

SECRET

76

NOTE FOR THE RECORD

The Rt. Hon. Jeremy Thorpe MP came to see the Prime Minister, at the Prime Minister's request, at 10 Downing Street on Saturday 2 March 1974 at 4.00 p.m. Mr. R.T. Armstrong was also present.

2. The Prime Minister opened by welcoming Mr. Thorpe for an exchange of views on the political situation as a result of the General Election. The result of the election had been extraordinary. As in 1923 and 1929, neither of the two major parties could command an overall majority in the new House of Commons. But the situation was very different from that in 1923 or 1929. On both those occasions, though neither Conservative nor Labour had enjoyed an overall majority, there was a significant difference between them in the number of seats held (in 1923 in favour of the Conservatives, in 1929 in favour of Labour); and on those occasions the Liberals held a considerably larger number of seats than now. In the House of Commons just elected, each of the two main parties would hold almost exactly the same number of seats. Though the Conservative Party would hold five fewer seats than the Labour Party, the Conservative Party had polled a larger number of votes. The Liberal Party had polled nearly six million votes, though it would have only fourteen seats in Parliament. There was thus a substantial majority of voters who must be presumed not to want a Socialist Government.

3. In this situation his overriding duty and concern, as incumbent Prime Minister, was to decide and do what was in the national interest. The essential and urgent need was that an administration should be formed which would have sufficient support in the new House of Commons and would be sufficiently stable to carry on The Queen's Government, to take the measures required to deal with the economic crisis - which would be unpleasant but must be fair as well as effective - and to command the confidence overseas which would be necessary if the balance of payments deficit was to be financed and a reasonable rate of exchange for sterling maintained.

SECRET



SECRET

- 2 -

4. Mr. Wilson had issued a statement making it clear that he was prepared to form a minority Labour Government but not to enter into any coalition or understanding with other parties in the House.

5. It was therefore the duty of Mr. Heath to see whether a basis existed for some kind of arrangement between the Conservative and Liberal parties which would enable government to be undertaken on the basis of a Right-Centre programme. The programmes of the Conservative and Liberal parties differed in a number of respects, and any arrangement would involve decisions on either side to postpone policies which in other circumstances they would have wanted to carry out but which did not have immediate priority in relation to the overriding requirements of the economic situation. But in two major respects the policies of the two parties were both alike and both different from those of the Labour Party: both were committed to British membership of the European Community, subject to changes and improvements in Community arrangements where these could be agreed but not subject to any renegotiation of the terms of British entry; and both were committed under present circumstances to a policy for dealing with inflation which dealt with pay as well as prices with statutory backing. The Prime Minister believed that it would be possible to construct a programme for The Queen's Speech on the Opening of Parliament which both parties could support.

6. As to the nature of any arrangement between the two parties, it was necessary to judge what arrangement would give the greatest degree of stability and confidence to a new Administration. The Prime Minister saw broadly three options:

- (1) an undertaking by the Liberal Party to support any policies and measures introduced by a Conservative administration which seemed to them right and justifiable in the national interest, but with the right to oppose policies and measures if they thought fit;

SECRET



SECRET

- 3 -

- (2) an undertaking by the Liberal Party to support and vote for a definite programme of policies and measures by a Conservative administration, to be incorporated in a Queen's Speech which would be drafted in consultation with the Liberal Party. This would involve continuing consultation on the content of policies and measures which could only be summarised in The Queen's Speech;
- (3) participation by the Liberal Party in Government. Mr. Thorpe, as Leader of the Liberal Party, would be offered a seat in the Cabinet, and Ministerial appointments for other members of the Liberal Party could be discussed. On this basis the Liberal Party would be committed to the new Government's programme.

From the point of view of the stability and confidence of a new administration the third option - full participation in Government - was clearly preferable. The first option was little more than every Opposition promised at the beginning of a new Parliament, and would not give stability and confidence. The second - a commitment to support an agreed programme of policies and measures - would probably form a basis on which government could be carried on by a Conservative administration, if the Liberal Party was not prepared to participate in the government.

7. Mr. Thorpe asked the Prime Minister if he had considered the possibility of a "Grand Alliance" between the three major parties in the House of Commons to form a coalition administration. The Prime Minister said that he did not believe that such an arrangement was feasible. It would split the Labour Party. The left wing of the party would never let Mr. Wilson enter such a coalition, and Mr. Wilson himself would wish at all costs to avoid the role and fate of Ramsay Macdonald.

8. Reverting to the possibility of an arrangement between the Conservative and Liberal parties, the Prime Minister said that, if the Liberal Party decided that it was closer to the Labour Party than to the Conservative Party, that decision was of course open to them. But the Prime Minister believed that in the major

SECRET



respects he had described the Liberal programme was closer to the Conservative than to the Labour programme; and he believed that, quite apart from the fact that a substantial majority of voters had expressed a preference against a Socialist Government, a Conservative-Liberal administration, or a Conservative Government with a programme which the Liberal Party was committed to support, would be better able than a minority Labour Government to take the necessary economic measures and to command the necessary confidence overseas.

9. Mr. Thorpe said that he could not enter into any discussion or commitment on the proposal which the Prime Minister had put to him without consulting his colleagues. At this stage he could express only personal views. He endorsed the Prime Minister's view of the political situation resulting from the election and his conception of his duty in that situation. He shared the Prime Minister's view that the overriding national need was to deal with the country's economic problems, and above all with inflation. He acknowledged the similarity of their positions on Europe. He recognised the urgency of the need to resolve political uncertainty and enable an administration to tackle the problems of government without delay. He was not at present due to meet his Liberal colleagues in Parliament until the afternoon of 4 March. He would try to bring that meeting forward to the morning of 4 March, and in the meantime would discuss the matter with his closest senior colleagues, Lord Byers, Mr. Grimond and Mr. Steel. He hoped to do this on the afternoon of 3 March. He might wish to have further discussions with the Prime Minister after that and before meeting the other parliamentary colleagues. The Prime Minister indicated that he would be available for such discussions, with or without a few senior colleagues on either side.

10. Mr. Thorpe then put a number of points to the Prime Minister.

11. Mr. Thorpe asked first what was the position about the Ulster members: had the Prime Minister made or did he contemplate any arrangement with them? The Prime Minister said that the eleven



SECRET

- 5 -

Ulster members other than Mr. Fitt had stood under their own party labels - Ulster Unionist, Democratic Unionist and Vanguard Unionist - and also under the label of the grouping in which they were federated, the United Ulster Unionist Council. This Council, and all the eleven members elected to Westminster, were dedicated to the overthrow of Mr. Faulkner, of the new constitutional arrangements in Northern Ireland, and the Sunningdale agreement. He and his colleagues were of course entirely committed to the new constitutional arrangements and to the Sunningdale agreement, for which he had considerable personal responsibility, and there was no question of any deal under which he and his colleagues would modify their commitment to these arrangements in exchange for the promise of support at Westminster. But seven of the eleven were members of the Ulster Unionist Party, which was affiliated to the Conservative Party, and would automatically receive the Conservative Whip (as three of them had done as members of the last Parliament). The assumption must be that they would continue to support the Conservative Party on other issues than those of Northern Ireland, on which there was of course agreement between the three major parties.

12. Mr. Thorpe asked the Prime Minister how he saw the numbers in the new House of Commons. The Prime Minister said that there would be 296 Conservative members. If the 14 Liberal members voted with the Conservatives, and the seven Ulster Unionists voted with the Conservatives on non-Ulster issues, the resulting combination would have 317 votes, which would be equal to all the remaining votes (excluding the Speaker). It was by no means certain that all the remaining 16 non-Labour members would vote with the Labour Party: Mr. Milne and Mr. Taverne would no doubt normally do so, and probably the Welsh Nationalists; but it was thought that some at least of the Scottish Nationalists ("Tartan Tories", as the Labour Party called them) might support a Conservative-Liberal administration.

13. The Prime Minister asked Mr. Thorpe how the Liberal Party's position on regional and constitutional questions differed from those of the Nationalists. Mr. Thorpe said that the Nationalists

SECRET



SECRET

- 6 -

wanted to go much further in separation of the countries of the United Kingdom than the Liberals did. Both wanted to see the majority proposals of the Kilbrandon Commission implemented: he thought that the Nationalists would go a very long way to secure a commitment to that. But he recognised that constitutional reform carried lower priority than the measures to deal with the economic situation. The Prime Minister recalled that he was committed to carrying out the proposals in Sir Alec Douglas-Home's report on devolution for Scotland.

14. Mr. Thorpe asked what dramatic changes the Prime Minister saw being made in the Conservative programme to accommodate a coalition with or the support of the Liberals. The Prime Minister thought that both sides would have to agree to postpone a number of policies and measures which they would have thought desirable in other circumstances; but these would be likely to be policies and measures which did not have the same priority as the measures immediately necessary to deal with the economic situation.

15. Mr. Thorpe asked about the Government's position on miners' pay. The Prime Minister said that the Pay Board's report was expected to be available early the following week. He did not know what it would recommend, though there were reports to the effect that it was generous but did not meet the miners' claims in full. The position of himself and his colleagues would be that the dispute should be settled on the basis of the Pay Board's report. Mr. Thorpe asked what their position would be if the miners refused to settle on that basis, but stood out for their full claim. The Prime Minister said that that would indeed be a very difficult situation. Mr. Thorpe made it clear that he had no solution to this problem. The Prime Minister asked Mr. Thorpe whether he agreed that the miners' dispute should be settled on the basis of the Pay Board's Relativities Report. Mr. Thorpe said that he did so agree; and he thought that a Relativities Board was the sensible, rational and fair way of settling such matters.

SECRET



SECRET

- 7 -

16. Mr. Thorpe then drew attention to the fact that, though his party had polled nearly six million votes, it had won only fourteen seats. This outcome gave rise to strongly felt dissatisfaction among Liberal voters. He asked what the Prime Minister thought about this, and what was his position on electoral reform. The Prime Minister acknowledged the reasonableness of the dissatisfaction to which Mr. Thorpe referred, but said that the subject of electoral reform was, as Mr. Thorpe knew, very controversial. He would have to consult his colleagues before he could give any indication of views or policies on this subject. Mr. Thorpe recognised that electoral reform was of less immediate priority than the economic situation and dealing with inflation.

17. Mr. Thorpe recognised that the economic situation would require unpleasant measures. The Prime Minister thought that it should be possible for the two parties to agree upon measures the burden of which was distributed in proportion to the capacity to bear it. On a Privy Councillor basis the Prime Minister told Mr. Thorpe that preparations had been made for a drawing on the International Monetary Fund and for extending for a further period the official sterling guarantees which were due to expire on 31 March. These would require very early decisions and action by a new administration. Mr. Thorpe suggested that there would be all-party support for an immediate I.M.F. drawing. The Prime Minister was not sure that it was possible to count on this: the Labour Party might be critical of the terms of such a drawing. Mr. Thorpe, remembering British experience of December 1967 and very recent developments in Italy, acknowledged the validity of this point.

18. Turning to other possible ingredients in a joint programme, Mr. Thorpe mentioned industrial relations legislation and the minimum earnings guarantee. The minimum earnings guarantee was not referred to again. On industrial relations legislation, the Prime Minister said that he and his colleagues had made clear their readiness to discuss amendments to the Industrial Relations Act with employers and unions. This offer had not been taken up.

SECRET



SECRET

- 8 -

If returned, he would want to renew it. The Government had worked out the amendments which it would itself want to propose. He did not see how it would be possible simply to repeal the existing Act without putting something else in its place. That would mean that there was no statutory framework at all for industrial relations; and union leaders had told him privately that there were many features in the existing Act which the unions welcomed and would wish to preserve.

19. On policies to deal with inflation, the Prime Minister said that he would still like to agree with employers and unions a voluntary policy to deal with pay as well as with prices. But any voluntary policy would depend upon the willingness and ability of the trade unions to discipline those of their number who stepped out of line. This implied a considerable strengthening of the powers and effectiveness at the centre of the union movement in relation to individual unions, and he thought that in present circumstances the possibility of this was remote. He therefore saw no alternative to continuing with a statutory policy, based on the existing machinery. One problem at present was that many pundits were now saying, as Mr. Thorpe had himself said during the election campaign, that Stage III was now too generous. The Code could of course be changed at any time, and the Government was ready and willing to consider possible changes, though there were obvious difficulties about major changes in the middle of a wage cycle.

20. On Europe, the Prime Minister said that he saw little if any substantial difference between the Conservative and Liberal Parties. Both would like to see changes in the common agricultural policy, if these could be negotiated with our partners. Both would like to see further improvements in the institutions, though some had already been made. The Government accepted the commitment in the Treaty of Rome to direct election to the European Assembly, though it was difficult to see much progress being possible on that in present circumstances. The Prime Minister knew that Mr. Thorpe, as a committed supporter of British membership of the

SECRET



SECRET

- 9 -

European Community, would understand and share his belief that it was of overriding national importance to safeguard the achievement and the benefits of British entry into the Community.

21. Mr. Thorpe concluded by thanking the Prime Minister for giving him so much time. He would discuss what he had said with his colleagues, and would be in touch with the Prime Minister again as soon as possible, recognising the urgency which attached to a resolution of the political uncertainty.

22. The Prime Minister repeated his view that an arrangement between the Conservative and Liberal Parties, based on a programme of measures which both could support, would not only be possible but would also represent the desires of the substantial majority of voters not to have a Socialist Government, and would be in the national interest as providing a basis for a reasonably stable administration in the difficult period which lay ahead, able to command sufficient support in the country and in the House of Commons to carry out the necessary economic measures and to command the necessary degree of confidence in those overseas on whom the country would depend for support and assistance.

23. The Prime Minister and Mr. Thorpe agreed on a statement for the press making it clear that they had discussed the political situation and the urgent need in that situation for an administration to be formed to carry on The Queen's Government, that they would each be reporting the other's views to their colleagues, to see whether a basis existed for further discussions, and that no commitments had been entered into on either side. A statement to this effect was issued from 10 Downing Street.

24. The meeting ended at 5.20 pm.

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3 March 1974

SECRET