caused by the immediate impact of the charge, Clause 79 provides for payment to companies which paid overseas tax in a base year at a rate higher than Corporation Tax. For the first two years payments will equal the amount by which their overseas tax in the base year exceeded Corporation Tax to the extent that this attributable to excess is attributable to the profits paid out as dividends.

There has been much discussion of the effect of the Corporation Tax on the oil companies. Spokesmen of the major oil companies have been critical. This is not surprising, since the changes we are making will certainly mean that tax will be paid where it has not been paid before. But the effect of the changes must be kept in proper perspective, in relation to the scale of these companies' operations. As I will explain, the changes should not hinder them from continuing to play their full part in the world oil trade. We are, of course, aware of the immensely important contribution which the British oil companies make to our economy and our balance of payments, and their importance is recognised in the special treatment accorded to their overseas investment programme. But it does not follow that these companies should be

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exempt from the tax modifications we propose for companies operating overseas. It is, of course, difficult to discuss in public the affairs of particular companies, but both B.P. and Shell have raised publicly their own position and I think I am justified in commenting on it. I should emphasise that the figures and facts I propose to quote are all taken from public sources generally available.

The first striking fact about these two companies is that neither of them has paid any appreciable United Kingdom tax on their profits for several years. This is apparent from their dividend warrants which show the "net United Kingdom rate", that is, the rate of United Kingdom Income Tax actually borne after allowance of credit for overseas tax. For four of the last five years Shell's net United Kingdom rate has been one penny. In the fifth year it was nil. B.P.'s rate for all five years has been nil.

We all know that these companies carry on the bulk of their business overseas, and since they can credit the tax they pay in countries overseas against the United Kingdom tax charged on those overseas profits, we can understand how it is that they have been paying no tax on the profits earned overseas, but, as everybody knows, they have substantial installations in this country. In 1964 over one-fifth of the oil refined throughout the world by B.P. and nearly one-tenth of the oil refined throughout the world by Shell was refined in this country. In addition they control very large distribution organisations. Their road tankers and petrol stations are a familiar sight. On any realistic view, the United Kingdom activities of each must be making a very important contribution to their total profits.

No question of double taxation relief could arise on these United Kingdom profits, and yet no United Kingdom tax is paid on them. Indeed B.P. has done even better than this. Its published accounts show that in some years it has actually received repayment of large sums of tax paid in the past.

The Chairman of B.P. criticised the Government's proposals by saying that B.P. was in the position of a patient who has had a severe coronary and has been told by his doctor that he might live for another four or five years, provided he

keeps to a very restricted diet. I am afraid that my clinical diagnosis would be different. Here is a very healthy subject, exuding profits and dividends, who has not been acting as a donor like other citizens but who has taken a blood transfusion from his hard-pressed fellow citizens amounting, according to the company's own accounts, to over £44 million between 1958 and 1962. I do not think that we need concern ourselves with the technical means by which this has occurred—inter-company payments, loss claims, investment allowances and so forth. Foreign tax does not enter into the matter.

I ask the House whether it is fair or sensible that this large company should not only pay no Income Tax or Profits Tax, and its shareholders pay no Income Tax on their dividends but should actually be drawing out of the Exchequer tax paid on past profits. This company, like the whole of the oil industry, makes great claims on the Government for the defence of its undertaking. It makes use of all our public services for its large undertakings in this country. There is something, I suggest, radically wrong with a tax system that allows it to escape all tax charge. This case of B.P. illustrates some of the main arguments for a Corporation Tax.

Another argument raised by the oil companies is they will be penalised by comparison with their competitors in other countries. I cannot accept this argument. Their complaint is that they will, for the first time, be required to account to the Revenue for the Income Tax deducted from the dividends they pay. This tax is of course the shareholders' tax, repayable if they are not liable to it, and it is only a matter of machinery that the company will deduct tax and pay it over to the Revenue. With the exception of Belgium, at present and possibly France in the near future, I know of no other country where a shareholder in a domestic company is given credit for any tax paid in another country on the company's profits. That certainly does not happen in the United States of America. A U.S. shareholder in a U.S. oil company will pay U.S. tax on his dividend without any deduction for the foreign tax paid by the company. Similarly, a Dutch shareholder in the Dutch company of the Shell group will pay full Dutch tax on his dividend. All

that is happening is that the United Kingdom shareholder is now being put in the same position as overseas shareholders. The Deputy-Chairman of Shell has described our proposals as a "millstone for the British oil industry"; I can only comment that the Dutch side of the group seems to have survived and prospered with a similar millstone.

I am not, of course, denying that under the new system these companies and their subsidiaries will fare less well than under the old. But the very considerable growth which they have shown over the past decade does not seem to be related to the fact that their shareholders have received their dividends almost tax free. They have financed nearly all their total investment from retained profits and depreciation, having raised very little capital from their shareholders and none since 1958.

Over the last 10 years Shell financed no less than 98 per cent. of its total investment, amounting to £3,354 million from retained profits and depreciation. In the last 8 years B.P. financed 83 per cent. of its £1,165 million investment from internal resources, 13·5 per cent. from borrowing and only 3·5 per cent. from new money raised from shareholders. Moreover, its dividends have grown very substantially, both absolutely and as a proportion of income. Those paid by B.P. doubled between 1956 and 1964—they rose from £15·1 million to £31·3 million, excluding capital distributions in the last three years. Shell Transport's dividends nearly trebled over the same period from £15 million to £41·4 million.

It is not for me to forecast the future actions of the oil companies. They have made and are making substantial investment in the expectation of further growth. This, together with the transitional relief which will be due for the next five years should provide a cushion which will soften the effects of the changeover. But even if these companies decided to maintain their gross dividends unchanged so that the whole burden fell on the shareholders, the shareholders of Shell would still receive the same net dividend as they had in 1960 and of B.P. the same as in 1958. The burden of the Income Tax would do no more than offset the dividend increases of the last few years. Thus, while figures of loss which have been bandied about sound very serious, the effects of the tax

payments on the shareholders and the companies should not be alarming in relation to the scale of operations of the companies and their prospects.

I cannot help thinking that the fears that have been expressed about the future of the oil companies have been much exaggerated.

I return to the general question of overseas investment. Some of our critics have said, in effect, "We agree that something has to be done about this excessive overseas investment, but it is unnecessary and penal to make your measures bite on existing overseas investment. Your brake should apply only to new investment". In effect, what these people are proposing is that overseas investment should be exempted from the change-over to the Corporation Tax system—with its separation of company and personal taxation—by allowing overspill. They suggest that we should instead use exchange control or the Capital Issues Committee procedure to restrict new overseas investment.

Exchange control would, of course, be quite inadequate, as it does not apply within the sterling area, and I do not think that anyone is seriously suggesting that it should. Whether the Capital Issues Committee procedure would be suitable for this purpose depends upon whether a temporary remedy is all that is needed, or whether a long-term influence is required, to correct a chronic tendency towards excessive overseas investment. We believe that it is the latter, and I think most of our critics believe that it is the former. This is the real issue which divides us. If a permanent influence is required, I do not think any hon. Members in any part of the House would like to see that done as a permanent method by the Capital Issues Committee procedure.

If there has to be a permanent correction, most hon. Members would agree that the taxation system is the better way to do it, leaving the greatest amount of freedom of decision to the companies which are considering whether to make the particular investments. I do not think that anyone is suggesting that it would be possible to apply one set of double taxation reliefs to pre-Budget day investment, and another set of reliefs to post-Budget day investment. It would, of course, be wholly impracticable. And if what has to be done is to be done by

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taxation, it must apply to existing as well as to future investment.

The real question is whether our overseas investment requires to be bolstered up by a special protection, which no other country which operates the Corporation Tax system grants to its overseas investor. We believe that it does not, and that the transitional provisions we have made will afford time and opportunity for our companies to adjust themselves to the change.

I know that there are special problems for some developing countries, and my right hon. Friend has undertaken to watch this position with great care and has said that he would be ready to consider whether any new action was needed in relation to aid to these countries.

But these are not reasons for failing to apply the principles of the new Corporation Tax system to our overseas investment, particularly when, as we believe, its overall effect will be to serve the real economic interests of this country in relation to our overseas position just as it does internally.

4.44 p.m.

**Mr. Edward Heath** (Bexley): There are three main groups of sections in this Bill, and there are three main themes running through them. The House will agree that they are all linked together as part of the attempt of the Chancellor of the Exchequer to deal with the balance of payments problem. The first group is those levying heavier taxation on consumer goods—on tobacco, spirits, and so on—and on motor licences. With those go the Capital Gains Tax, which the Financial Secretary has again emphasised exists in order, he says, to ensure fairness, and the measures about business entertainment. Both are put forward in an attempt to secure the acceptance of an incomes policy. The general purpose of this group is to reduce the demand on the economy.

The second main section is the Corporation Tax in relation to home affairs in the economy. The purposes really are to secure a greater investment by companies at home and to penalise the investors in those companies.

The third main section is the Corporation Tax in relation to companies overseas. Its purpose is to reduce over-

seas investment to help the balance of payments and is, I think, an attempt to force people to invest more at home. Thus, there is in the minds of hon. and right hon. Members opposite this connecting link between the Corporation Tax at home and the Corporation Tax overseas in creating greater investment. The argument is that if we can stop people investing overseas surely they will be forced to invest at home.

I want to deal with each of these broad issues in turn. I hope that the Financial Secretary will forgive me for not going into the detailed matters with which he dealt. Our first task, as the hon. and learned Gentleman indicated, is to comprehend the Finance Bill in its present form. It might be easier to comprehend were we not so apprehensive about what we might apprehend if we had comprehended it. It is the longest and most complicated Finance Bill for over 50 years.

I must offer a protest against so much legislation by reference in a Bill which makes fundamental changes of this kind. It places an intolerable burden on hon. Members. I see that even the chartered accountants, according to *The Times*, have declared that this is the last straw. We have had many gallant attempts to put the Bill in a form which a layman, or a Member of the House of Commons, can understand. We had the first Budget Statement of the Chancellor of the Exchequer, his amplification to the House, the second Budget Statement, the Finance Bill, two White Papers, and now a long and detailed account by the Financial Secretary, which could well have been published as a third White Paper or explanatory memorandum of the other two White Papers.

Everybody will agree by this time that any idea that this has led to a simplification of the tax system is way out through the window. We can all take our pick of the examples, but the one which I take is Clause 55(3):

"A claim for relief under this section may require that capital allowances in respect of the trade, being allowances which fall to be made to the company by way of discharge or repayment of tax and to be so made for an accounting period falling wholly or partly within the 12 months ending when the company ceases to carry on the trade, shall (so far as they cannot be otherwise taken into account so as to reduce or relieve any charge to corporation tax) be added to the loss

incurred by the company in that accounting period or, if the company has not incurred a loss in the period, shall be treated as a loss so incurred:

Provided that the allowances for any period shall not be treated as including amounts carried forward from an earlier period."

This is an example of the Chancellor of the Exchequer's open declaration about simplifying the whole of our tax law and tax system.

The Financial Secretary went to considerable lengths to emphasise what a great attraction all this was. But surely he must realise that most of those who were originally attracted by the idea of a modernisation and simplification of our tax system—which I agree was supported in the election manifestoes—now see the ramifications and implications of doing it in the way in which the Chancellor and his colleagues suggest. I do not think that most of them are any longer in love with the suggestions which he has put forward. It is clear that this is a bad Bill as a tax reform Bill, and nothing that the Financial Secretary said has done anything to change our view on that.

I turn to the three main sections. The first is that dealing with what the Chancellor of the Exchequer described in his Budget Speech as the short-term management of the economy and the Budget judgment. He is asking us in the Bill to levy additional taxes and to take consuming power out of the economy. For this debate we should have an up-to-date report on the situation. The Financial Secretary has not given it to us. The Chancellor of the Exchequer did not open, so he has not taken advantage of the opportunity to do it. I hope that when he winds up tonight, although it will be too late to help the House in considering these matters, he will nevertheless give us the information for which I shall press him.

In the Budget debate we got him to the point of discussing the £ sterling and coming forward with strong arguments in favour of it. We even got the Prime Minister to stand up in New York in his address to the Economists Club and boast of the resources which are now, and always have been, behind the £. What the economists were asking themselves—they did not have the chance to put it to the Prime Minister—was why did he not say all this the moment that he came to power. Then, they say that he might

have saved himself the crisis of confidence into which the Government plunged themselves in November. We know why he did not do it. He was much too busy playing his own party tricks to worry about the national interest or the strength of the £. He wanted an alibi for not being able to carry out the promises which he made at the election and which we now debate from Supply day to Supply day. All this has cost us the three billion dollar stand-by and the indebtedness which we now face.

What is the Chancellor of the Exchequer's present judgment about the economic situation for which he is asking support in this Bill? How does he explain his past judgments on this matter? The judgment started with the White Paper in November, which we have so often quoted to him, in which he said that no further action was required for the economy. That was the first statement. It was followed by the first Budget a month later, by the 7 per cent. Bank Rate and by the credit squeeze. This was followed by the second Budget, in which he said that he was aiming through these taxes and two other means—the TSR2 cancellation and the Post Office charges—at taking £250 million out of the economy. In fact, he took £231 million.

The conclusion to which he came was very interesting and specific. I should like to quote it to the House. He said: "Taking into account the nature and incidence of these increases"—

this is his conclusion—

"my estimate is that, working with the other measures I have mentioned, they will bring about the desired reduction in home demand and so make room for a progressive improvement in the balance of payments."

He went on:

"The Committee is only too well aware that we have a Bank Rate of 7 per cent., and that, following the letter from the Governor of the Bank of England to the London Clearing and Scottish Banks last December a tight and effective control over bank lending is at present in operation—[OFFICIAL REPORT, 6th April, 1965; Vol. 710, c. 287.]

These were his conclusions at this stage of his Budget speech.

What is the situation today? Only three weeks after he made that speech and reached those conclusions we have the imposition of the special deposits.

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After exactly three weeks another £95 million is taken out of the economy. We have another letter from the Governor to the banks. The Chancellor has already said that we have a "tight and effective control" over bank lending, yet we have another letter to the clearing banks about it, and, within three weeks of his Budget speech, he demands these extra measures. What is the explanation? The Chancellor of the Exchequer owes the House of Commons an explanation of this. Is it a fundamental misjudgment of the situation? He has never given us an explanation of how he came to the conclusion that he ought to take £250 million. He gave us no analysis of this in his Budget speech, so we cannot judge whether he was right or not.

In winding up the mortgages debate, the Chief Secretary to the Treasury said that it was due to an increase in the clearing bank advances. I cannot believe that the Chancellor of the Exchequer did not know the trend of the clearing bank advances when he produced his Budget. This is a very simple—perhaps an oversimple—explanation by the Chief Secretary—

**The Chancellor of the Exchequer (Mr. James Callaghan):** The right hon. Gentleman should ask Reggie. He will tell him.

**Mr. Heath:** Was the mistake a mistake in calculating the increase in wages? The Chancellor of the Exchequer has not told us what he took into account in his Budget statement so we cannot judge for ourselves. What we have had in the first three months are wage settlements amounting to between £80 million and £90 million a year—almost exactly the same as the special deposits which have now been taken out.

This raises the general question of the extent to which the Chancellor is relying on a 3 to 3½ per cent. money incomes policy for the rest of the year. I should like to quote to him what the First Secretary said on the second day of the Budget debate:

"What is new and dramatic is that in the short space of six months we have reached agreement with both sides of industry on the intent, on the machinery, and on the criteria to be applied. There is now a prices and incomes policy in existence."—[OFFICIAL REPORT, 7th April, 1965; Vol. 710, c. 533.]

Does the Chancellor of the Exchequer base all his claims on that statement by the First Secretary, or does he take the view of Mr. George Woodcock, who said at the T.U.C. Conference:

"This is not a plan. It is not even a policy. Let us not make any false claims. These words are much too grandiloquent to describe what we are putting before you. A policy may come out in time. This is only the first cautious and sensible step in that direction . . . I can tell you this, and Mr. Brown will not be pleased at this, there is not the remotest possible chance that incomes and wages will be kept down to 3½ per cent. in this year."

What has the Chancellor of the Exchequer taken into account in his claims for which he is asking support in the Bill?

This can either be the latest of a series of misjudgments or there can be another explanation. Did something happen between the Budget and the demand for the special deposits? What has happened is that the conduct of the economy by the Chancellor of the Exchequer and the Government have been under constant examination by foreign international bodies—by the Finance Committee of the Common Market, by O.E.C.D., by the Group of Ten and by the Financial Ministers in E.E.C. themselves. What have been their comments on this situation? They have been reported in the press of 5th May. *The Times* said:

"As Mr. Giscard d'Estaing"—

the chairman—

"put it, the meeting hoped very much that the Chancellor of the Exchequer's target, notably for bringing the British payments into balance by early 1966, would be successfully achieved."—

**Mr. Callaghan:** That is not a quotation.

**Mr. Heath:** It is as Mr. Giscard d'Estaing put it.

**Mr. Callaghan:** It is not a quotation.

**Mr. Heath:** Apparently the right hon. Gentleman does not accept what *The Times* says—

**Mr. Callaghan:** I only want to make the point that there is no—[HON. MEMBERS: "Do not get excited."]—I am not getting excited. I have been accused of bad faith by some of the hon. Friends of the right hon. Member for Bexley. What I want to get clear is that I take no

responsibility for what appears in *The Times*. That was not a quotation. If the right hon. Gentleman will make that clear I shall be happy.

**Mr. Heath:** I read it as a statement of what *The Times* said that Mr. Giscard d'Estaing said.

The next quotation from his speech is in the *Daily Telegraph* of the same date:

"There is a great convergence of our points of view. Every one of us hopes that the objectives stated by Britain will be achieved. The British Cabinet plans include detailed description of their objectives, figures, and a calendar for the achievement of them. The Ministers also took note that if these objectives are not attained other measures will be put in hand by the British Government."

That is a firm quote. On the same date, the Chancellor of the Exchequer said in answer to a Written Question:

"The Government aim to restore our balance of payments to equilibrium by the end of next year."—[OFFICIAL REPORT, 4th May, 1965; Vol. 711, c. 140.]

When he winds up the debate, perhaps the Chancellor will tell us what exactly these detailed plans and descriptions of objectives and figures and a calendar for achievement are. The information has been given to foreign Governments. It has not been given to the House of Commons or to the people of this country.

Perhaps he will also take the opportunity—as he obviously wants to do—of explaining whether the report of Mr. Giscard d'Estaing that it is to be done by the beginning of 1966 or his Written Reply that it is to be done by the end of 1966 is the more accurate. It is of great importance to know what the policy of the Government is. I hope that he will give us full details of these proposals and also let us know whether they include a 3 to 3½ per cent. wages basis for the rest of this year and whether these proposals also include the effects of the nationalisation of steel or whether that is only put in as a listening post, rather inadequately manned. It leads to the—

**Mr. Callaghan:** I am a little surprised that the right hon. Gentleman should be so anxious to press the inquest on his Government's achievements. It is well known that we are now in the process of negotiating the second part of the loan, which will total £850 million, and which

will help us to finance the deficit which the right hon. Gentleman and his friends left behind. As to disclosing the details of these matters, the Budget Statement contained all the necessary information. I was asked about the detailed negotiations between Governments. The right hon. and learned Member for Wirral (Mr. Selwyn Lloyd) who performed a similar exercise in 1961—and his right hon. Friend the Member for Enfield, West (Mr. Iain Macleod) was also in communication with the working party—will tell the right hon. Gentleman that it is not the practice to disclose details of negotiations of this sort between Governments, and I hope that he will not press me to change that practice.

**Mr. Heath:** The right hon. Gentleman well knows that the loan which he is at present negotiating from I.M.F. to replace the drawing on standby was to meet the crisis of November which his own Prime Minister admitted was the fault of his own Government. That is the plain truth. As to the details, I do not recall any statement published about my right hon. and learned Friend's negotiations of the kind which I have read, made by the Chairman of the Finance Ministers of the Six and saying that detailed targets, plans and undertakings have been given. The true explanation of the special deposits three months after the Budget statement is that the Chancellor has been made to do this in order to get the standby. It is summed up by the *Statist* this week—and that is not usually regarded as a magazine supporting this side of the House—when, referring to the Government, it said:

"For the time being we have in considerable degree lost our financial sovereignty."

That is the fault of right hon. Gentlemen opposite. What it amounts to is that what the Chancellor is asking for in this Bill is out of date, and he has taken no opportunity to tell the House what the position is today.

I want to turn to other matters.

**Mr. MacDermot:** Such as the Finance Bill.

**Mr. Heath:** This is very much concerned with the Finance Bill. The fact that the Financial Secretary to the Treasury spent his time dealing with small items concerning businessmen's accounts is no reason why we cannot

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look at the great issues facing this country.

Finally on this point, I want to ask the right hon. Gentleman to reconcile this: having been put in the position of being compelled to take these additional steps, how does he reconcile them with his own expressed anxiety of what will happen to investment in this country, with a possible down-turn in investment at the end of this year or at the beginning of next year? That, on the lesson of past experience, is the danger at which we must be looking.

I turn next to the section of the Finance Bill dealing with the Capital Gains Tax, and I will make a brief reference to business expenses as the Financial Secretary brought the matter up. Looking at the Bill, it is clear that the Chancellor has taken no note of any suggestions or comments made in the whole of the Budget debate. What is more, as far as I can see he has taken hardly any account of any of the representations which were made to him between November and April. If we are to make reasonable progress with this enormous Bill, then I hope that there will be a change of attitude and heart at least when we are discussing it in this House.

The Capital Gains Tax will certainly not encourage savings or risk-taking or building up one's own firm or investment in growth industries. In fact, it will discourage all these things. It is being done in the name of fairness. This is the argument put forward by the Chancellor and the Financial Secretary. It has been done to get an incomes policy. I do not think that the settlements since it was announced in November suggest that it has, in fact, made a penny difference to the wage settlements in this country so far. Let us be realistic about that.

I have five points to make on this part of the Bill. The Financial Secretary said that it was a very moderate tax. It is a very comprehensive tax, and I believe that it is at a high level. Taking these two things together, they make it the most severe capital gains tax of any country in the Western world. If the right hon. Gentleman can find one which is more severe, I hope that he will tell the House the details of it. We have studied this tax very carefully.

Secondly, it makes absolutely no allowance for inflation. This is fundamental. Those who see their savings, in whatever form, increasing at exactly the rate at which the currency is being depreciated will still have to meet the gains tax and thus lose part of their capital, whether they sell or whether it happens on death. Is this the Chancellor's idea of fairness? If one's savings increase only at the rate of depreciation of the currency, one is still bound to lose a large slice. Surely that does not appeal to the people of this country as being fair.

Thirdly, it is the growth industries and the growth activities which will suffer most. The more they grow and expand the larger the slice they will lose. Is this what the right hon. Gentleman and his hon. Friends want to encourage? What it means is that, combined with the Corporation Tax, it will make it almost impossible for the small private company to grow to a stage at which it can become a public company. That is the consequence of the two taxes together because of the arrangements for close companies. If hon. Members look at it, they will find that that is exactly the case. These companies will have a higher burden of tax than any suffered by any other section of the community. Is that fairness? Is that what the right hon. Gentleman means by introducing a tax to bring about fairness? One can only come to the conclusion that it has been deliberately arranged, by this combination of taxes, to damage the small privately-owned companies. In the process the Chancellor is damaging the real growth companies of this country.

Fourthly, the ten-year treatment of discretionary trusts which is laid down in the Bill can also, in cases where they exist for a family company, be damaging and lead to the break-up of family companies on death.

**The Minister of State, Department of Economic Affairs (Mr. Austen Albu):** And about time.

**Mr. Heath:** It is a very good thing to have that stated in public. Now we have it on the record that what the Labour Party want to do is to damage and break up family companies even where they are efficient and growing.

Fifthly, will the Chancellor deal at some length with a question which has been discussed in detail by my right hon. Friend the Member for Flint, West (Mr. Birch)? No doubt he will be able to contribute to our discussions on the point in Committee. The plain fact is that in the particular case of gilt-edged stock and local authorities' stock the general public regards the Capital Gains Tax as fraudulent. No matter what the hon. Gentleman says about land in the Bahamas, the ordinary owner, and very often the small owner, of gilt-edged stock regards this as fraudulent, and I believe rightly so. But leaving that aside, it is bound to affect Government borrowing, as we have emphasised before. The Chancellor says that it will not affect the fluidity of the market, but I can find nobody who shares his view—not one person—particularly because of the very large holdings by the life offices of long-dated Government stock. This will certainly affect the fluidity of the market, and I believe that it will damage the Chancellor in his activities. We shall therefore resist this very strongly and put forward constructive ideas as to how to deal with it.

To sum up on this part of the argument, I believe that in its form and in the context of the present burden of taxation, this is a bad and indeed a vicious Capital Gains Tax. It is introduced for the wrong reasons. It does not achieve the fairness which the Chancellor gave as the reason for it and it damages the economy. We have to add to it this very petty and spiteful measure about businessmen's expenses which, as everybody knows, is just a nasty little bit of political manoeuvring by the Chancellor of the Exchequer. The Chancellor admits the principle—the Financial Secretary has just repeated it—that when one is doing business which apparently the Government want done—export business—one can have these allowances. But there is an immediate contradiction. If one has resident buyers in this country, which means that the overseas firm is a very large firm which can afford to have people permanently stationed here and that it is therefore likely to give larger export orders, they cannot be entertained. We see, therefore, that even when the Chancellor is trying to help exports there is an extraordinary contradiction.

We must consider the damage to the small man at home—the small business man, the specialist—and those—and there are a considerable number of them—who use entertainment, meals, for doing business. Even Ministers, to my knowledge, do that, and at any rate the Prime Minister has not volunteered to surrender his position in regard to such special allowances.

The Financial Secretary could not tell us how much abuse there is. "In my opinion there is abuse", he said, but he gave no details. I have never known the Revenue to be in the position of not being able to deal with such an abuse if it wanted to. Certain marginal cases have been brought before the courts and sometimes the Revenue has won. Why would it not be possible for the Revenue to bring big cases before the courts? We would certainly support the Chancellor in dealing with either a big or small abuse, but why deal with it in the way he has chosen? It is rather like throwing out the baby with the bath water. Why abolish the whole of this to deal with an abuse?

The Corporation Tax and its effects at home is my second theme. I have dealt with the question of the simplification of tax and the object of increasing investment. I have pointed out that the way it is being done is a bad reform of the system. It is interesting to look briefly at the history of this matter. It was Lord Dalton who, in April, 1947, introduced a differential profits tax. As recently as his Swansea speech of January last year the present Prime Minister said:

"... I am strongly in favour of the return to the pre-1958 system of discriminating sharply between distributed and non-distributed profits".

That was a great economic statement of Socialist policy. It is still held as such by the Prime Minister. Only last June the Chief Secretary to the Treasury suddenly came forward with the statement, at a conference arranged by the *Investors Chronicle* and in a discussion on investment after the election, as reported in *The Times*:

"The most likely... solution... was a corporation tax—the separation of the combined rate of tax into two, one for individuals and one for corporations"

So they stumble into it. They stumbled over the Minority Report of the Royal Commission and, in tripping over it, the

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dust came up and suddenly it became adopted as Labour policy. Suddenly, without realising where we were and that 10 years had gone by—and that a great deal of European and American thought had changed—they introduced their policy in November in a mad rush. That is why we are suffering from it today.

There are several points with which I will deal. On the financial and other aspects, there are cases where tax is paid back without it being received. This has been a constant thing. Having been told that, may we now be told how many cases of this kind there are and how much is involved? All the authorities I have consulted say that such cases as exist are very few in number and could easily be dealt with by amendment of the law, certainly without the whole of this part of the Finance Bill. Thus what we have been told so far is no justification of this part of the Bill and I hope that such arguments will not be adduced again.

Then we are altering the way to tax distributed profits. It is a backward step. Bit by bit, with the help of the Chief Secretary, the Financial Secretary is getting himself off the hook he was on because in an Adjournment debate he said that we were moving "with one rush" towards the German and European system. That was immediately contradicted in the Neumark Report, in which it was shown that they are moving towards our system.

The Bill is riddled with contradictions, of which I will point out a few. The Bill is supposed to encourage public companies to retain and invest, but it forces small companies to pay out 60 per cent. It is supposed to encourage overseas companies to retain but not to invest. So we have these contradictory processes being carried out at one attempt by the Corporation Tax.

The tax will damage innovators, particularly, in the small companies, and I hope that the Economic Secretary, who has always been so strong in his support of innovators, has looked at this one very carefully. It should, at the same time, be remembered that the nationalised industries will get substantial preferential treatment in this process because they do not have shareholders but only loan

capital. This is demonstrated by the fact that while local authority water companies are exempt under the Bill from tax, private water companies must pay tax. How can this be fair or justifiable? Or is it that the Chancellor wants to produce a situation in which he can have another argument for nationalising water companies? It looks very much like it.

**Mr. Callaghan:** I had not thought of it, but I will.

**Mr. Heath:** As to its effect on investment allowances, the Financial Secretary discussed these at some length and produced typical Treasury arguments. He has never uttered the argument that this was being done as part of the Corporation Tax; just that it was happening and that it must be accepted. I believe that it is damaging and I do not accept his argument that firms do not take any notice of investment allowances. If something should have been done, and I do not accept that it should, the job could have been done by way of firms' accountants. We should recognise the importance of investment allowances and similar financial arrangements.

What concerns me is its effect in the development districts. One who is probably more experienced in matters of regional development than anybody else is Mr. George Chetwynd, who has commented forcibly on the damage that this will do to the development districts, particularly those in the North-East. I believe this to be wholly true. The figures which have been produced are, I think, about right—that firms get up to 79·2 per cent. on plant and machinery and 71·3 per cent. on the 40 per cent. rate, whereas in future they will get 56·8 per cent. and 59·4 per cent. respectively. This is a considerable difference.

What we discovered in regional development is that unless there is a sufficient scale of inducement to industry, not just a differential, we will not get firms to go to the trouble of expanding and going into the development districts to achieve their expansion. There is an inherent contradiction in the whole operation of getting firms to invest and cutting back allowances in this way.

What is the real purpose? It is, in fact a measure against shareholders and I do not think that the Chancellor will, in

fairness, deny that. Indeed, on 3rd October, 1950, the right hon. Gentleman who is now the Chancellor said:

“Let shareholders be content with fixed dividends and let us abolish ordinary shares altogether”

I agree a boyish prank, but while the right hon. Gentleman has grown to adult status it is obvious that he has not yet grown to adult wisdom. There may still be things like that lurking at the back of his mind.

What are the possible results of all this? The first possibility is that there will be a diminution in investment in equities because people will not save or put their money into equities because an adequate return is not very likely. The second possibility is that companies will feel compelled to keep up dividend levels. What will suffer, therefore, will be what they can use for their own resources or there will be an attempt to increase profits by increasing prices. Indeed, the latter is the most likely outcome. Neither can be described as desirable in terms of the way the Chancellor has organised the tax.

The overseas question is the third theme. The Financial Secretary dealt with this in some detail. I suppose that this is the biggest and probably the most important impact of the Bill. The Government want to take action to slow up overseas investment. I fully understand their desire to do this, but they already have very good machinery for doing it outside the sterling area. There is, for example, exchange control. It operates effectively, and if hon. Gentlemen opposite criticise Shell for having a very large amount of investment, as shown in the 1964 figures when they are published, because of Montecatini they should realise that Shell had to get authority to do that and that it was given because it was thought to be in the national interest. Therefore, there are actions which the Government could have taken for dealing with this problem.

We could certainly support the Chancellor in action to stop false holiday allowances and the switch market, although many people may not like the action. What I find difficult to understand is that in the whole of the Financial Secretary's discussion this afternoon and in the discussion of the Chancellor of the Exchequer and others there has always been emphasis on fairness but

never a mention as to what this is worth to us, whether or not it is fair.

This is what matters: what is it worth to us from the point of view of the national interest, and balance of payments and returns from overseas? I do not know whether the Chancellor of the Exchequer is setting out with the Financial Secretary to go back—I regard it as going back—to the taxation principle that there should never be discrimination of any kind. I was personally immensely glad when the Treasury was finally defeated and we got away from that principle, particularly for the regional development areas, because there was most definite discrimination in tax matters.

Instead of looking back to non-discrimination in every form we should be looking forward to other methods of discrimination in taxation to produce the results we want. Therefore, the hon. and learned Gentleman has been arguing without any point as to what the overseas investment is worth. I think that the action he is taking is very damaging to overseas companies, and it cannot just be wafted aside as he tried to do. And it is humbug for the Prime Minister to stand up in New York and boast of our immense international investments and say what a standby they are for the £ when, at the same time, his right hon. Friend the Chancellor of the Exchequer is saying in the House of Commons that he is doing everything he can to slow up new investment and to bring down existing investment.

There is this argument about the bias in our present system of investment overseas and in this country. I cannot find any tax authority which will advise me that there is bias in this system as between overseas and domestic investment. Has the Inland Revenue really advised the Chancellor of the Exchequer that there is bias in this system, when every company has to pay the higher rate of overseas or home taxation? The Financial Secretary rather indicated that he did not like people paying taxation overseas at all. But the fact is that it is a well-accepted international principle, which the Chancellor of the Exchequer will not be able to change, that if one makes one's profits in another country one pays one's tax there. That will continue.

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In my view, the Chancellor of the Exchequer has never demonstrated, nor has the Financial Secretary, the way in which—with the exception of the O.T.C.s—there is bias in this system. I hope that in our more detailed discussions in Committee we can be given much more information about this.

The hon. and learned Gentleman gave the return of figures for investment overseas and at home. He gave the figure abroad after tax and at home before tax—8 per cent. in one case and 15 per cent. in the other—but that is just not comparable. That is what I have been talking about—the idea that if one makes money abroad one should not pay tax abroad. This is to say that one should not have any overseas investment of any kind and should withdraw any one has. That is the logical conclusion of the Chancellor of the Exchequer's figures in his Budget speech. It is not comparable to give the figure before tax at home and after abroad. In any case, he said that it was 8 per cent. in one case and 9 per cent. in the other after tax. With such accuracy of figures as there is, I do not know how one can make a judgment.

I do not accept that bias has been proved, but even if it has, as in the case of the O.T.C.s, is not the real question: is this worth it for us as a nation in the returns we get back? That is the real point. It is not just a question of can we afford it for the future but also a question of whether what we have done in the past has been worth it at the price? That is the other half of the matter. It is very important to get this right, because we have had no figures in substantiation from the Chancellor of the Exchequer, and nothing whatever from the Financial Secretary.

As we all know, last week in the other place there was a very interesting—indeed, a fascinating—debate on this whole question. A great deal of information was given there, and I hope that we shall have more information given to us here during the Committee stage of this Bill. There has been no discussion of the returns from these investments in exports, in management fees, in other trading invisibles, in making raw materials available to us, as well as in the actual remittances through profits,

dividends, and so on. Surely, this is fundamental.

The great companies have published figures, and extracts have been given by the Financial Secretary today, but I believe that the O.T.C.s have also served a very useful purpose—that is why we legislated as we did—and that they still serve a very useful purpose. In view of the time, I shall not go into all the details now—because we, too, shall have opportunity when in Committee—but perhaps one can look at the other figures, as the Financial Secretary did not.

If we look, for example, at the Federation of British Industries' Overseas Investment Survey, published recently, we find that it gives indications over a wide field of the returns from some of these companies. We see that Shell in 1963, at a total currency cost of £30 million—the 1964 figures are not yet out—brought us foreign raw material worth £140 million, and also brought the longer-term benefit of £30 million of overseas investment. Is that such a bad arrangement in the national interest?

I.C.I. has published its figures for the 15 years from 1950 to 1964; £37 million direct outflow and £120 direct net inflow. That is worth while. B.P. shows a total net gain to us of £67 million a year. This is invaluable. The Hudson's Bay Company—an O.T.C.—has in this century paid out £9 million from this country in investment, and in the last eight years alone has had £9½ million back. The Chancellor of the Exchequer now says to that company, "You will pay another £1,075,000 in tax." That is the result of this Bill. Can the right hon. Gentleman say that that will not affect the activities of that one company? I believe that this is an absolutely unbalanced argument, without foundation or proof.

My third point is that Government lending overseas is still going on. Government expenditure overseas still goes on and has not been cut. How can the Government justify lending for what is almost inevitably a far less profitable investment, and cutting back on this one? I think that the House will agree that at the United Nations Conference in Geneva last spring we in the British delegation did our best to help the developing countries, and I would go on

doing so. But I firmly believe that those countries prefer private investment—without governmental strings attached to it, and with all the “know-how” and management experience going with it—to direct governmental investment through aid. So the undertaking, and it has been repeated by the Financial Secretary, which the Chancellor of the Exchequer gave in his Budget speech, that if any difficulties arise, he is willing to look at the position—by increasing, presumably, Government-to-Government lending—is not a substitute for the damage done to the investments of the private companies.

My fourth point is that these developing countries are showing great anxieties—Malaysia, in particular, but others as well. It is also noteworthy that the Americans have exempted the developing countries from the action they have taken, which is very effective, to deal with their balance of payments. I do not believe that this aspect of the Corporation Tax is justifiable, because I do not believe that anything the Government can do through pumping out additional aid will replace the work that has been done by the mining companies, by the plantations, by the oil companies, which will be damaged. I also fear, and I must warn the Chancellor of the Exchequer of this, that if he continues with his policy it will produce in other countries reactions that are damaging to us. I am sure that that will be the case, and there are signs of it already.

Fifthly, there is the general belief that these companies, if only they are stopped, can invest more in Britain. That is just not the case. The great companies we have been discussing today cannot just turn round and say, “Instead of investing in Malaysia, we will invest in Great Britain”. It is just not a tenable argument. If they cannot get their resources, they will be in danger of being taken over by our competitors—by the Americans, the Germans and the Japanese—and, I believe, at lower prices than they would otherwise realise.

One must therefore ask: are all these consequences unforeseen because of the Corporation Tax being looked at mainly from the domestic point of view, or were they carefully foreseen, and is this a balanced judgment? The *Economist* had a very interesting article putting forward

another way of dealing with the Corporation Tax. The *Economist* was at first very favourable to the Chancellor of the Exchequer, but now no longer is. It said:

“Do we now contradict ourselves . . . ?”

It then urged:

“It would be greatly in the national interest if Mr. Callaghan . . . were now to contradict himself too.”

I believe that there is a great deal of truth in that.

I come, finally, to my conclusion about the Finance Bill. We can sum it up by saying that it is going to do nothing to modernise our tax system. It is not going to stimulate our economic growth, because I have pointed out where it damages it. It is not going to help exports, but it is going to damage them because of the effect of the Corporation Tax on companies overseas. It is not going to simplify the tax system because of the separate code for Capital Gains Tax and because it is grafted on to our present taxation system. It is not bringing us into line with other countries.

What is the philosophy underlying the Finance Bill? The Chancellor of the Exchequer says that it is fairness. I believe that behind it is not a philosophy but a set of primitive Socialist tribal beliefs. All this is really part of an attack on the free enterprise system and the individual. Of course, this is only one aspect of the Government's policy. We are now beginning to see the whole thing. We are seeing the extension of the nationalised industries more and more into the field of private enterprise. We are seeing nationalisation through the Highland Development Board. We are seeing the curtailment of the private airlines in the interest of the nationalised industries and the attempt to get the nationalisation of steel, the White Paper on which said that the Corporation would have power to take over more steel companies and other types of companies for diversification.

This is an attack on those who invest and who receive their rewards. The country is now waking up to what this is all about. This is why we saw the result we did at Hall Green and the result of the Gallup poll. We on this side of the House will do our utmost to alert the country to what is going on. This is a

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bad Bill and we will go into the Lobby tonight to vote against it.

5.33 p.m.

**Mr. Harold Lever** (Manchester, Cheetham): The Conservative Party has managed to persuade itself that when it left office last year the country was in a state of fundamental soundness both in the international and domestic economic sectors and that an ungrateful and uncomprehending British public stabbed the Tory Party in the back and threw a good many very unfortunate babies out with the bath water. This has led to a mythology as complicated as some nations invent to cover their military defeats. The Conservatives have a simple unction to lay to their soul in regard to the crises which befall on their leaving office. They say that the crisis of sterling was a crisis of confidence due to the line taken by the Prime Minister, and that throughout the conduct of the nation's affairs the Tories had led a blameless life.

In fact what the Prime Minister's statement said was that this one of the many crises of confidence which have beset sterling after the war began immediately after the Conservative Party left office and the fundamentally feeble state of our reserves had left us in a position where we could not deal easily with that crisis. The most elementary look back at Tory rule shows that even the most blue-blooded Conservatives provide us prophylactic against this and that even a booming balance of payments is no prophylactic against them. So I hope that we shall not hear any more on this juvenile level.

I was abroad during the Easter Recess and found that the standing of the leading members of the Cabinet was exceedingly high. In fact, on my return from my travels I found that the severest critics of the leading members of this Government were to be found in the City of London and in the Parliamentary Labour Party.

The Budget in its main objectives, the Finance Bill in its main objectives and the strategy of the Chancellor in its main objectives are, first, the defence of the £ sterling at its present parity. I am absolutely convinced that the Prime Minister and the Chancellor of the Exchequer have, by standing by these parities in

international negotiations and agreements, acted in the best interest of this country and that this will lead to further developments in the international arrangements which are necessary if the world is to continue at its present level of prosperity.

It seemed to me that nothing could have done more good and been better than the Prime Minister's statement in New York. I am very much in favour of the Chancellor being courageous in the difficult circumstances which he faces in the reform of our Income Tax system. I must say that the introduction of the Corporation Tax was not a light undertaking at the present time and that even the detailed measures of reform which accompanied it required a measure of courage in present circumstances.

I believe that the case for the removal of the entertainment allowance is not really based, as the right hon. Gentleman opposite seemed to suppose, on the kind of malicious spitefulness which he says occupies the Chancellor's mind. Broadly, the case could be put in this way. One entertains one's customer and is then entertained, in turn, by another customer. Expenditure is set against revenue liability. None of the receipts of entertaining are accountable to the revenue as a perquisite of trade.

It seems that in the circumstances the Chancellor could defend the abolition of entertainments allowance, since he does not call for the beneficiaries to account for it as a trade receipt. This is a matter which we might examine in more detail in Committee. I hope that my right hon. Friend the Chancellor will not mind if I trespass on our old friendship and if I say that I did not think his references to penthouses, yachts and the grouse moors were really apposite. If my right hon. Friend wants to abolish the entertainment allowance for grouse moor shooting, yachting and penthouse occupation this could be done quite simply without the blanket abolition proposed here.

**Mr. William Hamling** (Woolwich, West): Why was it not done by the party opposite?

**Several Hon. Members rose**—

**Mr. Deputy-Speaker**: We cannot have a five-part debate.

**Mr. Lever:** All I would say is that it is hard on those who run their yachts at their own expense, and the Chancellor will know that that is so in the case of one hon. Member of this House. Those who have either visited grouse moors or occupied penthouses at their own expense may find it hard to have a totally unconnected allowance disallowed on this ground.

I hope to make the case in more detail in Committee. There is a very respectable case to be made for the blanket abolition which has been proposed. It would help us to get the case over to people who will be injured—to our regret—if we managed to avoid talking of the more extreme end of the entertainment allowance business. The Surtax on deeds of covenant proposal is equally defensible, and I think no one objects to that. I am glad to congratulate the Chancellor who, with his manifold problems and difficulties, has realised that he cannot leave these matters any longer but has to tackle them right away.

I have been saying for years that this country has been investing overseas beyond its strength. I am glad that the Chancellor has adopted a general proposition which I have put forward for many years. I never thought that the special tax treatment of overseas trade corporations was justified. It has become less and less apt to our circumstances and I am glad that it is being abolished. I am glad also that the Chancellor intends to ensure a close scrutiny of future overseas investment. In the 10 years before 1964 this country invested nearly £4,000 million abroad. We cannot help feeling that if we had had a little more of that in our short-term reserves we would not have been mauled so badly, forced to distort our economy so badly, and found ourselves in constant crises which beset the pound.

This is not because investing abroad is a bad thing, but investing beyond our strength is bound to make us recoil in general domestic programmes, such as happened in 1957, 1961 and 1964. Then we have to take these economic measures, including 7 per cent. Bank Rate, which are a setback to the whole economy. Incidentally, I hope that the Chancellor will be as eager as I am to see that rate reduced. It does not seem to be fulfilling

much purpose at present and it is time that we had a look at the idea of bringing it down. I am glad to see that the dollar pool is to have close examination to see how far useful aid can be given in that respect.

I am glad, too, that a Government have come into being which recognise the need to measure the breadth of a taxpayer's back in order to assess the burden which he can undertake and that we shall have regard to a man's capital position, including capital gains and capital assets. This principle should have been introduced into the tax system long ago. Whether in detail I can finally approve it is another matter. Being a man of a somewhat benign disposition and able to see the difficulties of many people who have a different political and economic point of view from mine, I particularly welcomed the Chancellor's peroration, which stood in sharp contrast to the out-of-context exuberance of the party conference quotations of the right hon. Gentleman the Member for Bexley (Mr. Heath). It is plain that we shall need to have a united nation if we are to tackle the problems ahead. All this met with my intense approval and my full support.

I have not been able to agree with complaints that the Bill is badly drawn. It is a little masterpiece of its kind. [AN HON. MEMBER: "A big one."] Accountants said that it was the last of several successive "last straws" which taxpayers had to interpret and to be advised upon, but those who are at all expert in understanding the drafting and style of Finance Bills must find this an outstanding one. One cannot help feeling that the Chancellor has had the advantage of the help of advisers who have not always been present before to assist him in giving what was always a brilliant drafting staff their marching orders. It is quite clear that there was a high standard of competence in giving the instructions for drafting.

What the right hon. Member for Bexley referred to was a mere nothing compared with the ecstasies of incomprehensibility to which the draftsmen have been lashed in previous years, often without much effect. I cannot agree at all that the drafting is bad. The drafting is excellent and the advice which the Chancellor has received has been of a very

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high order. It is not for me to speculate about how advisers come and go, but I have never shared the xenophobia and narrow folly of those who criticise outsiders entering the Civil Service. The Civil Service has been refreshed during and after wars by the introduction of advisers from outside. The brilliant and high quality Civil Service we enjoy today is in no small part due to the new blood admixtures which it has received from time to time. This has done no harm at all to this Finance Bill.

If this were all that had to be said I should be very happy in congratulating my right hon. Friend on taking a first step in what I believe will be a remarkable career as Chancellor of the Exchequer. He is the first Chancellor in recent years to show courage, character and personality to put over tax reforms which were very much overdue and which are in the interests of the whole economy, and, incidentally, in the interests of social justice. But alas, some of the attempts to execute these principles, when they are examined in close detail, leave some ground for anxiety. I have always been in favour of a corporation tax being introduced, but I favour a high corporation tax and a small or negligible withholding tax. It would produce the same revenue but would be fairer to those affected.

Before the election in the *Statist* I published two articles to this effect. Alas, they do not appear to have been accepted by the Treasury. One of the consequences of the scheme adopted by the Chancellor is that where there is total distribution of income there has to be a rate of tax approaching something like two-thirds of profits. This is the highest standard rate ever applied to a company's profits. It is said that this is only for companies which pay out the whole of their profits in dividends, but that is not necessarily the wrong thing to do. Sometimes it is the most reasonable thing to do; sometimes the Inland Revenue insists on it. The question is, can we justify so high a standard rate simply because a company pays out the whole of its profits in dividends? I think the answer is no.

Those profits automatically come within the grasp of the most severely progressive Surtax system in the world.

I do not suggest that Surtax should be modified, but it would be better if we taxed income paid out at a rate which was not so high before Surtax as to bear so hardly on those concerned.

This tax bears heavily, too, on existing overseas investment, and this has nothing whatever to do with the balance of trade. To find some means for selective payment of tax which would decrease investment beyond our means is one thing, but to impose a burden of tax on existing investment must be defended on its merits and not on the question of balance of payment.

Some people say that this cannot be excluded from consideration of the balance of payments because, as the Financial Secretary said, it would be impracticable to make this selective discrimination, even if we accepted the need for it. I must say that the Chancellor of the Exchequer is well able, and previous Chancellors of the Exchequer have been well able, to perform the most extraordinary verbal acrobatics in selecting and defining so as to prevent the taxpayers avoiding tax when they, rightly, did not want him to avoid tax.

I would like to see some of that same ingenuity applied, if we make out our case in respect of overseas companies, in saying that we shall discourage new investment but will not penalise old investment. Would my right hon. Friend the Chancellor of the Exchequer say as a matter of principle that he is not in favour of penalising old investment but is merely in favour of deterring new investment? If he were to say this, some of us would lend our efforts to assisting some of the brilliant draftsmen he has at his disposal to achieve this end.

We do not want to be put into the position where these companies will say to us, "Under your system we would have been better off in the last few years if, instead of painfully and at great hazard building up vast and useful overseas investment of benefit to the country, we had been engaged in setting up a chain of pin table saloons. We would have been rather better off, fiscally speaking, than we shall be now". I hope that we shall not ignore the case that has been made. I hope that the Chancellor of the Exchequer will look at this again. He is a moderate man. He is a man of great flexibility of temperament and character.

There is another matter which troubles me—[*Interruption.*] I do not think that my right hon. Friend needs any protection from me. He stands in sharp, exciting and encouraging contrast to his predecessors of the Tory Party. I thought I had made it abundantly clear in my opening that every one of his policy objectives is intelligent and well conceived and has my fullest support. What I am now dealing with are detailed matters, points which the Chancellor of the Exchequer is quite able to consider in Committee and put right. They are not in any sense fundamental criticisms of his approach or of his handling of our affairs since he took charge. I have the greatest confidence in my right hon. Friend's handling of our affairs. I have the greatest confidence in his budgetary approach. As I have said, these much overdue motivations are very much what we need, but that does not prevent me from making detailed criticisms and making them in public. [*Interruption.*] These private criticisms sometimes lead to the most unhappy results. They sometimes impose a burden upon both parties. After all, my eccentric constituents elected me to the House of Commons and it is here that I should make such contributions as I have to make. I hope that I shall not be accused of attacking my right hon. Friend, because I am most anxious to support him.

Another matter I should like my right hon. Friend the Chancellor of the Exchequer to look at—I do not want to take up too much time now on Committee points—is the question of closed companies and the effect of his legislation upon them. The Corporation Tax, which can, as I have indicated, be very severe in its impact if there is total distribution, has been defended on the ground that it encourages retention. It seems a little anomalous that the Bill, whose impact is justified because it encourages companies to retain their profits, also contains a Clause which grants more draconian powers compulsorily to exclude profits than has ever been seen in a Finance Bill. This matter should be further considered.

The kind of things I do not like about the Clause dealing with this—I will tell the Chancellor of the Exchequer about them—are, first, that a standard of 60 per cent. dividend is set. It seems to

me a little too high to assume that 60 per cent. is a reasonable percentage for a trading company to pay. Again, this is more of a Committee point. The second thing is that I do not like the fact that the onus of proof in deciding what dividend shall be paid is transferred from the Revenue, where it has always been firmly put in tax legislation of this kind, to the taxpayer. This onus of proof should never be upon the taxpayer. If the Revenue says that more dividend should be paid than the directors think fit, let the Revenue prove it, not the taxpayer. If any benefit of doubt is to be given, it must be given to the board of directors and not to the Revenue.

It is a pity that when the Clause was introduced a new phrase was used different from that which traditionally has been used in the old legislation and which seemed to be a very apt phrase, that people were allowed to keep in their businesses as much money as was reasonably required for their extension. I do not like the new phrase which is used. It has caused many people perhaps unnecessary anxiety. Many business people seem to think that the Chancellor of the Exchequer is up to some mischief by changing the words. I am sure that he is not. As a matter of fact, when the Chancellor of the Exchequer introduced this part of the Bill he used practically the same language as the old Section 245. I suggest that, instead of calling upon the company to prove prejudice, some adaptation of the old Section 245 words be used.

Another thing that confuses the taxpayer is that he does not know, since he is subjected to this Clause and to the old Section as well, as far as one can make out, whether he is to get directions under this Clause as an alternative to directions under the old Section, or whether they can be both used against him. If this is in substitution of Section 245, it should be so stated and no doubt the taxpayer will be correspondingly relieved. However, I do not want to go on making too many Committee points.

I want to move to capital gains. The Chancellor of the Exchequer has shown great understanding in many of his actions in the very short space of time that he has been in office. These are novel and very complex problems. He

[MR. LEVER.]

has exempted investment trusts and unit trusts, or at any rate he intends to exempt their members from paying tax twice on the same capital gain.

Can we have from my right hon. Friend some guidance upon this as a matter of principle? Unless somebody can argue cogently to the contrary, it seems to me unfair that some capital gains should be taxed twice—once in the hands of the company, and once in the hands of the shareholder. If the principle for which I contend is accepted, we can all proceed from there, without burdening ourselves with an excessively complicated, impracticable Finance Bill, to put suggestions to the Chancellor of the Exchequer as to how the unfairness of double taxation can be avoided.

I should like my right hon. Friend to tell us—I hope that he will do so tonight—that he is able to accept, in principle at any rate, that it is not a good thing or a fair thing to tax the same capital gain twice—once in the hands of the company and once in the hands of the shareholder. If he will say that, some of the unfortunate occasions where, under the Bill as drafted, that will occur may well be avoided. If the Chancellor thinks that it is proper to tax capital gains twice—once in the company's hands and yet again in the hands of the shareholder—let him say so openly. I would disagree with him, but he must tell us why he thinks it is justifiable to tax the same capital gain twice.

I want to make it quite plain to anybody on this side of the House who thinks that I am defending the company taxpayer or the capital gain achiever that all I am seeking to do is to achieve fairness between the members of a particular class of taxpayer. I do not dissent in any way from my right hon. Friend's desire to raise an appropriate amount of tax from this class of taxpayer. I do not want to reduce the amount of tax he is to get out of companies or out of capital gains. All I wish him to do, within his global targets, is to say that those who are subjected to tax are consistently subjected to it on the basis of equity and fair play, so far as this can practicably be achieved in a Finance Bill.

The next matter that causes me very great concern on the Capital Gains Tax

is the question of capital gains on personal chattels. A friend of mine, when I mentioned this to him, said that I should declare an interest. I am bound to say that I suppose that every one of us has an interest in every matter which I have raised on the Budget. So if any of these taxes were to be lowered to my own personal advantage, let it be now declared that I have an interest in them all being lowered. It is likely that I would pay every single one of them at some time or other if they were put in force. So I think that I had better declare my interest.

I should imagine that it is very much in the interests of everyone that, so far as possible, we should not bring within the Capital Gains Tax the personal chattels and belongings enjoyed by people in good faith in their homes. It surely is not impossible to exempt this class of goods from tax. The amount of tax which the Chancellor would get from his present proposal would be very little indeed. There are bound to be anxieties and inconvenience involved in this matter, and I ask my right hon. Friend to reconsider the tax on personal chattels. It is not justified. I know that the Inland Revenue has a kind of neurotic obsession with stopping potential loopholes for tax avoidance, but suppose that the Chancellor enacts this tax without this provision and suppose we see whether, in fact, there is any conceivable scale of tax avoidance that could result from people buying personal chattels and making gains thereon.

I think the Chancellor is going up a blind alley, with no benefit to himself and with considerable inconvenience to other people. It will not be a Capital Gains Tax on personal chattels. It will be a penalty on realisation only, which will fall upon the most innocent and simple people, and will not produce any benefit comparable with the harm and inconvenience it will cause.

These are the few matters of detail that I wanted to mention. The Chancellor will be relieved to know that it is unlikely that the Committee stage will produce any more from me.

I sum the matter up thus. The Chancellor is the inspiration for these criticisms being made, in a way prematurely before the Committee stage. He is anxious to unite the nation behind the immense

tasks that he has set out to accomplish. It would be dishonest to pretend that the Finance Bill has succeeded in any noticeable way in achieving that objective. I put it to him that one of the reasons for this is not merely hon. Members opposite who have played little part in recognising the nation's dire need. They have played very much the party game. They have shown little sympathy for the Chancellor's difficulty and very little sense of communal effort to put matters right. They have shown very little willingness to help in getting a spirit of national unity in tackling these affairs.

I suggest that the Chancellor should not rely upon hon. Members opposite too much in that respect but should rely on his own efforts. If he shows flexibility, moderation and good sense in the kind of matters that I have outlined as matters of detail, I believe that he will get the nation behind him. The nation is aware of the disreputable record of the Conservative Party in relation to the state of the economy. The nation is not interested in the verbal quibbles with which they seek to defend themselves. It is aware of the immensity of the task that faces the Chancellor and will back him if it gets half a chance. I ask my right hon. Friend to show his good sense, moderation and flexibility and then he will find the country is behind him.

6.3 p.m.

**Mr. J. Grimond** (Orkney and Shetland): We have listened to a most interesting example of how to criticise one's own Government. I would suggest to the hon. Member for Manchester, Cheetham (Mr. Harold Lever) that he ought to conduct a seminar for other members of his party, including the hon. Member for Bosworth (Mr. Wyatt), on how to make the Chancellor listen. The Chancellor not only listened. He beamed like a cat presented with a bowl of milk. In general, he was being buttered up. He was told that there were only a few detailed criticisms here and there. But in fact the major proposals of the Finance Bill were taken to pieces by the hon. Gentleman for Cheetham and were found not to work. The Corporation Tax is all right in principle, of course, he said, but not with a 40 per cent. Corporation Tax and the present level of the withholding tax. We all agree with that.

The Capital Gains Tax should be removed from all personal chattels; hardly a detail. The overseas companies are not to be penalised on their existing investments. All I can say is that I hope that we shall see these very important amendments in the Bill.

I agree with the hon. Gentleman in being greatly puzzled about the way in which the general principles of taxation introduced in the Bill, with many of which I agree, have been dealt in detail. One of the questions we have to ask is, what is the real thinking behind this Bill? My party, for instance, certainly favour a change to a Corporation Tax. We favour a Capital Gains Tax at a reasonable level, and we are not at all blind to the difficulties which the Labour Government inherited. But the way in which these tax reforms have been brought in, the rates proposed for the Corporation Tax and the withholding tax which goes with it, and the measures taken outside this Finance Bill, many of them in the name of the need to deal with short-term difficulties when, in fact, they will have far-reaching results—these open the question of the real thinking behind the Bill.

I turn to the Corporation Tax. The Chancellor said that it is not his intention to throw new burdens upon industry. But he is throwing new burdens upon industry. One medium-sized engineering firm of which I know, which has a good record of growth, will find its own profits reduced from £45,000 to £21,000.

Another of the main arguments behind the Chancellor's proposals is, as the hon. Member for Cheetham said, that companies will be encouraged to plough back profits. As has been said again and again, the mere retention of profits by a company is not necessarily good. The money retained may be put to purposes which yield a very low rate of return. Some big companies appear to be diversifying their activities because they have nothing else to do with the large funds which they acquire. Some companies should curtail their activities and distribute their reserves rather than retain money on which they do not earn as high a rate as is needed in the national interest. In fact, the retention of profits may strengthen the brakes on change in the economy if it is carried too far.

[MR. GRIMOND.]

Equally true is the fact that if retentions are well invested they can be a valuable element in growth. They are particularly valuable in building up smaller companies which have some difficulty in raising money on the market. But these are the very companies which will be heavily hit by Clause 72 of the Bill. This brings one up again against the contradictions in the Bill. The Chancellor's intentions seem to be contrary to the Clause. It is fair to argue that some small companies' profits have been retained, in spite of Surtax directions, for the purposes of Surtax evasion. But to cure this by taking steps which may discourage investment in general is to sacrifice the short-term and long-term: to cut off one's nose to spite one's face—an operation which occurs pretty often throughout the Bill.

However, let me take the question of investment allowances. The Chancellor argues that if taxation is reduced, investment allowances are reduced. But what we have to consider is the effect upon one of the major aims of the Chancellor, and that is investment. With a 37½ per cent. Corporation Tax on a £1 million purchase of a ship, an investment allowance, if retained at the present level, will be worth £85,000 less than it would have been worth under the existing system. On the purchase of similar value of plant it would be reduced by £56,000 and on industrial buildings £28,000. These are substantial reductions. If it is argued that industry is taking no account of investment allowances I think this is exaggerated. Industry will begin to realise how serious the matter is when they come to compute the effects of the new steps in the Bill.

On the question of these closed companies which I have already referred to, I understand that this Clause will affect most of the companies in Britain today—most in number, I do not say in size. Many are small but some are big and very important. It is not simply a re-enactment of the old law allowing for Surtax direction. For one thing, the onus is changed and many companies may be involved in protracted litigation or at least negotiation if this Clause is not amended. It is in its present form automatic. It is inflexible, and it will put hundreds of companies in doubt about

their future. Furthermore, there is no exemption if more than 25 per cent. of the shares are in the hands of the public. On the present drafting, 100 per cent. of investment income and 60 per cent. of trading income have to be distributed unless the company can make out a case for some exemption from this provision. It puts great power in the hands of those who will administer this Clause, and it may be a serious brake on development in the economy.

Another line of argument used by the Government is that we are simply moving towards tax systems adopted by our successful industrial competitors. This was argued, for instance, by the noble Lord, Lord Longford, who leads for the Government in another place. But it is not true. The tax systems of the world vary very greatly. Many of them contain a corporation tax, but, if they do, most have a much lower rate of withholding tax. There would be a great deal to be said for the Chancellor's tax changes if that were the case. France has a corporation tax of 50 per cent., but there is a credit against this for dividends. Corporation tax in Germany is 51 per cent. on undistributed profits and 15 per cent. on distributed profits.

If that argument fails, the Chancellor of the Exchequer turns to the argument that he does not believe that dividends above a very low rate are essential to the efficient running of the economy. This may be the real argument behind a great deal of the thinking in the Bill. I believe that it is a disastrous argument. Liberals at any rate must oppose the great concentration of wealth and power in the hands of bigger corporations and the very rich—the very rich will always get past all efforts to control their capital; they are the people who can move their capital about the world—and in the hands of the Government. But, further, whether one is a Liberal or not, whatever one's views, we now depend on the efficient working of the free enterprise system, and there is no way out of this. Unless companies distribute a reasonable amount of their profits and dividends, the system will not work, the incentive disappears and it will become impossible to raise money on the market.

It has been said this afternoon that only very small amounts of money are raised in the market, but they are marginally

important. They are needed to finance the sort of new enterprise which we should be encouraging. Further with the high rate of personal taxation which we have, we are in danger of driving our more enterprising people abroad. I accept the argument that high taxation does not prevent people already in a job from working harder, but I believe that it weighs with people when they are considering where they will take a job. There are many skilled people and technicians who wonder whether their future will be better in this country or abroad, and some attention must be paid to the reward they can earn and their views in an economy based on private enterprise.

This brings me to overseas companies. Again we come up against the main difficulty in judging the Bill. It is perfectly reasonable to argue that in the present situation it is undesirable that too much new capital should be invested abroad, but, as has been said, this does not mean that we should penalise capital already invested abroad. This matter has been cleared up to some extent this afternoon, because the Government spokesman, the Financial Secretary to the Treasury, made it perfectly clear that he does not regard this as a temporary matter. The Government wish permanently to reduce the amount of capital invested overseas.

Yet even here the Minister was ambivalent because he said at one stage that the effect of the tax changes had been exaggerated and would not make so much difference. The oil companies can easily retain their 1958 and 1960 rate of dividend.

The idea that we can stop the economy at its 1960 level and say that we will hold it there is a disastrous attitude in the British economy. Every major oil company in the world is expanding. Do not let us delude ourselves that B.P. and Shell can hold their position in the highly competitive international oil market by resting on whatever happened five or six years ago.

Further, the Government have very severely altered the balance of advantage. They have not only equalised investment at home and overseas. It is not a question of removing so-called advantages of investing overseas. What the Government suggest will put com-

panies which operate overseas at a severe disadvantage with their competitors.

One major oil company shows that on the 1964 figures if it had set aside the same amount for retention and reduced its dividend, and if the proposed rates of taxation had been in force, it would have had to find £13 million more in taxation.

The chairman of B.P. has been criticised for the remarks which he made about tanker building, but I think that they have been misunderstood. He did not, as I understand, say that he would order tankers somewhere else than in this country. He said, "I will not order tankers at all. I will charter tankers from companies which operate in countries which give greater tax incentives than those to which British companies will be entitled." It is not a question of putting the British shareholder in a comparable position with the American shareholder. We must consider what will be the position of British companies in Africa and Asia against their competitors and the pressures to which they are subjected, rightly in many cases, by their parent countries to plough back money.

Does the Chancellor really think that the countries in which these companies operate will not insist that they pay the full rate of tax? Of course they will. And on top of that they want further investment. Does he think that if they pay British tax in addition this is a possible and a viable situation? The United States give a very considerable depletion allowance. Other countries give certain advantages to their companies operating overseas.

Under the present arrangements a company operating in a country where local company tax on profits is 50 per cent. pays an extra 6½ per cent. to bring the level up to the British combined rate. But, under the new arrangements of the Chancellor of the Exchequer, a company will pay on each £100 of profit which it earns abroad £50 in foreign tax, and if the remaining 50 per cent. were distributable in this country it would pay 41½ per cent. on the remaining £50. This is an impossible position. The net result will be either that the United Kingdom's companies operating abroad are sold far below their true value to other nations or that they can distribute only a very

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low rate of dividend. Further, British exports will suffer—in the currency remitted in our access to raw materials and in the exports which directly flow from this country because we have these investments overseas.

Let no one suppose that all this can be palmed off on to shareholders or that it is only a matter of concern to them. As has been mentioned, the Prime Minister, in New York, pointed to the enormous national advantage of having these great overseas investments. They are part of the substratum of the reserves on which we rely. Many companies are able to invest very cheaply overseas because of their past record and future prospects. The Chancellor wants them to raise as much money as they can in foreign currency. I sympathise with this. But if companies are to do this they must be able to raise at least a marginal proportion of their capital on the equity market in this country. Once that disappears they will find it very much harder to raise money on good terms.

If dividends are so drastically reduced that it becomes impossible to raise new equity capital, the Chancellor of the Exchequer will find that they have very great difficulty in borrowing abroad. The right hon. Gentleman, even on the shortest term calculation, is in grave danger of killing the goose which lays the golden egg. He will be aware of the I.C.I. statement that the effects of its investments overseas during the past 15 years have been that it has established outlets for the export of equipment and materials from this country and these, together with dividends, fees and so on, have been worth more than double the amount invested. If we were to lose that sort of benefit, it would have an extremely serious effect on our balance of payments.

Lastly, on taxation, I want to say a word or two about the Capital Gains Tax. I am not opposed to a capital gains tax. However, I believe that 30 per cent. is high. Inflation in this country has gone on at an average of 3 per cent. a year. In America the figure is only 2 per cent. a year, but the Americans have a lower tax. Again I suggest to the Chancellor that this is a factor which the people whom one wants to encourage in this

country will take into account. The man who tries to save and to build up capital, and rightly so, will find that he is the person most affected by this tax. I also suggest that anyone associated with the National Savings Movement should now carefully consider his position.

Respected leaders of the community cannot afford to mislead people. For some time, it has been questionable whether many forms of saving were a good investment. The value of the pound has fallen by 50 per cent. over the last twenty years. People who invested originally in Government stocks in, say, the late 1940s will find that if they hold them to redemption, they will get only £48 in real terms for the £100 which they are nominally repaid. Even adding interest to it, they will lose. Some of them believed that they were making a patriotic gesture as well as being told that this was a good form of saving for their old age.

It is a queer commentary on the way we run our affairs that we should appeal for patriotic reasons for National Savings, possibly persuading ignorant people that they are making this reasonable provision for their old age, and then tax their increase in value if they are sensible enough to buy Government stock below par and wait until it is redeemed. They are to be hit both ways, by inflation and the Capital Gains Tax and yet, at the same time, we allow most gamblers to go scot free.

There are other anomalies in this tax which must be looked at. People who live in tied houses and who, therefore, cannot accumulate a house for their old age, will find that if they put their savings into Government stock which increases in value no more than enough to offset the decrease in the value of the pound they will be charged. These, however, are points for Committee.

We must look at the Bill against the Government's economic measures and judge it against their professed intentions. The Government are calling in the special deposits. Bank Rate is at 7 per cent. If this is a Bill which is based upon the belief that what Britain needs is a higher rate of productive investment, I find it difficult to reconcile what the Chancellor is doing with what he is saying, because

it is not giving incentive to capital investment. Investment allowances, the effect on small companies, the calling in of special deposits and a high Bank Rate, although that is much less important, are all things which go against productive investment.

There is no sign that the Government appreciate that the doubts about the country's economy are largely centred upon the very high level of Government expenditure and the fact that much of this expenditure is not productive. The real criticism of the Bill is that it will penalise a great deal of the productive side of the economy but do nothing to curb the unproductive side. One of the most necessary things for the Government to do in the coming year is to see that we get value for money in the public sector.

Furthermore, there is about the Bill a new and unpleasant taste. The onus in taxation matters should be upon the Government to prove that they need the money. In the Bill, the onus frequently seems to be shifted and people are told that they ought to be taxed and that they must prove that they are entitled to escape tax. As I have said, I have doubt about the real intentions behind the Bill. Good as many of the principles which it introduces may be, it could be the instrument of a defeatist and inward-looking policy.

I am not one of those who have indulged in personal abuse of the Chancellor's advisers—on the contrary, I think that they are able and dedicated men; I believe, however, that some of the advice which the Chancellor must be getting comes from a long way back in history and that some of his present policies seem to be rather reminiscent of the type of closed economy which was common in Europe before the war and was particularly associated with the name of Dr. Schacht.

There are policies in this Bill which, if extended, would tend to insulate Britain from the rest of the world and to make it that type of tightly planned little island which years ago was dear to a certain type of continental Socialist. The Government sometimes seem to be afraid of individual enterprise and to have little faith in the capacity of individuals to order their own affairs.

They have a liking for big corporations and for uniformity for uniformity's sake. The Bill could lead to the concentration of power, wealth and decision, and that is something against which my party at least should always be on guard.

Again, we see in the Bill a strong streak of pessimism. There are people who advised us against entering the Common Market on the ground that British industry could not compete. Perhaps the Government do not share that view, but if that view were to prevail it would be wholly disastrous for the country and out of keeping with the attitude of a radical party.

I notice that the Minister of Housing and Local Government has lately published some of his old essays. One argument in them is that we must have a Socialist economy because the Socialist economy of Eastern Europe will inevitably beat the free enterprise economies of the West. The argument is that by stepping up investment, the Socialist economies of Eastern Europe will expand faster than we shall.

That is shown to be quite wrong. The Communist countries are turning to Western ideas and even to Western capital. They are coming out of their shell at the very moment when we may be in danger of going back into our shell. The reason why they are doing this is the sluggishness of their Socialist economies. The gross national product of Czechoslovakia actually declined in 1963 and only a 2 per cent. increase is claimed by the Czechs for 1964.

The Soviet bloc countries are faced as much as we are by a balance of payments problem. They are finding that the advanced types of machinery and equipment of all sorts which they need, from liquid oxygen converters to fertilisers, can be bought only in the West. Do not, therefore, let us be pessimistic about running a free enterprise economy which can take its place in the forefront of the modern world. Do not let us be told either that we are simply moving in the direction of what the modern world is doing, because although the type of taxation on which we are now embarking may be common, the rates of taxation and the form of taxation proposed in the Bill are not common.

[MR. GRIMOND.]

The Chancellor should announce that he will make concessions to overseas companies and that he will give credit for dividends or the withholding tax against the Corporation Tax. He might well look at the proposals already outlined by the *Economist*. He should also look at the effect upon closed companies of the direction to distribute 60 per cent. of their earnings.

**Mr. Callaghan:** This is hardly true Liberal policy.

**Mr. Grimond:** It happens to be the right policy. As most of the Government's sensible policies were got out of Liberal Party policy in the past, it might be better to see how those who thought of them would work them. If the right hon. Gentleman reads what his hon. and learned Friend the Financial Secretary has said, he will find that he, too, is a convert to Liberal policy.

**Mr. Callaghan:** The right hon. Gentleman misheard me. I said that I did not think that his speech was in the true vein of Liberal policy; but I am not the real interpreter of that policy.

**Mr. Grimond:** We want the Chancellor not to agree with us but to take action. We want not fine statements about expansion of investment but alteration of the Bill so that such statements may be made effective. Without such amendments, the Bill as it stands could be harmful to modernisation. It could be harmful to this country's standing in the world and it will be quite contrary to the speeches made by Members of the Labour Government themselves calling for incentives to change, to efficiency and enterprise in our affairs.

6.29 p.m.

**Mr. Christopher Rowland (Meriden):** I wish to address myself entirely to one subject which has been already touched on by most of the speakers this afternoon, and that is the effect of Corporation Tax on overseas investment. I believe that the Government's case is that overseas investment is less profitable than investment at home and has been unduly favoured by tax legislation in past years. I think that, if I may say so to my right hon. Friend the Chancellor, in the statements which we have

had so far on this subject the Government have been somewhat long on assertion and short on proof. *The Times* today has already queried the facts and not the opinions on which policy is being based, and I should like this evening to apply a slightly closer scrutiny to this subject than was possible immediately after the Budget. I hope, in doing this, that the Government's case will also be clarified in the reply to the debate tonight. If my criticism is misguided, as the Financial Secretary has already implied that such criticism is, I trust that it will be realised that it is also well intentioned.

There is, I believe, no question that overseas investment under the proposals will become less attractive than home investment. There are three good reasons why this should happen. I will list them in descending order of importance, in my judgment only. I think that first of all it will be desirable for there to be much sterner criteria of profitability applying to overseas investment.

Secondly, I believe it can be argued—I believe that the Chief Secretary himself bases much of his own position on this argument—that it is bad for this country that the tax which is paid on profits made overseas is, in a sense, lost to this country and accrues only to the Governments of the countries in which the companies operate. This is one of the facts of the situation which cannot be altered, but it is an argument which we have to admit has some force: the operation of double taxation relief so far has tended to mean in a sense that the British taxpayer has been subsidising the foreign Government. If, as I believe to be the case, India taxes gross profits at 65 per cent., Ghana, I believe, at 70 per cent., and this compares with a tax in this country of 56½ per cent. this means that the foreign Governments are allowed to tax more heavily than perhaps they should.

There is another point, if I may be mildly critical of foreign Governments, and that is that it could be argued that overseas investment, in a changing world of very revolutionary characteristics in Asia and Africa, is at risk of expropriation, and it would be foolish to deny that this must have an effect which also we should bear in mind.

The third argument for the Government's policy is that we must to some extent cut down on new investment; but, of course, the main charge against what the Government are doing is that, even if all the arguments I have advanced are overwhelmingly powerful, in fact the effect of the proposals will be not only to cut down new investments but gradually to cut down all existing investments. I think we should try to get some clarity of a simple, factual character into this subject.

It has been said by the Financial Secretary and the Chief Secretary in the Budget debate, and by the Chancellor as reported in *The Times* of 3rd May, speaking in Manchester, that all that is happening is that the new proposals will remove an existing bias in favour of overseas investment. In fact what is happening is that a position of rough parity between overseas and home investment is going to be moved towards bias against overseas investment, and this is quite different from what the Government are suggesting is the case.

When this was put to the Chancellor by an hon. Member opposite in the Budget debate he indicated dissent—according to the OFFICIAL REPORT. When it was put to him by the Leader of the Liberal Party a few moments ago I noticed that the Chancellor indicated neither dissent or assent. I trust that when I finish he may possibly even indicate assent that that is what the proposals are—not to remove a bias in favour of overseas investment but to institute a bias against overseas investment.

I said that we should have some minimum, factual comparisons to make, and I have been anxious to get a very simple level of comparison. I have found out what the figures are, assuming a Corporation Tax of 40 per cent., Income Tax at 8s. 3d., overseas tax of 55 per cent., which is not an unreasonable average of overseas tax at present, and with a desire by a company to distribute one-fifth of its gross profits in dividends, £20 out of £100. These are arbitrary figures, I must admit, but taking these as assumptions, what do we find the figures produce?

We find that a British company operating in Britain under the pre-Corporation Tax system pays 56½ per cent. in tax and would retain 23¾ per cent. Under the post-Corporation Tax system it will pay 54 per cent. in tax and retain 26 per cent. I would say that this is something with

which all hon. Members will agree as being desirable. The tax will in fact be slightly reduced and retention by the company will have been increased. This is the avowed purpose of the tax. I think that, certainly on this side of the House, we applaud the Chancellor for instituting a policy with these results.

A British company operating overseas—not an overseas trading corporation—at present pays 55½ per cent. in tax and retains 24½ per cent., very similar to the situation existing for British companies operating entirely in Britain, and the difference in tax is only ¾ per cent., admittedly in favour slightly of the company operating overseas. But under the post-Corporation Tax figures the British company overseas, still with this desire to pay one-fifth of its gross profits in dividend, will have to pay 69 per cent. in tax and retain only 11 per cent. So I think the figures show quite clearly that what is going to happen is that the position of rough parity between home and overseas investment will be removed to the very considerable disincentive and disadvantage of the company operating overseas.

If the Chancellor wishes to say that this is the intention, fair enough; but I do not think he should say that all that he is doing is bringing overseas companies into line with British companies. What he is doing is quite clearly making it more difficult for British companies to operate overseas. This is a policy which can be argued, but let it be argued on the basis of the kind of fair figures which, I think, I have given.

**Mr. Callaghan:** Is it not the fact that the 55½ per cent. of tax was paid by the company operating overseas, and am I not right in deducing that it would pay 55 per cent. to the foreign Government and only ¾ per cent. to the United Kingdom Government? That is the reason for the difference.

**Mr. Rowland:** Yes, precisely, I said earlier on that what I think is one of the main parts of the thinking, of the Chief Secretary in particular—that this is precisely this argument, which can be advanced in favour of the present proposals. But in terms of the present position there is no advantage at present between operating overseas and at home, except of ¾ per cent., whereas in future

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there will be a very considerable disadvantage. So I think that the Chancellor must admit, talking in terms of the companies concerned, that he is not removing an existing incentive, he is instituting a new disincentive.

**Sir Douglas Glover** (Ormskirk): The hon. Member is doing very well.

**Mr. Rowland**: What do these figures show? I think they show that the system to a company presently investing overseas may well become less attractive. It is an important and fundamental fact which should be known, because what is happening at the moment is that many of my hon. Friends, who are naturally influenced by what the Chancellor says, take it as axiomatic that there is an existing preference in favour of companies operating overseas.

I should like to say why I am concerned about two aspects of the long-term outcome of the present proposals. One is in relation to under-developed countries and the other deals with exports. Hon. Members have already referred to this. As regards under-developed countries the Chancellor said in the Budget debate that there would probably be no effect on under-developed countries. After a period of three to four weeks, during which time we all considered this problem, it was very interesting to note that my hon. Friend the Parliamentary Secretary to the Ministry of Overseas Development, in Standing Committee A considering the Overseas Development and Service Bill, went out of his way to admit that there would be a considerable disadvantage against overseas investment in under-developed countries.

I trust we can take this as one of the facts of the situation. It is one of which I hope the Chancellor will take note. We have already had foreign Governments complaining against this. In the area of the world which I mostly know, the West Indies, the four Prime Ministers of the major territories of that area, including two independent States, at their recent Caribbean summit conference spoke in their final communiqué, of the harmful effects on British investment in the West Indies by the present proposals.

More important is the possible impact on exports. I say possible because this

is a completely unproven field. I asked the President of the Board of Trade, in a Question a few weeks ago, if there was any research or study on the extent to which British exports can be attributed to the ownership of British assets overseas. Speaking from my memory, the answer was that no such study existed and that such facts as were known were too difficult to communicate in a Parliamentary Answer.

I think we should all know a great deal more about this subject. In the Budget debate itself my hon. Friends the Members for Birkenhead (Mr. Dell) and Dewsbury (Mr. Ginsburg) both raised this, and I hope the Chancellor may feel able to say that some study is being made on this subject, not only for a week or two but in the years that lie ahead. We must consider where we are going on this particular front. At the moment I must confess that when one asks questions on this subject one gets the feeling that the answer is sentence first and verdict afterwards.

Why have the Government allowed the incidence of the Corporation Tax to have such a considerable effect on overseas investment? I think that it is to some extent an accidental by-product. The Financial Secretary has already indicated this afternoon that we cannot infringe the principles of the Corporation Tax. He almost implied "Well, it is going to happen; because there is the principle of the Corporation Tax it is bound to happen." This is what I would call accidental. I know there are other deliberate advantages but I think there is an element of accidental application of the principle.

I have the feeling that what is happening both inside and outside the House is the desire to cut down on investments overseas, particularly in the under-developed countries, and that this is a kick-back against the moralising on this subject of the past 10 or 12 years. One is always preaching the virtues of assisting underdeveloped countries. The implication is that virtue hurts and one does this at one's own cost. I am as guilty of this as anyone. All of us who have spoken in those terms have laid ourselves open to the most massive counter-attack when the nation goes into a deep crisis and cannot afford to be moral or generous and must weather its own storm.

This is the psychological backdrop to the Government's thinking on this subject. In many ways it is very embarrassing for many of us, the companies concerned, and for progressives of all parties. A lot of this investment has been very good business for this country. It may be that sceptical, cynical, hard-headed non-idealistic non-moral gentleman opposite have always known this. We are now having to change gears on this and the Federation of British Industries is now trying to prove that this investment is good business for this country. We know that this is one of those things no one has ever really dared attempt for the last 10 or 15 years. But if it is good business for this country then I think that this is a reason for the Chancellor to look at this subject once again.

To turn to the export point, I think another reason we have these proposals is the feeling that what cannot be quantified or is not already quantified is not particularly important. We do not know what the effect on exports will be and I think that until we do we should be very careful about committing ourselves. I sometimes think—and this is true of all of us in politics—that we have this heroic view of ourselves, that omelettes cannot be made without breaking eggs and the very fact that this is going to be hurtful to our overseas investment shows how tough we are being.

I am in favour of being tough, but not if it means hurting this country in the long run and, to some extent, hurting overseas countries in the shorter run. I do not believe that this effect is really necessary. So far as I can see, there is no need to lump portfolio investments with direct investments, investment with an export potential and without export potential, investment in underdeveloped countries and rich countries. O.T.C.s and non-O.T.C.s, oil and the rest. They are all going to be affected by this proposal. The Financial Secretary gave us a medical metaphor in his diagnosis on oil. He must surely realise that the essence of making a good diagnosis on one patient is that it does not necessarily apply to all patients.

There are various ways of resolving this problem. There can be permanent overspill arrangements, or a higher Corporation Tax for overseas companies alone.

The *Economist* article has already been referred to. It saw it as being one of the merits of a higher Corporation Tax, but it could possibly be a restriction only to overseas companies. Perhaps the Chancellor will consider allowing companies which operate, partly in this country and partly overseas, to have all their results and all their accounting treated as income in this country. This happens in Germany and I have figures which will show that whereas at present there is roughly comparable treatment between German companies operating partly in Germany and partly overseas, and British companies operating half in Britain and half overseas, there will, under the new proposals, be a very considerable bias against the British Company in this category. Perhaps my right hon. Friend could possibly look into this.

I think that best of all would be some permanent overspill for some categories of company—perhaps non-oil, perhaps those who can prove that they have an export potential—and, finally, controls for major new investment in the sterling area as a whole. I think that the Financial Secretary should tell us a little more clearly why the existing controls which apply to the non-sterling area cannot apply to the sterling area. I know that it will be more difficult, but I think that we should look into this matter more carefully.

I think, too, that we should distinguish between portfolio investment and the rest. During his speech on 12th April I thought that the Chancellor had indicated that he might be willing to consider some distinction between portfolio investment and the rest. If something like this is not done, there will be not merely the permanent correction of an existing high outflow of capital, for which I think hon. Members on this side of the House see the need, but the permanent erosion of existing assets overseas.

It is not only a question of a cut-back in new additional investment or in what I call replenishment investment—investment which keeps the existing outflow going—but, because investment by these companies in businesses of this kind will be so much less attractive, there will be a gradual selling off of existing investments at less than asset value. One of the ironies of the situation is that we

[MR. ROWLAND.] could get a better price for existing investments if we did not have this kind of tax proposal. If the Chancellor wants Britain to sell off part of our £11,000 million worth of assets because there is a desperate need to do so, let us do that; but do not let us end up by selling them at less than the £11,000 million value.

I am prepared to agree that a brief or temporary period of disinvestment—I am not prepared to say how brief—might be justified, as it was during the war, but under these proposals, whose full incidence will gradually get tougher and tougher until in five years' time their effect is total, the disinvestment will go on. I do not believe in cannibalism as a long-term policy of nourishment.

The Chancellor said that he would listen. He has queried *The Times* reporting once today, but he is quoted as saying, "I shall listen." It may be that this has become an un-Parliamentary expression, but I believe that he would show his own strength of character, and that of the Government, if he were to admit the possibility that Corporation Tax will, in the incidence to which I have been referring, have a long-term undesired, and in the case of exports unforeseen, result.

**Mr. Callaghan:** My hon. Friend has talked about the need for facts. Will he give the House the slightest tittle of facts on which he says that this is going to harm exports, and that we need large overseas investments of capital to get exports? I am waiting to hear the argument in support of that view.

**Mr. Rowland:** What I have been saying is that we need to know more facts on this. I am asserting that in the view of many people there is a correlation between ownership or involvement in overseas investment, and the continuation of British exports. This is being stated, and the facts are now being coralled. Not enough facts are known, but the Chancellor has given the impression that he knows that this is factually unimportant. I believe that factually it may be highly important. If the facts show that ownership produces exports, I should like the Chancellor to agree to consider again the incidence of this tax.

If I might digress for a moment, I believe the Chancellor thinks that if British

exporters are efficient enough they will be able to export anywhere in the world, on their own merits, regardless of who owns the importing enterprise. I do not believe that that is the way the world works. It may be wrong, but I think he will find that in many cases—I.C.I. has been quoted, and I could refer to many other companies—when companies own overseas enterprises they give their business to Britain, and possibly to one of their own subsidiary companies. Let us not deny that there is self-interest in this. They give their export orders to this country, because this country is Britain, or because they have other subsidiary companies here. They do not shop around looking for what the Dutch, the Germans, or the Americans can do.

**Mr. Grimond:** I intervene only to help the hon. Gentleman. In the *Financial Times* of Friday, 2nd April there was a statement by Mr. Paul Chambers of I.C.I. that that firm had carried out the type of inquiry for which the hon. Gentleman is asking, and the firm had concluded that the direct benefit to exports from its overseas investment was double the amount of its investments.

**Mr. Rowland:** I am aware of that, and I thank the right hon. Gentleman for reminding me of it. I think he will find that the experience of I.C.I. is paralleled by that of many other companies, but, as I said earlier, this is the kind of statistic which we as a nation have been slightly reluctant to publish because it has consequences for other countries overseas. If these facts can be got together, and, if not published, at least conveyed to the Chancellor of the Exchequer, I think that he should take note of them.

I think that if the Chancellor was prepared to look at the facts on the export factor, he would lose no political face by doing so. Let us be frank with each other. As politics go, this is a comparatively esoteric subject. We are not asking him to withdraw the Capital Gains Tax, or the disallowance of business expenses, in which there is a high political content, and rightly so. The matter we are discussing now is a technical problem. If the Chancellor could look of this again, no one on either side of the House, would feel that the Government had suffered any political defeat.

**Mr. Callaghan:** My hon. Friend has not been here long enough yet.

**Mr. Rowland:** I hope that when I have been here as long as the Chancellor has I shall be as open-minded as I believe I am at the moment.

I think that we are a great trading nation, perhaps by absolute terms not as great as we were, but in relation to our own internal economics overseas trade is of great importance to us. In a plethora of anniversaries being celebrated this year, it may be worth recording that it was on this day 25 years ago that Winston Churchill became Prime Minister, and that he subsequently said that he was not going to be the King's First Minister to preside over the liquidation of the British Empire.

As a deliberate act of policy both parties liquidated the British Empire after the Second World War. I take no issue with that, but it would be a sad footnote if this transformation into a Commonwealth were to be followed, as a by-product of policy—not a deliberate act of policy—by the liquidation of Britain's commercial empire on which our long-term interest to a large extent still depends.

7.0 p.m.

**Mr. R. H. Turton** (Thirsk and Malton): This is the longest Finance Bill that I have seen since I became a Member, and in my view it is certainly the worst. I would describe it as a Hungarian rhapsody. If one looks at Nuttall's Dictionary one finds that a rhapsody is "a rambling composition composed in an excited or confused state of mind". My intention tonight is to restrict myself entirely, as did the hon. Member for Meriden (Mr. Rowland), to the Corporation Tax, and to its effect on overseas investment. This matter is absolutely vital not only to British companies but to our Commonwealth relations. Until we clear this matter up, not by having a party battle about it but trying to put it right, severe damage will be done to our economy and to our Commonwealth relations.

The Chancellor, in his Budget Speech, and the Financial Secretary today, both agreed that there was some connection between exports and investment. They said, "We do not quite know what it is.

We shall put this tax on until it is clearly defined for us." Knowing his previous history, it appears to me that the Chancellor is adopting a very curious attitude towards the Commonwealth. He seems to regard it as a matter of misfortune that in the last year for which we have records—1963—we invested £250 million overseas, of which £150 million was invested in the overseas sterling area. I regard that as a great buttress to our economy, and evidence of the fact that Britain was then helping progress in the world, and especially in the Commonwealth.

This part of the Finance Bill shows that we are running away from our responsibilities as the leader of the overseas sterling area, by reducing our investments in that area. I warn the Chancellor that this will certainly have very serious repercussions on our relations with leading Commonwealth countries. I believe that it will also stimulate retaliation, which will be very damaging to our export trade.

If we consider the £250 million worth of investments that I have mentioned, we find that the three leading destinations for those investments were, first, Australia, to the extent of £65 million; secondly, the European Economic Community—£36 million, and thirdly, South Africa—£34 million. It is more than a coincidence that in that same year's trading the three countries, or groups of countries, where we had a favourable balance of trade, were, first, Australia, where we had a favourable balance of £31 million; secondly, the European Economic Community, where the balance in respect of the countries at large was £124 million, and, thirdly, South Africa, where we had a favourable balance of £88 million.

That is evidence of investment's effect on exports. It is a two-way influence. The mere fact that we are investing in a certain country tends to excite that country to buy goods from us. Equally, the mere fact that we are exporting to a certain country leads to investment following upon those exports.

I am surprised at the Chancellor's attitude to this investment, bearing in mind what the Prime Minister said when he was in the United States and also the Table in the Bank of England's Quarterly

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Bulletin for March, 1964, which shows how the whole of our economy and reserves were greatly helped by the £1,300 million investments, of which these form a part. The right hon. Member for Orkney and Shetland (Mr. Grimond) referred to the poor return on overseas investment, and I heard the Chancellor interrupt him—if it was not an interruption, it was a remark made from a sitting posture—saying, “A damned bad investment.” That is entirely the wrong attitude for a British Chancellor of the Exchequer to adopt in addressing himself to investment in the Commonwealth.

These are good investments, because they help to strengthen our balance of payments position and help us to discharge our duties in the world. The Chancellor’s judgment is, “What will be the rate of return?” If he sees one which has a higher rate of return than another—because an overseas investment or a Commonwealth investment is having to pay the overseas tax—he regards it as an undesirable investment.

Let us take as an illustration two companies—one investing £10,000 in gambling machines on Brighton Pier and the other investing £10,000 either in the mining industry in Australia or in launching a cement industry in Nigeria. It may be that there will be a higher return on the gambling machines, but there will be far less moral value in that investment, and it will do far less good for the stability of Britain. This is the great fallacy that I hope will be corrected when the Finance Bill goes to Committee. At the moment it will reduce the incentive to invest in the Commonwealth and will therefore weaken our influence in the world, and damage our future balance of payments position.

I hope that the Government will radically alter Clauses 46, 60 and 79. They will be a permanent handicap. I can conceive the Government’s saying, “Here is a temporary balance of payments problem. We shall have to introduce a short-term measure in order to hold this investment position.” But that is not what they are doing. Clause 79 will make it less and less attractive to invest in the Commonwealth. It has caused a great shock all round the Commonwealth. In the *Financial Times* of 24th April, its Melbourne correspondent

pointed out that the First Secretary’s letter to the 300 companies had caused consternation in Australia, because it clearly contained the adjuration to comb out their investments and to do away with any which did not bring in a good return. This is insular and reactionary and it will have grave effects on this country.

It is surprising that the Chancellor of a Socialist Government is today telling us not to invest overseas or in the Commonwealth. I remind him that the Socialist Party manifesto said, on page 19,

“We shall ensure that development and capital investment programmes are geared to Commonwealth needs.”

If the Finance Bill goes through in its present form that will be a completely broken pledge.

The provisions in Clause 60 will prevent British companies overseas from ploughing back profits or retaining them in reserves. Clearly this will damage the whole of Britain’s external position. It is in very strong contrast with the speech made by my right hon. Friend the Member for Bexley (Mr. Heath) at the U.N.T.A.D. Geneva Conference last June. The effect of that speech on Commonwealth leaders, as I have seen in my capacity as Chairman of the Commonwealth Industries Association was that they thought it an enlightened speech, indicating that the attitude of Britain was very different from the attitude of many countries in Europe; that Britain was helping them to develop. Now we have the position that under this Clause there will be an end of the whole policy, which the Conservative Party has been trying to encourage, of helping developing countries—[*Interruption.*] I did not catch that interruption. I like interruptions, but if they are to be made, it is much better that they should be made from a standing rather than from a sitting posture. That enables everyone to hear what is said.

The policy announced by my right hon. Friend the Member for Bexley was for helping developing countries, and I thought it was a policy which had been agreed by the whole nation. We must all realise that the great problem in the world today is the division between the rich countries and the poor countries, or between North and South. I regard this Budget as doing a great deal of damage to the policy—which I had believed was

an all-party policy—of helping to deal with the problem created by the division between rich and poor countries.

In the last three weeks since the Budget I have received letters and representations from leaders of Commonwealth countries and the underdeveloped countries, in which the writers ask what has happened to Britain that this Government should be doing all they can to prevent overseas investment and to damage investment in developing countries. From the speech of the Financial Secretary I gather that he envisages that it may well be we can do more by aid, that by Government loans and aid we can repair some of the damage which would be caused by implementing the provisions in this Bill. I beg him to realise that it is trade and investment which can be of lasting value to the developing countries.

**Mr. Edmund Dell** (Birkenhead): I am sure that the right hon. Gentleman is trying to be fair, but I think he should address himself to the fact that private investment in the less-developed countries has been falling seriously over the years, and was recently shown in a Board of Trade Report to have fallen from £91 million in 1961 to £52 million in 1962. If we count only new money, the fall was from £72 million to £19 million. This process has been going on for some years.

**Mr. Turton**: Exactly, that is the point I am making. If there is this difficulty, of course it is more encouraging to invest in the European Economic Community or in America. That is why the British Government and people should be encouraged to invest in the developing countries. That was the whole point of introducing the provisions for overseas trade corporations. It was in order to steer investment into these underdeveloped countries where the profit has to be ploughed back into the country. The hon. Gentleman's intervention seems to me to be helpful to my argument.

I warn the Government that we cannot replace trade and investment by loans and aid. It is damaging to the receiving countries, which would far rather, from the point of view of dignity, have trade and investment than loans and aid. Apart from that, we shall find that, however

much aid is given, if we cannot raise or maintain the price of their primary commodities and if at the same time we cannot keep their standard of living rising, all that we give in aid to these countries will very shortly be cancelled out.

I should like to remind the House of an article written in the *Financial Times* by Mr. Harold Wincott. He warned that we are in danger, because of the provisions in the Bill, of getting close to a world economic crisis such as we had in 1931. It happens that at a time when the British Government are putting forward these provisions America also is taking some dangerously reactionary measures in the same direction. Mr. Wincott points out that it is just that type of action which, with its effect on the primary producing countries, resulted in the world economic crisis of 1931.

In a short time we are inviting the Commonwealth Prime Ministers to this country. Are the three Clauses which I have mentioned the message we propose to give to them? I hope that hon. Members, irrespective of party, will realise that a major mistake is being made and will repair it by amending the provisions in this Finance Bill.

7.17 p.m.

**Mr. William Hamling** (Woolwich, West): Having listened to the right hon. Member for Thirsk and Malton (Mr. Turton), I could not help reflecting that a couple of years ago when the Common Market was being debated in this House one heard from Conservative speakers a different sort of speech from the one we have just heard. I was not then a Member of the House, but I have read the OFFICIAL REPORT of the debates. It may well be that the right hon. Gentleman himself was making that sort of speech.

**Mr. Turton**: I did make exactly the same sort of speech then.

**Mr. Hamling**: That is my point. The right hon. Gentleman spoke for himself. He did not speak for this party. Is the right hon. Member for Bexley (Mr. Heath) saying he supported that?

**Mr. Heath**: I am saying that in the negotiations in Brussels the arrangements we made for the developing countries to enable them to have capital aid and to

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develop were even better than anything we have been able to do ourselves.

**Mr. Hamling :** May I remind the right hon. Gentleman of other speeches in this House—made repeatedly by Conservative Members who advocated entry into the Common Market—to the effect that we must no longer think in terms of trade with the Commonwealth but rather in terms of trade with Europe. That is the point of view of many Conservatives, and it can be documented.

The rest of the speech of the right hon. Member for Thirsk and Malton seemed to me rather more a speech for the Committee stage on the Question, That the Clause stand part of the Bill, than a contribution to a general debate on the Finance Bill in which we are concerned to discuss not only the provisions but the principles of taxation which lie behind the Bill.

I should like to refer to one or two of the points made by the right hon. Member for Bexley. I was not clear whether he was trying to argue on general economic policy that there was no balance of trade crisis in the autumn of last year, but that it was something that happened after this Government were elected. If so, it contrasted with the speech of his right hon. Friend the Member for Barnet (Mr. Maudling), who was of opinion that there was a crisis and what was done by the Government in November was exactly what he would have done had he been a member of the Government.

**Mr. Heath :** This is all so silly.

**Mr. Hamling :** That is exactly what the right hon. Gentleman said, and I hope that when he reads HANSARD tomorrow he will see it. He was saying that the crisis of last autumn was a crisis of confidence in this Government. That is not what the right hon. Member for Barnet said last November.

**Mr. Heath :** With great respect, I think that the hon. Member for Woolwich, West (Mr. Hamling) must distinguish between the trade problems which were emphasised all through the last Government—I emphasised them myself on innumerable occasions at the Board of Trade, as did my right hon. Friend the Member for Barnet at the Exchequer—

and the crisis of confidence in November which was a financial crisis. It has been very carefully analysed and documented and the Prime Minister himself said that it was a lack of confidence in the Government.

**Mr. Hamling :** Let us look at the record before the right hon. Gentleman congratulates himself too much. The facts are that on previous occasions when we have had balance of trade problems, they have been followed by a crisis of confidence in the £. If the right hon. Gentleman takes his mind back to 1961 he will remember that there was a Conservative Government in power and that we had precisely the same sort of run on the £ as we had last autumn, despite the fact that the balance of payments problem was nothing like as serious as it was last autumn.

Another point which he made was to refer to increases in wages. I was not sure, from that part of his speech whether he thought it wrong that post-men should have had the increase in wages which they have had. I know that it is the duty of Oppositions to oppose and criticise without necessarily saying what they think should be done. I am sure that the House and the nation would have been interested to find out from the right hon. Gentleman whether he thought that this was a wage award which should have been stopped by Her Majesty's Government. May I remind him again of 1961, and the award to Government industrial workers, which was suspended by Her Majesty's Government despite the fact that there had been an arbitration award. I am sure that the nation is entitled to know whether the pay pause of 1961 reflects the incomes policy of the Conservative Party of 1965. We have not heard that this afternoon.

The right hon. Member for Orkney and Shetlands (Mr. Grimond), the Leader of the Liberal Party, referred to Government expenditure. I am sorry that he is no longer in the House and that no other Member of the Liberal Party is here. It would have been quite interesting to find out from the Liberals what Government expenditure they think should have been cut. They certainly voted for the increase in Income

Tax last autumn. That was an increase in Government expenditure. Admittedly, it was related to the payment of pensions. They also voted again Government decisions to look very closely at Government commitments in the aircraft industry, which was part of the Budget Statement made by the Chancellor of the Exchequer. It is very easy for people to make general statements that Government expenditure should be cut. Hon. and right hon. Gentlemen opposite were always doing that between 1945 and 1950. They did not do much about it when they were in power. This is simply part of the stock in trade of Conservative and Liberal Oppositions.

My right hon. Friend presented this Finance Bill against a background of long discussions about the need to reform our taxation. I would congratulate him, particularly, on introducing into the Bill the Capital Gains Tax and the Corporation Tax. Again, if I may refer to the comments of the right hon. Member for Bexley on this, I hope that I have not got his words wrong, but he said that talk of modernising our tax system is illusory, that it is becoming a myth. I should have thought, judging from the conduct of his own party when in power, that they set out to modernise the tax system and to reform it, but did very little about it. I refer, of course, to the Royal Commission, 1952 to 1955. Very little was done by the previous Government in implementing the recommendations of that Royal Commission and very little was done about looking at alternative means of taxation.

It seems that they have adopted the attitude in Opposition, as they adopted it in Government, that the present system seems to work, so why bother to change it. We have had examples of inaction on this. We have had, for example, the refusal to do anything about the very serious disfigurement of our fiscal system in the last fifteen years in the shape of the tremendous increase in fortunes made out of capital gains. Professor Titmuss, in that section of his book where he refers to this, quotes the *Daily Express* City Editor as saying that nine men had made capital gains of £40 million since the war. That was, of course, in property. There have been many cases in the last five years of immense fortunes being made out of speculation in pro-

perty, out of capital gains. It is no use any Government appealing to wage earners or salary earners for restraint when those people see vast fortunes being made which not only do not have a very moral connotation in themselves but which are not taxed.

No action was taken, either, in respect of the recommendation of the Royal Commission to limit the use of covenants for tax avoidance. I know that my right hon. Friend has not put this into this Finance Bill, but I am sure that it is very much in his mind. In looking at taxation policy, one is entitled to draw into question the policies of previous Administrations. The last Government were in power for a long period and, although they may not have implemented taxation reforms they gave certain twists to the tax system. The abolition of subsidies, way back in 1952, was an example of that. This made the taxation system slightly more regressive. The diminution in the value of Income Tax allowance due to the fall in the value of money had exactly the same result. The Royal Commission on the Taxation of Profits and Income, especially the minority Report, drew attention to this.

As I have said earlier, we had the effect of capital gains. One of the troubles with the statistics of the national income and expenditure is that there is no evidence whatever there of the effect on personal consumption of capital gains. Another very important twist to fiscal policy was given in the years 1951 to 1964. That is that the previous Government repeatedly introduced taxation proposals outside the Finance Bill and outside the Budget.

I refer to changes in the social insurance contributions and charges. These were changes in the tax system. Everyone knows that contributions were increased and that this was a grossly unfair method of taxation because contributions are a poll tax not related to one's ability to pay. In 1951 the Exchequer paid 27 per cent. of the cost of social security and in 1960 it paid 20 per cent. It was estimated in 1961 that by 1964-65 it would be 16.4 per cent. I looked this morning at the Blue Book on National Income and Expenditure and found that in 1962 the Exchequer contribution was only 15.8 per cent. That was a change in taxation policy of a most regressive

[MR. HAMLING.]

character initiated by the last Government. I am not surprised that they do not want to discuss taxation policy very much today.

National Health Insurance contributions rose from £26 million in 1957 to £165 million in 1963. This was a form of taxation to finance the Health Service imposed on National Health Service contributions. When the Leader of the Opposition talked about Socialist Budgets being taxing Budgets, he might have mentioned the fact that in 1963, although the Conservatives reduced Income Tax, they also increased the contributions so that the £1,000-a-year man, who got an Income Tax relief of £4 9s., paid an increase of £2 16s. in his social insurance contributions. These are examples of a regressive twist to taxation which was introduced by the Conservative Party when they were in power. I need not refer to the charges for the National Health Service which were in themselves a form of tax.

The present Government intend to reform the tax system and they have made a brave start. I wish them well. It is most remarkable that in this business of taxation, as indeed in so many other fields, the tasks which were not accepted by the Conservative Party when in power for 13 years have had, after these long years, to be undertaken by my right hon. Friend.

7.33 p.m.

**Mr. Hugh Fraser** (Stafford and Stone): The whole House would like to congratulate the hon. Member for Woolwich, West (Mr. Hamling) on having come to the support of the Government, for he is the first hon. Member to have made a speech in their favour this afternoon. Having listened to the speeches of the hon. Members for Manchester, Cheetham (Mr. Harold Lever) and Meriden (Mr. Rowland), I understand why right hon. and hon. Members on the Government Front Bench should look but not listen. I believe that in the next 20 or 30 days and nights we shall have a debate of considerable interest and many of the points which have been raised will be gone into in immense detail. I therefore do not want to weary the House for too long today when so many other hon. Members would like to state what is wrong with the Budget.

The important point which has emerged is that this is the great weapon of the Chancellor of the Exchequer which has been wheeled out to attempt to dominate the economy. One Budget was wheeled out in November and a second Budget has been wheeled out in the last few weeks. The late Damon Runyon described the Gatling gun as an equaliser, and there is a good deal of equaliser about the Budget. It will make a mash of the taller poppies so as to provide sufficient opium for the people.

In spite of the two new barrels which have been skilfully fitted to this great cannon—Corporation Tax and Capital Gains Tax—I fear that by the end of our deliberations, after 30 days, we may well find that this great cannon, which the Government will have moved into position possibly over the dead bodies of several hon. Members opposite, serves no purpose whatever in aid to the economy. That is why I wish to address the House for a few minutes to discuss the irrelevance of the Budget to the main problems which face us.

The Chancellor, recalling his gallant naval days, must remember that hideous sensation when the wheel no longer controls the movement of the ship. This is happening today; events seem to be more in control of the finances of this country than are any of the steps taken by the Government. As my right hon. Friend the Member for Bexley (Mr. Heath) made clear, it was a humiliation that within a few weeks of the Chancellor producing his Budget the Bank of England was asked to take further steps about special deposits and further letters were sent out by the Bank to the clearing banks.

The truth is that the Government have throughout under-estimated the difficulties which face us. They still base their actions on the first so-called Brown Paper which suggested that the economy was in no way overheated. It is clear to anyone connected with industry, anyone travelling on a public bus or public tube, or anyone connected with a hospital service, that the position is precisely that the economy is overheated. The Government may be suffering from cold feet, but the economy is suffering from a considerable dose of overheating. I believe that in the Chancellor we have a man who came to office

determined to carry through a series of fiscal reforms, but I also believe that this is totally inappropriate at this moment. If I may mix history a little, it is just as though Savonarola, the good reformer, had become attached to the court of the Borgias when Rome was actually burning. This would have about as practical an effect as some of the things which the right hon. Gentleman is putting forward.

Had he foreseen some of the problems which would face him in the summer of this year, I believe that the Chancellor would have been wiser to turn to quite different forms of taxes which could have had some effect on the economic problems which face us—the problems of maintaining the £ sterling and seeing that our exports rise. I suggest that he could have considered a pay-roll tax. When one reads the predictions of N.E.D.C. on what the employment problems will be in the next three or four years, there must be something in this proposal. Possibly he could have considered the introduction of a turnover tax. At least it might have had some impact on our export industries. But the right hon. Gentleman and his colleagues were committed from the first to embark on the Capital Gains Tax and the Corporation Tax. My right hon. Friend and others have shown many of the dangers of such taxes to the constructive economy of the country.

Two particularly important points should be stressed. First, in the clearly overheated economy which exists, there is no step whatever in the Bill to encourage savings. Secondly, there is absolutely no step to carry out what the Prime Minister on countless occasions has promised to encourage import-saving industries.

As the House will recall, whatever attitude one takes about the aircraft industry or the agricultural industry, these two industries, which have been so gravely affected by the Government, were undoubtedly import saving industries. One can consider the precise implications. For the agricultural industry, the damage is spelt out in greater detail. Consider forestry. The problem of timber is becoming world-wide, yet no steps at all have been taken in the Bill to help our timber industry. Consider mineral exploitation

in this country. Absolutely no steps, despite the promises of hon. Gentlemen opposite, to see that the Cornish mining industry, for example, is helped. The same goes for mining in Scotland and Wales. We find absolutely no change whatever from what has been done before.

Consider the small and growing industries, along with those I have mentioned—industries which are by their nature expansionist and which could be import-saving. What do we find? Precisely the same dichotomy, with the enormous amount of time, labour and effort being spent by the Government in trying to drive them down by the use of Clause 70 in their desire to see that the small closed company is harder hit. When we consider what is or is not being done for these industries, along with the trap which was so carefully baited by the Prime Minister during the election—all that business of the great surge forward of the import-saving industries—we find that not a darn thing is done to assist them.

It was promised during the Budget speech of the Chancellor that the Postmaster-General, that egregious and lavish figure, would be introducing a new savings scheme. Where is it? There is absolutely no question but that great damage is being done to the savings movement by the type of action which the Government are undertaking. The right hon. Gentleman the Leader of the Liberal Party drew attention to the grave danger inherent in public men, particularly public figures such as those on the benches opposite, offering bogus prospectuses about national savings to the unfortunate people of this country.

What steps have been taken in the gilt-edged market? This year the Government must redeem about £1,700 million worth of stock. Judging by their programme, it seems grossly inflationary, as the right hon. Gentleman the Leader of the Liberal Party pointed out, that the Government must go to the market for that amount of money this year. That is why I ask what the Government are doing about the gilt-edged market, except carrying out a betrayal. All those unfortunate creatures who indulged in or were induced to buy Dalton's are forced to suffer from the Capital Gains tax. I

[MR. FRASER.]

hope that some hon. Gentlemen opposite read the admirable letter written by Maurice Macmillan in *The Times* this morning. It should be recognised that four million people are involved in this matter.

Hon. Gentlemen opposite should also consider unit trusts and investment trusts. If the computations under Clause 34 are taken and if the whole matter is analysed it is absolutely clear to anyone who has anything to do with the unit trust movement that not only the incomes of the unit trusts are being diminished but the administration of them is becoming almost impossible.

Hon. Gentlemen opposite pride themselves on their sense of fairness. They pride themselves that this is a just Budget and that it will remove many anomalies. Of course anomalies exist and should be removed, but consider the degree of fairness today in our fight for our lives as a trading nation, the fairness towards one citizen in this country who is engaged in the same sort of work as the citizen doing a rival job in another country and the level of tax imposed on those who are carrying the burden of industry. It is clear that the people of this country are receiving unfair treatment at the hands of the Government compared with their rivals in Sweden, the United States, Germany, France and elsewhere in Western Europe.

These are the facts and the House and the country must realise them. We will fight the Bill every inch of the way. We will first it for 20 days and 20 nights. Hon. Gentlemen opposite will be dragged from hospital and, with the final achievement of possibly the Ayes having it, then, over the piles of the dead, many hon. Gentlemen opposite will come to realise that this has been wasted time for a Budget and a Bill which are totally irrelevant to the facts which face us today.

7.47 p.m.

**Mr. A. E. P. Duffy** (Colne Valley): I have been surprised at the tone adopted by most contributors to the debate so far in their attitude towards new instruments of taxation, particularly instruments such as the new Corporation Tax. I say that because of the tremendous scope and far-reaching implications

which such new instruments must have. Without wishing to sound pious, it would be wise for us to approach the possible consequences of such a new device as the Corporation Tax with a great deal more humility than has been shown. So far hon. Members on both sides of the House have made predictions about the working of the Corporation Tax based on nothing more substantial than assertions, as my right hon. Friend the Chancellor pointed out.

I hope that hon. Gentlemen opposite will not jeer when I say that I am not uncritical of the Finance Bill, especially that part of it, the Corporation Tax, on which I will concentrate this afternoon. I am mindful of what the right hon. Member for Stafford and Stone (Mr. Hugh Fraser) said—that little support for the Chancellor has been shown in the debate today. Although I will make some tentative criticisms of the Corporation Tax in respect of its possible effect on investment, I thought that the balance of argument—and I have thought of little else because, as I said, this will be the main point of my speech—by last weekend appeared to lie with the Chancellor, certainly from the investment point of view. However, let us look again, from a slightly different angle, at the Finance Bill.

Had not the time arrived when Britain was entitled to look at the possible use of a new instrument of taxation, not only because of foreign experience but because a corporation tax was absent, leaving this country perhaps the only one of its kind without such a tax, although I agree that this is not a particularly powerful argument? Because of possible flexibility, would not hon. Gentlemen opposite agree that here was a weapon which might prove very useful in stimulating investment with a view to modernisation? This is my main interest and I hope that it will be agreed that in the short time I have been an hon. Member I have never shirked the implications of modernisation.

I thought that, all in all, the Corporation Tax looks as though it might measure up to the country's requirements. It is likely to play a positive rôle in incomes policy, something that most of us agree is needed. It is likely to be an instrument in the modernisation of our economy, especially in regard to investment, and it

is to that that I wish to confine my remarks. It is also the cornerstone of the Finance Bill, so I shall look principally at Clauses 42, 44 and 46 in Part IV.

Most hon. Members will agree that there is an overwhelming need to stimulate home investment, because Britain is still handicapped by an inefficient productive asset structure. At the present time, Britain is investing one of the smallest percentages of all developed countries, notwithstanding a liberal tax rate for investment.

I must say that I am not as much moved as some hon. Members by the possible effect of the Corporation Tax on the existing investment allowances, because we all know that the Report of the Richardson Committee as well as the recent Report provided to the National Economic Development Corporation by the Management Consultants' Association—as well as certain private pieces of research with which I am familiar, and about which I know many hon. Members are also aware—point to investment allowances as having been far from an efficient incentive in recent years. I therefore think that, on the most moderate and objective showing, the Chancellor is entitled to look at the position again.

We must remember, after all, that £300 million of public money are involved, and there is no, or little, evidence—and no one in this House can go further than that—that those £300 million were acting as very much of an incentive to businessmen. We know that a recent report suggests that many business men look at investment before taxation, so that these investment allowances were really coming to them as nothing more than tax relief. Those are not my findings, but the findings of others—and findings, incidentally, that have not yet been knocked about.

So I say that, on the most moderate showing, my right hon. Friend was entitled to look at the matter again. That is all he has said—that he will look at it again. He invited comment on this subject, presumably from both sides, in his Budget speech—

**Mr. Heath :** But what is happening is that these allowances are being slashed. If the hon. Gentleman could argue that his right hon. Friend the Chancellor of the Exchequer had done this with forethought, after examining the situation, and

had said that these should be reduced by way of Corporation Tax, one could say that this was a policy that could be examined on its merits. But what has happened is that it is now seen that the Corporation Tax is having this effect, and his right hon. Friend is saying, "I am quite happy to have another review of it."

**Mr. Duffy :** I heard my right hon. Friend's Budget speech, and have read it closely since. My right hon. Friend said that he would make an announcement in the next Budget speech. I think that that is reasonable. As I say, a lot of public money is involved, and there is little evidence that it is having the right effect.

I want the Chancellor of the Exchequer next year, if he will, to go beyond existing arrangements if he can point them in a positive direction. I want him to look at research and development for example ; here there are real grounds for credit enticement. I should not like the right hon. Gentleman to think that I am cynical of these arrangements. No, it is just that I think, if the right hon. Gentleman will forgive my using the phrase, that they must be pointed more purposively.

Many hon. Members recognise now that the bulk of firms get the bulk of their additional capital for necessary growth out of retained profits. Despite the prophecies of woe that we have heard from both sides in this debate, whether we look to the period before the ending of the two-tier Profits Tax in 1958 or subsequently, or whether we look at German practice—and this is an interesting case to take, because the Germans have not a capital market comparable to ours, and we know the measures they take to compensate for that—they lightly tax distributed profits—as my hon. Friend the Chief Secretary said on the last night of the Budget debate, the lesson is the same ; the pattern of financing equity has remained virtually unaltered. In other words, generally speaking, companies grow out of their own resources.

I found it difficult to get round that conclusion of my hon. Friend the Chief Secretary. Nevertheless, I hope he will accept my concern for certain companies that may not be covered by this conclusion. Generally speaking, what he said is possibly true of most companies, but there are two categories of companies of which exceptions could be made. One

[MR. DUFFY.]

category was mentioned by the hon. Member for Belfast, North (Mr. Stratton Mills)—the company which is heavily involved in automation. There is Elliot Automation, for example—I have that category in mind. I have in mind, the really fast-growing company that will need to go to the market, will need outside financing.

Another category of company that may have to be looked at again is just the opposite kind of company—the slow-moving company, of which we may have too many, the company that may be superficially covered by what my hon. Friend said. We all know of some such companies, companies that are content to finance their own expansion out of their own resources. We cannot be complacent about their continued existence. Those are two categories that may not be covered by the kind of experience on which the Chief Secretary based his own view that evening, when he said that, generally speaking, most companies grow out of their own resources, presumably do so satisfactorily, and will therefore not be hurt by the Corporation Tax.

But what about another possible effect of the Corporation Tax? I grant that what has so far been said from this side of the Chamber is true, and that, in theory, the Corporation Tax will encourage retentions. How far those retentions will amount to plough back is another matter, and I will not go into that now. But I am apprehensive that things will work out slightly differently in practice.

I think that it is true that the Corporation Tax gives a company director an incentive to retain rather than to distribute profits to shareholders, since those shareholders will now have to pay an additional tax on such income. But there is a widely held belief that the average company will have had to enjoy at least double cover for its dividend under the old system if it is to preserve both its distribution and its retentions under the new arrangements. That means that many companies, given similar gross profits, will have to decide whether to cut dividends or retentions. So we shall have a psychological element to consider.

We know, and some hon. Members opposite know better than we do, how many directors are so concerned for their

standing in the markets that they will be tempted to cut back retentions to preserve dividends. Hon. Members on both sides of the House know that management and men in highest authority in the business world are moved by such uneconomic considerations. What I have said about home investment has been tentative, and deliberately intended to be tentative. I do not think one can go further at this stage. That is why I am appalled at the slightly dogmatic way in which hon. Members have addressed themselves to this debate.

I turn to overseas investment. It is widely held that it will be seriously affected by Corporation Tax. That has been said almost more than anything else from both sides of the House. I have been looking to those hon. Members to produce by way of argument something more substantial than they have produced. I wonder how many of them have looked at the article in the autumn review, "Moorgate and Wall Street," by Professor John Dunning on "Does Foreign Investment Pay?" I am not suggesting that this is the last word that can be said on the subject, but it is something which cannot be easily overlooked. I think that Professor Dunning speaks on this matter with a little more authority than do some hon. Members. He concludes that it cannot be said with any precision that foreign investment does pay.

Hon. Members may wish to know the basis for this final conclusion. He takes the view that the social rate of return on capital at home is higher than that on overseas investment and there are rather significant benefits, particularly in feedback of technical knowledge for strategic uses of raw materials and the increase in exports, all of which accrue to the domestic economy. Thirdly, there is evidence to suggest that United Kingdom investment overseas is not as profitable as it might be. Finally, it is not clear whether the net effect of overseas investment on the balance of payments is to improve or to worsen it. Up to that point Professor Dunning has ignored the terms of trade.

**Mr. John Harvey (Walthamstow, East):** I am interested in what the hon. Member is saying. I take it that he realises that Professor Dunning specifically excludes invisible earnings, such as insurance and banking, and also excludes oil from the

purview of his report? The assets were given in terms of book values which may have, and probably did have in most cases, an appreciable under-value.

**Mr. Duffy:** I was about to say those things. I said that Professor Dunning ignored the terms of trade and I agree about the other things mentioned by the hon. Member for Walthamstow, East (Mr. John Harvey). Even when one makes those allowances one is entitled to be impressed by the Professor's open-mindedness on the matter by his own conclusions, which contrast with dogmatic utterances on this subject which we heard in this debate.

Putting aside the argument, I have not heard anyone say in this debate that the Government were not obliged to correct the bias in favour of overseas taxation in order to correct a position whereby the outflow of capital had come to be responsible for half our balance of payments deficit in a current year. I do not believe that the former Government could have avoided taking some such action. This does not mean that I am complacent about the implications. I recognise that short-term matters may involve long-term hurts. Although I think the Chancellor was obliged to move here, I hope he will watch this position because this is a view which again has been put forward by Professor Dunning who said:

"The justification of overseas investment will vary according to priorities of policy. If the primary aim is to protect the balance of payments in the short run the attitude to foreign investment may be quite different than its long-term growth is the first priority."

The recent N.E.D.C. Report said almost the same:

"Severe restrictions on private investment abroad could hardly be maintained indefinitely and, in an case, would worsen the current account of the balance of payments in the longer run."

The risk here is of taking short-term steps which will run counter to long-term aims. I hope that my right hon. Friend will watch carefully the effect of the Corporation Tax on both overseas as well as home investment.

The Budget and the Finance Bill are in many ways reminiscent of the great Lloyd George Budget of 1909. The right hon. Member for Stafford and Stone

spoke about fighting the Finance Bill for 20 days and 20 nights. That reminded me of the great debates of 1909. With the benefit of hindsight we all know that what Lloyd George was trying to do was to make possible the first financial instalment on the Welfare State. This Finance Bill is, equally, a watershed in taxation and the things which taxation makes possible, such as the Welfare State, and steps towards the modernisation of our economy, without which we could not have expansion of the Welfare State.

8.8 p.m.

**Sir Alexander Spearman** (Scarborough and Whitby): I do not think the Government can be very happy about today's debate. We have had four back-bench speeches, two criticising the Government and two supporting them. With all respect to the hon. Member for Colne Valley (Mr. Duffy), I do not think there can be very much doubt about which were the most effective. I hope it will not damage the hon. Member for Meriden (Mr. Rowland) too much when I say that he made a most remarkable speech. It appeared to me to be a robust and radical attack on a doctrinaire Socialist Bill.

Before coming to the critical things I wish to say, I want to pay a tribute to the Government—if they will accept it from this side of the House—for standing firm against devaluation. I suspect that they must have been under a great deal of pressure from some of their newer advisers. I believe that devaluation today is quite unnecessary. Our prices are not now so out of line with those of our competitors although, if the Government do not do the right thing soon, they may become so. Devaluation would be only a temporary respite. I think we can get that, and are getting it, by borrowing—with far less harm both to ourselves and to those from whom we borrow. The consequences of devaluation would be that later we would have to have much more drastic deflation than is necessary today. We would create a tremendous distrust of sterling which might last for a very long time. We might do considerable damage to international trade, especially to West European trade, which would have serious repercussions on us.

[SIR A. SPEARMAN.]

My criticism of the Government in this respect, and many others, is not concerned with what they want to do, but with the effect which their measures are likely to have. We have to face the hard fact that we have to spend a great deal less or earn a great deal more. For several years now on and off, but most particularly during the last few months, this country has been suffering from a serious but curable disease of excess demand. I believe that the balance of payment troubles are a symptom of that disease. It is never any good attacking a symptom. It is the disease itself which must be attacked.

Many Ministers—I most particularly include the Prime Minister in this—have given the impression by many of their speeches that, if only by some clever gimmick we could export more or import less, our problems would be solved. Of course we must export more; but, if we do that and nothing else, we shall not solve our problems. We shall get into a raging inflation. There will be more money chasing fewer goods. We have either to slow down the expenditure or to modernise.

Right hon. and hon. Members opposite in theory support modernisation. They did so in their election speeches. They are not doing it in practice, because it means change, and change hurts. For example, it means employing two people where three people are employed today. I believe that we as a nation must choose between present comfort and only a little rise in the standard of living, and drastic and often painful change and a rapid rise in the standard of living. We cannot have progress and a quiet life. If we try to get both, we shall get neither.

I profoundly hope that we shall come down on the side of modernisation, but I do not underrate the difficulties. We must adapt ourselves to a changing world. That means doing all sorts of things that will upset many people a great deal. I must today confine myself to those changes which are relevant to this Bill. Primarily we must have much better planning and I have always believed that the Budget is the prime Government instrument for planning. By planning I do not mean, with all respect to the First Secretary of State, making plans as to what we shall produce, how

we shall produce it, and how much we shall produce. All that would be all right if planners were infallible, but we know that they are not. To take an example, in 1951 the last Socialist Government set up a very high-powered Committee called the Ridley Committee to estimate what fuel consumption would be 10 years later. How wrong that Committee was. It estimated that gas consumption would be substantially up, and it was down. It estimated that coke and manufactured fuel consumption would be substantially up, and it was down. It estimated that oil consumption would be up by 82 per cent. It was up by 249 per cent.

Totalitarian Governments do not have to bother about this, because they do not have to bother about what the consumer will want. They do not have to foresee changes in demand, because they force people to take what is produced. The planning which I believe is absolutely essential is regulating the pace of the economy. If demand is too little, we get unemployment and waste. If it is too great, we get diversion of exports, we get imports sucked in, and, most particularly, we do not get enough competition, and therefore we get waste.

If by those much abused words "stop and go" we mean "slow down and speed up", I am sure that "stop and go" is essential. The only alternative is either to run the economy very slow indeed, which is unthinkable because it means massive unemployment, or to have a series of controls, which I do not believe a democratic Government could possibly acquire in time of peace. I can remember the late Ernie Bevin, who was held in such respect and affection by most of us who were in the House with him, wherever we sat, saying just about 20 years ago, "The Labour Government are very fortunate. They have inherited war-time controls they could never get in peace time".

I do not claim that the former Government learned at all perfectly how to regulate the pace. What we have learned is that these measures take much longer to operate than had been realised and, because of the multiplier, they have a much greater effect when they do operate. Therefore, when the Government turn the knob in one direction they must at once be thinking about turning

it in the opposite direction for effect in a few months' time.

It is a widespread view on both sides of the House that the way to get maximum growth must be to run the economy full out; that there is a choice between growth at the price of some inflation and stability at the price of no growth. I believe that this is an absolute and most damaging myth. I believe that the opposite is true. I believe that inflation slows down real growth, because it leads to inefficiency, it leads to waste, and it leads to the wrong sort of industrial investment. A study of company reports shows that time and time again when companies have very long order books they are concerned with the sort of investment that will give them the maximum return per unit of capital. When their order books get shorter, they are concerned with costs, with how much they can get per unit of labour, which means maximising our resources.

The Economic Report for 1963 defined the maximum output that the existing labour force could produce as the productive potential. I believe that, whenever actual output approaches closely to the productive potential, we then get conditions of excess demand; we then get balance of payment troubles; we get imports sucked in, exports diverted, and costs rising. That happened in 1951, 1955, 1960 and now. These were the years of the worst balance of payments figures in the 1950s and the 1960s. These were the years of the smallest margin of unused capacity.

I have taken my estimate of that from Professor Paish's article in *Lloyds Bank Review*, Table II. It is very largely borne out in that admirable book by Dow, "The Management of the British Economy 1945-1960" and, indeed, by Shepherd and Godley in the issue last August of the *National Institute*. Unless there is a margin of unused capacity of between 5 per cent. and 6 per cent., there cannot be enough competition. If everyone can make their profits too easily, they will not exert themselves. Unless there is adequate competition in a free state, I am absolutely convinced that there is inefficiency and waste. The Government's job is to make profits hard to make and well worth making. The surest way to slow down real growth is to preserve inefficiency.

Therefore, I maintain that maximum growth in the economy depends on planning that is regulating accurately the pace of the economy so as to get the maximum of enterprise and effort and the right type of industrial investment.

Then I believe that the Government must be realistic in their tax changes. Their object obviously should be efficiency. I was glad that my right hon. Friend the Member for Birmingham, Handsworth (Sir E. Boyle) in the Budget debate quoted the speech of Lord Franks, in which he said that one of the greatest handicaps this country suffered was that it always made the test of a policy—is it fair? The parable of the vineyard is a very hard one to master, but I am sure that it is a true one and worth remembering. The test has been "Is it fair?", whereas it ought to be "Will it lead to efficiency?" I agree with my right hon. Friend when he said that there is absolutely no inconsistency between efficiency and idealism because the more efficient we are the greater are the resources and, therefore, the more we can spend on education, health, housing and so on. Tax changes by which some, in the cause of fairness, are made less rich and the rest poorer must be bad taxes. Is a man to be reproached because he wishes, and strives to do better than his neighbour?

I have, perhaps at too great a length, given the reasons why I believe we ought to have a deflationary Budget. I now want briefly to examine the Budget. I remember being told that when the present ruler of France came to office for the second time and when he found a very serious financial crisis in his country he had three different policies put before him by his advisers. They said, "The first is really no good; it will be quite ineffective. The second you cannot do; it will be politically impossible. Therefore, we must recommend you to accept the third, a compromise." I understand that the General said, "If you can persuade me that the second policy is the right one, the second is what we will do", and they did it.

I do not want to belittle what the Chancellor has done. I quite accept that his Budget has done something. It has given sterling a respite. But it is a compromise. It is not a courageous Budget. My criticism of it would be,

[SIR A. SPEARMAN.]

first, that a great deal of it is irrelevant and some of it damaging; second, it has not done nearly enough for the right hon. Gentleman's purpose; and third, it depends on the incomes policy succeeding.

The First Secretary is a very controversial figure, and I do not want to belittle what he has done. I think he has worked very hard. He has made a first-rate appointment in Mr. Aubrey Jones. I think it is quite possible—I will not say more—that the Incomes Board may make some contribution towards getting rid of these damaging restrictive practices. I can imagine circumstances when a measure of exhortation will be useful; but I am sure that it is madly unwise to depend upon an incomes policy at a time when unemployment is under 1 per cent. in areas of the country where two-thirds of the working population live.

I think my real difference with the right hon. Gentleman would be this. I do not believe that wages go up because of trade union pressure. I believe they go up because of competition between employers. I have tried, with the aid of those who have been extraordinarily right in their forecasts in the past, to make some calculations. I will not burden the House with my figures, but I believe that this year the increase in spending by public authorities and by consumers, allowing something to make room for exports, will considerably exceed the increase in production. Therefore, this year we are going to have a consumption inflation. It is quite likely that because of the credit squeeze, so much more severe than any of the monetary policies which were so much under attack during the past 13 years, and because of prospects for profits, that next year we may see a sharp decline in industrial investment. This year we shall have a consumption inflation. Next year perhaps we shall have an investment deflation. Inflation of consumption and deflation of investment must be the exact opposite to what the Government want, as occurs in so many of the things that they are doing.

The Chancellor estimated that his measures would cut back demand by

£250 million. I believe that a good deal of that will come out of savings and profits which, at any rate, in the current year will have no effect whatever on consumption. The cut-back in actual consumption may be not much more than half the figure that he has suggested.

What the Government ought to be doing is, here and now, preparing vigorous plans for an expansion of investment next year and sharply cutting back present consumption or Government expenditure, or both. The truth is that the Conservative Government in the last few years have spent up to the hilt of what we could afford, but all the time that they were doing that they were under the most bitter and abusive attack from hon. Members opposite who continually asked the Government to spend more. The Prime Minister said that last year. The present Chancellor of the Exchequer spoke about the Budget being too cautious, and the right hon. Gentleman the President of the Board of Trade described the 1963 Budget as a timid Budget.

All the time that they were making those attacks they were also making the most lavish promises of what they would do. No doubt, those promises served their purpose; no doubt they got votes. But now the day of reckoning is approaching. If they can survive the next few months I think they will find that they will have to break their promises and their pledges on a scale that will shock the country, hardened though it may be by its experience of the last six months.

I oppose this Budget not primarily because it will hurt certain interests but because it fails to promote growth. I recommend the Chief Secretary to read an article by Mr. Rees-Mogg in the *Sunday Times* of 11th April. I do not always find myself in agreement with Mr. Rees-Mogg, but I thought that this was a most formidable article showing the striking contrast between the Prime Minister's promises and his performances. I will quote the last sentence of this article, because it sums up the Budget more concisely than I could do:

"It is a Budget which will make Britain less efficient, less modern, less prosperous and less well able to earn her living abroad."

What we needed was a Budget which would provide a stick to give more competition, a carrot to give more incentive. That is the way to get a dynamic economy.

What we got was a drab Budget which will make no one richer but most people poorer. I shall have no hesitation in voting against the Bill.

8.29 p.m.

**Mr. Edmund Dell** (Birkenhead): I was relieved to hear the hon. Member for Scarborough and Whitby (Sir A. Spearman) say that he does not always agree with Mr. Rees-Mogg, whose opinions on the leader of the Conservative Party are well known.

The matter on which I wish to address the House seems to be becoming a very large part of the substance of the attack on the Government. It is the subject of overseas investment. We are seeing launched on the Government what appears to me quite an indiscriminating attack, particularly on the Corporation Tax as it affects overseas investment. This is a pity, because our attitude to overseas investment should be highly discriminating between different forms. My criticism of the Government is that their present measures possibly are not sufficiently discriminating, although the information which is available for formulating policy is sadly lacking.

It is a severe criticism of the previous Government that over a long period of time, when for many years vast sums were being invested abroad, no attempt whatever was made to study the implications of that enormous investment for our balance of payments or for our economic progress. They ignored one of the main features of this country's economic development—the fact that it was investing abroad to a larger extent than any of its trading competitors with the exception of the United States.

Let me deal first with the matter of developing countries. Many hon. Members have referred to this subject. I do not think that hon. Members opposite can put forward this aspect in defence of their attitude. The fact is that for many years the rate of investment by this country in developing countries has been falling, quite independent of the Corporation Tax. It has been happening year by year, very likely because it has been found that investment in developing countries is less profitable than investment in developed countries. Another reason may be the political risks involved in investment in developing countries. What-

ever the reason, this type of investment has been falling, and there is no denying that this is a most serious matter. To say that the Government are in any way responsible for this is complete nonsense.

I am afraid that the effect of the Corporation Tax may be to re-emphasise this situation. I should like to see, if possible, the Government exempting developing countries from the impact of Corporation Tax. The Americans have exempted developing countries from their own measures against foreign investment. Nevertheless, our Government have no responsibility for this situation. It is a situation which the world faces and which the developed world will have to concern itself with very seriously.

**Mr. John Harvey:** Does the hon. Gentleman seriously suggest that overseas investment has been falling year by year? If so, I should like him to quote his authority for that and to know whether his Front Bench agrees with it.

**Mr. Dell:** The hon. Gentleman must inform himself on this subject.

On, I think, 2nd April, there was a Board of Trade report in the *Board of Trade Journal* on the subject of overseas investment in developing countries. It said that in 1961 the amount of our overseas investment in less developed countries was £91 million and in 1963 £52 million. If we take out of those figures the amount of profits reinvested, we find that the fall in new money from 1961 to 1963 was from £72 million to £19 million. This is a well-known fact and it has been the subject of frequent comment by those who make it their business to discuss these matters. It is suspected, although I cannot quote figures for this, that a process of disinvestment by all the developed countries is going on in the less developed countries.

I wish to consider the problem of overseas investment in its most general aspect and the sorts of information which the Government can have in mind in deciding their policy. We have to consider the advantages which it is believed accrue as a result of overseas investment. What we want, as far as it is possible to get them, is facts, not passions. What are the forms of return which we receive as a result of overseas investment? First, there is the direct return in the form of dividends, royalties, technical fees, and

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so forth. There are two points to make about that. The first is that the results of our own overseas investment in these terms are, unfortunately, rather poor. They are, unfortunately, much less satisfactory than the achievements of the United States in this direction in securing a return in their overseas investment. The reason very likely is that our own overseas investments have to far too great an extent been defensive in character.

What we have been concerned with is the possible loss of markets instead of considering, as the Americans have done, what are the best forms of investment which are most likely to be profitable in overseas markets. We have taken the attitude that manufactures will be made there, that there will be a tariff and that we will be shut out and that, therefore, we must go in first. The Americans have not taken that attitude. They have considered the market in which they wished to invest and have considered on its merits what form of investment would be most profitable. The relative failure of our overseas development in this most important respect is a criticism of British management.

The second advantage which should accrue from overseas investment is in the control of raw materials. How extensive these advantages are is, again, subject to doubt. I do not know, for example, that we get our raw materials any more cheaply than other countries as a result of controlling their production in certain countries. Certainly, it is at least likely that the return to this country from that type of overseas investment in raw materials, in mines, and so on, is likely to fall in profitability if only because it appears that the long-term trend is that the prices of raw materials are falling relative to the prices of manufactured goods. I know that there is a lot of argument about how far this trend can be taken as being established, but certainly it seems to have been the trend over the last decade. That argument might lead us to consider critically the value to this country of that sort of overseas investment.

The third advantage which is said to accrue—and the argument here is much stronger—is that overseas investments assist in the promotion of United Kingdom exports. Unfortunately, as I

will go on to say, in this field also the information is all too sparse. On all these points we suffer from a considerable lack of information upon which policy can be based, and in considering these matters we have the whole time to remember that there are many different forms of overseas investment. Therefore, when I say to my right hon. Friend the Chancellor that he should go carefully in cutting foreign investment, it is not because I believe that he is necessarily in all cases wrong, but that it is impossible at the moment to determine in which cases he would be right and in which he would be wrong.

One case in which my right hon. Friend is clearly right is in respect of overseas portfolio investment. We have an overseas portfolio valued at £4,000 million. This is an enormous sum. Even the private overseas portfolio of the United States of America, a country much more wealthy than ourselves and with a much larger population, is valued at only £6,300 million. I cannot see that the return to this country of this enormous portfolio investment overseas justifies it. Certainly, if the effect of Corporation Tax is to bring some of that money back into the United Kingdom, where it could be invested, that would be all to the good.

The main question to which I wish to devote myself is what has become the gravamen of the charge that this attack on overseas investment or a possible reduction in overseas investment will affect our exports. The argument with which I have great sympathy, and with which, in fact, I largely agree, is that it will affect our exports because it will reduce the number of overseas manufacturing projects in which we can engage. I say it will reduce our exports. I would refer to what the Chancellor said in a very brilliant speech winding up the Budget debate. He said:

“I have looked at the nature and level of overseas investment by other countries, for example, Germany and Japan as the two most notable examples, in relation to their exports, and I do not think there is any particular correlation between the amount directly invested overseas and the quantity of exports.”  
—[OFFICIAL REPORT, 12th April, 1965; Vol. 710, c. 1082.]

I do not know what figures my right hon. Friend was using. All I can say is that what he said is certainly in accordance with my own experience. It

is certainly, according to my experience, true that the Germans and the Japanese have had their successes in exports, independently of the amount of their overseas investment. It is true also of one particular year for which I have had the figures produced for me, 1962, the last year for which these figures are available, and which compare the flow of overseas investment with exports. These figures show that in that year the Americans' flow of overseas investments was about 15 per cent. of the value of their exports; the United Kingdom flow of overseas investments was about 5 per cent. of the total value of exports; the Japanese and German flows were about 2 per cent.; in other words, substantially less than our own.

I think it is probable that this establishes the truth of what the Chancellor said, but I am afraid that this merely re-emphasises the inadequacy of our export effort, despite our enormous overseas investment and many other notable advantages which we have. In spite of the enormous advantage we get from our overseas investment and from our manufacturing projects overseas, nevertheless our exports have not developed at the rate they should have done, and certainly not comparably with those of Germany and Japan. It is not probably a reason for taking out from under our export effort the support which it apparently has.

As I am saying, the real trouble on this subject is that far too little is known about it. If I try to summarise what is known I suppose it is as follows. First of all, there is the impression of anyone who has planned and carried through an overseas manufacturing project that it does bring a return to the United Kingdom in the form of additional exports. That has recently been confirmed in figures which have been referred to in the debate today and which have been produced by the Chairman of I.C.I., the Chairman of the British Motor Corporation and by the Managing Director of Leyland's. In these cases there is clearly evidence that as one return on our overseas investment there has been a marked increase in exports. We have such official statements as that which appeared in *Economic Trends* in August, 1964, in an article on "Short-Term Economic Forecasting in the United Kingdom". It said that

" Figures for past periods . . . show that the development of private investment in Western Europe has an important effect on United Kingdom exports of capital equipment."

We know that the oil companies spent £115 million in the United Kingdom last year on equipment and raw materials, but all these are specific examples which do not take us to the final result we are looking for, and that is, what is the likely return in the form of exports on our overseas investment? My hon. Friend the Member for Meriden (Mr. Rowland), in what I considered an excellent speech, referred to a Question which he had put down to the President of the Board of Trade asking for this sort of information, and the fact that he was told that this information was not available. That is, perhaps, not surprising, because when I myself put down a similar Question to the President of the Board of Trade I also was told that the information was not available.

Recently we have had two further items of information on this subject. The first is the report by the Federation of British Industries in a recent edition of *British Industry*, of 30th April, and we have also got such information as we can indirectly glean from what was published in the *Board of Trade Journal* on the subject of international trade credit.

I would like to examine these F.B.I. figures. They are very interesting and very valuable. The F.B.I. is to be commended for collecting them. They might have been collected before. Unfortunately they are totally inconclusive. First of all they are a very limited sample, and it is interesting to know that out of 45 companies approached ten failed to provide the information in a form which could be used. The figures show no direct relation between overseas investment and exports. It is curious—I hope not typical because it would go against the arguments I am trying to deploy—that the company with the second highest exports is the company which has been disinvesting most rapidly overseas. The export figures shown are not net of any imports into the United Kingdom from British overseas manufacturing projects as a result, perhaps, of lack of capacity in the United Kingdom which might not have existed if the money had been invested in the United

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Kingdom rather than overseas. The export figures again are not net of any exports to third countries made from British manufacturing projects overseas which might otherwise have been made from the United Kingdom.

Anyone who has been engaged in this business of overseas investment knows perfectly well that many overseas Governments very properly say to a company that wants to invest in their country, "All right, if you build this plant here you must export from this plant." These exports may very well cut our own exports. They may replace our own exports, and no consideration is given to this in the F.B.I. figures. The Indian Government are an important example of this and the Indian Government are entirely justified in doing it, but it does affect the implication of the F.B.I. figures.

Lastly, and this is not a criticism of the F.B.I. figures, I think it is a pity that the F.B.I., in asking companies for this sort of information, did not also ask them what proportion of the imports of their overseas manufacturing companies come from the United Kingdom. My hon. Friend the Member for Meriden said that British manufacturing companies overseas do not shop around, they buy from the United Kingdom. That is no doubt in accordance with his experience, but it happens to differ somewhat substantially from mine. In fact, I find that they do shop around and the implications of overseas investments for the United Kingdom economy and for the United Kingdom balance of payments might be a great deal more favourable than they are if there was this concentration on United Kingdom sources of supply by British manufacturers overseas.

Perhaps the most interesting point about the F.B.I. figures is that companies investing overseas seem never before to have investigated what the total return to the United Kingdom from their investment was. Some of them have confessed to being surprised by the results. Those who have been surprised have fortunately been favourably surprised. It would be a pity if they had turned out to be unfavourably surprised. If my right hon. Friend the Chancellor has done anything he has certainly provoked thought on the subject of overseas investments.

To come to the figures recently published in the *Board of Trade Journal* on the subject of international trade credit. I have tried to use as much ingenuity as I have to seeing whether I can derive from these figures any lesson for the amount of our exports which go to British overseas manufacturing projects. I am sure the House will agree that that will require a considerable amount of ingenuity. It has always been known that there was no direct relationship between annual increases in exports and increases in private investment abroad. In fact, new private investment abroad is always much greater than the annual increase in exports. One would no doubt wish that it was the other way round, but it is not, so at any rate it looks probable that only a part, and it may be quite a small part, of this annual increase in overseas investment returns to this country in the form of exports.

What do the Board of Trade figures show? I remind the House that what I am trying to find out, and what I hope the Government will try to find out, with the far greater resources available to them, is what proportion of British exports goes to British overseas manufacturing projects, and, secondly, what part of that is in the character of raw materials, capital goods, and so on, for further processing.

The Board of Trade figures show that one-third of United Kingdom exports are sold on credit, and that about one-third of the total credits outstanding at the end of 1963—£895 million—was between United Kingdom companies and their overseas branches and subsidiaries. In my judgment, and I think that this is confirmed by the figures, credit is more likely to be granted by a British firm to its overseas associate or subsidiary than it is to a non-related company. Therefore I think we can guess that United Kingdom exports to overseas subsidiaries and associates, as a percentage of total exports, cannot be less than 10 per cent., could be 30 per cent.—I think that that is rather unlikely—and is probably about 20 per cent.

Now I want to find out what proportion of that 20 per cent. is material going to overseas manufacturing projects. Here the only aid that I have are the American figures. The House will remember—I referred to this in my speech on the Budget—that the Americans have found

that about 40 per cent. of their exports going to American subsidiaries overseas were of this character—raw materials, capital goods, and so on. I doubt whether the United Kingdom figure is anything like 40 per cent., if only because the value of our overseas investment is so much less than that of the United States. But even if we take that figure, 40 per cent. of 20 per cent. is 8 per cent., which is about £350 million. I cannot see how our exports of raw materials, capital goods, and so on, to overseas subsidiaries of British manufacturing firms can be greater than £350 million per annum.

One has to confess that, compared with the total value of our overseas investments, that is quite a small figure. Even if one adds to it goods supplied by other United Kingdom firms, and if one adds to it exports that result from the presence of a British manufacturing interest overseas, the total is not, unfortunately large, not perhaps as large as it should be. But equally—and this is the point that I want to make—although these figures are not large, they are not negligible.

In conclusion, I have three specific and one general point to make.

**Mr. Terence L. Higgins (Worthing):** Perhaps the hon. Gentleman would deal with this matter before he concludes his speech. Is it not possible that people export from this country because they have the prospect of building up a market overseas and then investing there? If we take away the possibility of such investment in future, or diminish the incentive to do so, people may be less inclined to export.

**Mr. Dell:** I do not believe that people export from this country with the object of building up manufacturing projects. In certain cases when they already have the specific intention of manufacturing they export in order to build up the market. I do not believe that many companies have this long-term vision of building up exports to a market and then, perhaps having reached a certain level of exports, building up a manufacturing project in that market. I suspect that if they do this may be one of the reasons why the return on British investment of this sort is so low. I would have thought it better for a firm to look at the market first and to say, "Ours will be a profitable project in this

market", and proceed on that basis. Having got the intention, the firm would then do what many firms do, namely, build up the market on the basis of exports, having first established the intention.

I have three specific points and one general point to put to the Chancellor. The first specific point is that far less credit is being granted to the United Kingdom than the United Kingdom grants its customers. This raises the question whether United Kingdom importers are sufficiently tough in demanding credit. Secondly, there would be some savings to the United Kingdom balance of payments if United Kingdom parent companies granted less credit to their overseas subsidiaries. That point could well be discussed with British firms investing overseas. Thirdly, despite what my hon. Friend the Member for Meriden said, there would be great benefit to the United Kingdom balance of payments if overseas subsidiaries of British firms bought a higher proportion of their imports from the United Kingdom. As the F.B.I. has not done this I suggest that the Chancellor should ask parent firms in the United Kingdom what percentage of the imports of their overseas companies comes from the United Kingdom.

The general point I want to make is that the control of overseas investment is a matter for discriminating and not blanket techniques. The effect on exports must be taken into account, and good projects should be encouraged. I do not dissent from the criteria laid down in the Chancellor's Budget speech. There should be control of direct investment outside the sterling area, but I see no reason why this control should not be extended within the sterling area. There is a strong case for this.

The figures show that although overseas investment may be only a relatively small aid to exports it is an aid, and we are not in a position to dispense with any aid to our exports at the moment. I therefore ask my right hon. Friend to reconsider whether, for taxation purposes, there is some way of discriminating in favour of British overseas manufacturing projects. If the Government's attention could be directed to this question—at any rate to cover the period

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when a necessary investigation into the whole problem of the implications for British economy of overseas investment is being undertaken—it would be an advantage. We must make sure that we do not lose anything by actions which may later turn out to have been ill-advised.

8.57 p.m.

**Sir John Barlow** (Middleton and Prestwich): I am glad to follow the hon. Member for Birkenhead (Mr. Dell), because he was speaking on very interesting lines about overseas investments and their effect on exports, and how the two things are correlated. I agree with a great deal, although not all, of what the hon. Member said. He thought that foreign countries which had fewer overseas investments than we have had ample access to raw materials. He mentioned Germany and Japan. I happen to know that both those countries have quite recently paid far more than the present market price—in fact, a very substantial premium—for long-term deliveries of certain raw materials in the future, so that they can secure the position. We have a great advantage, in that in many cases we control raw materials through our overseas investments.

The hon. Gentleman then urged the Government to go very carefully in cutting overseas investments. I entirely agree with him about that. In various ways the value to us of overseas investments through the last half-century has been immense, some of which I hope to mention.

The hon. Member was asked by the hon. Member for Worthing (Mr. Higgins) about a long-term policy of exports to certain countries with a view subsequently to manufacturing in those countries. The hon. Member said that he did not think there was anything substantial in that. In some cases it has worked, although originally it might not have been the intention. Those who come from Lancashire are only too well aware of the great diminution in exports of cotton textiles over the last 20 years. Because it was so much cheaper to produce in the overseas importing countries many Lancashire firms built cotton factories in those countries and produced large amounts of goods there. In any case,

Lancashire could not have kept that business for the textile mills, but it had the advantage of utilising valuable Lancashire cotton expertise and, in many cases, Lancashire provided the machinery for the overseas mills.

It seems to me that by his Budget the Chancellor is trying to achieve far too much far too quickly. As has been pointed out by several hon. Members, it is the longest and most intricate Budget for a great many years. The right hon. Gentleman is trying to impose a Corporation Tax and a Capital Gains Tax at the same time. Those are both tremendous measures, and I suggest that he is unwise to try to do too much too quickly. It was interesting to see that commentators in the learned journals which some of us read every week were full of congratulations for the Chancellor immediately after he had produced his Budget. It was also interesting to see how those congratulations turned to criticisms in the last few weeks. I think that as time goes on criticisms of the Budget will grow.

In his Budget speech the Chancellor suggested that he wished to modernise British taxation. He certainly has made a change of direction, but by adopting these methods I suggest that he is not going forward but backwards. He has adopted methods which were adopted years ago by other countries. France, particularly, has recently changed to our previous way of thinking and the French were astonished that the Chancellor should introduce his Budget in the way he did.

I know that other hon. Members wish to speak and so I shall be brief, but perhaps I had better declare an interest in case I have not done so already. Throughout my life I have been interested in rubber in Malaya and I wish to say something about the overseas trading companies and their prospects. The rubber industry in Malaya was started substantially before the First World War. About 200 companies were registered in London to produce rubber in Malaya and they had a paid-up capital of about £70 million in 1920. Curiously enough, four-fifths of the shares were held by small investors who had probably not more than £200 invested. That contribution in helping to develop Malaya has created one of the finest colonial ventures which this country or the world has ever seen. The Government built roads and amenities and left

it to private enterprise to develop, first of all, rubber and, subsequently, tin, with the result that in recent years Malaya has had the highest standard of living of any country in South-East Asia. The rubber states, which developed between the two wars, had a welfare state, at that time quite unknown in this country. Each of the larger estates had schools, hospitals, crèches, maternity benefits and so forth. They, in their small way, were far ahead of this country.

The estimated annual profits coming back to this country—there has been no new capital put into Malaya at all in the rubber industry in the last 30 years—are about £15 million. The estimated value of exports from this country to Malaya is thought to be between £10 million and £15 million. It is a difficult figure to assess, but that has been the estimated figure. It is because those companies are British controlled and have British engineers, British technicians and British advice that a great many exports go from England to Malaya which would otherwise go to the Continent or to America. So that influence has been very valuable indeed.

Before the O.T.C. legislation of 1957, the tax position penalised British shareholders in this country. For that reason we were all very grateful for the 1957 tax help. By the abolition of this O.T.C. concession, the values of these shares have already fallen to about two-thirds of what they were the day before the Budget. That will mean that, because British shareholders are so much worse off than local shareholders or foreign shareholders who might buy the estates and register the companies in Malaya, we are likely, in the near future, to get take-over bids at ridiculously low prices.

I appreciate that the Government may think that we are investing too much overseas, with which I do not agree. I think that we have a responsibility and we have helped to develop many of these emergent countries to our mutual benefit. The fact that, by legislation, we shall have to sell these estates at two-thirds of the price at which they stood just before the Budget seems to me to be quite ridiculous. We must also remember that, immediately after the war, the rubber industry made a great contribution in securing all-important American dollars. In

the six years between 1946 and 1951, rubber alone produced 1,500 million American dollars, more than all the British exports to the United States in those years. That was useful at that time and it may have its uses again.

Perhaps I may give a more personal illustration of how these things work. I am associated with a group of companies which, in 1920, had a capital of just over £2 million. Out of that capital, the estates have been planted and replanted and modernised, and the output per acre is probably three times the output of the original seedling rubber planted 50 years ago. I am glad to say that in the last 16 years the average dividend has been just over 25 per cent. The company has not only modernised itself but has contributed substantially to British dividends. Since the Budget the value of the shares has fallen to two-thirds of the previous value, and I shall be surprised if there are not take-over bids coming forward very shortly.

In addition, insurance shipping and banking have all been British. As the rubber industry was largely in British hands in the early days, the world market in rubber in Mincing Lane was established and it has contributed a great deal to the Mincing Lane wealth of London, which over the years has been considerable. Is it suggested that that is a bad thing and that the Government wish to destroy it? It would be a very serious thing if they did so. It is not a matter of sending out new capital but a matter of not penalising an existing profitable investment.

We know the present problems of Malaysia, and we are spending vast amounts of money to help her in her problems with Indonesia. If the Government abolish O.T.C. it will undoubtedly have political repercussions in Malaysia. It may well be that they have already made representations, because I know that they feel keenly on the subject. This is merely one instance of an industry long-established and profitable to this country over the years. There are other industries concerned, such as tin and other mining industries in other parts of the world, with which I am not familiar in detail. I urge the Government to be most careful before they penalise these overseas companies in this way.

[SIR J. BARLOW.]

It has been suggested that the Government are to continue with their overseas loans. That is not the same thing. The results of these loans are not nearly as beneficial or as useful to this country as the natural development which has taken place over the years. Only the other day the Prime Minister bragged to the New York economists, quite rightly, of our immense overseas investments. He said that we were rich and need not devalue because we had this enormous backing—which was quite true. If that is the case, why does he want to destroy it so soon afterwards?

We have tremendous good will and enormous riches abroad which influence a vast amount of exports, although no one can say exactly how many. For goodness' sake, do not fritter this away for political motives.

9.14 p.m.

**Mr. Robert Sheldon** (Ashton-under-Lyne): I am sure that the hon. Member for Middleton and Prestwich (Sir J. Barlow) will forgive me if I do not follow him too closely in what he said. A great deal of it was of a specialist nature.

I wish to make two points, and they both deal with omissions from the Finance Bill. Because one draws attention to omissions, that is not to say that one disagrees with the Bill. There are 90 Clauses and 19 Schedules in the Bill, and the fact that I draw attention to two omissions does not mean, I hope, that my support for the general purposes of the Bill is questioned.

The first of the two omissions to which I draw attention concerns the responsibility and the great burden on the Chancellor of the Exchequer in obtaining steady economic growth. It is his main burden to keep the economy fully engaged and, at the same time, to ensure that the pressure on resources does not cause excessive inflation. This is one of his great difficulties. It is a feat which is made more difficult because of the paucity of controls he has available. The controls which he can use are basically four in number—the Budget, the regulator, the Bank Rate and special deposits. The difficulty with all four is that they are not sufficiently discriminating in order to keep expansion running at a steady level. The desirable characteristics for controlling

the economy are that such controls should have immediate effect and, at the same time, be capable of fine adjustment.

In past years information on the economy has frequently come too late and, because information about what was happening in the country has come too late, the reaction has consequently been too violent. What we have had, therefore, is a break and an accelerator operating once a year. And because of the infrequent use of such powerful controls, the economy has been subject to jars and jolts and the consequent inefficient use of our resources. What we want it not stop-go but a frequent, gentle use of the accelerator. What we really need is a broad, continuous control of the day-to-day movements within the economy.

The difficulty about using the Finance Bill to control the economy is that the changes do not work through to the economy quickly enough. Many of the measures taken in the Bill will, of necessity, involve very complex processes and it is extremely difficult to estimate the final effect. Indeed, so much taxation has its effect months and years after the Finance Bill has gone through. Its use for controlling the economy is, therefore, somewhat limited.

There is a further defect in the Finance Bill for such close control, which is that, in times of economic change, action by the Chancellor may be suspended until the Budget and the situation may get so far out of hand that a certain amount of over-correction will be necessary. We know from too much past experience how hard it is to slow down a boom and how difficult it also is to start a recovery. Consequently, in times of inflation too much deflation will be found to be necessary and, six or nine months afterwards, we will find ourselves having to cure the deflation itself.

Real control must be introduced to suit the situation and not to suit the calendar. Such controls must be capable of immediate effect. The regulator was one such attempt to control the day-to-day workings of the economy. It had the great advantage that it was capable of immediate effect and I consider that it was admirable that some such solution should have been attempted. However, the difficulty was

the unfairness in selecting the industries concerned—selected not because they were the right industries to control but because they were easily controlled. Consequently, the investment and sales of those industries were distorted and we had a limited stop-go; limited only because the Revenue-collecting system made it easier to collect from certain industries than from others.

The main weapons we have today over our day-to-day controls—the Bank Rate and special deposits—have the disadvantages of all monetary controls; they also are indiscriminate. Although appeals can be made at various times to spare certain industries, this works only to a limited extent and for a limited time. What we really need to accept is that a Finance Bill cannot determine the entire pattern of the next 12 months in controlling the economy. What it can do is to set out the broad picture, and within that broad picture regulation by means of some form of continuous control is necessary so that economic growth can continue without excessive inflation.

The kind of continuous control I wish to see is one that will permit fine and variable adjustments as frequently as the situation demands. These adjustments to the economy need to be immediately effective, must be capable of small changes, and must permit of frequent use. Some means of broad continuous control might well be provided by having a National Insurance contribution variable both in amount and in regions of the country. Another method might be a payroll tax, and a third method, and one of which I am particularly fond, is the substitution of investment allowances by investment grants. Whatever methods are chosen, such broad continuous control can provide corrections to the economy before a situation gets out of hand—in fact, almost as soon as the change itself is observed.

In order to observe such changes, such continuous control will require some improvements in the statistical service, because with this type of control the statistics themselves can be out of date almost before they are available, and knowledge of the present situation can be obtained only by means of certain sample statistics. I do not wish to pursue this particular matter of sample statistics,

although I think that they will be necessary. I have tried to show how necessary for continuous control they are; and to show that this form of continuous control can maintain a high rate of steady economic growth.

The other omission from the Finance Bill is the insufficiency of incentives for investment. I accept quite fully that managements have frequently not taken correct decisions for investments. At the same time, I should like to add in parenthesis that anyone clever enough to programme their investments on the basis of the N.E.D.C. Report would have been confounded by the vast changes that are being introduced. Nevertheless, whichever way we look at it, £320 million of investment allowances are spent, and the benefit is obviously uncertain. The Report on investment in machine tools has been only one recent event which has made many people examine afresh the advantages existing in the present form of incentives for investment.

In studying the reasons for giving investment incentives at all, we should consider four main criteria. The first is that the investment must naturally be of the right kind. Incentives to investment must be beneficial to the whole community. For example, it is more desirable to invest in technologically advanced machinery and equipment than in conventional replacements. Because of this, there should be greater incentives to investment in such advanced machinery and equipment, with benefit to the industry and the machine manufacturers, and also to the nation, which will be acquiring new ideas, new skills and new products. It is for this reason that investment incentives in machinery and equipment are really the most important kind of incentives.

If we wish to get full value for the investment incentives it will be necessary to specify much more closely the categories for which investment incentives are given.

**Mr. Julian Ridsdale (Harwich):** Will the hon. Gentleman say what incentive to the individual to invest is given in this Finance Bill?

**Mr. Sheldon:** The hon. Member has got the point quite wrong. He is confusing investing on the Stock Exchange and investing in actual machinery and plant

[MR. SHELDON.]

which produce goods. This is a confusion which is prevalent among hon. Members opposite, the confusion between genuine investment which benefits the whole community and financial exchanges which sometimes do and sometimes do not benefit the community.

The second reason for giving incentives to investments depends very largely on the financial return obtained by such investments. Without such incentives the return on the investment would be commensurate with the risk and the capital involved. Investment allowances distort the investment decision. To allow investment on this basis would distort the investment decision and allow investment which would not be made on the basis of risk and capital employed. Although such investment might be thought a waste of national resources, there are occasions when it is thought advisable to give such an incentive.

Over a period as a country we have probably been investing rather less than we should have been doing, especially in certain industries. It is possible that a higher degree of investment generally would have been preferable. Because of this there is a case for investment assistance to be given to all kinds of investments, but this naturally would form a minor part of the total assistance given to investment.

The third reason for investment incentives involves the capacity that capital goods manufacturers have available for utilisation. An important part of investment incentives is to make use fully of the capacity of the plant and equipment. According to the categories and the unused capacity of the plant manufacturer, purposeful assistance can be given to investment. There is obviously a fourth category which would cover the rather special cases where Government assistance is required and special projects are involved.

**Mr. Geoffrey Wilson (Truro):** I am following what the hon. Member is saying. I gather that he does not want to assist individual investors, but how does he suppose that they get money for investment and choose to invest? Does he suggest that one should stick a pin in the *Financial Times* and decide the matter in that way?

**Mr. Sheldon:** I am trying to point out the difference between investments which hon. Members opposite are considering and those which I am considering. I have pointed out that there is a relationship, but it is an indirect relationship. When a person buys a share in X, Y Z Company Limited he is not investing in a machine but in a company with a quoted value. What that company does with that machine has nothing whatever to do with the person who buys that share, except in a very indirect way. This is too obvious even to be stated, because that company can do all sorts of things other than invest that money. The connection is indirect and I am concerned with direct connections.

There are large advantages in replacing the present system of investment allowances by investment grants. Such grants, if paid at certain intervals, need be no more costly but much more easily understood by those who make investment decisions than is the present system. A further advantage is that an investment grant would permit of more frequent changes in the level of such grants and consequently the encouragement to invest as demand varies and other factors vary also.

There is at present a delay between investing and receiving the investment allowance. The reaction to changes in the investment allowances is fairly slow, but the reaction to changes in investment grants can be much more direct and immediate. There is the further advantage of investment grants that changes in the levels of grants can lead directly to changes in the level of investments, and this can be closely allied with the capacity of machinery and plant manufacture.

**Sir D. Glover:** I am grateful to the hon. Gentleman for giving way, because I go a long way with the argument which he is deploying, until it comes to the practical application of his suggestion. Who is to decide, apart from the individual company, whether to invest in A, B, C, D or X, Y, Z? This is the fundamental problem.

**Mr. Sheldon:** If I were drawing up a blueprint for precise forms of investment, I should be a fool. There is no case whatever for precise investment. All that I am saying is that categorisation can be

more refined than it is at present. As has been said, investment grants for one-armed bandits should be rather different from investment grants for machine tools. My point is that there can be very much greater attempts at degrees of categorisation, which will show that certain kinds of investment are preferable to others, that these can be controlled in the very broad sense, and that such a form of control can be of immense value in controlling the country's economy, again in a broad sense, and consequently in maintaining a high uniform increase in economic growth.

Finally, whatever industry may have understood about investment allowances and how very wrong it might have been in not understanding the sophisticated calculations they made necessary, managers generally speaking understand today that allowances have been effectively reduced by the introduction of Corporation Tax. Unfortunately, the propaganda has worked only too late. Had the attempt been made to make them understand how the Government were trying to assist industry in the many years before, perhaps some of the wrongs that have happened in industry might not have happened.

Because of this, I think that serious thought will have to be given to investment incentives before the end of the year. I believe that categorisation of certain investment grants could be the most profitable field for further investigation. Such purposeful encouragement to benefit the whole of the community will be desirable and eventually will be necessary.

9.32 p.m.

**Mr. Peter Hordern** (Horsham): The hon. Member for Ashton-under-Lyne (Mr. Sheldon) has dealt most eloquently with the faults of the monetary mechanism and the need to encourage investment. Whether that investment was through the Stock Exchange or through industry, I hope that he will forgive me if I do not follow his remarks too closely.

Clause 1 deals with the increase of duties on spirits, beer and tobacco. It is worth recalling what the Chancellor of the Exchequer said when speaking on the Budget introduced by my right hon. Friend the Member for Barnet (Mr. Maudling) on 15th April of last year. He said :

"The tax on beer and cigarettes is basically irrelevant to the balance of payments problem. . . . Yesterday's increases in the taxation on tobacco and alcohol shift the burden against the wage earner, against the man at the bottom end of the scale. . . . They depart, once again, from the basic principle behind which, we on this side of the Committee are firmly united, that taxation should be based on the ability to pay."—[OFFICIAL REPORT, 15th April, 1964; Vol. 693, cc. 431-35.]

The Chancellor said on 6th April:

"As I am anxious to avoid taxing necessities, I have decided that tobacco and alcoholic drinks should make a further contribution."—[OFFICIAL REPORT, 6th April, 1965; Vol. 709, c. 294.]

What a contribution—6d. on a packet of cigarettes, 4s. on a bottle of whisky, 1d. on a pint of beer. Yet all these are, or were, irrelevant, apparently, to the balance of payments problem brought about by the developments arising from confidence factors so aptly described by the Prime Minister in his speech on 23rd November last.

The responsibility for this part of the Bill rests fairly and squarely on the shoulders of the Government. It is pertinent to ask the Chancellor why he did not announce the extent of our reserves—that is to say, the value of our investments—amounting to £11,000 million last November. He said, in the Budget debate, that this news should make very good hearing on foreign bourses. It would have made much better hearing last November. Every step that the Government took last November and have taken since has been calculated to weaken confidence in sterling. The imposition of the surcharge, the subsequent E.F.T.A. meeting, the leaks to the Press—all these were signs of a Government either determined to play politics first or else ignorant of the way to deal with the problems of the country's economy.

The situation was exemplified by blaming everybody and everything except themselves. If it was not the fault of the gnomes of Zurich, it was the fault of the Governor of the Bank of England, and if it was not his fault it is now that of the Chairman of B.P. The impression has now got around that not only does the Chancellor not know his business but that his advisers are equally ignorant. So unrealistic are the arguments used to defend the measures in this Bill, so careless of the real interests of our economy, that it seems to the

[MR. HORDERN.]  
outside observer as if the Treasury is an exotic hothouse full of kinky economists jabbering in different languages and with unintelligible signs. The Treasury seems to have become the Passionflower Hotel of the Civil Service in which a man with business experience is a total stranger. Never can so many expert representations have been made and never so many totally ignored. [HON. MEMBERS: "The hon. Member is reading."] I am making use of my copious notes.

Fortunately for the country, the Bank of England is still able to command the confidence of bankers overseas, and I think the Chancellor can thank his lucky stars that the Governor of the Bank of England has still sufficient independence and the character to express it. If he had not, it is doubtful whether we should have been able to negotiate the 3,000 million dollar credit for which he was responsible. Instead of criticising, the Chancellor should recognise the value of the Governor's advice and the debt the country owes him for preserving the stability of sterling. The Governor was drawing attention to the increasing cost of expenditure in the public sector. It is designed to increase this year, by a further 8.9 per cent. It is surely not surprising that European holders of sterling who are confining themselves to an increase in expenditure of 5 per cent. commensurate with the increase in their productivity should object to be expected to finance our social expenditure as well when they could have been doing more of their own.

In this context the kind of argument used by the Minister of Defence in the debate on the TSR2 is more damaging to confidence in sterling than anything else. He said that the saving of £600 million represents the cost of 200,000 houses. But to equate what was the spearhead of technology in aircraft industry with the construction of houses is the most utter economic nonsense. If there is to be any saving at all, which has yet to be proved, let us at least be clear that that money should properly be devoted to technological advance in industry, from which it was taken, and not to the construction of houses, however socially desirable that may be.

I turn to Part IV of the Bill dealing with Corporation Tax. There is the argument that the Chancellor has adopted that investment at home is much to be preferred because of the employment it gives and the revenue it attracts. We would have like this argument to have been produced in the debate on the TSR2. It is a strong argument, but there are very strong arguments, and indeed stronger arguments on the other side. One cannot suppose that companies invest abroad for any other reason than to earn as high a return on their capital as they can.

Here I should like to mention in particular the case of British Petroleum because it is an example which the House recognises as a very good one. In reply to a Question from the right hon. Member for Easington (Mr. Shinwell) last week, the Prime Minister said something to the effect that the Chairman of B.P. had a dual responsibility, to the country and to the shareholders. I do not believe that there has ever been any attempt by the Government to interfere with the commercial freedom of the board of B.P. until now, and as a result the Government's investment in B.P. has proved to be one of their most successful.

But the publication of this Bill has changed the whole situation. The arguments which have been adduced in favour of the Corporation Tax appear to be two. The first is that it is hoped that the level of investment will rise, and the second is that such is the magnitude of our balance of payments problem that it is essential to curb the outflow of funds for investment abroad, and that, in any case, we treated investment abroad more favourably than some other countries from the tax angle.

I wish to deal with the first point later. On the second point, it would have been defensible to curb investment abroad to help the balance of payments problem as a purely temporary measure. Even then, it would have been more fitting, in my view, to cut the foreign travel allowance. But the Corporation Tax is not a purely temporary measure. It is designed to be a modern tax suitable for the Britain of the 1960s and 1970s. It could hardly be less suitable, for in order to remain competitive with the advanced industrialised countries our major companies are already

finding out, as has been pointed out several times today, that the United Kingdom, as a market, is too small and that to achieve economies of scale it is necessary to expand production both at home and abroad.

The Chairman of I.C.I. has recently been making just this point. But in the case of B.P., its assets and raw materials lie abroad, and the effect of this proposal, if carried through, would be very serious indeed. To keep its present position, B.P. should at least be allowed to compete with its international rivals on level terms. The weighted average, I am informed, of taxes appears likely to be over 60 per cent. of taxable profit for B.P., whereas its American competitors pay well under 50 per cent. I hope that the Chancellor of the Exchequer will answer this point later.

This state of affairs will clearly affect B.P.'s capital expenditure programme, its ability to attract further capital and its ability to gain further oil concessions in the Middle East. By their proposal the Government are jeopardising a very considerable investment in which the nation has a 51 per cent. interest. B.P.'s assets overseas amount to about £450 million, and this figure does not include the real value of "oil in the ground". On revenue account, B.P. earns approximately £100 million per annum from overseas trading as a contribution to the United Kingdom's balance of payments. It is no wonder that the chairman of the company voiced his comments in such forthright terms. It is all very well for the Prime Minister to say that the chairman has an obligation to the Government. The Government have also an obligation to the nation, for which they are holding the stock as a trustee—and a very temporary trustee at that.

In considering the Corporation Tax, there are other points which I should like to touch on shortly. In many cases, British companies have deliberately invested abroad in order to burrow underneath the tariff walls. It is particularly unfortunate, when trade with the Common Market is becoming increasingly difficult, that this tax should be introduced at this moment.

But the fundamental objection to this attitude to foreign investment is that it is contrary to the best long-term interests

of this country. The Chancellor of the Exchequer complained that there was in our tax system a bias towards investing overseas. I hope that there is. But we have still a long way to go to reach anything like our pre-war position when 70 per cent. of our trade gap was paid for by net invisibles compared with 32 per cent. today. But, in total, as the Chancellor observed, £11,000 million represents a formidable amount, and it is all the more unfortunate that he is only just now mentioning this sum in order to impress on foreign holders of sterling the extent of assets he is proposing to run down by means of the Corporation Tax. This is an easy thing to do. It would be much more difficult to cut the travel allowance from £250 to £100 and yet the yield would be the same as the Corporation Tax is designed to bring in. That tax, however, would have been levied on expenditure and investment. That is what the Chancellor should have done.

**Mr. Geoffrey Hirst** (Shipley): I follow my hon. Friend's argument, but he must bear in mind that during the last few years we have received enormous advantages from travel to this country. It must be reciprocal.

**Mr. Hordern**: I agree. At the same time, if this is a crisis the Government have chosen to meet it by other means, including the introduction of the surcharge, which has had a much more serious effect. As it is, the effect of the Corporation Tax will be to some extent to mortgage our future and to discourage foreign investment in this country and the growth of international investment generally.

I want to say a word about the effect of Corporation Tax on domestic investment. The Chancellor is aware of the work of Professors Dow and Paish in this field demonstrating the relationship between the level of employment on incomes and productive capacity. I do not wish to dwell upon the present high pressure on resources, but I submit that this most stringent of credit squeezes has had little effect so far upon total demand, despite the fact that more than £600 million will be taken out of the economy. That is more than twice what any Conservative Chancellor has ever taken out of it.

[MR. HORDERN.]

It is no use hoping that the credit squeeze will work without doing something positive about investment to improve the margin of productive potential. I am sure that the Chancellor believes that he has done just this by means of the Corporation Tax. He attempted to decry the value of investment allowances, as other hon. Members opposite have done, because, he said, there was evidence to show that these were not taken into calculation in judging new investment projects. I should have thought that all that it showed was extraordinary political foresight and good accountancy, because it was always known that the Socialist Party had plans to bring in a Corporation Tax and investment allowances would, therefore, have been devalued. Our investment allowances were, and still are, as good as any in the world and are given only for investment, whereas under the Corporation Tax there is no incentive to invest rather than to retain earnings.

What matters is the total amount spent on investment. The Chancellor, I thought, adopted a querulous tone in saying that investment allowances cost the Exchequer over £300 million a year. So they should. A company should be taxed at a higher rate on its retentions unless it invests and at a low rate on its distribution. The Chancellor has adopted precisely the opposite course and there is no doubt that industrial investments will suffer as a result.

It is not only direct investment in industry that will suffer, but investment through the capital market is bound to suffer through the Capital Gains Tax under Part III of the Bill, for which there is no economic justification. The Chancellor admitted as much when he said that the tax will provide a background of equity and fair play for his right hon. Friend the First Secretary's work. In other words, it may help him to get his incomes policy no matter how much damage is caused or how little revenue is produced.

But many of my hon. Friends believe, as I do, that the First Secretary's version of an incomes policy, based on nationally-negotiated wage rates as opposed to actual earnings without taking into account wage drift, which is unmeasurable, is both inappropriate and irrelevant. Therefore, to

obtain a policy for incomes which are not incomes at all, we have to suffer a Capital Gains Tax far higher than that which is paid in the United States, in addition to Income Tax and Surtax graduated to a higher level than in any other industrialised country, and all, apparently, in the name of social justice.

There are two points of principle concerning the capital gains tax which I want to draw to the Chancellor's attention. The first relates to gilt-edged securities. Until now, the Government have been able to finance their requirements at a low rate of interest on the promise of a tax-free capital profit at redemption. It is now proposed by means of the Bill that this profit should be paid in the form of a debased currency. I will give an example, on which I should like to have the Chancellor's specific comments. On 24th May, 1956, the Government of the day issued a further tranche of 3½ per cent. Treasury stock, 1979-81, at a price of £81. The yield on that stock was £4 16s. 3d. per cent. The nearest comparable yield to it was that of British Electric 4¼ 1974-79, which gave a running yield at that time of £4 18s. per cent. So here we had this Treasury stock deliberately placed at a lower running yield strictly on the understanding that the stock would be repayed at part without any form of tax intervention whatever. The Chancellor knows full well that if there had been any such suggestion that stock would never have got off the ground at all. I believe that there is involved here a most important point of principle, because if the Government are not prepared to accept the debts of their predecessors a very dangerous situation will thereby be incurred, and it will eventually bring our national debt into something like the position of the Hungarian external debt and other foreign debts of that sort.

The second point of criticism which I wish to make is on what is to be done about investment trusts. In his Budget speech the Chancellor made a lot of play about forming a Government unit trust. I would warn anyone who might be tempted to invest in investment trusts that it looks like an absolutely first-class racket. For dealing with investment trusts the Chancellor said:

"I propose, however, that the net capital gains on which tax has been paid by the trusts

should be deducted from the chargeable gain of the shareholder.”—[OFFICIAL REPORT, 6th April, 1965; Vol. 710, c. 246.]

But, of course, the investment trust has to pay tax of 35 per cent. or 40 per cent. against the private investor's 30 per cent. In other words, the Chancellor's way of helping the small investor for which these trusts were designed is to make him pay a higher tax than he would have to pay if he made his own investment.

Incidentally, if the new Post Office scheme outlined in the Budget by the Chancellor is any guide, anyone investing in a State unit trust would need his head examined. The Chancellor said the investor would get 5 per cent. and in the conditions of today, when local authorities are offering  $8\frac{1}{2}$  per cent. to 9 per cent., if anyone is tempted to take 5 per cent. in those circumstances he should have his head examined.

As the result of this Budget and this Finance Bill, can we be sure we are not in for another bout of inflation? In circumstances of very full employment, with a record level of wage drift, the pressure on earnings and prices must be higher than ever. Against this the Chief Secretary stands like Canute against the tide muttering fiery incantations to his incomes policy.

But it will be the Chancellor, not the First Secretary, who will be at fault if inflation continues its endless march. The Chancellor should have taken his measures earlier and together. I am not sure that these measures will leave enough room for exports, and my guess is that further measures will be needed later on.

This Bill has nothing to do with the economic state of the nation. It has to do with so-called social justice. The First Secretary of State went so far as to say in the steel debate that

“if the argument is that one does not export in the nation's interest but only when one makes money, one is doing a very unpatriotic thing.”—[OFFICIAL REPORT, 6th May, 1965; Vol. 711, c. 1688.]

He could not conceivably have spoken more heartening words to our competitors abroad. They want us to make losses. They want us to run down our assets. That is what this Bill seems to be designed to do. It was conceived in prejudice, born in ignorance, and I hope will die a thousand deaths.

9.58 p.m.

**Mr. Joel Barnett** (Heywood and Royton): I hope the hon. Member for Horsham (Mr. Hordern) will forgive me if I do not follow him into the numerous topics he dealt with, particularly as they were not particularly constructive. I hope I may be forgiven if I stick to one point in the Bill, and that is the Corporation Tax, and its effect or otherwise on growth.

My hon. Friend the Chief Secretary in his speech on 12th April went into some rapturous praise of what he described as Cal's cap and corp. I cannot go all the way with him, perhaps because I have to deal with it on a day-to-day basis, but I certainly would not go anything like as far as some hon. Members opposite have gone, and as some professional commentators outside have gone, in some of the nonsense they have uttered on the Budget as a whole.

One has grown to expect the level of irresponsibility we have had from Front Bench spokesmen opposite, but one would expect something better from other hon. Gentlemen, and indeed from commentators outside, because their blanket criticism certainly does them no credit. To listen to them one would believe that we are moving from a simple tax system to a highly complex one. Anyone dealing with the present tax system would accept that it is an incredibly complicated one, particularly so far as the method of assessing companies both on the commencement and cessation provisions. The provisions have allowed for the almost miraculous changes in assessments which helped tax avoidance to a tremendous degree. I suppose one grows accustomed to almost anything, and we who have worked with this tax system for so long have grown accustomed to it, but some hon. and right hon. Gentlemen opposite seem to love it to such a degree that they cannot bear the thought of change.

It is perhaps understandable, but they should now see the holes that have been exposed in their arguments by the excellent speech of the Chief Secretary on 12th April and by the answers given by the Financial Secretary today. This is particularly so with reference to the arguments that have been put forward on the other side, that by encouraging distribution one thereby increases the amount of money available for investments in new

[MR. BARNETT.] issues. This was answered very properly and has certainly not been answered today on the other side when it was pointed out that after 1958 the Profits Tax level changed considerably so as to encourage dividend distribution; in fact in the five years after 1958 dividends doubled, but the amount of new issues from outside capital grew from only 8 per cent. to 9 per cent.

Still the Opposition continue to argue that this must encourage distribution. The Opposition have not proved their case that distribution helps in this sense, but equally I believe that the Government's case is a somewhat negative one. It shows conclusively to my satisfaction that the distributionists' case has not been proved, but there is not enough evidence to prove that the retentionists are entirely perfect in every sense.

One can argue from the tax collecting view that it would be better to encourage distribution, but I hope that we look rather from a purely national point of view which will help to achieve the rate of growth we all want to see if we are to find the resources we need for the hospitals, houses, schools and the rest. It is this aspect of the Corporation Tax, whether it encourages growth or not, I would like to examine. Comments inside and outside of this House, particularly from outside, by those who should know better have shown that they have been so blinded by the pain of increased taxation as not to allow themselves to examine the case dispassionately. The arguments were really exposed in the opening sentence of a recent letter in the *Financial Times*:

"The real trouble with the proposed Corporation Tax is not its detailed provisions but the indicated rate."

I think that this really does go some way to understanding the arguments of hon. and right hon. Gentlemen opposite.

Another example of the criticism that we have heard is contained in a speech by the former President of my Association. On 27th April, in a speech which was described in the *Financial Times* as a sweeping attack on the Budget, when referring to the intention to encourage retention, he said:

"This, too, seems hardly calculated to produce a dynamic economy."

That is all that he said on this important subject.

*It being Ten o'clock, the debate stood adjourned.*

## BUSINESS OF THE HOUSE

*Ordered,*

That the Proceedings on the Museum of London Bill [Lords] and of the Committee of Ways and Means may be entered upon and proceeded with at this day's Sitting at any hour, though opposed.—[Mr. Callaghan.]

## FINANCE (No. 2) BILL

*Question again proposed,* That the Bill be now read a Second time.

**Mr. Barnett:** As I was saying, in referring to the intention to encourage retention, the former President of my Association put forward no argument, but simply made a statement without giving any examples to prove it. He and others may be right, but, to put it mildly, the case was presented both by him and by right hon. and hon. Gentlemen opposite in a most superficial way. I might add that on that occasion the President of my association was not speaking for at least one of his members.

It is important to understand that the effect of the Corporation Tax is not the same on all companies, and this is what I meant when I talked about the blanket criticism that is made, and which is so totally wrong and totally indiscriminatory. Let us consider first the small companies. The Leader of the Liberal Party said this afternoon that the Corporation Tax would affect the largest possible number of companies. This is untrue. The last available information, that for the year ending 31st March, 1962, shows that nearly 200,000 companies did not pay Profits Tax. That means that those companies had profits of less than £2,000, and clearly the Corporation Tax as such will have none or very little effect on that type of company. The only effect it will have is that tax will be chargeable at the rate of 8s. instead of the present Income Tax rate of 8s. 3d., or the previous one of 7s. 9d.

Now I come to the important close companies as defined in the Bill, and as formerly defined in Section 245 of the

Income Tax Act, 1952. Most of the 200,000 companies to which I have referred would be classed as close companies, but I should like to refer to close companies with profits large enough to pay Profits Tax. Again, in the year to 31st March, 1962, there were about 73,800 companies which paid Profits Tax. Far and away the largest number of those companies were not public quoted companies, and would almost certainly have been close companies as defined by the Bill.

Under Clause 72(5), if a company shows that it is ploughing back, or if distribution could prejudice requirements, as the clause puts it, it will pay 40 per cent. Corporation Tax instead of the 56½ per cent. Income Tax and Profits Tax which it was paying before, or would have paid under the old arrangement, a reduction of more than 25 per cent. in the tax liability of the company.

The greatest number of companies, although not the greatest in profits—I shall come to profits in a moment—will thus have a tremendous incentive, by way of reduction of tax, to plough back. This argument has never been stated by right hon. and hon. Gentlemen opposite. They do themselves an injustice by not undertaking some examination of this type of company.

I propose to consider now the companies making the bulk of profits. These are the smallest in number, but they make the bulk of the profits. My hon. Friend the Chief Secretary proved that the major part of capital for this type of company comes from retaining profits. These companies would be under intense pressure to maintain and increase dividends. In the first year after the Corporation Tax comes into force they will be likely to maintain dividends even without sufficient cover. This will reduce retentions, and will not achieve the objective of the Government. Later, this may be rectified. In later years, with higher profits, they may not increase dividends. But there is no clear evidence on the matter.

Hon. Members opposite are screaming before they are hurt; but equally the Government should not sit back complacently and delude themselves into believing that their objective has been achieved. They should keep an open

mind and if changes need to be made they should not be afraid to make them.

But in respect of the majority of companies—the close companies—there is a tremendous encouragement to growth. These companies are often new, small companies, with young dynamic ownership and management. Hon. Members opposite have said that this type of company derives no encouragement from the Corporation Tax. I can only believe that they have been listening to the right hon. Member for Bexley (Mr. Heath), who has shown he really does not understand the workings of the Corporation Tax [HON. MEMBERS: “Really!”] Hon. Members opposite should have listened to the right hon. Gentleman’s speech. However much growth may be desired, it can only be expressed in real terms either in increased mechanisation or an increase in or the full use of a company’s labour force—or both.

In the short term this is the tough problem. The Machine Tool Traders’ Association recently announced that there was a nine-months gap between order and delivery. With the best will in the world, expansion, through increased mechanisation, is therefore difficult in the short term—and it is in respect of the short term that we face our greatest battle. In war, when we were faced with a powerful enemy, we worked long hours without question and gained a great victory. We have a war on our hands now—a tough, economic war—and I would tell trade union leaders that their members will respond to the great challenge if it is put to them squarely that the time for greater leisure will come, but it is not now. First we have to defeat our economic enemy.

10.7 p.m.

**Mr. John Harvey** (Walthamstow, East): I wish the right hon. Gentleman the Chancellor of the Exchequer no ill at all in expressing the hope that he will undertake to listen to the points which have been put to him by his own back benchers today. I have no doubt that it will be reported to him that from his own benches there has been only one speech in unstinted praise of his Finance Bill, and that was the speech of the hon. Member for Woolwich, West (Mr. Hamling).

[MR. HARVEY.]

From every other speaker opposite, let alone speakers from this side of the House, there has been a variety of criticisms and suggestions. If the Chancellor prefers to close his ears to those that have emanated from this side of the House, we could be reasonably satisfied—certainly we should be a great deal happier about the Bill—if he were at least to read what his hon. Friends the Member for Manchester, Cheetham (Mr. Harold Lever) and the hon. Member for Meriden (Mr. Rowland) in particular had to say.

In commending the speech of the hon. Member for Cheetham I will not follow him in the glowing tributes that he paid to the Chancellor. I am thinking of the meat in the middle of the sandwich—not the beginning, when he praised the Chancellor, or the end, when he castigated the Opposition. It is the middle part of his speech, which contained some valuable suggestions, I hope will commend itself to the Chancellor.

In a long debate it is natural that the House should concern itself mainly with the Corporation Tax. I am sure that hon. Members opposite will not object if I quote from the *Economist*. After all, it did recommend the British electorate to vote for the Labour Party last October. Last week the *Economist* had this to say:

“The awful truth is that the most complicated tax change in recent British fiscal history is being introduced under an air of half-expectation, even among some of its god-fathers, that it may conceivably prove to be the most almighty clanger.”

In the same edition, having asked the Chancellor to reconsider the position even at this late stage, the *Economist* said:

“Immediately after the budget this newspaper said that Mr. Callaghan had imposed a higher prospective burden of business taxation for 1966-67 than was likely to be wise, and urged that the corporation tax itself was too high. Do we now contradict ourselves by saying that corporation tax should actually go up to 45 per cent. if necessary, if that is the price of bringing the rate of withholding tax down? Very well, then, we must say with Walt Whitman, we contradict ourselves: in the light of the evidence of tax oddities that has poured in on us since the budget”—

it must have poured in on the Treasury too—

“no reasonably pragmatic analyst could do otherwise. It would be greatly in the

national interest if Mr. Callaghan, who must have received the same weight of evidence and more, were now to contradict himself too.”

It may be too much to hope for such repentance, but if the right hon. Gentleman would listen to some of the constructive criticism from hon. Members on his own side, he could yet do a great deal to improve this Finance Bill and much more to improve the economic prospects facing the Government in the vital 12 months ahead.

Again to quote the *Economist* just after the Budget:

“There was no shadow of an extra incentive for exports in this budget; that is one of the main criticisms to be levelled against it: And there was much less than any shadow of encouragement to keep up business investment in the crucial year of 1966. On the contrary, business taxation is then to be most unseasonably increased.”

It is this concern for exports and for our overseas trade which has dominated the debate and on that I should like to spend a few moments myself. It is, I think, very important to realise that overseas investment is complementary to aid, and a number of hon. Members have dwelt on the importance of the aid which we have to go on finding for the less fortunate countries of the world. It is complementary to aid and if we have less overseas investments there will be more calls on the central Government for aid. But investment in long-term projects is more valuable than sums given in aid by central Government, because investment of that type tends to multiply in value to a much greater extent than the original cost. A great deal of the investment is, of course, ploughed back in the country, to serve further to benefit the economy.

It must be borne in mind—this point has been mentioned by hon. Members on both sides of the House—that less overseas investment does not automatically mean that we shall get more investment at home. It does not automatically follow that we shall get more people investing at home because it has been made more difficult for them to invest overseas. It has been pointed out that one has increasingly to invest overseas today to keep some of one's own industries going in their private markets, to get under tariff barriers in one case, to meet with national considerations and

interests in others, bearing in mind the developing countries and the problems with which they are faced. If, under duress of the Corporation Tax, our companies have to bow out of some of these markets, they will bow out to competitors only too ready to move in where we have been forced out.

It is relevant to consider, when we are considering the need, to the extent that it exists, to cut down on overseas investment, that the bulk of overseas investment—the bulk of overseas expenditure—tends to be still that of the central Government. The figures issued in Cmnd. Paper 2629 show that the combined official deficit of £551 million was almost as large as the visible deficit of £553 million and more than twice as large as the net private investment of £251 million. Put another way, the Government accounted for nearly three-quarters of the total deficit of £745 million in its overseas expenditure of this type. The Government, therefore, have to consider their own position as much as they are seeking in this way to force private investors to reconsider theirs.

We must also think about the effect which all this is likely to have on our invisible exports, on shipping, insurance and banking, all of which are adversely affected if the flow of trade derived from investment overseas is itself adversely affected. Then there is the fact that so much investment has the effect of stimulating the export of capital goods and, in the creation of further sources of raw material supplies, generating the food imports which we need. There is, therefore, a strategic effect which has to be considered when one is cutting back on foreign investment.

Not least is the fact that the party opposite, which has talked so much over the last year or two of the importance of Commonwealth links, is surely the party which has in decency today to think again about any steps which are likely to be damaging to the interests of the Commonwealth. It must be rather staggering for some hon. Gentlemen opposite to reflect that the effect of the Budget will be to make it more attractive to invest in South Africa, than in India. When one is thinking of social purpose, let the Government ask themselves whether this is really part of the intention of their policies.

I should like to turn for a moment to another aspect of what the Financial Secretary had to say, when he seemed to be suggesting that the oil industry could and should be more heavily taxed than it is now. He argued that it tends to pay very little tax, if any, in the United Kingdom. I have tried to inform myself a little more about B.P., our great national company in which I have no sort of personal interest to declare. It is worth thinking about that B.P. earns overseas about £100 million a year.

From its resources overseas and its investments, B.P. imports oil which would cost us half as much again if we had to import it from foreign oil companies. B.P. buys equipment at a rate of about £10 million a year in Britain. For its overseas investment, it employs British contractors who, in turn, buy more equipment to service these investments. It has spent £17 million in the last 10 years in Britain's shipbuilding yards—and some hon. Members opposite should be interested in that. It has spent £20 million prospecting for oil in the United Kingdom. The vast bulk of its financial resources are held in this country.

It has in this country an elaborate machinery of research organisation which furthers technological understanding not only in the oil industry but also in allied industries. This research work could be penalised by the Corporation Tax because there is no virtue left to a company such as B.P. in carrying it on if financial criteria are the only criteria which the company is to use, for the simple reason that there is no way of offsetting this expenditure in terms of taxation.

B.P. has assets overseas worth £450 million. This is the catalogue of what B.P. is worth to the United Kingdom economy. It is not to be dismissed in the Financial Secretary's words this afternoon. The United States oil companies enjoy a better taxation position than will our own companies under the Corporation Tax.

**Mr. Callaghan :** Oil companies?

**Mr. Harvey :** Yes.

**Sir Kenneth Pickthorn (Carlton) :** On a point of order. Would it not be possible to persuade the Chancellor of the Exchequer either to talk less or to get up and talk audibly.

**Mr. Deputy-Speaker (Dr. Horace King):** Order. From time to time I have asked hon. Members on both Front Benches to set an example to the House and, if they want to interrupt, to do so in a conventional manner.

**Mr. Callaghan:** Further to that point of order. I do not mind very much whether I offended the hon. Member for Carlton (Sir K. Pickthorn) whose good manners are well known, but if I offended the hon. Member for Walthamstow, East (Mr. John Harvey) I apologise. I thought that it was a quick exchange at which he took no offence, and I certainly intended none.

**Mr. Harvey:** American oil companies enjoy better terms of double taxation relief and depletion allowances than our own companies will enjoy in future. It has been estimated that our companies are likely to have to pay more than 60 per cent. in tax out of their taxable profits compared with under 50 per cent. in the case of American companies. Furthermore, the American shareholder is in a better position *vis-à-vis* the American oil industry or any other industry because the personal rates of tax are appreciably lower in the United States than in this country.

We must warn the Chancellor that there are American oil companies—we have seen this before in recent years—ready to move in only too quickly if British companies are unable to stay the pace. Recently we had an argument in the House about the effect of a Government economic decision on the British aircraft industry which, we said, was to the great benefit of the American aircraft industry. It would be a tragedy if a similar economic decision were to have a similar effect on a great British oil company to the benefit of the American oil industry. The Chancellor is charged to remember that the Government act as trustees to the British nation for their 51 per cent. share in B.P.

In making these points I urge the Chancellor to think again about the ill effects which this tax will have on existing investment unless he reconsiders the position.

It may be desirable, in present circumstances, to reconsider the position for new investments which will take place in the future. There is no excuse for

penalising existing investments, particularly those in vital resources such as oil, minerals and rubber, which mean so much to our economy and to the economies of the producing countries.

B.P. will not find it easy to explain to the Middle Eastern host countries, with which it has only recently had major negotiations, as a result of which the company agreed to pay £10 million more in royalties, that having found that difficult to afford, it will now be able to find several more millions of pounds forced from it by the Government. This is likely to have the effect of bringing new demands from the host countries, to the detriment to this great industry. I appeal to the Chancellor to think again on this issue.

Although there were other points which I had intended to make, time is running out and I will merely remind hon. Members that Abraham Lincoln once said:

“You cannot bring about prosperity by discouraging thrift,

You cannot strengthen the weak by weakening the strong,

You can not help the poor by destroying the rich,

You cannot establish sound security on borrowed money. . . .”

I believe that the Chancellor knows that and that some of his colleagues on the Front Bench opposite understand it. Unfortunately, not all hon. Gentlemen opposite understand it.

In a report in the *Economist* on the Budget debate, referring to the point at which the Chancellor spoke of business expenses, it was stated:

“Nobody who sat in the House of Commons on Tuesday could doubt that these proposals on business expenses were intended solely to please Labour back benchers at a critical political point in the speech; and very horrid they looked as they yelled their exultation.”

Now we have this formula. No doubt it is all part of a deal in which the First Secretary is involved. I say to the Chancellor that if he must bring in this formula we will have to look at it carefully in Committee because, apart altogether from the question of overseas buyers, which is a somewhat narrow definition, let us think of all the delegations which come to this country, in many instances invited here by Her Majesty's Government. Has the Treasury spoken to the Central Office of Information about

this? What about the requests that are made to British industry to entertain visiting Parliamentary delegations and visiting parties of journalists, remembering that all those people can be ambassadors of British trade when they go home?

The Chancellor will have to think about altering some of these things in the interests of exports alone, if he cannot be big enough to realise that this was a silly thing to introduce and that he should withdraw it and leave it to the normal workings of the Inland Revenue.

I suppose that it is too late to hope that the Chancellor will take the advice given to him last week by the *Economist*, which stated:

“It would, therefore, be much better not to bulldoze this rushed job of a Corporation Tax through to the statute book this year. It would be a sign of strength, not of weakness, for Mr. Callaghan to withdraw it even now; and the Opposition will be quite right to vote against it in the House.”

That very publication, which is of international repute, made the terrible mistake of advising the electors to vote for the right hon. Gentleman's party last October.

10.29 p.m.

**Mr. William Clark** (Nottingham, South): We are coming to the end of the Second Reading of a very complicated Finance Bill—one of the longest on record and certainly the most expensive on record. I believe that it costs the taxpayer 14s. for 226 pages containing 90 Clauses and 19 Schedules.

**Mr. Robert Maxwell** (Buckingham): Very good value, too.

**Mr. Clark**: It depends who is printing it. It is very complicated and long and, I suggest, sometimes incomprehensible. Some unkind critics say that it would be easier to understand in Hungarian than it is in the language in which it is printed.

We not only have to look at this Finance Bill. It is allied to the previous Finance Bill, and the Chancellor of the Exchequer has made it clear all the way through that one of his objects is to improve our balance of payments through improving our exports. I know that there are certain side effects to that, but I very much agree with my right hon. Friend the Member for Bexley (Mr. Heath), who earlier today asked whether if we are trying to show the world that they should have confidence in this country, it would not have been much better to have boasted of our overseas investments last November rather than to wait until a week or so ago.

I know that hon. Members opposite do not like to be continually reminded of that matter. The Prime Minister is pleased to boast of our £11,000 million investments abroad, but I think it fair to point out that not one penny of that huge investment was ever built up by any policy of a Socialist Government in this country. The Chancellor of the Exchequer and his right hon. Friends should take that to heart.

In this Finance Bill we have again, as my hon. Friend the Member for Horsham (Mr. Hordern) pointed out, the two whipping boys of taxation—beer and tobacco. I should like to quote a man of considerable experience in this connection who, on 7th May, 1964, said, referring to this increase in taxation on beer and tobacco:

“I should be wrong to say that this £100 million has no relevance to an incomes policy, because it puts up the cost of living by 1 per cent. and will stimulate a whole series of wage claims. But it has no other effect.”

The same person went on to say:

“As the Chancellor of the Exchequer has provided for £100 million exclusively from drink and tobacco, and as this provision has no relevance whatsoever to all the major issues, it is not surprising that his Budget is being called an irrelevant one, and it is not surprising, therefore, that the Finance Bill does very little to help the situation.”—[OFFICIAL REPORT, 7th May, 1964; Vol. 694, c. 1477.]

I wonder what the Chief Secretary thinks now of what he said a year ago about these two whipping boys?

Does he think it wrong for a Conservative Administration to use these two taxes with, of course, all the bad effects that will flow from them but that if a Socialist Government uses them they will not have the same effect? It will be interesting to know and perhaps the Chancellor of the Exchequer will tell us about these two taxes. I think he will be fair enough to admit that the effect of his swingeing tax on beer and spirits, particularly on spirits, has been partially alleviated by the operation of the Resale Prices Act, a Measure introduced by the last Administration. That, to a certain extent, has cushioned the effect, particularly of the huge increase in the whisky tax.

We have also to look at what might be termed the various minor points of this Finance Bill, but this Bill should be looked at with the previous one, in which the Government increased the petrol tax, put 6d. on Income Tax, gave us the surcharge and increased National Insurance contributions. Now we have the increase in vehicle duty. It is rather extraordinary to listen to the First Secretary saying on 7th April:

“The taxes that we have imposed do not hit industrial costs.”—[OFFICIAL REPORT, 7th April, 1965; Vol. 710, c. 521.]

He must be the only man in the country who really believes that, because all these things increase our industrial costs. As everyone save the First Secretary knows, one cannot increase taxation in this way without hitting industrial costs. And not only will it hit industrial costs, but it should not be forgotten that it will also hit agricultural and horticultural costs. This is something to which the Government should pay particular attention.

The Chancellor of the Exchequer, of course, in his Budget speech and in the Finance Bill, has brought forward his entertainment expenses boggy. Possibly

there may be some abuse on entertaining—the hon. Member for Manchester, Cheetham (Mr. Harold Lever) made a very good point on this question—but the Revenue already has powers under Form P.11B. It is all right for the Financial Secretary to say this afternoon that the Revenue cannot really find out; all they need do is to make Form P.11B a little more stringent.

This tax on entertaining will hit the small man, not the tycoon. It will hit the commercial traveller and the semi-professional man. It will affect the estate agent who employs five or six salesmen to sell houses. The agent has to pay for the entertaining that those salesmen incur. If the expense is disallowed for tax purposes it will not penalise the person enjoying a lunch but the owner of a business who pays at the highest rate. I beg the Chancellor to look at this proposal again because the small man will suffer under it.

We well remember the Chancellor's speech when he introduced this part of his Budget. He spoke of penthouses, grouse moors and yachts. Today my hon. Friend the Member for Abingdon (Mr. Neave) asked a Question of the Treasury about what percentage was allowed by the Inland Revenue for these grouse moors, yachts and so on. It is extraordinary that when the Government have placed such great emphasis on entertaining by such things as grouse moors, yachts and so on that my hon. Friend should get such a dusty answer—

“I regret that this information is not available.”

How can the abolition of such allowance for expenses be justified if it is not known what expense is involved?

When he introduced the proposal, the Chancellor said that at least he would have the satisfaction of knowing that anyone who had a business luncheon would not be “heavily subsidised by the Exchequer.” Why is this not applied to Government entertaining? That is not heavily but wholly subsidised by the taxpayer. I was interested when I listened to the right hon. Member for Easington (Mr. Shinwell), whose comment is reported in col. 599 of the OFFICIAL REPORT for 7th April. Regarding business expenses, he said that he would like the provision applied to Government hospitality. He went on to say that he had

not been invited to some of this entertainment. I feel sure that if an Amendment is moved to include Government entertainment expenses we shall welcome him in the Lobby to vote against the Chancellor, unless he changes his mind.

The main part of the Bill, the Capital Gains Tax, is hailed as a great social measure, but will it achieve the object we are led to believe to be behind it? All my hon. Friends agree, as do some hon. Members opposite, that this will hit the small man. I accept that life insurance policies are exempt from the tax, but one has to look beyond an insurance policy to see how its value is made up. Premiums are received by an insurance company, which invests the money and receives dividends which eventually go to aid millions of policy holders. Any hon. Member who has had experience of investing knows that investments have to be switched. The Capital Gains Tax will be employed and the money going into the pool eventually to be distributed to the millions of policy holders will be reduced. Eventually this will affect the small man as it will in the case of unit and investment trusts.

It is all very well the Chancellor of the Exchequer saying that we could have a franked dividend voucher showing what Capital Gains Tax the investment trust and the unit trust will pay, but in fact they will be paying at the rate of 35 per cent. As one of my hon. Friends pointed out, a direct investor who makes a capital gain pays at the rate of 30 per cent. But take the case of the small man who has not got the income that will justify him paying 30 per cent. He can have the one-third exemption and the rest of it added to his income. Possibly he will be paying at the rate of 15 per cent. or 20 per cent., and in many cases he will not be paying anything. So what is the effect of this franked Capital Gains Tax on the small man who owns any unit trust shares? One could go on with many of the anomalies that this system throws up. One thing we should remember is that the Capital Gains Tax will be paid by anybody who owns a small business and retires. Why will not the Chancellor give some exemption?

Then there is the difficulty of valuation. I would remind the Chancellor—this is an example that, no doubt, has been brought to his attention already—that last week

[MR. CLARK.]

at Christies a set of plates was sold for £5,000. Apparently they were very special plates. A similar set was sold later in the same sale for £4,000. I am sure the hon. Member for Manchester, Cheetham will support me when I ask, how is it possible to get a straight valuation on 6th April this year when we have a variance of £5,000 and £4,000 for two identical sets of plates?

As many of my hon. Friends have pointed out, Capital Gains Tax is at the swingeing rate of 30 per cent. But if it is paid by a company it will be 35 per cent., whereas in America, which is constantly quoted, the maximum rate is 25 per cent. and the average rate paid is about 9 per cent.

Hon. Members opposite are great admirers of Sweden, that sort of Socialist paradise. Sweden also has a capital gains tax, and even in that country they have obviated the necessity to tax inflation. In Sweden, as I think the Chancellor knows, the rate of capital gains tax is tapered off so that eventually it becomes nil. Why is it right to tax at 30 per cent.? Surely there must be some tapering off in inflation.

One other matter—and this was brought out forcibly by my right hon. Friend the Member for Flint, West (Mr. Birch) in a previous debate and by my hon. Friend the Member for Horsham—is that of gilt-edged securities. The failure to keep faith with people who invested in gilt-edged below par could have a serious effect on the future workings of the gilt-edged market. The Chancellor must take this into consideration. He knows that he has got to find by borrowing £700 million this year. If the Government of the day are going to issue gilt-edged securities below par, as my hon. Friend the Member for Horsham pointed out, one does not just work out the rate of interest; one adds on the capital value of the redemption. If the Chancellor does not accept this, he has got to increase the rate payable for the £700 million that he has got to raise. Surely this is a short-sighted policy.

I do not suppose it would be right to let the Second Reading go without mentioning Corporation Tax. I would commend to the Chancellor—I hope he has read it—the debate in another place last

week which the noble Lord, Lord Aldington, initiated on overseas investment. There one can get an overall and, if I may say so, a fairly non-party approach to this problem. [Laughter.] Hon. Members opposite may laugh, but the imposition of Corporation Tax is bound to affect our exports. There is not an industrialist or a financial journalist who will not say this, knowing that it is true. It is no good hon. Members opposite laughing when we say that it will affect exports. Of course it will affect them. If we want to get exports, there is no point in trying to discourage people from investing overseas.

There has been great argument on both sides today about whether exports flow from overseas investment. The recent Federation of British Industries study shows that there is a connection between exports from this country and overseas investment. Of course there is a connection. Last year, from our overseas investment—the £11,000 million—we got net, after the foreign tax had been paid, £860 million. To discourage this investment means that eventually that £860 million will diminish, and if it diminishes we must somehow replace it by actual exports.

As my hon. Friend the Member for Middleton and Prestwich (Sir J. Barlow) said, many overseas companies must reduce their dividends because of the imposition of Corporation Tax. On 12th April, as reported at c. 969 of the OFFICIAL REPORT, the Chief Secretary to the Treasury pointed out the danger of paying low dividends. He said that when a company pays low dividends, there will be a depreciation in the value of the shares. That is obvious. The hon. Gentleman went on to say that such a company was ripe for take-over bids. This was precisely the point made by my hon. Friend the Member for Middleton and Prestwich concerning the rubber companies in Malaysia. That is not the only sort of company which is affected.

Insufficient importance has been attached to the effect that the Corporation Tax will have on insurance companies which insure overseas. On many occasions they have to invest their money overseas, because of statutory requirements, to pay claims. If the Government penalise insurance companies overseas by this Corporation Tax, we may

lose a large invisible export that we enjoy and from which last year we got £60 million. These items are extremely relevant to our balance of payments.

The Chancellor accepts that there is hardship with the imposition of Corporation Tax. He must agree, otherwise he would not have introduced the transitional periods. Accepting that hardship will be caused, he has allowed the five years, the two years and then the tapering off. This is merely putting off the evil day. It is small comfort to these overseas companies to realise that they have five years' grace before the full effects of this tax hit them. We should certainly control new investment, but I do not see why, in the Bill, the Government should hit out blindly.

Many hon. Members opposite have said that the United States has cut down in its overseas investments. The United States, however, has been careful not to act to the detriment of its existing overseas investments. It is only in the case of new investments that it is taking action. We would agree with this, but we certainly would not agree with hitting out blindly and, to cut down investment this year, hitting all our existing investment. This is short-sighted policy.

The other thing on Corporation Tax is the question of the Neumark Committee's Report. Here again the Financial Secretary to the Treasury, on 8th April, 1965, really got himself into a slight jam and then got out of it—when it was pointed out to him that the German system on retained profits was 51 per cent. and on distributed profit 15 per cent.; the exact opposite of what we are doing—by saying:

“I said that this new tax would bring our tax system into closer approximation with theirs. That is true, but I was not talking about the rate of taxation but the system of taxation.”—[OFFICIAL REPORT, 8th April, 1965; Vol. 710, c. 802.]

We are talking about the rate of taxation. We say why, if in Germany they pay 51 per cent. on retained profits and 15 per cent. on distributed, are we in this country doing the complete reverse? This really is short-sighted policy and it shows quite illogical thinking. As my right hon. Friend the Member for Bexley quite rightly said, it is nonsense for the Government of the day to be saying on the

one hand, “We will give you 1 per cent., 2 per cent. or 3 per cent., if you export”, when at the same time they are taking away exports by the imposition of the Corporation Tax.

I hope that the Chancellor and his right hon. Friend are realising the folly of their actions, because the doubts about the Corporation Tax are not restricted to this side of the House. Most hon. Members opposite who spoke—and, with the greatest respect, those who spoke with any authority or experience—all agreed that there were many doubts on the imposition of the Corporation Tax and how it will hit the export trade.

I know the Chancellor has not yet closed his mind. I presume that he has not, because I think he will remember at a May Day rally a few days ago in Manchester he said that he would “listen to them.” It seems to be the sort of thing to do. At one time it was the reviewing Government. Now we have got the listening Government. I hope that very soon we will be able to say the defeated Government.

At home the Corporation Tax is supposed to be a great measure, a clarion call to modernise, to do this and to do that, to put some dynamic force into our economy. What does it do? Because of the imposition of the Corporation Tax, and with the same amount of profit passed, every small investor in this country is going to have a decrease in his dividend of nearly 20 per cent. This is not going to please the 4,000,000-odd small investors in this country. This is the effect. It is all very well for the Chief Secretary to nod his head. He knows, as I do, that if one takes £100 of profit passed to dividend, one would have got a gross of £74 under the old system. Under the new system one will get a gross of £60 and the difference between £60 and £74, to my reckoning is 19.43 per cent. It is the small man who is going to be hit.

The 60 per cent. compulsory distribution is going to affect the closed company and the small company. At the moment, with a director-controlled company the Revenue insists on 20 per cent. to 40 per cent. distribution.

The Chancellor is saying that small companies must distribute 60 per cent. of their income after Corporation Tax has

[MR. CLARK.]  
been paid. This is quite obviously hitting the small man. Many of our companies have been built up over the past 8, 10 or 15 years from small beginnings, and the people who started them ploughed back their profits and worked 24 hours a day. Now they will not be able to do this. This is crippling private enterprise and killing the small man. One could go through many classes of industry and show how they are going to be affected.

I know that the Chancellor is serious about this, even though some of his hon. Friends are not. I should like him to answer the question about the diminution of dividends to the small investor. I am sure he will agree that there must be a diminution.

I know that in some parts of his party the profit motive, or the dividend motive, is not entirely in tune with the party's philosophy. In fact, on 7th April of this year the right hon. Member for Easington (Mr. Shinwell) said that he was rather surprised that the Government were still paying homage to the profit motive. I should have thought that the profit motive had served this country, and many others, too, extremely well, and this nonsensical philosophy that there is something wrong with profit cannot do anything but damage to our standard of living. Everybody knows that. One could speak for a long time on this topic, but time is short.

I come back to the main theme of the Bill, which is balance of payments vis-à-vis exports. I was astounded, as I expect all hon. Members were, last week when the First Secretary, when talking about exports, said during the steel debate:

"... if the argument is that one does not export in the nation's interests but only when one makes money, one is doing a very unpatriotic thing."—[OFFICIAL REPORT, 6th May, 1965; Vol. 711, c. 1688.]

Can we, as an international industrial nation, dependent as we are on exports for our standard of living, possibly subscribe to the theory that one can export without making money? Are we really going back to the 1945 days—to the will-o'-the-wisp of exports? Are we going back to unrequited exports? That, partially, was the reason why we had to borrow nearly £2,000 million from the

Americans. We do not want to go back to that position. We want to progress.

The Chancellor and many Government spokesmen have pleaded that the purpose of the Corporation Tax is to simplify the tax system. I should have thought that it made it more complicated, and I could not understand why the Chief Secretary said this about the Corporation Tax:

"It is therefore a great privilege for me to be associated in a minor way with my right hon. Friend in giving shape to this reform."—[OFFICIAL REPORT, 12th April, 1964; Vol. 710, c. 972.]

He and I are accountants, and I should have thought that one reason why accountants welcome the Bill is that it is an accountants' paradise. It is so complicated, and in many instances so incomprehensible, that it is an accountants' and lawyers' paradise. I am sure that the hon. Member for Heywood and Royton (Mr. Barnett) will agree that it is difficult to interpret the Bill.

Talking about interpretation, it took a Socialist Government to define a connected person. I should have thought that this was a little infantile, but there it is, boldly printed in Schedule 6, paragraph 21(2) on page 156, where it says:

"A person is connected with an individual if that person is the individual's husband or wife . . ."

I cannot think how, even in a Finance Bill of this magnitude, anyone could stoop to defining the connection between husband and wife.

During the debate hon. Gentlemen opposite have spoken about the Tory record. I do not think that they have been very kind about it, but the cold fact of the matter is that during 13 years of Tory Government the standard of living in this country went up by 40 per cent., and that is no mean achievement. From the benches opposite in those days the cry went up about a candy-floss economy. At least we had candy. We have no candy now. All we have is a floss economy.

The Bill shows antagonism towards the capitalist system. [HON MEMBERS: "Hear, hear."] Here we have the Left-wing of the Government, who are their Achilles heel. I hope that they will not become the Achilles heel of the economy. They think that capitalism

does not work, but it has worked extremely well up to now.

**Mr. Hamling :** For you.

**Mr. Clark :** The hon. Member cannot say "For you," if he accepts the fact that the standard of living of everybody in this country rose by 40 per cent. It was not all for the benefit of my hon. and right hon. Friends; some of the hon. Member's hon. and right hon. Friends also benefited. This Socialist sophism is not the answer to our problem. The Government are not capable of solving any of our problems, and I recommend that they move out or move over and let somebody else take over who knows how to deal with these matters. I am convinced that my hon. and right hon. Friends, in the past 13 years, have proved that they can run the finances of this country, and it is because we have no confidence in the Government's handling of our finances that my hon. and right hon. Friends will divide the House this evening.

11.2 p.m.

**The Chancellor of the Exchequer (Mr. James Callaghan) :** I acknowledge the peroration of the hon. Member for Nottingham, South (Mr. William Clark), who spoke in his usual convincing and lucid way. I was not altogether surprised to hear him say that he did not have any particular confidence in this Government. I would have been surprised if he had. But he was hedging his bets a little unnecessarily; he need not have put the matter in the general way he did when he invited us to move over, to let someone take over. Someone! Does he have to hedge as much as that? [*Interruption.*] I agree that the level is now such that almost anybody would be better. I have seen the claims of the right hon. and learned Member for Wirral (Mr. Selwyn Lloyd) advanced in the Press, and in certain circumstances I would find myself very strongly behind him; there is a great deal to be said for his candidature. I do not want to provoke hon. Members, but they seemed to be hedging their bets a little too much.

It has been a very interesting debate. [*Interruption.*] The hon. Member for Torquay (Sir F. Bennett) has not been here earlier, but now comes to join in—

**Sir Frederic Bennett (Torquay) :** On the contrary.

**Mr. Callaghan :** If he does not want to join in perhaps he will kindly keep quiet.

It has been interesting to note the great depth of feeling that has been aroused on the one issue of overseas investment. I certainly take this issue very seriously, and shall attempt to answer the points made as fully and fairly as I can, although—and I hope that hon. Members will not shout their heads off—I have heard more exaggeration and inaccuracies on this subject tonight than I can remember hearing in the course of a single debate for a long time. I must try to demonstrate that later on; I merely ask hon. Members to accept that that is my view now.

The right hon. Member for Bexley (Mr. Heath) made the speech today that he should have made on the Budget Resolutions but did not, because the Opposition did not divide on them. He said a lot of things that rather hurt me. He asked me, in particular, why the special deposits have been called for only three weeks after the Budget and whether I had miscalculated the situation in the period between 6th April and 29th April when they were called for. If the right hon. Gentleman will remember, I said in my Budget speech that although I had made the best judgment which was possible in the situation at that time, if the situation should show any signs of needing action either way I was quite ready to take that action. I think the right hon. Gentleman will agree that when the April bank advances showed an increase of £98 million this was of a size which we could not ignore. Without rubbing salt into old wounds, there were, of course, two months last year when the increase in bank advances exceeded that level and when the right hon. Gentleman opposite held power. In my view, they should have taken action then. One of the reasons that we have to use the monetary machine in the way which we are doing now is that the right hon. Gentleman did not take action at that time. I think it is important that we should be ready to move on special deposits now that it looks as though bank advances are going ahead faster than the estimates on which I based my calculation in the Budget of April.

[MR. CALLAGHAN.]

I said that I would take further measures if they were shown to be necessary. I took them. That is perhaps a new and prompt method of behaviour. It may be a little unusual after previous experience, but I hope that it will commend itself to the House. I shall not hesitate to move either way in this or other respects promptly and quickly in order to try to keep the economy on as even a keel as we can. There is a great deal of room for argument—we heard some in today's debate—between those who believe, as the right hon. Member for Bexley and his hon. Friend the Member for Nottingham, South seemed to believe, that the economy is now turning down, and those like the hon. Member for Horsham (Mr. Hordern), who, in the course of a very well informed speech, expressed the view that my principal trouble over the next few months is that the economy is overheated and is likely so to remain.

It is not for me to judge between his wisdom and that of the right hon. Member for Bexley. At least, it is for me to judge: it is my job, and that is why it is such a difficult job. I think that, in circumstances like these, which were described by Mr. Harold Macmillan as trying to run the economy by looking up last year's Bradshaw—we are now trying to ensure that the trains run on time—one must use the best judgment of which one is capable at any moment.

The right hon. Member for Bexley made great play with what he alleged to be the absence of any detailed analysis in my Budget speech to justify reducing home demand by £250 million at an annual rate. His hon. Friend thought that I should have done more, while the right hon. Gentleman, I assumed, thought that I should have done less. At any rate, he asked why I did not justify it. I made it clear in my statement that this is a very difficult judgment to make. I said then, and I repeat now, that this is a field in which there are many uncertainties and where there are risks on either side. If I take that view now, at least I find myself in good company, because the right hon. Member for Barnet (Mr. Maudling) said in his Budget statement in 1963:

“... we must regard all calculations to which I have referred as no more than pointers; the

final decision must be an act of judgment.”—[OFFICIAL REPORT, 3rd April, 1963; Vol. 675, c. 472.]

He said much the same thing last year:

“My decision as to the size of the change I must make is clearly a matter of judgment, not of exact calculation.”—[OFFICIAL REPORT, 14th April, 1964; Vol. 693, c. 267.]

I think that the right hon. Member for Barnet sums it up perfectly fairly.

This is, I think the most difficult task which I have ever had to perform, and I can now understand the dilemma of some of my predecessors in these matters. Because it is a matter of judgment, one must be prepared to move quickly in this respect where one thinks that it is necessary. In a situation in which we expect bank advances to increase by 5 per cent. over the whole year—this was the sort of estimate on which we were working—and in fact they increased by £98 million in one month, it would have been irresponsible on my part not to have taken action as soon as the April figures showed that up.

The right hon. Member for Bexley asked me also whether I would not publish the detailed communications which had passed with the International Monetary Fund and the Group of Ten. I should like to repeat what I said when I intervened in his speech, for which I apologise. Those communications which have previously passed between Governments—like those between his Administration and the International Monetary Fund—are regarded as confidential between the members of the Fund. That would not prevent me from proposing an alteration; but I think, on balance, that it is best left that way. Unless the right hon. Gentleman has some arguments to advance, I should prefer to retain the normal practice which has existed certainly since 1959 in this way, that communications between Governments should be regarded as confidential. I therefore propose not to publish the details.

The right hon. Gentleman asked me about investment. In our opinion, there is as yet no evidence of a down-turn in investment. The Board of Trade survey of investment intentions still shows a high level of investment in 1965 and a substantial increase over 1964. Despite all the prophecies of woe, it looks as though industrialists are looking more to

the future of their markets and less to the incidence of taxation upon their profits. This is a very interesting phenomenon, which goes part of the way to explain why they do not take as much notice of investment allowances as some of us thought they did. They measure their new investment by the capacity of the market to absorb it and that is probably the best test of all.

If there is a down-turn in investment next year—the right hon. Gentleman asked me particularly about this—we must deal with it as far in advance as we can see it coming, especially in the light of the very difficult task which I have in strengthening the reserves. I have explained the dilemma in the past, and I need not explain it again, because it is well known to anybody who has studied the matter. We have a difficult and delicate balance to strike.

In this connection, as the right hon. Gentleman truly said—I am sorry that he poured some scorn on it—the gradual progress which is being made towards an incomes policy is of the highest importance and significance. I repeat again that the judgment which I make must be partially based, if we are to avoid a serious down-turn in the economy, upon a relative measure of success in incomes policy. I do not expect it to be perfect. I imagine that nobody here does. But we must try to make this incomes policy successful, and the energies and devotion which my right hon. Friend the First Secretary has put into this cause are worthy of support from everybody in the House. I would only say to right hon. and hon. Gentlemen opposite who scoff at it that at least he has gone a good deal further along the way than previous Administrations have done.

Having attempted to answer some, but not all, of the questions put to me by the right hon. Gentleman, I will turn more particularly to the Finance Bill. I do not quibble because great tax reforms such as these are queried in the first place, closely analysed, closely questioned and perhaps not immediately obvious to everybody who studies them. That is the purpose of the debates in the House. I think that as the unfolding of the argument becomes clear there will be more of a general acceptance on the other side of the House than there has been so far.

Indeed, their present attitude is rather a reversion, because they used to be in favour, and now they have ceased to be in favour, of these reforms. They are in favour of a Corporation Tax but not this one. They are in favour of a Capital Gains Tax but not this one. That is the traditional rôle of an Opposition. But certainly the new taxes which I have introduced are intended to promote healthy growth, and I think that I can show that they will do that. They are certainly based on fairness and equity. They will, I hope, cause taxation to cease to operate in a way which rewards the speculator more than productive industry.

Although hon. Members opposite do not believe this, they are simplifying the company taxation processes. There is no doubt about this. I do not want to go into lyrics of praise of Parliamentary Counsel but they have compressed into a mere 40 Clauses the whole of the taxation on companies, which is a remarkable achievement. There is no doubt about that. Perhaps hon. Members have not yet noticed that in Parts IV and V of Schedule 19, ten Schedules have been entirely repealed and 80 Sections. The whole of the new tax is compressed into a 40-Clause passage in the Bill. I ask hon. Members opposite to consider this seriously. It is quite an achievement, and whatever the pains of the transition—and there are bound to be difficulties in the transition period—there is little doubt that this is why the tax has attracted—at any rate the theory, if not the actual proposal—so much support; it is because it will result in simplification of effort in the long run.

I will return to the Corporation Tax later. On the Capital Gains Tax, I must point out that although some hon. Members think that the rate is high it is still lower than the tax rate on earnings. Earnings are taxed, at the standard rate, at 41½ per cent. Capital gains will be taxed at 30 per cent., and because there is no retrospection in the legislation, for many years assets acquired before 6th April last are not likely to pay 30 per cent. I do not think that it can be claimed, at any rate in the initial years of this new tax, that the rate of 30 per cent. is high.

[MR. CALLAGHAN.]

The right hon. Gentleman and others asked me whether there should not be an allowance for inflation in the taxation provisions. If we were to start doing that in our taxation system, it would lead to some very odd results in other fields apart from capital gains. In this case—unusually so—I can rely on the combined wisdom of both the majority and the minority Reports of the Royal Commission on Taxation. All signatories to the Royal Commission Report were of the opinion that no allowance should be made for the inflationary consequences of a country's policy. I therefore do not think that I can make that allowance. [Interruption.] I cannot hear the hon. Member for Shipley (Mr. Hirst), but if he cares to rise I will gladly give way to him.

**Mr. Hirst :** I appreciate the Chancellor's kindness in giving way. I was asking whether in his opinion the Royal Commission were in favour of a Capital Gains Tax.

**Mr. Callaghan :** No, they were not. The minority were and the majority were not. If the hon. Member had listened I said that whatever their views on the Capital Gains Tax, both the majority and the minority were against giving an allowance for inflation—in relation to other kinds of taxation. Hon. Gentlemen opposite will have plenty of time to read the Royal Commission's Report in the weeks and months ahead.

I come to the subject of the gilt-edged market. The flexibility of the gilt-edged market is an argument that is certainly seriously held by a number of people and I would think that there will be perhaps a little less switching, at any rate immediately, than there has been in the past. But, whatever importance one attaches to this, I think that the degree of switching will undoubtedly increase again as people find opportunities for profitably doing so, especially the institutions. I think that the institutions will be quick to seize their opportunities.

When one considers the gilt-edged market and analyses the holdings in it, one sees that about £20,000 million, or a substantial percentage of the total stock, will not have their tax position changed by the Capital Gains Tax. This will be so for a number of technical

reasons, into which I need not go now. I am sure that they are well known to many hon. Members. Thus, I do not think that the degree of flexibility, which many people seem to think is required, will be impaired to anything like the degree written about. Moreover, there are other ways in which the gilt-edged market acts, into which I need not go now. I would not myself regard this as a serious obstacle to the introduction of the Capital Gains Tax on gilt-edged securities.

Then it is suggested that we are making a breach of faith here. The right hon. Gentleman the Member for Flint, West (Mr. Birch) wrote one of his famous letters in *The Times* in which he said that the proposal to tax capital gains on gilt-edged made him feel sick. It is an astonishing phenomenon. The last time he felt sick was when he was talking to Mr. Harold Macmillan. He gets sick about the oddest things.

I do not follow that sort of argument and—[Interruption.]—in any case, it was a fairly cheap letter, to be truthful. I do not follow the argument that when a Government decide to change taxation arrangements they must except gilt-edged from their taxation changes. This argument has been used about nothing else. Of course we are entitled to change the taxation arrangements. Any Government are and many Governments have. There is simply nothing in the argument that this is a breach of faith. [Interruption.] I have expressed my point of view. Hon. Gentlemen opposite are entitled to hold a contrary view if they wish.

**Mr. Stratton Mills (Belfast, North):** Does the Chancellor accept the argument that the inclusion of gilt-edged stock in the Capital Gains Tax will have the effect, at least marginally, of pushing up the cost of borrowing against the Government?

**Mr. Callaghan :** I have seen that argument, but I do not accept it for the long run.

My hon. Friend the Member for Manchester, Cheetham (Mr. Harold Lever) asked why there should be double taxation in the Capital Gains Tax sphere. I was clear about this in my Budget Statement and I see no reason to depart from it. This arises from the

separation of taxation—the separation of tax on the company from tax on the shareholder. Both in the Corporation Tax and in the Capital Gains Tax, there is this separation and, as far as I am concerned, I think that we should carry the logic of this separation the whole way through. Thus, if one is separating the taxation of one from the taxation of the other, I do not think that one can use the tax of one to offset the tax of the other.

I return briefly to the Corporation Tax. I now particularly address my hon. Friends, although I hope that hon. Gentlemen opposite will bear this in mind. One of the advantages of the Corporation Tax, apart from its simplicity and the fact that in my view it acts as an incentive to growth, is that it enables trade unions to take what I would regard as a rational view towards profitability.

Nobody likes to work for an unprofitable industry. That is why one can always get employees to work for, say, I.C.I. in preference to British Railways. [HON. MEMBERS: "Hear, hear."] They prefer to work for an industry in which profits are to be made. Since I carry hon. Gentlemen opposite with me so far, let us see if they will come with me on the next stage of the argument. It has always been the case that whenever we, former Labour Administrations or hon. Gentlemen opposite have asked the wage earner—the man who has nothing to sell but his skill and labour—to restrain what he gets from industry, he inevitably replies, "If I do that, those other chaps later on are going to get it all back in the shape of some kind of capital gain, capital distribution or whatever it may be, whereas I never get back pay". How often have the trade union shop stewards heard that argument advanced against having a rational policy on wages?

One of the important points in this connection—I am not saying that it is the only virtue of the Corporation Tax—is that it enables one to separate the tax on the company from the tax on the shareholder. This is a very important element in it. It means that one can, as I am proposing here, have a relatively low rate of tax on the profitability of the company, so encouraging it to plough

back its retentions into new machinery and plant, whereas there will be a higher rate of tax on the shareholder. This is, in itself, a very substantial advance on the old system, for reasons which will be apparent to many people.

I was asked—remembering that the old system was full of anomalies—how much tax was being lost under the old system. I would remind him that the Public Accounts Committee—in its Fourth Report for 1963-64—had something to say which certainly influenced my thinking, in paragraphs 6 and 7, in relation to taxation which was not paid by companies although normal people might think it had been paid. The Committee took a specimen group and said:

"Some of the companies had paid the whole of their dividends to parent companies, and in these cases the Comptroller and Auditor General was able to establish that the gross dividends used by the parent companies for repayment claims exceeded by £32 million the total of profits on which the subsidiaries had paid tax. In these few examples—

few examples—

"therefore, there had been repayment of tax of £32 million (equivalent to tax of £12 million at the current standard rate) which had not been received by the Revenue and which, the Department confirmed, never would be received."

When we get in the tax system to that state where we "repay"—I put it in quotation marks—tax which has never been paid and which is then used to make dividends I say it is high time the system was changed. Everybody knows that through a variety of devices which we can go into in Committee a great deal of this sort of thing and other arrangements have been going on.

My hon. Friend the Financial Secretary put the argument on investment allowances and I shall not go into that again now as it is getting late, except to emphasise that from some of the exaggerated comments of hon. Members opposite one might think that investment allowances were being destroyed. Nothing of the sort. In fact, as my hon. Friend pointed out, they are costing something over £300 million a year and as a result of the introduction of Corporation Tax that cost will become roughly about £220 million which industry will still be getting.

I thought that the right hon. Gentleman's thinking was moving along very interesting lines, because he, like a great

[MR. CALLAGHAN.] many other people, is now beginning to regard investment allowances not so much as a tax relief as a subsidy. That was the way he was framing it, as he will see if he reads his remarks, and I invite him to do so. If these things are being regarded more and more as subsidies rather than tax relief then it is the duty of the Government to consider whether this is the best method in which that additional relief between £220 million and £320 million should be given. That is what I propose to look into during this year.

The hon. Member for Nottingham, South and other hon. Members opposite have claimed that there will be uncertainty. But if we are to operate on that basis we shall never make any changes at all. I think companies are sufficiently well versed in investment allowances over many years as not to be affected by this consideration too much. In any case I must point out that one of the consequences, as my hon. Friend the Financial Secretary reminded the House, is that it places more free reserves in the hands of companies. Because there is a lower tax on profits, they have more free reserves which they devote to investment.

**Sir T. Brinton:** I should like to ask the Chancellor to answer this question which the Financial Secretary dodged: why, when he has argued so cogently for the Corporation Tax that it would encourage investment in public companies, he should deliberately introduce a Clause insisting that close companies should pay at 60 per cent. on the total available for distribution?

**Mr. Callaghan:** I hope that the hon. Member will not say that my hon. Friend dodged the question. He gave way a number of times and did not give way to the hon. Member, and that was the reason I gave way to him. [HON. MEMBERS: "He did give way."] The hon. Member then tried to get up again and failed. I will come to close companies. Indeed I will come to that straightaway. Am I going on too long? [HON. MEMBERS: "No."] I have a lot of candid friends. I will deal with close companies and the question of overseas investment, and then, perhaps, we can move to a vote.

My hon. Friend the Member for Heywood and Royton (Mr. Barnett) made the classic case, to which, unfortunately, the hon. Member for Nottingham, South did not listen. I must therefore repeat it. There are provisions in the existing law to deal with avoidance of Surtax through the retention of the profits of very closely controlled companies. As I explained in my Budget speech, the temptation there is to withhold profits from distribution unnecessarily will be far greater under the new system because Income Tax as well as Surtax would be avoided. Having paid Corporation Tax at a rate to be fixed, those in control of the company could accumulate their savings free of all personal tax until they needed them.

The need to prevent avoidance in this way leads to provisions that may seem at variance with the general objective of encouraging retentions. But the same problem existed when distributed profits were taxed at a rate higher than undistributed profits; and all parties have always accepted that whatever might be suitable for the public company had to be modified in its application to the private company. I am surprised, nevertheless, that we have not been given any credit for the substantial change we have made in the law about closely controlled companies.

Under the present law, if a company does not make a reasonable distribution, all of its profits can be made liable to Surtax. This provision was long criticised as too severe. Under my provision, only 60 per cent. of its net trading profits have to be distributed, and it is open to the company to show that it could not make a distribution up to that standard without prejudice to the requirements of its business. If hon. Members will look at paragraph 10 of Schedule 17 they will find that this requirement has been defined in a way that links it up with the existing law.

The position is that we are proposing to repeal the existing provision, and the new language is supposed to have, and, I trust, will have, exactly the same effect. I think that 60 per cent. of net trading profits to be distributed is not a severe test. It amounts to 39 per cent. of the gross profit under Corporation Tax at

35 per cent., and 36 per cent. under Corporation Tax at 40 per cent. This is below the general level of distributions for public companies. It is no use the hon. Member for Kidderminster (Sir T. Brinton) shaking his head—

**Sir T. Brinton** rose—

**Hon. Members:** Sit down.

**Mr. Callaghan:** Having set this very reasonable standard, it is not unreasonable to expect the company to show that it ought not to distribute even that modest amount. If these companies are ploughing back their profits into new equipment and plant, nobody will require them to distribute them; it is where they are just sitting on them that we act. [*Interruption.*] Let us see how its gets written into the Bill. Hon. Gentlemen will know that what is said at this Dispatch Box cannot be translated into law; the Finance Bill will translate broadly what I say into Statute in due time.

I turn finally to overseas investment. This will go on. Listening to some of the Jeremiahs on the other side, one would think that overseas investment was to come to a full stop. It will go on at a very substantial pace. The United States has had this system of taxation for years. Overseas investment by the United States has gone up by leaps and bounds. In the last 12 years from 1951 to 1963 there has been 40,000 million dollars of private direct investment by the United States in other countries. If they have managed to do that under this system that I am now proposing to introduce, why is it suggested that overseas investment by British companies will wilt and die?

It will only wilt and die if the investment itself is unprofitable—that will be the test—and there is a certain amount of investment at the margin today which is relatively unprofitable, and only kept alive by very favourable tax treatment. Those who talk about dynamic investment will not claim that we should go on propping up that kind of institution which, in some cases, is not even marginally profitable at the present time but will surely agree that the capital in it could be better employed.

I should like to explain the position. I have to explain it to myself twice a

day, and I will put it as I understand it. There has been a lot of exaggeration, so I will try once again to get it over.

Today a company in this country gets relief from Income Tax and Profits Tax for all the overseas tax it pays. It gets relief up to, but not beyond, its full United Kingdom liability. Shareholders are regarded as satisfying their Income Tax liability even though the company has been relieved of all its Income Tax payments. Let us turn to the future. This is an odd position which certainly is not shared by other countries. Companies will continue to get relief from Corporation Tax on overseas tax on direct investment. There will be no change in that up to Corporation Tax rate, but there will be no relief beyond the Corporation Tax rate. Where the rub comes is that Corporation Tax will be lower than the United Kingdom Income Tax and Profit Tax rate.

There will be a larger chunk not set off than there is at present, although even today there are chunks which are not set off. There will be a larger chunk which will arise in those countries where indigenous rates of tax are astonishingly high. Although we hear that we are over-taxed in this country, it is astonishing to hear of countries where the rate is higher than it is here. I leave that on one side. Should the shareholder get the benefit of the tax which is not set off by having it set off against tax on his dividend? The principle of the Corporation Tax is that United Kingdom tax on a United Kingdom company will not be regarded in future as discharging the liability of the shareholder.

The same logic must apply to the overseas company. We cannot expect that tax which is paid by the company to an overseas country should be regarded as discharging the United Kingdom liability of the shareholder. It would make a monstrosity of the system to do so. Because they have had what undoubtedly is almost uniquely favourable treatment throughout the world—I do not swear that there are not one or two countries which have something like this—this would cause a certain amount of hardship. Therefore I have proposed this transitional relief for a period of five years, in the first two years of which the shareholder will be compensated.

[MR. CALLAGHAN.]

Some of my hon. Friends may think that I am being too generous in this respect. The shareholder will be very fully compensated for the first two years, but then the relief will tail off in the following three years.

**Sir D. Glover:** Would the Chancellor accept that the hon. Member for Meriden (Mr. Rowland) was right in his very interesting speech when he clearly showed that the difference was that under the present system the amount is 55 per cent., going up to 69½ per cent.?

**Mr. Callaghan:** I shall come back to that in Committee if the hon. Member will allow me to do so.

**Mr. Selwyn Lloyd:** This is a very serious point. In India the rate of taxation is about 60 per cent. That leaves 40 per cent. Under the arrangements the right hon. Gentleman proposes, if shareholders in this country are to be given the same yield on their investment, the amount left for development in India will be reduced from 20 per cent. to, say, 6 per cent. If the right hon. Gentleman puts it the other way round, there will be a savage cut in income here. Which is the choice?

**Mr. Callaghan:** The choice is for the company to make. That is the only way to do this. If the system is being altered, the company must choose either to plough back or to maintain dividends. There is nothing sacrosanct about the present level of dividends. I shall come back to the question of developing countries. These companies have five years in which to make a choice. If they are growing at a normal rate, many will find that they are not even faced with a cut in dividend.

I turn to the position of B.P. I will disregard Shell and deal with B.P. as time is going on. Looking at the B.P. balance sheet for the last 10 years the simple truth is that the tax which that company has paid to the United Kingdom has gone down year by year. Whereas in 1958 the company was paying £10 million of tax to this country, it has now reached the stage where it is paying just under £500,000 in taxation. Its dividends have practically doubled in the same period, from £17.7 million to £31.3 million. It has appropriated to general reserve a very great deal more every year, and the inter-

esting thing is that in the case of the large oil companies, whether it be Shell or B.P.—I will not go into the figures now—the shareholder as a means of supplying capital is really as redundant as the rhinoceros.

These companies have raised all their capital from their retentions, except to the extent of 1 or 2 per cent. In the case of Shell, out of a total investment of £3,300 million, the shareholder in eight or 10 years has provided about £100 million, but his dividend has gone up by three times in the same period. He is not providing the capital. The company is providing it out of its own retentions. If, neglecting my transitional arrangements, Shell were to say, "We are going to bear all of this on the dividends as from now and we shall go ahead with our retention", it would mean that the dividend would be at the same level now as it was in 1960.

**Mr. George Y. Mackie** (Caithness and Sutherland) *rose*—

**Mr. Callaghan:** I think I had better get on. We shall have plenty of time in Committee. I promise the hon. Gentleman that we shall deal with this in Committee.

I wish to say two further things, one on developing countries. I must point out that the level of private investment in the developing countries has regrettably been declining year by year. In 1960 it was as much as £90 million a year. By 1964 it had gone down to £45 million a year. Part of it is a reflection of the high rates of taxation. That again we must pursue later.

One final point on exports. I am told that it is necessary to invest large sums of capital overseas to get exports. I do not deny the connection. There is a connection, but a great deal too much has been made of this point. I will quote six figures to the House and hon. Members can consider them between now and Committee. Our exports in the last five years have gone up by less than 30 per cent. The Germans have increased their exports by about 60 per cent. The Japanese exports have gone up by about 90 per cent.

As regards overseas investment of capital, the Japanese have invested overseas

in the same period £160 million; the Germans have invested overseas in the same period £230 million, and Britain has invested in the same period overseas £1,270 million. Of course, there is a connection between exports and overseas capital, but if Germany and Japan can push up their exports like that with minuscule amounts of capital investment overseas, surely it is ridiculous to suggest that we have to go on pouring out overseas capital that we can ill afford in order to achieve a result that is nothing like as good.

Whatever may have been the reception on the benches opposite, there is no doubt that in the country this Budget, and the Finance Bill generally, has had a good reception. It marks a new stage in the progress of this country and as such it is accepted by our people.

*Question put, That the Bill be now read a Second time:—*

*The House divided: Ayes 299, Noes 296.*

## Division No. 104.]

## AYES

[11.45 p.m.]

Abse, Leo  
 Albu, Austen  
 Allaun, Frank (Salford, E.)  
 Aildritt, Walter  
 Armstrong, Ernest  
 Atkinson, Norman  
 Bacon, Miss Alice  
 Barnett, Joel  
 Baxter, William  
 Beaney, Alan  
 Bellenger, Rt. Hn. F. J.  
 Bence, Cyril  
 Benn, Rt. Hn. Anthony Wedgwood  
 Bennett, J. (Glasgow, Bridgeton)  
 Binns, John  
 Bishop, E. S.  
 Blackburn, F.  
 Blenkinsop, Arthur  
 Boardman, H.  
 Boston, T. G.  
 Bottomley, Rt. Hn. Arthur  
 Bowden, Rt. Hn. H. W. (Leics S.W.)  
 Boyden, James  
 Braddock, Mrs. E. M.  
 Bradley, Tom  
 Bray, Dr. Jeremy  
 Broughton, Dr. A. D. D.  
 Brown, Rt. Hn. George (Belper)  
 Brown, Hugh D. (Glasgow, Provan)  
 Brown, R. W. (Shoreditch & Fbury)  
 Buchan, Norman (Renfrewshire, W.)  
 Buchanan, Richard  
 Butler, Herbert (Hackney, C.)  
 Butler, Mrs. Joyce (Wood Green)  
 Callaghan, Rt. Hn. James  
 Carmichael, Neil  
 Carter-Jones, Lewis  
 Chapman, Donald  
 Coleman, Donald  
 Conlan, Bernard  
 Corbet, Mrs. Freda  
 Cousins, Rt. Hn. Frank  
 Craddock, George (Bradford, S.)  
 Crawshaw, Richard  
 Cronin, John  
 Crosland, Anthony  
 Crossman, Rt. Hn. R. H. S.  
 Cullen, Mrs. Alice  
 Dalyell, Tam  
 Darling, George  
 Davies, G. Eifed (Rhondda, E.)  
 Davies, Harold (Leek)  
 Davies, Ifor (Gower)  
 Davies, S. O. (Merthyr)  
 de Freitas, Sir Geoffrey  
 Delargy, Hugh  
 Dell, Edmund  
 Dempsey, James  
 Diamond, John

Dodds, Norman  
 Doig, Peter  
 Donnelly, Desmond  
 Driberg, Tom  
 Duffy, Dr. A. E. P.  
 Dunn, James A.  
 Dunnett, Jack  
 Edelman, Maurice  
 Edwards, Rt. Hn. Ness (Caerphilly)  
 Edwards, Robert (Bilston)  
 English, Michael  
 Ennals, David  
 Ensor, David  
 Evans, Albert (Islington, S.W.)  
 Evans, Ioan (Birmingham, Yardley)  
 Fernyhough, E.  
 Finch, Harold (Bedwellty)  
 Fitch, Alan (Wigan)  
 Fletcher, Sir Eric (Islington, E.)  
 Fletcher, Ted (Darlington)  
 Fletcher, Raymond (Ilkeston)  
 Floud, Bernard  
 Foley, Maurice  
 Foot, Sir Dingle (Ipswich)  
 Foot, Michael (Ebbw Vale)  
 Ford, Ben  
 Fraser, Rt. Hn. Tom (Hamilton)  
 Freeson, Reginald  
 Galpern, Sir Myer  
 Garrett, W. E.  
 Garrow, A.  
 George, Lady Megan Lloyd  
 Ginsburg, David  
 Gourlay, Harry  
 Greenwood, Rt. Hn. Anthony  
 Gregory, Arnold  
 Grey, Charles  
 Griffiths, David (Rother Valley)  
 Griffiths, Rt. Hn. James (Llanelli)  
 Griffiths, Will (M'chester, Exchange)  
 Gunter, Rt. Hn. R. J.  
 Haie, Leslie  
 Hamilton, James (Bothwell)  
 Hamilton, William (West Fife)  
 Hamling, William (Woolwich, W.)  
 Hannan, William  
 Harper, Joseph  
 Harrison, Walter (Wakefield)  
 Hart, Mrs. Judith  
 Hattersley, Roy  
 Hazell, Bert  
 Healey, Rt. Hn. Denis  
 Heffer, Eric S.  
 Henderson, Rt. Hn. Arthur  
 Herbison, Rt. Hn. Margaret  
 Hill, J. (Midlothian)  
 Hobden, Dennis (Brighton, K'town)  
 Holman, Percy  
 Horner, John

Houghton, Rt. Hn. Douglas  
 Howarth, Harry (Wellingborough)  
 Howarth, Robert L. (Bolton, E.)  
 Howell, Denis (Small Heath)  
 Howie, W.  
 Hoy, James  
 Hughes, Gledwyn (Anglesey)  
 Hughes, Emrys (S. Ayrshire)  
 Hughes, Hector (Aberdeen, N.)  
 Hunter, Adam (Dunfermline)  
 Hunter, A. E. (Feltham)  
 Hynd, H. (Accrington)  
 Hynd, John (Attercliffe)  
 Irvine, A. J. (Edge Hill)  
 Jackson, Colin  
 Janner, Sir Barnett  
 Jay, Rt. Hn. Douglas  
 Jeger, George (Goole)  
 Jeger, Mrs. Lena (H'b'n & St.P'cras, S.)  
 Jenkins, Hugh (Putney)  
 Jenkins, Rt. Hn. Roy (Stechford)  
 Johnson, Carol (Lewisham, S.)  
 Johnson, James (K'ston-on-Hull, W.)  
 Jones, Dan (Burnley)  
 Jones, Rt. Hn. Sir Elwyn (W. Ham, S.)  
 Jones, J. Idwal (Wrexham)  
 Jones, T. W. (Merioneth)  
 Kelley, Richard  
 Kenyon, Clifford  
 Kerr, Mrs. Anne (R'ter & Chatham)  
 Kerr, Dr. David (W'worth, Central)  
 Lawson, George  
 Leadbitter, Ted  
 Ledger, Ron  
 Lee, Rt. Hn. Frederick (Newton)  
 Lee, Miss Jennie (Cannock)  
 Lever, Harold (Cheetham)  
 Lever, L. M. (Ardwick)  
 Lewis, Arthur (West Ham, N.)  
 Lewis, Ron (Carlisle)  
 Lipton, Marcus  
 Lomas, Kenneth  
 Loughlin, Charles  
 Mabon, Dr. J. Dickson  
 McBride, Neil  
 McCann, J.  
 MacColl, James  
 MacDermot, Niall  
 McGuire, Michael  
 McInnes, James  
 McKay, Mrs. Margaret  
 Mackenzie, Gregor (Rutherglen)  
 Mackie, John (Enfield, E.)  
 McLeavy, Frank  
 MacMillan, Malcolm  
 MacPherson, Malcolm  
 Mahon, Peter (Preston, S.)  
 Mahon, Simon (Bootle)  
 Malfaiieu, E. L. (Brigg)

Maffalieu, J. P. W. (Huddersfield, E.)  
 Manuel, Archie  
 Mapp, Charles  
 Marsh, Richard  
 Mason, Roy  
 Maxwell, Robert  
 Mayhew, Christopher  
 Mellish, Robert  
 Mendelson, J. J.  
 Mikardo, Ian  
 Millan, Bruce  
 Miller, Dr. M. S.  
 Milne, Edward (Blyth)  
 Molloy, William  
 Monslow, Walter  
 Morris, Charles (Openshaw)  
 Morris, John (Aberavon)  
 Mulley, Rt. Hn. Frederick (Sheffield Pk)  
 Murray, Albert  
 Neal, Harold  
 Newens, Stan  
 Noel-Baker, Rt. Hn. Philip (Derby, S.)  
 Norwood, Christopher  
 Oakes, Gordon  
 Ogdon, Eric  
 O'Malley, Brian  
 Oram, Albert E. (E. Ham, S.)  
 Orbach, Maurice  
 Orme, Stanley  
 Oswald, Thomas  
 Owen, Will  
 Padley, Walter  
 Page, Derek (King's Lynn)  
 Paget, R. T.  
 Palmer, Arthur  
 Pannell, Rt. Hn. Charles  
 Pargiter, G. A.  
 Park, Trevor (Derbyshire, S.E.)  
 Parker, John  
 Parkin, B. T.  
 Pavitt, Laurence  
 Pearson, Arthur (Pontypridd)

Peart, Rt. Hn. Fred  
 Pentland, Norman  
 Perry, Ernest G.  
 Popplewell, Ernest  
 Prentice, R. E.  
 Price, J. T. (Westhoughton)  
 Probert, Arthur  
 Pursey, Cndr. Harry  
 Rankin, John  
 Redhead, Edward  
 Rees, Merlyn  
 Reynolds, G. W.  
 Rhodes, Geoffrey  
 Richard, Ivor  
 Roberts, Albert (Normanton)  
 Roberts, Goronwy (Caernarvon)  
 Robertson, John (Paisley)  
 Rodgers, William (Stockton)  
 Rose, Paul B.  
 Ross, Rt. Hn. William  
 Rowland, Christopher  
 Sheldon, Robert  
 Shinwell, Rt. Hn. E.  
 Shore, Peter (Stepney)  
 Short, Rt. Hn. E. (N'c'le-on-Tyne, G.)  
 Short, Mrs. Renée (W'hampton, N.E.)  
 Silkin, John (Deptford)  
 Silverman, Julius (Aston)  
 Silverman, Sydney (Nelson)  
 Skeffington, Arthur  
 Slater, Mrs. Harriet (Stoke, N.)  
 Small, William  
 Smith, Ellis (Stoke, S.)  
 Snow, Julian  
 Solomons, Henry  
 Soskice, Rt. Hn. Sir Frank  
 Steele, Thomas (Dunbartonshire, W.)  
 Stonehouse, John  
 Stones, William  
 Strauss, Rt. Hn. G. R. (Vauxhall)  
 Summerskill, Dr. Shirley  
 Swain, Thomas

Swingler, Stephen  
 Symonds, J. B.  
 Taverne, Dick  
 Taylor, Bernard (Mansfield)  
 Thomas, George (Cardiff, W.)  
 Thomas, Iorwerth (Rhondda, W.)  
 Thornton, Ernest  
 Tinn, James  
 Tomney, Frank  
 Tuck, Raphael  
 Urwin, T. W.  
 Varley, Eric G.  
 Vainwright, Edwin  
 Walden, Brian (All Saints)  
 Walker, Harold (Doncaster)  
 Wallace, George  
 Warbey, William  
 Watkins, Tudor  
 Weitzman, David  
 Wells, William (Walsall, N.)  
 White, Mrs. Eirene  
 Whitlock, William  
 Wigg, Rt. Hn. George  
 Wilkins, W. A.  
 Willey, Rt. Hn. Frederick  
 Williams, Alan (Swansea, W.)  
 Williams, Albert (Abertillery)  
 Williams, Mrs. Shirley (Hitchin)  
 Williams, W. T. (Warrington)  
 Willis, George (Edinburgh, E.)  
 Wilson, Rt. Hn. Harold (Huyton)  
 Wilson, William (Coventry, S.)  
 Winterbottom, R. E.  
 Woodburn, Rt. Hn. A.  
 Woolf, Robert  
 Wyatt, Woodrow  
 Yates, Victor (Ladywood)  
 Zilliacus, K.

## TELLERS FOR THE AYES:

Mr. Sydney Irving and  
 Mr. George Rogers.

## NOES

Agnew, Commander Sir Peter  
 Alison, Michael (Barkston Ash)  
 Allan, Robert (Paddington, S.)  
 Allison, James (Hemel Hempstead)  
 Amery, Rt. Hn. Julian  
 Anstruther-Gray, Rt. Hn. Sir W.  
 Astor, John  
 Atkins, Humphrey  
 Awdry, Daniel  
 Baker, W. H. K.  
 Balmiel, Lord  
 Barber, Rt. Hn. Anthony  
 Barlow, Sir John  
 Batsford, Brian  
 Beamish, Col. Sir Tufton  
 Bell, Ronald  
 Bennett, Sir Frederic (Torquay)  
 Bennett, Dr. Reginald (Gos & Fhm)  
 Berkeley, Humphry  
 Berry, Hn. Anthony  
 Bessell, Peter  
 Biggs-Davison, John  
 Birch, Rt. Hn. Nigel  
 Black, Sir Cyril  
 Blaker, Peter  
 Bossom, Hn. Clive  
 Bowen, Roderic (Cardigan)  
 Box, Donald  
 Boyd-Carpenter, Rt. Hn. J.  
 Boyle, Rt. Hn. Sir Edward  
 Brewis, John  
 Brinton, Sir Tatton  
 Bromley-Davenport, Lt.-Col. Sir Walter  
 Brooke, Rt. Hn. Henry  
 Brown, Sir Edward (Bath)  
 Bruce-Gardyne, J.  
 Bryan, Paul  
 Buchanan-Smith, Alick

Buck, Antony  
 Bullus, Sir Eric  
 Burden, F. A.  
 Butcher, Sir Herbert  
 Buxton, Ronald  
 Campbell, Gordon  
 Carlisle, Mark  
 Carr, Rt. Hn. Robert  
 Cary, Sir Robert  
 Channon, H. P. G.  
 Chichester-Clark, R.  
 Clark, Henry (Antrim, N.)  
 Clark, William (Nottingham, S.)  
 Clarke, Brig. Terence (Portsmouth, W.)  
 Cole, Norman  
 Cooke, Robert  
 Cooper, A. E.  
 Cooper-Key, Sir Neill  
 Cordle, John  
 Corfield, F. V.  
 Costain, A. P.  
 Courtney, Cdr. Anthony  
 Craddock, Sir Beresford (Spelthorne)  
 Crawley, Aidan  
 Crosthwaite-Eyre, Col. Sir Oliver  
 Crowder, F. P.  
 Cunningham, Sir Knox  
 Curran, Charles  
 Dalkeith, Earl of  
 Dance, James  
 Davies, Dr. Wyndham (Perry Barr)  
 d'Avigdor-Goldsmid, Sir Henry  
 Dean, Paul  
 Deedes, Rt. Hn. W. F.  
 Digby, Simon Wingfield  
 Dodds-Parker, Douglas  
 Doughty, Charles  
 Douglas-Home, Rt. Hn. Sir Alec

Drayson, G. B.  
 du Cann, Rt. Hn. Edward  
 Eden, Sir John  
 Elliot, Capt. Walter (Carshalton)  
 Emery, Peter  
 Errington, Sir Eric  
 Eyre, Reginald  
 Farr, John  
 Fell, Anthony  
 Fisher, Nigel  
 Fletcher-Cooke, Charles (Darwen)  
 Fletcher-Cooke, Sir John (S'pton)  
 Foster, Sir John  
 Fraser, Rt. Hn. Hugh (St'ford & Stone)  
 Fraser, Ian (Plymouth, Sutton)  
 Galbraith, Hn. T. G. D.  
 Gammans, Lady  
 Gardner, Edward  
 Gibson-Watt, David  
 Giles, Rear-Admiral Morgan  
 Gilmour, Ian (Norfolk, Central)  
 Gilmour, Sir John (East Fife)  
 Glover, Sir Douglas  
 Glyn, Sir Richard  
 Godber, Rt. Hn. J. B.  
 Goodhart, Philip  
 Goodhew, Victor  
 Gower, Raymond  
 Grant, Anthony  
 Grant-Ferris, R.  
 Gresham-Cooke, R.  
 Grieve, Percy  
 Griffiths, Eldon (Bury St. Edmunds)  
 Griffiths, Peter (Smethwick)  
 Grimond, Rt. Hn. J.  
 Gurden, Harold  
 Hall, John (Wycombe)  
 Hall-Davis, A. G. F.

Hamilton, Marquess of (Fermanagh)	McAdden, Sir Stephen	Roots, William
Hamilton, M. (Salisbury)	Mackenzie, Alasdair (Ross & Cromarty)	Russell, Sir Ronald
Harris, Frederic (Croydon, N.W.)	Mackie, George Y. (G'ness & S'land)	St. John-Stevas, Norman
Harris, Reader (Heston)	Maclean, Sir Fitzroy	Sandys, Rt. Hn. D.
Harrison, Brian (Maldon)	Macleod, Rt. Hn. Iain	Scott-Hopkins, James
Harrison, Col. Sir Harwood (Eye)	McMaster, Stanley	Sharples, Richard
Harvey, Sir Arthur Vere (Maccles'd)	McNair-Wilson, Patrick	Shepherd, William
Harvey, John (Walthamstow, E.)	Maitland, Sir John	Sinclair, Sir George
Harvie Anderson, Miss	Marples, Rt. Hn. Ernest	Smith, Dudley (Br'ntf'rd & Chiswick)
Hastings, Stephen	Marton, Neil	Smyth, Rt. Hn. Brig. Sir John
Hawkins, Paul	Mathew, Robert	Soames, Rt. Hn. Christopher
Hay, John	Maude, Angus	Spearman, Sir Alexander
Heald, Rt. Hn. Sir Lionel	Maudling, Rt. Hn. Reginald	Speer, Sir Rupert
Heath, Rt. Hn. Edward	Mawby, Ray	Stainton, Keith
Hendry, Forbes	Maxwell-Hyslop, R. J.	Stanley, Hn. Richard
Higgins, Terence L.	Maydon, Lt.-Cmdr. S. L. C.	Steel, David (Roxburgh)
Hiley, Joseph	Meyer, Sir Anthony	Stodart, Anthony
Hill, J. E. B. (S. Norfolk)	Mills, Peter (Torrington)	Stoddart-Scott, Col. Sir Malcolm
Hirst, Geoffrey	Mills, Stratton (Belfast, N.)	Studholme, Sir Henry
Hobson, Rt. Hn. Sir John	Miscampbell, Norman	Summers, Sir Spencer
Hogg, Rt. Hn. Quintin	Mitchell, David	Talbot, John E.
Hooson, H. E.	Monro, Hector	Taylor, Sir Charles (Eastbourne)
Hopkins, Alan	More, Jasper	Taylor, Edward M. (G'gow, Cathcart)
Hordern, Peter	Morgan, W. G.	Taylor, Frank (Moss Side)
Hornby, Richard	Morrison, Charles (Devizes)	Temple, John M.
Hornsby-Smith, Rt. Hn. Dame P.	Mott-Radclyffe, Sir Charles	Thatcher, Mrs. Margaret
Howard, Hn. G. R. (St. Ives)	Munro-Lucas-Tooth, Sir Hugh	Thomas, Sir Leslie (Canterbury)
Howe, Geoffrey (Behington)	Murton, Oscar	Thomas, Rt. Hn. Peter (Conway)
Hunt, John (Bromley)	Neave, Airey	Thompson, Sir Richard (Croydon, S.)
Hutchison, Michael Clark	Nicholls, Sir Harmar	Thornycroft, Rt. Hn. Peter
Iremonger, T. L.	Nicholson, Sir Godfrey	Thorpe, Jeremy
Irvine, Bryant Godman (Rye)	Noble, Rt. Hn. Michael	Tiley, Arthur (Bradford, W.)
Jenkin, Patrick (Woodford)	Nugent, Rt. Hn. Sir Richard	Tilney, John (Wavertree)
Jennings, J. C.	Onslow, Cranley	Turton, Rt. Hn. R. H.
Johnson Smith, G. (East Grinstead)	Orr, Capt. L. P. S.	Tweedsmuir, Lady
Jones, Arthur (Northants, S.)	Orr-Ewing, Sir Ian	van Straubenzee, W. R.
Jopling, Michael	Osborn, John (Hallam)	Vaughan-Morgan, Rt. Hn. Sir John
Joseph, Rt. Hn. Sir Keith	Osborne, Sir Cyril (Louth)	Vickers, Dame Joan
Kaberry, Sir Donald	Page, John (Harrow, W.)	Waider, David (High Peak)
Kerby, Capt. Henry	Page, R. Graham (Crosby)	Walker, Peter (Worcester)
Kerr, Sir Hamilton (Cambridge)	Pearson, Sir Frank (Clitheroe)	Walker-Smith, Rt. Hn. Sir Derek
Kershaw, Anthony	Peel, John	Walters, Dennis
Kilfedder, James A.	Percival, Ian	Ward, Dame Irene
Kimball, Marcus	Peyton, John	Weatherill, Bernard
King, Evelyn (Dorset, S.)	Pickthorn, Rt. Hn. Sir Kenneth	Wehster, David
Kirk, Peter	Pike, Miss Mervyn	Wells, John (Maidstone)
Kitson, Timothy	Pitt, Dame Edith	Whitelaw, William
Lagden, Godfrey	Pounder, Rafton	Williams, Sir Rolf Dudley (Exeter)
Lambton, Viscount	Powell, Rt. Hn. J. Enoch	Wills, Sir Gerald (Bridgwater)
Lancaster, Col. C. G.	Price, David (Eastleigh)	Wilson, Geoffrey (Truro)
Langford-Holt, Sir John	Prior, J. M. L.	Wise, A. R.
Legge-Bourke, Sir Harry	Pym, Francis	Wolrige-Gordon, Patrick
Lewis, Kenneth (Rutland)	Quennell, Miss J. M.	Wood, Rt. Hn. Richard
Litchfield, Capt. John	Ramsden, Rt. Hn. James	Woodhouse, Hn. Christopher
Lloyd, Rt. Hn. Geoffrey (Sut'n C'dfield)	Rawlinson, Rt. Hn. Sir Peter	Woodnutt, Mark
Lloyd, Ian (P'tsm'th, Langstone)	Redmayne, Rt. Hn. Sir Martin	Yllie, N. R.
Lloyd, Rt. Hn. Selwyn (Wirral)	Rees-Davies, W. R.	Yates, William (The Wrekin)
Longbottom, Charles	Renton, Rt. Hn. Sir David	Younger, Hn. George
Longden, Gilbert	Ridsdale, Julian	
Loveys, Walter H.	Roberts, Sir Peter (Heeley)	TELLERS FOR THE NOES:
Lubbock, Eric	Robson Brown, Sir William	Mr. Martin McLaren and
Lucas, Sir Jocelyn	Rodgers, Sir John (Sevenoaks)	Mr. Ian MacArthur.

*Bill accordingly read a Second time and committed to a Committee of the whole House.*

*Committee Tomorrow.*

## MUSEUM OF LONDON BILL

[Lords]

*As amended (in the Standing Committee), considered.*

**Clause 2.**—(TRANSFER TO BOARD OF COLLECTIONS OF LONDON AND GUILDHALL MUSEUMS AND BENEFIT OF CERTAIN FUNDS.)

11.58 p.m.

**The Financial Secretary to the Treasury (Mr. Niall MacDermot):** I beg to move, in page 2, line 3, to leave out "Treasury", and to insert "Secretary of State".

**Mr. Speaker:** Order. The House must be able to hear its business. I hope that hon. Members will bear that in mind.

**Mr. MacDermot:** Mr. Speaker, would it be convenient to discuss with that Amendment all the remaining Amendments standing in my name? They all deal with virtually the same point.

**Mr. Speaker:** Yes, if the House so pleases. Possibly the Chair later on might think fit to include them in one Question in so far as they group.

**Mr. MacDermot:** These Amendments arise from the decision that Ministerial responsibility for the arts should be transferred from the Treasury to the Department of Education and Science. That Department will undertake the functions which under the Bill as at present drafted would be undertaken by the Treasury.

In Committee I canvassed the possibility that certain of these functions might be retained by the Treasury, but after considering the matter further it seemed better that they should all be transferred. The one we had in mind that might be retained were those dealing with the control of salaries of staff, but, as the staff are not to be civil servants, and the new museum, as the House knows, will be jointly controlled by three authorities, the central Government, the Greater London Council, and the City of London, it seemed to us on the whole preferable that all the functions should be transferred.

The Amendments therefore substitute the words "Secretary of State" for "Treasury" throughout, except in the case of one Amendment, where it is more convenient to rephrase the reference to

the National Gallery and Tate Gallery Act, 1954. There is no Amendment to Clause 1, which provides for six of the governors of the new museum to be appointed by the Prime Minister. That power of appointment will remain, as in the case of other national museums and galleries.

In Committee I said that it was the intention that the Amendment should be dealt with by the Transfer of Functions Order, but in the event the time factor made this impossible, because the Order had to come forward before the Bill could get through its remaining stages.

12 m.

**Mr. James Ramsden (Harrogate):** Neither my hon. Friends nor I would wish to question the need for the Amendment, but we might try to elicit a little more information from the Financial Secretary as to why the way in which he is seeking to amend the Bill differs from his intentions—as we understood them—as expressed to us in Committee.

In Committee I asked the Financial Secretary what would be the effect upon the Bill of the creation of the new post of Minister for the Arts. I asked how it was proposed to give effect to the transfer of functions. The hon. and learned Member told the Committee that the Transfer of Functions Order would take care of that, although at the time this matter was discussed in Committee the Order had not been laid. In the event the Transfer of Functions Order had no reference to the matters with which the Bill is concerned, and the hon. and learned Member was good enough to write me a letter to explain why he intended to proceed by way of amending the Bill rather than do what it was necessary to do through the Order.

I admit that when I got his letter—and it was courteous of him to write to me—I wondered whether the reason for his change of plan was that it would not be as easy as he at one time thought, in Committee, to do through the Order some of the things that he wished to do. I asked him whether it would be possible, had he used the Transfer of Functions Order, to retain in the Bill some of the functions with the Treasury and to allow others to pass to the Ministry of Education. He assured me that this would be quite possible, although it was a little difficult to see how effect could possibly

be given to that intention through the Order.

However, in the event—as I understand the Amendments—the Government seek to transfer all the functions. I thought that the hon. and learned Gentleman could have given the House a little more information why it had been decided to do this. It struck all of us in Committee that it was his intention at that time to keep some of the functions with the Treasury. He mentioned the interests of the Greater London Council and those of the Corporation of the City of London and said that they might be concerned about the method by which this was eventually to be done. He gave us reason to think that they might also be concerned about the desirability of some of the functions remaining with the Treasury. I think that the House would like to know why it is that the hon. and learned Gentleman has decided to make a clean sweep and transfer them all. We should be obliged to the Financial Secretary if he could clear this up.

I have seen, in a previous incarnation, some of the politics which lie behind these museums, and they are very intriguing. One might even go so far as to say that the politics of a museum are sometimes as intriguing as the exhibits on its shelves. I am probably not very wide of the mark when I deduce in the Financial Secretary's change of mind since the Committee stage a certain amount of manoeuvring behind the scenes and a certain amount of disagreement and, perhaps, eventual compromise. I think that the House would like to know what has happened, and whether all the parties concerned are satisfied with the outcome, and are satisfied with what will be the final result if we pass these Amendments—that is, the complete transfer to the Secretary of State for Education and Science of the functions concerned.

The hon. and learned Gentleman also owes the House an assurance over the financing of expenditure by this museum now that the Treasury's functions have passed to the Secretary of State. I take it that, if these Amendments are passed, the Government's responsibility for finding their share of the various expenses of the museum will no longer be borne on the Treasury Vote, but will have to be borne on the Vote of the Secretary of State. The Secretary of State already has

a very large Vote. It is something over £100 million—perhaps the Financial Secretary could tell us exactly—and it is one which, in the normal course of events, comes under very close scrutiny year by year in the Treasury. There are even occasions—there was a recent controversial occasion—when the Vote is reduced. I refer to the minor works expenditure. What the House would like to be assured about—I am sure that this also applies to the Greater London Council and the Corporation of the City of London—is that this expenditure will not be prejudiced by being transferred to the Vote of the Secretary of State for Education and Science. I think that the House and those concerned with the museum would like a very clear and explicit assurance that this expenditure, when the estimate has been made under Clause 15, will be held and considered separately from the global total of the Vote of the Secretary of State. I think that the House should have that assurance.

This next question may display my ignorance, but I am sure that the hon. and learned Gentleman can enlighten me. How is it that we know when we amend the Bill to read "Secretary of State" instead of "Treasury" that the Secretary of State will be the Secretary of State for Education and Science? I have heard it held constitutionally that all Secretaries of State are one and the same person, and the answer may be connected with that fact. But as it is the Government's clear intention to make this matter the responsibility of one specific Ministry, it would be interesting to know why that could not have been stated in so many words.

With those few words I sit down, and as far as I am concerned the hon. and learned Member has leave to reply if he wishes to do so.

**Mr. MacDermot:** With your leave, Mr. Deputy-Speaker, and that of the House, I will seek to answer the questions of the right hon. Member for Harrogate (Mr. Ramsden). I sought to answer the first two in my few earlier remarks, but perhaps they were too brief. I was asked, why are we doing the transfer by the Amendment rather than by the Transfer of Functions Order? There is no mystery about it.

[MR. MACDERMOT.]

It is simply that the Transfer of Functions Order can bite only on existing legislation and, as this had not become an Act of Parliament, as we had hoped it might, before the Transfer of Functions Order was laid before the House, it was impossible to make the transfer in that way.

I was asked why none of the functions has been retained by the Treasury but all have been transferred when, as I indicated, we had been canvassing the possibility of retaining some under the Treasury. Again, there is no mystery. There may be dark politics behind museum matters, but if there are, they are so dark that in this case they have never come to light to me. This decision is one to which the Treasury give whole-hearted approval. We thought that it would not be right for us to seek to retain the powers. The Treasury have responsibilities for the control of the civil servants, and this applies also to the pay and conditions of service of people in some national museums who are civil servants. Because these cases were parallel we thought that we ought to retain the powers in this case, but in fact it is not analogous. The museum will be under tripartite control, and to show that this is tripartite control, it is probably better that we do not try to retain Treasury control of the staff.

I was asked about the financing of this museum. The hon. Member for Harrogate expressed the hope that it would not suffer in any way by being transferred to the Department of Education and Science in the immensity of that Department's Votes. He hoped that the needs of this museum would in no way suffer. I can give him that assurance, apart from anything else for the simple reason that it is the intention that the Vote which covers this museum and other national museums will remain as a separate Vote. They will not be confused with the requirements and demands from education, and they will be submitted for consideration by the Treasury quite separately.

The hon. Member's final question was on the mystical unity of the Secretary of State. I confess that this took me by surprise when I first encountered it, but it is happy to think that our con-

stitution recognises this close unity which blends all Secretaries of State together into one person so that each can perform the functions of all. In fact, it will be that incarnation of this united person which presides over the Department of Education and Science which will exercise these functions, but as a matter of draftsmanship this is the right way to describe it.

12.15 a.m.

**Mr. Robert Cooke** (Bristol, West): I have one or two brief observations to make. The hon. and learned Member for Derby, North (Mr. MacDermot) replied with great charm to my right hon. Friend the Member for Harrogate (Mr. Ramsden), but despite the charm with which he replied, I hope he will agree that, under the Amendments to Clause 15, it will be the Secretary of State for Education and Science who will be disbursing a capital sum of £580,000 sought by the Museum of London and £100,000 per annum. These seem to us to be very large sums of money indeed.

We support the proposal, but it will be part of the Arts Fund and I hope the hon. and learned Gentleman will be able to assure the House that it will not in any way mitigate against the proposals for increased funds for the arts, and indeed that the Government have committed themselves in advance to this sum and that any additional sums they find will be additional to any sums mentioned in this Bill.

*Amendment agreed to.*

**Clause 5.**—(POWER OF BOARD TO ACQUIRE AND DISPOSE OF OBJECTS.)

**Mr. Robert Cooke**: I beg to move, in page 3, line 45, to leave out from "collections" to the end of line 2 on page 4.

**Mr. Speaker**: I think it would be convenient to discuss with this Amendment the next Amendment, in page 4, line 7 to leave out subsection (4).

**Mr. Cooke**: The object of this Amendment really is to explore the Government's mind and to see whether or not in fact the words that I am proposing to leave out are superfluous. It would appear that if, according to the wording of the Clause, the Board decided to dispose of an object it is hardly necessary to include all these words about the reasons

for so doing. I hope the hon. and learned Gentleman will see that the Amendment which we propose makes a much tidier job of it.

The purpose of the second Amendment is to help the museum where it might find itself in a difficulty if it had been left an object, perhaps long ago, which had no particular relevance in the museum but which was left to the museum or its predecessor on certain conditions. It might have been left an excellent pair of suites of Japanese armour, or something of that kind, on condition that they were permanently displayed to the public. While I would on every normal occasion defend the wishes of any benefactor, and say that they should be carried forward into the future, there are some benefactions which could in the future become an incubus. Perhaps the Government had not thought about this difficulty when they prepared the Bill.

I hope that the hon. and learned Gentleman will have something to say on the proposal that we should omit subsection (4).

**Mr. MacDermot:** We have considered the matters which the hon. Gentleman has raised, and I must advise the House to reject the Amendments. I think there is quite an important point involved.

The Clause as it stands is modelled on, though slightly wider than, the corresponding provision of the British Museum Act of 1963—Section 5. The powers which we conferred in the Clause as drafted are ones with which the present interim Board of Governors of the Museum of London are well satisfied, and they would not wish to see them widened.

The point at issue is whether the power of the Board to

“sell, exchange, give away or otherwise dispose of”

any of the objects forming part of the collection should be an unrestricted, unlimited power, or whether it should be restricted in the words which the hon. Gentleman suggests should be left out.

There are two restrictions. The first is that they can dispose of them only if the object is either duplicated or is, for any other reason, in their opinion, not required for retention in relation to collections; and secondly if they have accepted the object subject to a trust or

condition, then they cannot dispose of it in a way which would conflict with the terms of that trust or condition.

The important point is that it might severely restrict the number of people who would be prepared to make gifts to the museum in the form of trusts or bequests, as is frequently done, if they felt that any condition which they wished to impose might be disregarded at will by the Board. There is no obligation on the museum to accept a donation if it thinks that the conditions subject to which it is offered are too restrictive or too onerous.

Once it is decided to accept them subject to the terms of a trust I think it would be regarded as a serious breach of faith if the museum did not adhere to the terms of the gift.

This is a normal provision. It is modelled on that of the British Museum Act and is one which we should adhere to. I respectfully suggest that, as drafted, the Board has got very wide powers to dispose of objects quite sufficient to its needs, namely that it is not required to retain unnecessarily duplicates or anything which for any reason, it thinks is not required for retention in the collections. I suggest to the House that it is better to leave the matter as originally drafted.

*Amendment negatived.*

**Clause 7.**—(TRANSFER OF OBJECTS TO AND FROM OTHER ORGANISATIONS.)

*Amendment made:* In page 4, line 26, leave out from “which” to first “that” in line 27 and insert:

“it may be directed, under section 3(1) of that Act.”—[*Mr. MacDermot.*]

**Mr. Robert Cooke:** I beg to move, in page 4, line 32, at the end to insert:

“or any other institution with the approval of the Secretary of State for Education and Science”.

The first subsection of Clause 7 is long and complicated, and it seemed to me that it might help the London Museum if it had the power to lend to other institutions with the approval of the Secretary of State for Education and Science. This may seem a strange course of reasoning, having said some rather unkind things about the museum having been transferred to its Department at all,

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at an earlier stage in the Bill ; but if the Secretary of State for Education and Science is to take considerable responsibilities, and we have arranged for his name to appear in a number of places, it would seem that if there is any difficulty or any loan which the Museum of London would not be empowered to make by the Bill as drafted, perhaps this Amendment would be worth while.

I have not been able to discover in the Act mentioned in subsection (1) that the museum does have the power to lend to any other institution, and I hope that the right hon. and learned Gentleman will be able to explain the position to our satisfaction or, if he cannot, that he will accept the Amendment.

**Mr. MacDermot :** The purpose of the Clause is to give to the Museum of London the power to transfer objects to other national museums or galleries. The proposed Amendment would enable the museum to make transfers to any other institution if the Secretary of State approved. I do not know if the hon. Gentleman has any specific types of institution in mind. His wording is exceedingly wide and would allow transfer to a lunatic asylum, or a fire brigade, or a Conservative club, or all sorts of institutions. However, I imagine that what he has in mind is more likely to be a provincial museum or something of that character.

The practice up to now has been for national museums to confine their power of permanent transfer to other national collections. I do not think there is any good reason, really, to depart from that in this case. It might be that one could envisage circumstances in which, certainly for a time, even a long time, the museum might want to loan an object to a provincial museum, but it will have complete power to do that under Clause 6, under which the power to loan is under no restriction as to time, and the museum could make a loan of indefinite length to a provincial museum. I think that that is sufficiently elastic, and it is probably better to leave the power as it is.

*Amendment negatived.*

#### Clause 9.—(EMPLOYMENT OF STAFF.)

*Amendments made :* In page 5, line 22, leave out "Treasury" and insert "Secretary of State"; in line 25, leave out "Treasury" and insert "Secretary of State"; in line 41, leave out "Treasury" and insert "Secretary of State"; in page 6, line 9, leave out "Treasury" and insert "Secretary of State".—[Mr. MacDermot.]

#### Clause 13.—(POWER OF TREASURY TO MAKE GRANTS FOR FURNITURE AND EQUIPMENT.)

*Amendment made :* In page 8, line 28, leave out "Treasury" and insert "Secretary of State".—[Mr. MacDermot.]

#### Clause 14.—(APPLICATION OF MONEYS RECEIVED BY THE BOARD.)

*Amendments made :* In page 8, line 40, leave out "Treasury" and insert "Secretary of State"; in page 9, line 5, leave out "Treasury" and insert "Secretary of State".—[Mr. MacDermot.]

#### Clause 15.—(FINANCING OF EXPENDITURE OF BOARD BY CORPORATION AND REIMBURSEMENT BY TREASURY AND GREATER LONDON COUNCIL.)

*Amendments made :* In page 9, line 17, leave out "Treasury" and insert "Secretary of State"; in line 28, leave out "Treasury" and insert "Secretary of State"; in line 38, leave out "Treasury" and insert "Secretary of State"; in line 42, leave out "Treasury" and insert "Secretary of State".—[Mr. MacDermot.]

*Bill read the Third time and passed, with Amendments.*

### WAYS AND MEANS

*Considered in Committee.*

[Sir SAMUEL STOREY in the Chair]

#### ANCHORS AND CHAIN CABLES

*Resolved,* That it is expedient to authorise the payment into the Exchequer of any fees required to be so paid by any Act of the present Session to make new provision in substitution for the Anchors and Chain Cables Act 1899.—[Mr. Mason.]

Resolution to be reported.

*Report to be received this day ; Committee to sit again this day.*

## SCOTLAND (DAIRY FARMERS)

*Motion made, and Question proposed.*  
That this House do now adjourn.—[*Mrs. Harriet Slater.*]

11.29 p.m.

**Mr. Hector Monro** (Dumfries): It is an early hour to be doing the milking, and I am grateful to the Minister of State for coming here to reply to this debate. I welcome this opportunity to discuss the problem of dairy farms in Scotland, a section comprising a quarter of the total agricultural output of the country and in which profits and confidence have been declining rapidly. This problem vitally affects my constituency of Dumfries. It has the third largest number of dairy farms in Scotland, and, with Galloway, is the largest milk producing area in Scotland, both in numbers of farms and in output in gallons.

Naturally, and very correctly, there is grave concern at the future of milk, and this is shared by farmers, farm workers, merchants and the creameries. Neither must it be forgotten that a profitable agriculture—and please note that I say “profitable” and not “prosperous”, because all that farmers expect is a fair return on their capital—is of vital importance to a rural community. The shopkeepers in the towns, the engineers and tradesmen who supply the goods and services, soon feel the pinch if agriculture falls on hard times, and that moment is coming now.

There is no need to overstate the case—the strength and honesty of it are obvious to all, except, perhaps, to the party opposite. I want to bring out two themes; the trend of production and the falling number of producers and the very serious loss of profitability. I shall use a few facts from the Scottish Milk Marketing Board, the National Farmers' Union of Scotland, and the West of Scotland Agricultural College. The Minister may well say that these are interested parties and, of course, they are, but it is difficult to find anyone who knows anything about milk who is not an interested party.

One exception might be the Department of Agriculture, and its Report published last month gives two interesting points about milk. In page 10 we read

of the falling incomes of dairy farmers, and in page 18 the Report states:

“Total production of milk showed little change, while liquid sales continued to increase.”

This is surely a climate which should enable the Government to help the dairy farmer.

Both the Chairman of the Scottish Milk Marketing Board and the Chairman of the Milk Committee of the N.F.U. of Scotland—two men who have done an immense amount for agriculture in Scotland and who are certainly acknowledged experts on milk production—have constantly given the Government warning about the future output of milk. Only last week, the Chairman of the Milk Committee of the N.F.U. of Scotland said:

“The Minister might have to listen to an outcry from the public far more clamant than any yet heard from frustrated dairy farmers.”

What are the trends? The Minister may make much of the fact that there has been a slight increase in milk production during recent months, but last year was a poor production year, with a bad harvest and a bad hay time, so it is not surprising that the figures are slightly better this year. But it is important to note that the rate of increase is declining sharply. This is particularly so in Scotland. Production in the Scottish Milk Marketing Board area in March, 1965, was 4 per cent. up on March, 1964, but in April the increase was only 2 per cent., and the Board is anticipating no increase at all in May. With the cold and wet weather we have been having in the last week or so in Scotland, I think that their forecast is likely to be correct. There seems to be no justification for the optimism shown by the Minister of Agriculture.

This falling trend will do nothing to correct the disappointing share of the United Kingdom butter and cheese market which producers command, and may eventually cause unemployment in the creameries of Scotland. The unsettled conditions of manufacturing are serious. Scottish butter and cheese has sometimes been unobtainable, and brand names lose their impact.

At the same time, this scarcity of British products has substantially increased dairy imports. This cannot

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please the Chancellor. There are now 68,000 tons of dairy products in store, compared with 39,000 tons a year ago. Perhaps the Minister will tell us why manufactured products are being curtailed through insufficient milk, yet imports that affect our balance of payments are being encouraged? I hope that the Minister will now accept that the trend is now downwards, and that, coupled with the rising population, it must cause concern. It will be rectified only by a fairer financial return and a restoration of confidence.

Let us take profits over the last six years. As I have been critical of my own party from time to time regarding its milk and hill farming policies, I am entitled to say what I want to say now on these problems.

The latest figures from the West of Scotland College show a steadily increasing loss to dairy farming. On the smaller farms where the average herd is 30, allowing for the value of the work done by the farmer and his wife, in the last six years net results from carefully costed farms show these figures: a profit of £158, a profit of £230, a profit of £31, a loss of £12, a loss of £267 and a loss of £150 per annum. That is a most distressing state of affairs for the smaller farmers of Scotland. This year with the wage award—all farmers would gladly pay as much as they can afford to their loyal staffs—increases for fuel tax, Bank Rate, National Health contributions, Income Tax—if a profit is made on which tax is paid—electricity charges and the savage increase in tax for farm vans of 1 ton, which has gone up under the Budget by £6 15s. compared with only £2 15s. for private cars, there will be greater losses for the small and medium farms.

The Price Review White Paper brings out the fact that Scotland is adversely affected in comparison with England and Wales. In England and Wales farms of under 150 acres showed a profit in 1962-3 of £902 and in 1963-4 a profit of £964. This was before the allowance for the farmer and his wife. In the same years in Scotland the profit was £527 and £482, about half that of England and Wales. The differential deteriorated by £100 a year in those two years. Can the Minister explain why Scotland is in a worse

position and lags behind England and Wales?

The Price Review shows that dairy farm incomes are falling and in Scotland they are falling much faster than in England and Wales. Why is this? All dairy farmers in Scotland would like to know why they are falling behind. Milk producers were, I believe, like the National Farmers' Union, hoping for 3d. a gallon this year. It is quite wrong for the Minister or the Under Secretary to say that they expected 6d. I should like the Minister to confirm that the National Farmers' Union did not ask for 6d. The award of 1d., or 0.61d. in fact, will produce only £70 to £75 on each farm. The financial squeeze is inevitably reflected in the number of dairy herds in Scotland. In the year ended March, 1965, the Scottish Milk Marketing Board had a loss of 300 herds—nearly 5 per cent. compared with 3.8 per cent. in 1964 and 2.5 per cent. in 1963. This indicated an increasing trend away from milk production.

During the first three months of 1965 no fewer than 61 herds disappeared compared with 45 and 40 in the previous two years. I grant that existing farms are putting on more cows in an effort to halt diminishing returns, but the rate of decline is increasing, particularly among smaller farmers and most markedly in the east of Scotland where there is a slightly greater alternative. This rate would be quicker still but for the fact that the Government encourage no alternative. Hill men are equally hard up, and pigs, potatoes and grain receive disincentives. Where is the farmer to turn for profit if he leaves milk production? Dairymen are reluctant to dispose of valuable capital equipment. A pipeline milking system, a bulk tank or a parlour installation, may cost £2,000, and one-third of the Scottish Milk Marketing Board farms have bulk tanks. This is, I think, an example of how Scottish dairy farmers are prepared to provide the best possible equipment to produce the highest quality milk. But the incentive to install this new equipment is receding very fast indeed.

Another point that the Minister might clarify is the prominence that the Minister of Agriculture has given to the £11 million that milk producers will receive this year. One penny on milk equals £9 million. Anything extra will derive

from an increase in the standard quantity carrying the full guaranteed price and can reach the farmers' pockets only through increased liquid sales, which will be done only by efforts through the Milk Marketing Boards in the three countries.

I now want to say a word on winter keep. Many farmers in various parts of Scotland, in the south-west, the north-east, the east and in Lanarkshire, have been unable to obtain winter keep because their dairy enterprise provides more than 40 per cent. of the farm output. I know that the Department of Agriculture and the Ministers themselves have bent over backwards to help these farmers. But one suggestion that I have heard—and which I pass on to the Minister to help him to allow the upland dairy farmers into the winter keep scheme—is that the dairy farmer should put all his dairy cows to a beef bull to produce beef stores which are so urgently wanted. If that were done, there might be some compromise to allow these upland dairy farmers, often producing milk in areas where it is needed for the liquid market, in small towns and so on, into the winter keep scheme.

To sum up, we have had a steadily falling Exchequer grant to agriculture. In 1962 it was £342 million, in 1963 £309 million, in 1964 £293 million, and this year we expect £269 million. Milk pays for itself; yet the Government are doing their best to cause irreparable damage to the dairy industry. We have a situation in which milk costs less than lemonade. Farmers are going out of production fast and the Government are hammering agriculture with taxation and rising costs. There is a complete lack of desire to see the farmers' and farm workers' point of view either at meetings or, as far as I can see, at dinner parties at No. 10.

What is the Minister going to do to help Scottish dairy farmers? Can we have a special review? We hear not, but I hope that the Minister of State might give us a little hope tonight. The guaranteed price is utterly inadequate to match the Government pledges under the 1947 Act and at the election. In short, the Government are like a wheelbarrow. It is a useful implement but it has to be pushed, and I should like to start the pushing tonight.

12.44 a.m.

**The Minister of State, Scottish Office (Mr. George Willis):** The hon. Member for Dumfries (Mr. Monro) has made his case in not too moderate terms, and we ought to get the picture right to begin with. I certainly do not accept the hon. Member's accusations that we have done irreparable damage and that we are hammering agriculture. This might read quite well in the hon. Member's local Press, but it simply is not true.

When we consider the dairy industry, we have to remember that its problems are not new. They existed for many years during the lifetime of the previous Government. The present Government have been in office for only six months. During 12 years of Tory Government, up to last year, as both my right hon. Friend the Minister of Agriculture and my right hon. Friend the Secretary of State for Scotland have told the House, and the Secretary of State has told the hon. Member, the increase in the guaranteed price was only 2d.

**Mr. Anthony Stodart (Edinburgh, West):** For the sake of the record, surely the hon. Gentleman is not claiming that in the last 12 years the price of the guarantee increased by only 2d.

**Mr. Willis:** According to my figures, that is roughly correct, so that the present Government have done half as much in six months to help the dairy industry, at least with the guaranteed price, as the previous Government did in 12 years. I have some of the figures, but I do not want to weary the House by quoting them. They have been given in the House before and what I have said is roughly correct.

I cannot altogether accept the hon. Member's picture of an industry suddenly changing from a prosperous industry to one that is in the midst of a grim depression. Of course there have been problems in the dairy industry, and they are not of recent creation. They have been going on for some time. Previous Governments—and the hon. Member for Edinburgh, West (Mr. Stodart) had something to do with this—tackled the problems in the way they thought fit. I will probably say something about that presently. I do not want simply to score political points, but I thought that I had better say that in view of what the hon.

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Member for Dumfries has said, so that we may get the picture right.

**Mr. Alick Buchanan-Smith** (North Angus and Mearns): Was it not my hon. Friend's case that costs have risen in relation to price and that any change in price must be related to costs? The figures quoted from recent college costings indicate that costs have risen at a greatly increased rate in recent years, and particularly over the last six months. That was my hon. Friend's whole case.

**Mr. Willis**: They also went up during the previous 12 years. I have already given the figure of what hon. Members opposite did during those 12 years to meet that.

However, rather than score points, I should like to look at the present state of the industry and try to assess its future prospects. Clearly, the most important factor by which to judge the viability of the industry is the overall level of production. After the short-term decline in production during the past two years, all the evidence seems to indicate that production has again taken an upward turn.

Production in Scotland during the first four months of this year shows a fairly significant improvement on last year and this conforms to the pattern of production throughout the United Kingdom as a whole. Certainly, it does not suggest that the industry is falling away in grim decline. I understand that in their provisional pricing arrangements for the current year, the boards have allowed for a further increase in production.

Much has been made of the decline in the number of producers over recent years. This creates difficulties, particularly for the smaller producers. The burden of small-scale milk production, with all that it entails in times of long working hours, is bound to bear increasingly heavily upon this type of producer. Nevertheless, we believe that the help that we have given under the Small Farmer Scheme and which we will be giving by way of improved credit facilities and more co-operation will do much to assist. In the last few years there has been rationalisation and greater specialisation of production. By and large, dairy farmers are now operating in a much larger way of business, with all the economic advantages that go with that.

The average size of the dairy herd in Scotland has been increasing steadily for some time, although there are, of course, fairly wide variations from one part of the country to another. In 1955 the average size was only about 35 cows. Today it is nearly 45 cows per herd. Yields per cow have also been increasing as the result of improved management techniques, subject to seasonal factors. Last year the increase was substantial. Taking these factors together, we have the position where, despite the decline in the number of producers and a small, but probably temporary, fall in the size of the total milk herd, the general level of production is being maintained.

Most dairy farmers are, of course, much more interested in the size of their monthly milk cheques than in abstract forecasts of production levels. The industry is now in a healthier state in this respect than it was a few years ago, when production was expanding at a much faster rate. Taking the last two Review awards together, the guaranteed price has been increased by 10 per cent.

**Sir John Gilmour** (Fife, East): Why does the hon. Gentleman want to take the last two Reviews together? Is it not true that since the last Price Review costs to the dairy farmer have increased, including the licence duty for vehicles? Why does he want to take the two Reviews together?

**Mr. Willis**: We are looking at the picture over the past years.

**Sir J. Gilmour**: Answer my question.

**Mr. Willis**: We are taking a number of factors concerning the industry in the last year or so, so that we get a picture of what is taking place within the industry. One cannot get a picture of the industry by saying, "This is happening today". Only by looking at a period of time can one get a clear picture. I said, taking into account the prices in the industry, that the guaranteed price has been increased by 10 per cent.

Last year the increase in the guaranteed price, combined with the fall in the amount of milk going into the less remunerative manufacturing market and also some improvement in manufacturing prices generally, resulted in a significant increase in the producer's price and a recovery in dairy farm incomes.

For example, producers in the area of the main Scottish Board received, on average over the year, about 3s. 1½d. a gallon, compared with 2s. 11d. in the preceding year and 2s. 10d. in 1962-63. I regret having to go back to previous years, but this is the only way to get a picture of what is happening. Last year's price was the highest producer price yet paid by the board.

Although the board has provided for some further increase in production this year, which means some dilution of the Review award of 1d. a gallon, the producer's return should be still higher than last year. All this demonstrates the advantages to the producer of a more stable rate of growth in the industry.

**Mr. Buchanan-Smith :** Would the hon. Gentleman relate those statistics and prices to the increases in prices which producers have had to bear in the same period?

**Mr. Willis :** I said that the producer's return should be still higher than last year. I am trying to answer some of the questions I was asked. I do not know whether or not hon. Gentlemen opposite want to hear my answers. Since they raised this matter I imagine that they want a reply. If they will just hold their horses I will do my best to answer their questions.

I had just said that all that demonstrates the advantages to the producer of a more stable rate of growth in the industry. I understand that the boards themselves do not want to see any dramatic increase in production. We for our part have to try to fix the guaranteed price on a level which will achieve broadly the proper balance of production. The hon. Gentleman may not agree but the evidence seems to suggest that we seem to be getting this just about right.

Again, if one looks at dairy cow prices, there does not seem to be any evidence of any serious sense of frustration in the industry. Both Ayrshire and Friesian cow prices are buoyant, and were a good deal higher last month than they were in the corresponding period of last year, so those who bought last month did not apparently take the view of the industry

which has been expressed by hon. Gentlemen opposite tonight.

**Mr. Monro :** Because there were fewer dairy heifers for sale.

**Mr. Willis :** Prices were much higher. They were not marginally higher, but substantially higher.

We must continue to look to the dairy herd to fulfil its subsidiary function of supplementing our beef supply. What seemed to be one of the rather more depressing statistics contained in the excellent survey of the milk industry carried out by the Scottish board was the number of calves sold slink—100,000 a year—and I hope the hon. Gentleman will agree that the measures we have introduced at the recent review, including the alterations to the Calf Subsidy Scheme, will serve as some incentive to producers to rear more calves for beef production.

The hon. Gentleman asked about the Winter Keep Scheme. I do not want to convey the impression that there is any ready-made answer to this problem. In fact, I remember a speech made by the hon. Member for Edinburgh, West, when he was Joint Under-Secretary of State for Scotland, when he vigorously defended the exclusion of upland dairy farmers from the Winter Keep Scheme. I remember the long reports in the *Scotsman*. I read them, as I always read whatever the hon. Gentleman says or writes, with avid interest. The Government announced, however, in the Annual Review, their intention to conduct an urgent review of the more fundamental problems of the hill and upland areas, and this review is going on at the moment. The question of the position of the upland dairies under the Winter Keep Scheme is bound to come up, but we cannot at the moment say what the outcome of our consideration will be. The Scottish N.F.U. will, of course, be consulted about this for its views in due course.

The hon. Gentleman raised the question of the possible risk of a shortage of milk for the liquid market in the autumn and winter months when production tends to be at its lowest level. These fears are not justified by the facts. Taking Scottish production by itself—and that is what we are talking about tonight—the actual

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reserve of milk available for the liquid market is of the order of 100 million gallons, or about 70 per cent. of liquid requirements. Even in the months of lowest production the reserve did not fall below about 35 per cent. at any time during the last two years when production was running at a rather lower level than in earlier years. Even if one talks in

terms of the United Kingdom liquid market—

*The Question having been proposed after Ten o'clock on Monday evening and the debate having continued for half an hour, Mr. DEPUTY-SPEAKER adjourned the House without Question put, pursuant to the Standing Order.*

*Adjourned at one minute to One o'clock.*

Monday, 10th May, 1965

**LAND AND NATURAL RESOURCES**

**Forestry Commission (Estimates Committee's Report)**

2. **Mr. Wingfield Digby** asked the Minister of Land and Natural Resources if he has considered the Seventh Report of the Estimates Committee on the Forestry Commission; and if he will make a statement.

**Mr. Willey:** My right hon. Friends the Secretaries of State for Scotland and Wales and I have comprehensively reviewed the organisation of the Forestry Commission, taking account of the recommendations made by the Estimates Committee. We found ourselves in wide agreement with the Committee. We propose a number of changes which are set out in full in our Observations on the Report of the Committee, which are, I understand, being published today.

Among other changes, we have decided that the Commission should be reconstituted so that in future four of the statutory Commissioners should be full-time members; and that there should be a functional reorganisation of the staff and work under these full-time members, with greater delegation from Headquarters.

The Chairman of the Commission, Lord Waldegrave, is in full agreement with our proposals. To facilitate the reorganisation, he and also the other Commissioners have placed their offices at our disposal, and we are grateful to them.

I should like to take this opportunity of paying tribute to Lord Waldegrave, to whose work the development of the Commission has owed a great deal. My right hon. Friends and I hope to be able to announce the names of his successor and of the other Commissioners very soon.

**Natural Resources Technical Committee (Sub-Committee's Report)**

5. **Mr. Wingfield Digby** asked the Minister of Land and Natural Resources when he expects the report from the Sub-Committee of the Natural Resources, Technical, Committee which is supplementing the work of the Zuckerman Committee.

**Mr. Skeffington:** This report on Land Use in Forestry and Agriculture is well advanced but no date can yet be given for its completion.

The report will be made to my right hon. Friend the Secretary of State for Education and Science, but it will of course be available to the Natural Resources Advisory Committee which has been set up under Sir Dudley Stamp and which has taken over the work of the Zuckerman Committee.

**Estuarial Barrage Schemes**

11. **Mr. Chapman** asked the Minister of Land and Natural Resources how he proposes to evaluate conflicting considerations such as those of cheap and abundant water and amenity values for the purpose of reaching decisions about estuarial barrage schemes.

**Mr. Willey:** The evaluation of amenity and other social considerations, as against economic considerations, is a crucial question for contemporary society, and Sir Dudley Stamp's Committee have agreed at my request to study this. I shall be taking their advice into account when, in consultation with my colleagues concerned, I consider in due course the reports of the Water Resources Board on the feasibility of the Morecambe Bay and Solway Firth barrage schemes.

**Land Prices**

12. **Mr. William Hamilton** asked the Minister of Land and Natural Resources if he will make a statement on the continued rise in land prices; and what steps he is taking to protect the public interest in this matter pending legislation.

**Mr. Skeffington:** Over recent years very considerable profits have been made from rising land prices. Between 1959 and 1964, the cost of a site for a typical new house rose by at least 40 per cent. in the main "pressure areas" where the housing shortage is most acute. The rise in the London area and parts of the West Midlands is of course even greater. The only way to deal with this grave social problem is to introduce as soon as possible our legislation to establish a Land Commission.

### Local Authorities (Purchase of Land)

**Mrs. Renée Short** asked the Minister of Land and Natural Resources if he will introduce legislation to enable local authorities to purchase land at lower prices for housing and education purposes.

**Mr. Willey**: I shall be introducing legislation to set up a Land Commission and to deal with the problem of land prices as soon as possible.

### Water Resources (Desalination)

**Mr. Chapman** asked the Minister of Land and Natural Resources what are his plans for augmenting water resources by treating salt or brackish water.

**Mr. Willey**: Though desalination will not substantially contribute for some time, I intend to see that its potential for augmenting our water resources is fully investigated. As announced by my right hon. Friend the Minister of Technology on 27th April, the Atomic Energy Authority are embarking on a programme of research and development into methods of desalination. At the same time the Water Resources Board will be working on the problems associated with the distribution, and method and extent of use, of desalted water. Their work, and that of the Authority and others in this field, will be co-ordinated by a Committee which has been established for that purpose under the chairmanship of the Director of the Board.

### PUBLIC BUILDING AND WORKS

#### Official Cars

30. **Mr. Peel** asked the Minister of Public Building and Works what were the numbers and makes of pool cars available to members of the Government during March 1964 and March 1965, respectively.

**Mr. Boyden**: In March 1964 out of a total fleet of 149 cars in London and 222 in the provinces, 34 cars were allocated to individual Ministers, and 10 were shared by Parliamentary Secretaries (and also Permanent Secretaries). The makes of car were Austin Princesses and Humber Pullmans, Super Snipes, and Hawks. In

March 1965 the figures were 163, 218, 41, and 12, respectively.

### House of Commons (Clocks)

**Mr. Costain** asked the Minister of Public Building and Works if he is aware that the clocks in the various Committee Rooms and in public corridors in the House of Commons on Monday, 3rd May varied in the time indicated by as much as one minute; and what steps he is taking to have this rectified.

**Mr. Pannell**: To the first part, No; to the second, the usual ones.

### HOUSE OF COMMONS CATERING

36. **Mr. Rankin** asked the hon. Member for Liverpool, Exchange, as Chairman of the Kitchen Committee, how many measures are obtained from a five-gill bottle of whisky in each of the various bars under the control of her Committee.

**Mrs. Braddock**: 32 measures are obtained from the bottle of whisky which contains 26½ fluid ounces.

37. **Mr. Rankin** asked the hon. Member for Liverpool, Exchange, as Chairman of the Kitchen Committee, how many measures are obtained from a five-gill bottle of sherry in each of the various bars under the control of her Committee.

**Mrs. Braddock**: Sherry is bottled at six bottles to the gallon and is sold by the glass. As it is customary to pour, rather than measure the wine, the contents of the glass must vary slightly. On the average, 14 glasses to the bottle are obtained.

### MINISTRY OF HEALTH

#### Drugs

41. **Mr. Fisher** asked the Minister of Health if he will publish the latest information on drugs which is being collected by the Dunlop Committee.

**Mr. K. Robinson**: Information as first received by the Committee from doctors relates to suspected adverse reactions to drugs and without further investigation is not a reliable indicator of risk. Where the Committee considers it necessary to draw attention to any such risk they prepare a considered statement for issue;

should such a statement recommend a warning to the public I would ensure that it was given the widest publicity.

### Opticians Register (Corporate Bodies)

**Mr. Pavitt** asked the Minister of Health how many corporate bodies are included on the Opticians Register established under the Opticians Act 1958.

**Mr. K. Robinson:** I understand from the General Optical Council, which has statutory responsibility for the Register, that the figure is 1,131.

### Ophthalmic Practices (Corporate Bodies)

**Mr. Pavitt** asked the Minister of Health how many ophthalmic practices providing National Health Service facilities are operated by corporate bodies; and what proportion of the total number of such practices this figure represents.

**Mr. K. Robinson:** 2,499 and 36 per cent. of the establishments at which ophthalmic and dispensing opticians practice, at 31st December, 1964.

### General Optical Council (Corporate Bodies)

**Mr. Pavitt** asked the Minister of Health what representation is provided for corporate bodies on the General Optical Council.

**Mr. K. Robinson:** A person with an interest in a corporate body may be elected to the Council and the Companies Committee of the Council must include five persons appearing to the Council to represent the interests of corporate bodies.

### Water Supplies (Fluoridation)

**Dr. Summerskill** asked the Minister of Health what steps he is taking to encourage those local authorities, which have not already done so, to authorise the fluoridation of their water supplies where this is necessary.

**Mr. K. Robinson:** In January local health authorities were sent an up-to-date edition of my Department's booklet setting out the main facts on fluoridation. I am very anxious to see fluoridation extended, and I am considering how and when further encouragement can best be given.

### Joint Consultative Committees

**Mr. Lomas** asked the Minister of Health if he will instruct hospital management committees to set up joint consultative committees inside each hospital.

**Mr. K. Robinson:** Hospital management committees are aware of the recommendation of the General Whitley Council that joint consultative committees should be set up in all hospitals of sufficient size, and I support the recommendation.

### HOSPITALS

#### New Hospital, Manchester

44. **Mr. Will Griffiths** asked the Minister of Health whether he will give an assurance that in all new hospital building now under construction in the Manchester area, adequate provision will be made for refrigeration units to be attached to the operating theatres.

**Mr. K. Robinson:** Yes, where this is medically indicated.

#### Maternity Beds, Willesden

45. **Sir C. Osborne** asked the Minister of Health if he is aware that 70 per cent. of the maternity beds in Willesden were recently occupied by immigrant mothers; if he will give an assurance that adequate facilities were available for indigenous mothers; and if he will make a statement.

**Mr. Loughlin:** No, figures are not kept of the numbers of beds occupied by immigrant mothers. The admission arrangements seek to ensure that every mother who requires a maternity bed on medical or social grounds obtains one.

#### Hutted Hospitals

**Mr. Wallace** asked the Minister of Health how many hutted hospitals are still in use in England and Wales; and where they are located.

**Mr. K. Robinson:** The term "hutted hospital" is commonly used to describe a hospital in which the accommodation is of a simple form of construction, though frequently in brick. The location of seventy such hospitals in England and Wales is shown below and there are about one hundred others in

which a substantial part of the accommodation takes this form. The construction of many of these hospitals is such as will provide satisfactory accommodation for a number of years.

Ashington	Sidcup
Brandon	
Durham	Chertsey
Gateshead	Horley
Hemlington	Hydestile
Hexham (2)	
Newfield	Burford
Northallerton	Oxford
North Shields	Stoke Mandeville
Ormside	
Sedgfield	Hayling Island
Threlkeld	Ringwood
	Salisbury (2)
Bubwith	Sherborne
Hull	Southampton
Mirfield	Weyhill
Ripon	Weymouth
Tadcaster	
York	Liskeard
Grimsby	Birmingham
Immingham	Bromsgrove
Laceby	Malvern
Lincoln	Shrewsbury
Mansfield	Sutton Coldfield
Market Rasen	
Nottingham	Manchester
Sheffield	
	Aberbargoed
Abbots Langley	Barry
Ashford, Middlesex.	Bryncethin
Bedford	Chepstow (2)
	Haverfordwest
Brentwood	Llangefni
Ware	Morrison
	Penley
Dartford (2)	Pontygwaith
Maidstone	Rhydylafar
Orpington	Ystrad Mynach

### RIVER JORDAN WATERS

49. **Mr. Fisher** asked the Secretary of State for Foreign Affairs if he will initiate in the United Nations a proposal to end the River Jordan water dispute on the lines of the irrigation works which solved the Indus problem between India and Pakistan.

**Mr. Padley** : I do not think any useful purpose would be served by Her Majesty's Government taking an initiative of this kind at this stage.

### SOMALIA (DIPLOMATIC RELATIONS)

50. **Mr. Brian Harrison** asked the Secretary of State for Foreign Affairs what official approaches have now been made for restoring diplomatic relations

between the Republic of Somalia and Her Majesty's Government; and if he will make a statement.

**Mr. Padley** : No official approaches have been made by either Government. For our part, we are prepared to resume relations without preconditions whenever the Somali Government are ready to do so.

### MR. HEINZ HOMBURG

51. **Mr. Arthur Lewis** asked the Secretary of State for Foreign Affairs whether he is aware that Mr. Heinz Homburg has been officially invited by the White Fish Authority to attend this country for lectures; and whether he will ensure that this man is granted the necessary travel documents.

**Mr. Padley** : I understand that Mr. Homburg has not been officially invited by the White Fish Authority to this country. The issuing of temporary travel documents is the responsibility of the Allied Travel Office in Berlin and it would not be proper for me to anticipate their decision in any particular case.

### DR. KLAUS GYSI

52. **Mr. Arthur Lewis** asked the Secretary of State for Foreign Affairs why Dr. Klaus Gysi was refused a travel document to attend the International Book Fair in London; and whether he will give an assurance that no person will be refused entry into Great Britain because of the objections of the West German Government.

**Mr. Padley** : It is contrary to practice to disclose the reasons why a temporary travel document is refused by the Allied Travel Office in Berlin in any particular case. With regard to the second part of the question, the issue of travel documents to East Germans by the Allied Travel Office is governed by rules agreed by all the North Atlantic Treaty Organisation Allies, and a document would not be refused simply as a result of objections by any one member Government.

### CHINA (EXCHANGE OF AMBASSADORS)

53. **Mr. Freeson** asked the Secretary of State for Foreign Affairs what steps have been taken by Her Majesty's Government

to seek an exchange of ambassadors between the United Kingdom and the People's Republic of China.

**Mr. Padley:** When my right hon. Friend the President of the Board of Trade was in Peking in November, 1964, he told the Chinese that we wanted this exchange to be made, but the Chinese are still opposed.

### U.S.S.R. (MR. GERALD BROOKE)

54. **Mr. Brooke** asked the Secretary of State for Foreign Affairs what further action he has taken to bring assistance to Mr. Gerald Brooke, held prisoner by the Russians on no stated grounds; and whether he will make a statement.

**Mr. Padley:** In response to representations from Her Majesty's Government the Soviet authorities permitted Her Majesty's Consul in Moscow to visit Mr. Brooke on 7th May. The Consul learned that the formal indictment against Mr. Brooke had not yet been formulated but the interview confirmed that the allegations against Mr. Brooke related to involvement in subversive activities. Mr. Brooke indicated that, since the preliminary investigation was still in progress the question of legal defence had not arisen. If this stage is reached Her Majesty's Consul will do what she can to advise and assist Mr. Brooke in making arrangements for his defence. She has also arranged to send reading matter and toilet articles to the Soviet authorities for transmission to him. The House may be assured that Her Majesty's Government will continue to do everything they properly can to assist Mr. Brooke.

### MANILA TREATY (REQUESTS FOR ASSISTANCE)

**Mr. Warbey** asked the Secretary of State for Foreign Affairs if he will give an assurance that, in considering any request for assistance under the South-East Asia Treaty, he will have regard to the extent to which the government to be assisted is upholding the principles of democracy, individual liberty and the rule of law, and is strengthening its free institutions in accordance with the Preamble and Article III of the Treaty.

**Mr. George Thomson:** Any request for assistance under the Manila Treaty would, of course, have to be considered in the light of the provisions of the Treaty and of the circumstances prevailing at the time.

### DOMINICAN REPUBLIC (BRITISH SUBJECTS)

**Mr. Biggs-Davison** asked the Secretary of State for Foreign Affairs whether he will make a further statement about the safety of British subjects in the Dominican Republic.

**Mr. George Thomson:** There have been no reports of any casualties among the British community in the Dominican Republic. All British subjects who wished to leave have been evacuated. The airport was opened on 5th May and any further evacuation can be by air. Her Majesty's Chargé d'Affaires reported yesterday that about 60 had left.

### NOXIOUS GASES

**Mr. Biggs-Davison** asked the Secretary of State for Foreign Affairs whether Her Majesty's Government will invite the signatories of the 1923 Protocol to the Geneva Convention on the use of noxious gases to a conference in London in order to secure the full implementation of the Protocol, in view of the use of gas by Egyptian forces in the Yemen, contrary to international conventions.

**Mr. Padley:** No. I do not believe this would serve any useful purpose.

### NATIONAL FINANCE

#### International Monetary Fund (Loan)

**Sir C. Osborne** asked the Chancellor of the Exchequer what assurances he gave to the Finance Ministers of the six European Economic Community nations to secure their agreement to co-operate with the International Monetary Fund to meet Great Britain's demand for a further £500 million loan; if he will publish the plans of Her Majesty's Government submitted to the International Monetary Fund, giving details of the British Government's objectives and figures, and the calendar for their achievement; when he expects

these proposals will make Great Britain solvent; what other measures he has promised the foreign Finance Ministers he will take; and if he will make a statement.

**Mr. Callaghan:** I have not been in touch with the Finance Ministers of the Six E.E.C. nations. In the course of our approach to the I.M.F., and as participants in the General Arrangements to Borrow upon which the I.M.F. is likely to call in order to raise some of the necessary currencies we have had full discussions with the I.M.F. and with the members of the G.A.B. Following previous practice these discussions have covered the Government's economic policies as announced to the House in the Budget statement and subsequently; and we have reiterated our aim to get most of the way towards closing the balance of payments gap this year and to complete the process in the course of 1966, as well as our readiness to modify the measures announced, one way or another, should the need arise. It would be contrary to the normal practice to publish details of these exchanges. I have promised no other specific measures to anybody.

### Export Rebate Scheme

55. **Mr. William Hamilton** asked the Chancellor of the Exchequer what estimate he has made of the effect of the export rebate scheme over the last few months.

**Mr. MacDermot:** No quantitative estimate can be made. I would expect that the rebate has already had an encouraging effect on our export trade, but that the full effect has not yet been felt.

### Income Tax

**Mr. Neave** asked the Chancellor of the Exchequer what percentage of total expenses under Schedule E allowed by the Commissioners of Inland Revenue for the Income Tax years 1959-60, 1960-61, 1961-62, and 1962-63 was attributable to the upkeep of yachts and the rents of fishing rights or grouse moors.

**Mr. MacDermot:** I regret this information is not available.

**Mrs. Lena Jeger** asked the Chancellor of the Exchequer if he will give the total amount of Income Tax relief in the last  
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convenient period allowed in respect of mortgage repayments.

**Mr. MacDermot:** About £125 million for 1964-65.

**Mrs. Lena Jeger** asked the Chancellor of the Exchequer if he will give the total amount of Income Tax relief in the last convenient period allowed in respect of resident house-keepers employed by widows or widowers.

**Mr. MacDermot:** About £3½ million for 1964-65.

### Hire-Purchase Finance Companies (Tax-free Loan Schemes)

**Mr. John Wells** asked the Chancellor of the Exchequer how many hire-purchase finance companies are operating tax-free loan schemes; and what loss to the revenue he anticipates these schemes will cause in the last and current financial years, respectively.

**Mr. Diamond:** I regret that this information is not available.

### Erskine May

**Mr. Robert Cooke** asked the Secretary to the Treasury whether he will make available to hon. Members on demand at the Vote Office copies of the latest edition of Erskine May.

**Mr. MacDermot:** No. This is a matter in the first place for the House authorities, but I understand that copies are available for reference in the Library.

### RAILWAYS

#### Dumfries-Stranraer Line (Closure)

56. **Mr. Monro** asked the Minister of Transport if he will give an assurance that all the alternative arrangements contained in the order to close the Dumfries-Stranraer railway line will be fulfilled before the closure of the line.

**Mr. Tom Fraser:** The responsibility for complying with the conditions of consent to closure rests with the Railways Board. I understand that they are completing the relevant arrangements and I am confident that in this case, as in previous closures, the conditions will be strictly fulfilled.

**Mr. Brewis** asked the Minister of Transport whether he will give an assurance that all the conditions laid down by his

predecessor, when giving his consent to the closure of the Stranraer—Dumfries railway, are being complied with.

**Mr. Tom Fraser :** I have nothing to add to the Answer I gave today to the hon. Member for Dumfries (Mr. Monro).

## TRANSPORT

### Divisional Road Engineer, Birmingham

**Mr. Talbot** asked the Minister of Transport whether he will state the names of the highway authorities within the jurisdiction of the Divisional Road Engineer, Birmingham; what staff, technical and clerical, respectively, are contained in this office; whether he is aware that authorities throughout the Midlands are complaining of the delays in this office in dealing with urgent traffic problems; and if he will take action to divide the area, increase the staff, and generally to relax the detailed control of unimportant matters to highway authorities.

**Mr. Tom Fraser :** The area of the Divisional Road Engineer, Birmingham, comprises the highway authorities listed below.

The Divisional Road Engineer has under his control a complement of 26 professional and technical staff and 27 executive, clerical and similar grades. The main difficulty at present is shortage of technical staff. Steps are being taken to increase numbers where necessary and possible. The areas covered by our Divisional Road Engineers are kept under review, as is the division of responsibility between the Divisional Road Engineers and the highway authorities. I see no need to make any change in these two respects at present. I have no evidence of widespread complaint about delays in this office, but I am having the position checked.

The following is the information:—

#### County Councils

Herefordshire.	Warwickshire.
Shropshire.	Worcestershire.
Staffordshire.	

#### County Borough Councils

Birmingham.	Stoke on Trent.
Burton-upon-Trent.	Walsall.
Coventry.	West Bromwich.
Dudley.	Wolverhampton.
Smethwick.	Worcester.
Solihull.	

#### Borough Councils

Bewdley.	Oldbury.
Bilston.	Oswestry.
Bishop's Castle.	Rowley Regis.
Bridgnorth.	Rugby.
Droitwich.	Shrewsbury.
Evesham.	Staffora.
Halesowen.	Straford-upon-
Hereford.	Avon.
Kidderminster.	Stourbridge.
Leamington Spa.	Sutton Coldfield.
Leominster.	Tamworth.
Lichfield.	Tipton.
Ludlow.	Warwick.
Newcastle-under-	Wednesbury.
Lyme.	Wenlock.
Nuneaton.	

#### Urban District Councils

Aldridge.	Malvern.
Amblecote.	Market Drayton.
Bedworth.	Newport.
Biddulph.	Oakengates.
Brierley Hill.	Redditch.
Bromsgrove.	Ross-on-Wye.
Bromyard.	Rugeley.
Brownhills.	Sedgley.
Cannock.	Stone.
Church Stretton.	Stourport-on-
Coseley.	Severn.
Dalaston.	Tettenhall.
Dawley.	Uttoxeter.
Ellesmere.	Wednesfield.
Kenilworth.	Wellington.
Kidsgrove.	Wem.
Kington.	Whitechurch.
Ledbury.	Willenhall.
Leek.	

## ROADS

### Motorways (Anti-Dazzle Barriers)

**57. Sir B. Janner** asked the Minister of Transport whether, in view of the failure of central barriers on the M.1 and elsewhere, he will now arrange for the use of *rosa multiflora Japonica* bushes to prevent accidents on the motorways; and if he will make a statement of the progress made so far in relation to central barriers.

**Mr. Tom Fraser :** The Road Research Laboratory is experimenting with the shrub, but the standard central reservation is not wide enough to accommodate an adequate thickness to act as a crash barrier. Experiments with the use of shrubs as anti-dazzle barriers are at present taking place on M.2. Present evidence on the value of barriers on central reservations is inconclusive, but it seems possible that at certain levels of traffic flow they contribute to more accidents than they prevent. Experiments are therefore continuing.

### Motorways (Reflecting Road Studs)

**Mr. Howe** asked the Minister of Transport how many miles of the M.1 motorway are now without cat's-eyes between the lanes; whether parts of other motorways are similarly unprovided; whether he is aware that the absence of cat's-eyes from such places substantially increases the danger and difficulty of using motorways in fog and after dark; and what steps he is taking to ensure that all motorways are fully equipped with cat's-eyes between lanes throughout their length.

**Mr. Tom Fraser:** It is standard practice to provide these reflecting road studs as part of the lane markings on all motorways. It has been necessary to remove them from parts of M.1 during the reconstruction work now in progress, and at present about 8½ miles of carriageway are without studs, but they will be replaced as soon as reconstruction is complete. Meanwhile I have arranged for temporary lane markings in reflectorised paint to be laid wherever possible.

## HOUSING

### Industrialised Building

58. **Mr. Kenneth Lewis** asked the Minister of Housing and Local Government what steps he is now taking to secure the co-operation of local authorities in providing orders for industrialised building through council building projects.

**Mr. Crossman:** In a circular of which I am sending the hon. Member a copy I have set out a number of means by which I expect to secure more industrialised building by local housing authorities. More than one in five of all dwellings started in the first quarter of this year by local authorities and new town corporations are being built by industrialised methods.

### New Houses (Size and Cost)

**Mr. John Robertson** asked the Minister of Housing and Local Government (1) what was the average floor area per house of houses built by local authorities in each of the years from 1959;

(2) what was the average cost per house of houses built by local authorities in each of the years from 1959.

**Mr. Mellish:** The average floor area and tender price of three-bedroomed houses in tenders approved in England and Wales in each year was:

Year	Average floor area per house including out-buildings sq. feet	Average tender price £
1959 ... ..	897	1,515
1960 ... ..	897	1,611
1961 ... ..	898	1,786
1962 ... ..	907	1,967
1963 ... ..	917	2,129
1964 ... ..	920	2,303

## LOCAL GOVERNMENT

### South-Eastern Lancashire Special Review Area

**Mr. Walder** asked the Minister of Housing and Local Government what consultations he had, and when, with the Whaley Bridge Urban District Council, the Chapel-en-le-Frith Rural District Council, and the Glossop Borough Council, respectively, before he made his recommendations to the Local Government Commission with regard to the South-Eastern Lancashire Special Review Area.

**Mr. Crossman:** The three councils were consulted in December, 1963, and again in January, 1965, on the application by the Local Government Commission for extension of the Special Review Area.

## MINISTRY OF DEFENCE

### Overseas Units (Key Personnel)

**Mr. Hamling** asked the Secretary of State for Defence what steps he is taking to overcome the shortage of key personnel in units serving overseas.

**Mr. Mulley:** We are not at present considering any further steps beyond the call-out of the Territorial Army Emergency Reserve announced on 14th April. The deployment of our Regular manpower resources is continually adjusted to meet changing circumstances.

### R.A.F. Station, Chigwell

**Mr. Biggs-Davison** asked the Secretary of State for Defence what is to be the future of the Royal Air Force station, Chigwell.

**Mr. Mulley:** Apart from the accommodation at present occupied by No. 2324 (Chigwell) Air Training Corps Squadron, the station, which is in the Metropolitan Green Belt, is to be offered for sale for agricultural use. There are two former owners, one of whom, who previously owned the greater part of the land, is interested in repurchase and we shall open negotiations with him as soon as possible.

### Recruiting

**Mr. Hamling** asked the Secretary of State for Defence whether he is satisfied that the present level of recruiting is sufficient to meet present military commitments; and if he will make a statement.

**Mr. Mayhew:** Recruiting is only one factor; wastage and re-engagement also play their part in determining the strength of the Forces at any particular time. Our commitments are being met, despite shortages in particular categories.

### Overseas Engagements

**Mr. Hamling** asked the Secretary of State for Defence whether he is aware of the disparity in overseas engagements between members of the various services; and what steps he is taking to provide for parity.

**Mr. Mayhew:** Separation of families is a problem which affects all three Services, and in particular, it has always been an inevitable condition of life in the Navy. For practical reasons we cannot ensure identical treatment between the three Services, or even within each Service, but our aim and our interest is to make the arrangements as fair as our resources allow.

## EDUCATION AND SCIENCE

### Sports Council

**Mr. Deedes** asked the Secretary of State for Education and Science what salaries are being paid to members and officials of the Sports Council.

**Mr. Crosland:** The members of the Sports Council are unpaid but the Deputy Chairman also advises the Department on a part-time basis and for this receives a salary of £2,800 p.a. The Council is serviced by officers of the Department.

The Director, who has been seconded from the Central Council of Physical Recreation, receives a salary of £3,725 a year for full-time services; the Deputy-Director seconded for part-time service from Birmingham University has a salary of £1,760 p.a. from the Department.

### Educational Facilities, Whitworth

**Mr. Barnett** asked the Secretary of State for Education and Science, in view of the fact that in the Urban District of Whitworth only 13 per cent. of children considered were allocated grammar school places, if he is satisfied that the educational facilities available are adequate to provide full opportunities for these children; what information he has on the reasons for the disparity; and what action he proposes to take.

**Mr. Crosland:** I have no reason to believe that educational facilities available to children of Whitworth are inadequate in any way which would affect the results of the 11 plus. It is unfortunately quite usual for the proportion of children qualifying for a grammar school place to vary from one area to another inside a single local education authority. Action for the future lies in the implementation of the Government's policy to reorganise secondary education on comprehensive lines and the Lancashire Education Authority is already considering how best to achieve this in the County.

### Queen's Park Secondary School, Brighton

**Mr. Hobden** asked the Secretary of State for Education and Science what projects in the minor works allocation of the Brighton Education Department programme are taking precedence over the provision of adequate accommodation at Queen's Park Secondary School; and what is the cost of such projects.

**Mr. Crosland:** I understand that the projects to be included in the current minor works programme are still under consideration by the authority, but maintenance to the value of £18,000 is to be carried out at Queen's Park School.

**Mr. Hobden** asked the Secretary of State for Education and Science when action will be taken to improve the accommodation conditions at Queen's Park Secondary School, Brighton.

**Mr. Crosland :** I understand that the Brighton authority is making some improvements to the school but the date of replacement of the present buildings depends on the capital resources available when future school building programmes are under consideration.

**Mr. Hobden** asked the Secretary of State for Education and Science if he will make available to the public the report of Her Majesty's Inspector in regard to Queen's Park Secondary School, Brighton.

**Mr. Crosland :** No. These reports are confidential documents.

### Museums and Galleries (Minister's Visits)

**Mr. Robert Cooke** asked the Secretary of State for Education and Science to how many and which museums and galleries he made official visits between 15th October, 1964 and 6th May, 1965.

**Mr. Crosland :** On Wednesday, 21st October, my predecessor paid an official visit to the Victoria and Albert Museum on the occasion of the Anglo-Netherlands exhibition "The Orange and the Rose". On Thursday, 1st April, I also paid an official visit to the Victoria and Albert Museum on the occasion of the Czechoslovak exhibition of Bohemian Glass.

### ECONOMIC AFFAIRS

#### B.O.A.C. Staff (Salary Increase)

**Mr. Peter Walker** asked the First Secretary of State and Secretary of State for Economic Affairs into which category of exceptions to Her Majesty's Government's Incomes Policy, as outlined in paragraph 15 in the White Paper on Prices and Incomes Policy, the increase in salary announced by the British Overseas Airways Corporation on 2nd May, 1965, which averages 8 per cent. for 1,000 of its administrative staff, comes.

**Mr. Roy Jenkins :** I have been asked to reply.

This settlement was in an advanced stage of negotiation before the publication of the White Paper. I understand that its effect is to keep the salaries of the employees concerned in line with those paid for comparable work elsewhere.

### HOME DEPARTMENT

#### Prisoners (Long Sentences)

**Mr. Carlisle** asked the Secretary of State for the Home Department how many people at present imprisoned, have been in prison for a continuous period of over 10 years; how many of them are serving determinate sentences; and how many are serving sentences of life imprisonment.

**Sir F. Soskice :** I gave this information, as at 8th December, 1964, in answer to a Question by the hon. Member for Uxbridge (Mr. Curran) on 14th December. I am having the information brought up to date and will inform the hon. Member if there has been any change.

### EMPLOYMENT

#### Factory Accidents

**Mr. Dell** asked the Minister of Labour how many firms were prosecuted for failure to report factory accidents in each of the years 1959-64, inclusive.

**Mr. Thornton :** The same statistical code number is used to classify the three offences of failure to notify accidents, dangerous occurrences and cases of industrial disease. Separate figures for each offence are not available.

The number of firms prosecuted for all three offences in the years 1959-64 were:

1959	...	...	...	38
1960	...	...	...	72
1961	...	...	...	78
1962	...	...	...	65
1963	...	...	...	72
1964	...	...	...	219

The increase in the 1964 figure (only now available) is partly due to prosecutions undertaken as a result of the April, 1964, Survey on Reporting Standards.

#### Foreign Artistes

**Mr. Lomas** asked the Minister of Labour if, in view of the fact that British artistes, such as Wayne Fontana and the Mindbenders, the Zombies, the Animals, and Freddie and the Dreamers, have been refused admission to the United States of America or issued only with H(ii) visas, he will restrict work permits to American singers and groups to work in this country.

**Mr. Gunter :** I do not contemplate any change in our present arrangements. Permits for foreign variety artistes to accept professional engagements in this country are issued in consultation with the industry, which is guided by a Control Agreement of the Variety and Allied Entertainment Council of Great Britain. This Council represents both sides of the industry and the Agreement approved by them and reviewed as recently as August, 1963, contains the conditions under which foreign artistes may be employed here. Groups consisting exclusively of instrumentalists are subject to reciprocal exchange arrangements. Permits are issued after consultation with the Musicians Union.

## POST OFFICE

### Postmen (Salary Increase)

**Mr. Ian Gilmour** asked the First Secretary of State and Secretary of State for Economic Affairs into which category of exceptions to Her Majesty's Government's Incomes Policy, as outlined in paragraph 15 of the White Paper on Prices and Incomes Policy, the increase in salary announced on 15th April for 120,000 postmen, which represents increases of 5.4 per cent. from January, 1964, 4.2 per cent. from January, 1965, and 3.6 per cent. from January, 1966, comes.

**Mr. Benn :** I have been asked to reply.

The increases in 1964 and 1965 fall under Category (iv) of that paragraph. The increase in 1966 is in line with the general policy.

### Newspaper Post

**Mr. Ian MacArthur** asked the Postmaster-General when he will reply to a letter sent to him last month by the hon. Member for Perth and East Perthshire proposing that a rural newspaper delivery charge should be introduced to assist people living in country districts; and if he will make a statement before 17th May.

**Mr. Benn :** I have today replied to the hon. Member's letter. I shall be answering on 12th May further Questions on the newspaper post which the hon. Member and other hon. Members have down.

## WIRELESS AND TELEVISION

### Reception, North Wales

**Mr. Morgan** asked the Postmaster-General what action he proposes to take to counteract interference by Irish television broadcasts with the reception of British Broadcasting Corporation and independent television services in certain parts of North Wales.

**Mr. Benn :** No cases of interference from this source have been referred either to my Department, or to the broadcasting authorities, but if the hon. Member would care to let me have details I will gladly have them investigated.

## TELEPHONE SERVICE

### Belfast-London Calls

**Marquess of Hamilton** asked the Postmaster-General what steps he is taking to eliminate delays in obtaining telephone calls between Belfast and London; and whether he will make a statement.

**Mr. Benn :** I am sorry that these delays have arisen between Belfast and London. Twenty-four circuits have been provided in the last six months and more circuits are being added as quickly as possible to keep pace with the rising traffic.

### Northern Ireland Exchanges

**Mr. Chichester-Clark** asked the Postmaster-General how many telephone exchanges in Northern Ireland are understaffed.

**Mr. Benn :** None. All exchanges in Northern Ireland are fully staffed to give a good service under average traffic conditions.

## PENSIONS AND NATIONAL INSURANCE

### Widows

**Mr. Evelyn King** asked the Minister of Pensions and National Insurance if she will now take steps to provide relief for elderly widows whose husbands died uninsured.

**Miss Herbison :** National Assistance on standards which have recently been substantially improved is, of course, already available for such widows; as the hon.

Gentleman will be aware, the Government are now working on their plans for an income guarantee scheme.

### Old-age Pensioners (Coal Allowances)

**Mr. Delargy** asked the Minister of Pensions and National Insurance whether she will arrange that old-age pensioners have coal allowances all the year round, so that they may have what warmth they need in summer and build up small reserves of coal for winter.

**Mr. Pentland** : The standard scale rates of assistance include provision for normal fuel requirements throughout the year. The Board is prepared to make special fuel allowances even in summer in the exceptional case when there is a current need for extra fuel.

## WALES

### Interdepartmental Consultation

**Mr. Morgan** asked the Secretary of State for Wales whether he will state the nature of the machinery of liaison between his own and other Departments on matters of joint interest to Wales and adjoining regions of England.

**Mr. James Griffiths** : Close liaison is ensured by the use of the normal processes of interdepartmental consultation and the new regional planning machinery.

## SCOTLAND

### Houses (Average Number of Rooms)

**Mr. John Robertson** asked the Secretary of State for Scotland (1) what was the number of rooms per 1,000 inhabitants provided by houses built during each of the years from 1957 to 1963, inclusive, in Scotland ;

(2) what was the average number of rooms in houses built during each of the years from 1957 to 1963, inclusive, in Scotland.

**Mr. Ross** : I regret that I have no information about the number of occupants of houses built in these years. The following table gives the best available particulars of numbers of rooms :

		Average Number of Rooms per House	
		Public Authorities and Housing Associations (Tenders approved)	Private Owners (Houses started)
1957	... ..	3·2	4·0
1958	... ..	3·2	4·0
1959	... ..	3·1	4·0
1960	... ..	3·0	4·0
1961	... ..	3·1	4·1
1962	... ..	3·1	4·1
1963	... ..	3·0	4·1

### Artificial Limbs

**Mr. Buchanan-Smith** asked the Secretary of State for Scotland what facilities there are in Scotland for the making, repairing and fitting of artificial limbs ; where these facilities are situated ; what is the average period between the measurement for and the fitting of such limbs ; and what is the average time taken for repairs.

**Mr. Ross** : Artificial limbs are made by private manufacturers who are in contract with the Health Ministers ; there are two factories in Scotland, at Irvine (for arms) and at Dundee (for legs) ; most of the component parts are made in England.

The fitting of artificial limbs and running repairs are carried out at centres attached to the hospital service in Aberdeen, Dundee, Edinburgh, Glasgow and Inverness.

The average periods between the measurement and the final fitting are 13 and 11 weeks for arms and legs respectively. The average time for major repairs is eight weeks for arms and six weeks for legs but during these periods the patient has a duplicate limb available. Running repairs may be done without delay.