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THE ECONOMIC POSITION: ANALYSIS AND REMEDIES

Memorandum by the Chancellor of the Exchequer

I wish to put before my colleagues an analysis of the present economic position of the United Kingdom, as evidenced in our Balance of Payments with the dollar area and the rest of the world. I also suggest in this memorandum certain measures for their consideration: I believe that we should take these measures in order to remedy the situation.

I. THE DETERIORATING POSITION AND OUTLOOK

2. We are in a balance of payments crisis, worse than 1949, and in many ways worse even than 1947. Confidence in sterling is impaired, as witness the large discounts on forward sterling in New York, and speculation against it is considerable, increasing the deficits and the drain on our gold and dollar reserves.

3. There are three main indicators of the change in our position. These are by no means all; but they are the best known and the most significant. The change between 1950 and 1951 is first dealt with, and then the outlook for 1952:-

A. The change between 1950 and 1951

(i) The U.K. general balance of payments

<table>
<thead>
<tr>
<th>Surplus (+)</th>
<th>Deficit (-)</th>
<th>£ millions</th>
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<tr>
<td>1950 January-June</td>
<td>+42</td>
<td></td>
</tr>
<tr>
<td>July-December</td>
<td>+179</td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>+221</td>
<td></td>
</tr>
<tr>
<td>1951 January-June</td>
<td>-122</td>
<td></td>
</tr>
<tr>
<td>July-December (forecast)</td>
<td>-350</td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>-472</td>
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Currently, therefore (i.e. in the present half-year) we are running an external deficit at a rate of £700 million a year, compared with an annual rate of surplus of some £350 million in the corresponding period a year ago - a deterioration of more than £1,000 million per annum.
The sterling area gold and dollar balance and the change in reserves

<table>
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<th></th>
<th>Gold and Dollar Surplus or Deficit</th>
<th>Gain or loss of reserves</th>
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<tbody>
<tr>
<td>1950 January-June (quarterly average)</td>
<td>+ 39</td>
<td>+ 131</td>
</tr>
<tr>
<td>July-December</td>
<td>- 104</td>
<td>+ 104</td>
</tr>
<tr>
<td>1951 January-March</td>
<td>+ 129</td>
<td>+ 164</td>
</tr>
<tr>
<td>April-June</td>
<td>- 19</td>
<td>+ 39</td>
</tr>
<tr>
<td>July-September</td>
<td>- 228</td>
<td>- 214</td>
</tr>
<tr>
<td>October (estimated)</td>
<td>- 90</td>
<td>- 90</td>
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*Any difference between the figures of the gold and dollar deficit and the figures of the gain or loss of reserves is accounted for by the fact that the figures of the deficit exclude U.S. aid.

The third quarter deficit was inflated by exceptional and seasonal losses, as well as speculative movements. In October, so far, the latter are probably playing an even greater part. Unless a major change of sentiment occurs, at the present rate we face a gold and dollar deficit and a loss of reserves this quarter of over £285 million. (At the end of the year we are due to pay £62 million service on the North American lines of credit, of which £39 million is on account of interest - £23 million being on account of amortisation of the loans; we may be able to claim waiver of payment of the interest.) This would bring them down to under £900 million by 31st December, compared with their peak £1,381 million at 31st June - a loss of nearly £500 million in six months. The present drain on the reserves themselves is greater than at any time since the war.

The U.K. balance in the European Payments Union (E.P.U.)

This is, of course, a reflection of the whole sterling area balance on current and capital account with E.P.U. countries.

<table>
<thead>
<tr>
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<th>£ millions</th>
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<tr>
<td>1950 July-December</td>
<td>+ 170</td>
</tr>
<tr>
<td>1951 1st quarter</td>
<td>+ 57</td>
</tr>
<tr>
<td>2nd quarter</td>
<td>- 10</td>
</tr>
<tr>
<td>July</td>
<td>- 43</td>
</tr>
<tr>
<td>August</td>
<td>- 67</td>
</tr>
<tr>
<td>September</td>
<td>- 73</td>
</tr>
<tr>
<td>October (estimated)</td>
<td>(- 85)</td>
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Speculative factors have almost certainly played a part recently, though we have no idea of their scale. Unless a major reversal of sentiment occurs here, too, we shall run through all the gold-free credit available to us in E.P.U. and be paying gold at increasing rates by November.
The outlook for 1952

On present trends and policies the following is the outlook for 1952:-

(i) A U.K. general balance of payments deficit of £540 million.

(ii) A deficit in E.P.U. of the order of £300 million.

(iii) A loss of gold and dollar reserves of approximately £750 million.

4. All these forecasts allow for some improvements on present conditions, e.g. a full year's imports and exports at current prices, implying better terms of trade than in 1951, but no worse or better than now, no allowance for further speculative losses, and a slowing up of the increase in sterling area spending in the non-sterling area, particularly in E.P.U. countries. In spite of this, the estimates disclose an insupportable position, one in which even apart from speculative pressure, we stand to lose virtually the whole of our remaining reserves in 1952.

5. These figures mean, in short, that both the United Kingdom and the sterling Dominions are buying more than they can afford to pay for from current earnings. This has been made worse by the loss of confidence in sterling and the additional strain of the loss of Abadan.

II. THE NEED TO RESTORE CONFIDENCE

6. This very serious deterioration in our position, coming as it does at the inception and not during the full impact of the rearmament programme, threatens the whole position of sterling and of the United Kingdom and sterling area. It is a clear indication not only that there are serious underlying weaknesses in our position, but also that foreign confidence in our ability to deal with these weaknesses is greatly impaired. The only chance of restoring the position before irreparable harm has been done is to restore confidence. I recommend therefore that the restoration of confidence in sterling and our economic situation should be the first and most important object of our policy.

III. THE URGENT NEED FOR A COMPREHENSIVE STATEMENT OF GOVERNMENT POLICY

7. The restoration of confidence requires, in my view, an early and comprehensive statement by the Government which shows that it is both ready and able to grip the situation. The statement is required early because the position is deteriorating very rapidly. The statement should be comprehensive because half-measures would not restore confidence and might, in certain circumstances, do more harm than good. It is therefore necessary to consider first the content, and, secondly, the timing of any statement (see IV, V and VI below).

8. I recommend that the need for an early and comprehensive statement be accepted as an essential part of our policy to restore confidence in sterling and our economic situation.

IV. THE INTERNATIONAL ASPECTS OF THE STATEMENT

8. It is important that the statement should both give a lead to the Commonwealth and induce them to take action on similar lines, and also assure our United States and Western European Allies that we
intend to take any action in a manner which will not create needless economic difficulties for them, and which is indeed designed to make us a stronger partner in the Organisation for European Economic Co-operation (O.E.E.C.), the North Atlantic Treaty Organisation (N.A.T.O.), and the enterprises in which we are jointly engaged.

V. THE CONTENT OF THE STATEMENT

9. It is important that any statement should set out not only the basic position with which we have to deal but also the objectives which we have in mind. It is also important that it should cover all essential aspects of the question, including the international aspects referred to in IV above.

10. Broadly, the position with which we have to deal is one of an overloaded economy, and our first objective must be to limit the load on the economy to the amount which it can bear and so to provide a solid base on which to carry out the necessary expansion to meet future needs. The statement would not give confidence if it was limited merely to a series of measures designed to restrict the economy, although these measures are necessary and must be taken urgently if we are to stop, and subsequently reverse, the present downward trend.

11. The following are the broad headings of the measures which I ask my colleagues to consider. These measures have been discussed in a preliminary manner with the Ministers mainly concerned who were already appointed.

A. IMPORT CUTS. I recommend that immediate action be taken, and announced, to reduce external expenditure by £350 million a year - this to be secured by direct cuts in the 1952 import programme of £300 million, and in the tourist ration to yield £15 million, and the rest to be made up by shipping savings consequent upon the import cuts and a general tightening up on imports and other forms of external expenditure. The general scale of these measures may be related to total estimated imports in 1952, at end-September prices, of some £3,620 million, of which £1,340 million comes from other sterling area countries, which it is not proposed to cut directly at this stage.

The following are my detailed proposals to achieve this:

(a) Saving of £150 million by direct cuts on a selected list of imports from European and other non-sterling sources.

About 90 per cent of our imports from Europe are imported without restriction, under the O.E.E.C. "liberalisation" policy. We are entitled at any time to reimpose restrictions which reduce the "liberalisation" percentage to 75 per cent, and we can reimpose further restrictions if we are dangerously in deficit with E.P.U. (as we are), subject to our being prepared to justify our action to O.E.E.C. afterwards. If we cut our imports too drastically, however, we should risk a collapse of the O.E.E.C. liberalisation structure, and reprisals against our exports. This risk must be balanced against the risk of not cutting our expenditure enough, and of thus failing to right our own deficit with the E.P.U., which would also lead to the collapse of the E.P.U. itself.
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I therefore propose that we make a selective list of cuts of £150 million, making a sharp cut (generally, but not invariably, about 50 per cent) in each item, and choosing a list in a way which avoids cutting items which would invite reprisal, and not reducing our "liberalisation" percentage below about 60 per cent. This list should include:

(i) Private imports of unrationed food, including wines and spirits - £100 million. This would include about thirty items, such as canned meat, canned hams, sugar fat mixtures, apples, pears, nuts, non-rationed cheeses, canned tomatoes, etc. An allowance of £5 million for wines and spirits has been made, but this would have to be done by fiscal action and not by direct import cuts. There are already restrictions on fruit and vegetables at times of the year when the imports would compete with United Kingdom producers. Total imports in this class, from all sources, are estimated at £411 million in 1952.

(ii) Government imports of unrationed food - £20 million. This includes dried fruit, condensed milk, coffee, etc. Total imports from E.P.U. and other non-sterling sources are estimated at £44 million in 1952.

(iii) Private imports of manufactures - £15 million. In this field, total imports from E.P.U. and other non-sterling sources are estimated at £145 million in 1952, but £25 million consists of machinery and £70 million of textiles. In the manufactured field, we are more vulnerable to reprisal, than in food, and if supplies are excluded from the United Kingdom, they will compete with our exports in Europe and elsewhere. It is believed that a saving of £15 million could be made without damaging repercussions. To save more would involve cutting textiles (over £50 million from Europe alone) which would involve major risks, particularly because textiles are on the O.E.E.C. "common list", in which restrictions are being removed throughout Europe in order to build up a common market.

(iv) Private imports of raw materials - £15 million. The major item is paper, board, and wood pulp for paper. A reduction of £12½ million or more could be made on imports from all sources without damage to the economy (total imports from all sources about £180 million) and without impact on newsprint supplies. But this would involve reimposition of controls on paper distribution in order to safeguard supplies for essential uses, such as export packing.

Introduction of import restrictions would involve administrative difficulty at the outset, but this is in my view inevitable, and I recommend that this action, to a total of £150 million, should be put into effect immediately after the statement in Parliament.
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Saving of £50 million by cutting the 1952 import programme of rationed foods. It is estimated that we could buy enough to support increases in consumption of wheat and rationed foods in 1952, compared with the average 1951 level, of some £50 million. I recommend that we cut the total programme by £50 million, so that if we get more meat than the 1951 average, we should make corresponding reductions in other rations, such as sugar or oils and fats. The total programme in this class for 1952 is £714 million. It may be convenient to save more on the unrationed foods and less on the rationed foods or vice versa.

Limiting imports of timber to maintain present consumption only. To maintain present consumption of soft wood involves imports of about £100 million a year. At present there is no restriction on imports, except from North America and the Soviet bloc which are on Government purchase. It will be necessary to consider the purchasing arrangements for soft wood, i.e. whether all purchase should not return to private account, and I recommend that we should make no cut in our proposed imports but in present circumstances we cannot go further. If we permitted more, it would be an additional expenditure above what is allowed for in the estimates of the outlook for 1952.

Saving of £100 million by suspension of strategic stockpiling programme. The present strategic stockpiling programme will cost £147 million in 1952, of which £76 million represents expenditure in the dollar area. By the end of 1951, we shall have accumulated a strategic stockpile of £140 million - mainly food, tobacco, soft wood, rubber. I recommend that we should stop making purchases for this programme and have the programme re-examined with the purpose of saving £100 million in 1952, in purchases from non-sterling sources. I fully appreciate that this involves a defence risk, but on this basis we shall have accumulated some £180 million of supplies by the end of 1952, and in my view the danger to our defence effort of a balance of payments crisis involving inability to buy essential food and raw materials far exceeds the defence risk of postponing stockpiling.

Saving of £15 million by reducing tourist ration from £100 to £50. I recommend this, to take effect from the beginning of the 1952 tourist year. It would be possible to save a little more by introducing this from 1st January, but this would impinge upon commitments already made.

General tightening up of external expenditure. I propose to keep a tight check on projects of all kinds involving external expenditure, both in imports and in overseas Governmental and "invisible" expenditure, in order that the maximum possible saving should be achieved by administrative means. I would ask my colleagues to support me in this, and I shall of course bring before them any matters which may involve policy considerations.

MONETARY MEASURES. I am satisfied that it has now become necessary to remove the rigidity in short term interest rates of the last few years, which has limited the power of the authorities to exercise sufficient pressure upon credit policy.
C. REDUCTIONS IN GOVERNMENT EXPENDITURE. We need an urgent review of all Government expenditure so as to cut out waste, and - far more important - to cut out and slow down expenditure on work which is valuable but not essential in times of crisis. We may have to go further and take some big steps of a kind which no one can welcome. How far this will be necessary depends on how much we can save by our general review. I shall be circulating in a few days a separate paper to my colleagues setting out the steps which I hope they will take in the interests of economy. I cannot ask that major decisions on policy should be taken before my speech on the Address, but I shall wish to inform the House of the general lines on which I have asked them to review their expenditure.

D. INVESTMENT. The present building programme authorised for 1952 is 10 per cent higher than the work actually carried out in 1950. But in the first half of 1951 the building industry achieved about 4 per cent less than in 1950. This was due to bad weather, shortage of steel, and an attempt to achieve too much with limited labour and materials. There will therefore be a backlog on the 1951 building programme. It is probable that shortage of steel will prevent the output of the building industry in 1952 from rising above the level in 1950. The industry is already overloaded and the first essential is to limit severely any more work being started under the present programme until the overload has been worked off and periods of completion of existing jobs have been shortened. This will increase and not decrease the amount of work completed in 1952.

It is also necessary to reduce the level of home investment in plant, machinery and vehicles in order to make more metal goods available for export.

I therefore propose:-

(i) that the general rule should be that no new starting dates should be given, to take effect within the next three months, and no firm commitments made for starting dates to operate later in 1952; but that within this general rule special consideration should be given to housing;

(ii) starting dates already granted for operation during the next three months should be reviewed and postponed in all cases except defence, fuel and power, and housing;

(iii) the Headquarters Building Committee should make recommendations to carry out this general decision, including limited provision for exceptions to be granted on their authority;

(iv) officials should prepare a revised Investment Programme for 1952 and 1953, to be ready for consideration by Ministers not later than the end of January, 1952.

12. I have considered whether these steps should be supplemented by fiscal measures in an Autumn Budget. There are some advantages in this, but great practical difficulties in the way of doing anything effective in the time available. I do not believe that an Autumn Budget is necessary to restore confidence, and would advise against one. I therefore recommend that there should be no Autumn Budget.
13. The above are restrictive measures. But our objective is an expanding economy. The first essential for this is to restore confidence in the £. These measures are necessary for that purpose, and to provide the solid base for expansion. What are the measures for expansion? It is quite clear that the two fundamental limitations on the expansion of our economy are, first, coal output, and, secondly, the output of the engineering industry which, in turn, depends both on coal and on the availability of steel. Unless something can be done in both these fields then the prospects of expansion are greatly reduced. Decisions and following action on these matters are urgent, but the decisions cannot be taken in time for specific steps to be announced in the statement. Nevertheless, the statement should include a reference to the constructive action which the Government intend to take in the following fields:

(a) **Coal and Steel.**

These are of fundamental importance to the economy, and the Government's intention to see that adequate supplies are available should be stressed, adding that specific steps in this direction will be announced as soon as they are fully worked out.

(b) **Engineering Industry.**

The statement should show the expansion which is required in this industry to meet our needs, and which can be made provided adequate supplies of steel are available. The statement would also emphasise that for increased steel supplies we would depend very largely on what the Americans can do for us.

(c) **Exports.**

The fundamental question here is the priority to be given to exports as against defence orders. Nothing can be said on this in the statement, but the Government would need to re-emphasise the existing policy of putting full weight behind the export drive.

VI. **TIMING OF THE STATEMENT**

14. From the point of view of the balance of payments crisis, the earlier the statement is made the better. Indeed, the longer it is delayed the more reserves we shall lose and the harder it will be to restore confidence.

15. The King's Speech is to be made on 6th November and the Debate will open the next day. Clearly, the King's Speech will have to contain references to the balance of payments crisis and to the vital need for measures to correct it. Having regard to the seriousness of the crisis and to the need for setting out the full gravity of the situation, further deterioration would inevitably take place unless my statement specified remedial measures. I therefore recommend strongly that I should be authorised in my speech on the address not only to make clear how far the balance of payments position has deteriorated in the last few weeks, but at the same time to announce the steps which are being taken to put the position right. This should include an announcement of the measures summarised in paragraph 11 of this memorandum, with some general indication of those mentioned in paragraph 13.

R.A.B.

Treasury Chambers, S.W.1,

31ST OCTOBER, 1951.
THE CABINET

THE KING'S SPEECH ON THE OPENING OF PARLIAMENT

NOTE BY THE MINISTER OF HEALTH

I circulate herewith, for consideration by the Cabinet, a draft of The King's Speech on the Opening of Parliament, which has been prepared by the Committee on The King's Speech.

2. The Committee have decided to omit a number of references to specific measures which were in the first draft considered by them or were suggested by Departments. The principal measures so deleted were the following:

(a) The review of the system of local Government and establishment of a Boundary Commission.
(b) The Bill to modernise Customs and Excise legislation.
(c) The abolition of centralised purchase of raw cotton.
(d) The improvement of the salaries of County Court judges and of comparable judicial officers.
(e) The extension of diplomatic privilege to High Commissioners.
(f) The Industrial Injuries Amendment Bill.
(g) The preservation of historic houses.

3. The Committee feel that some of these measures require examination by Ministers and decisions of policy which cannot be taken at once, while others seem inappropriate for inclusion in a Speech which lays primary emphasis on the grave economic situation. They have, therefore, decided to make very few references to legislation in the Speech and to leave most of the Bills which may be subsequently proceeded with to be covered by the general paragraph (No. 27) promising other legislation.

H. C. C.

Ministry of Health,
Savile Row, W. 1,
1st November, 1951.
THE KING'S SPEECH ON THE OPENING OF PARLIAMENT

My Lords and Members of the House of Commons

1. It is a matter of sincere regret to me that I cannot address you in person on this Opening of a new Parliament. I have been sustained and strengthened through My illness by the prayers and the sympathy of all My peoples.

2. It has given Me great satisfaction that My elder daughter, accompanied by her husband, has been able to undertake her projected journey to Canada and the United States of America, and I have been deeply moved by the great warmth of the reception accorded both to her and to the Duke of Edinburgh.

3. The Queen and I are greatly touched by the sympathy and understanding shown by My peoples in Australia, New Zealand and Ceylon on learning that We had, for the second time, been prevented by My illness from carrying out Our plan to visit them. Happily My elder daughter and her husband will make this journey in Our stead; and they eagerly look forward to their visit to these and other Commonwealth countries through which they will pass in the course of their journey.

4. My Ministers will ever be anxious to maintain the close ties of friendship and understanding which so happily exist between the widely varied peoples of the Empire and Commonwealth.

5. My Government will make it their first duty to ensure the safety of our country and, in co-operation with the other countries of the Commonwealth, the United States of America and our European partners, will share in the common effort to build a more peaceful and prosperous world. They will take such measures as are necessary to strengthen our defences in both trained men and equipment, to re-establish the Home Guard and to develop Civil Defence.

6. My Government will maintain this country's support for the United Nations as an instrument for international co-operation and for the maintenance of world peace and security. They will play their part in the efforts to re-establish peace in Korea (and to repair the devastation caused by the hostilities in that country).

7. My Ministers will make every effort to find a solution of the difficulties that have arisen in connection with the oil industry in Iran.

8. My Government have noted with deep regret the declaration of the Egyptian Government that they regard the Anglo-Egyptian Treaty of Alliance of 1936 and the Sudan Condominium Agreements of 1899 as abrogated. My Government consider this action illegal and without validity. They are resolved to press ahead, in conjunction with the Governments of the United States, France and Turkey, with their proposals for joint defence arrangements in the Middle East. In the meantime they intend fully to maintain their position in the Canal Zone under the terms of the 1936 Treaty.

9. The text of the Japanese Peace Treaty signed at San Francisco on 8th September will be presented to you before ratification. Legislation will be introduced to give effect to certain provisions of the Treaty.

10. My Government will introduce legislation to regulate the position of Commonwealth and foreign armed forces who are stationed in this country.

MEMBERS OF THE HOUSE OF COMMONS

11. The estimates for the public services will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

12. First steps will be taken to implement the plans of my Ministers for the management of Scottish affairs.

13. I have approved new arrangements which will bring added strength to the counsels of My Government relative to the special problems and interests of Wales.
14. My Government view with serious concern the economic situation of the country. The recent deterioration in the balance of payments causes increasing anxiety and must be urgently remedied in order to restore the fullest confidence in the purchasing power of the pound, so that we may continue to be able to obtain from overseas the supplies necessary to maintain employment and an increasingly high level of production. The measures to this end must include drastic action to reduce the growing inflation in our economy, which threatens the maintenance of our defence programme and which, if unchecked, must cause a continuing rise in the cost of living. My Government regard this problem as overshadowing all other domestic matters. They are giving it urgent examination and will announce their conclusions and make proposals to Parliament in the immediate future. While pressing on with domestic remedies, including a searching enquiry into Government expenditure with a view to reducing it wherever possible, they will also invite the other Governments of the Commonwealth to confer together on action which should be taken in concert to remedy the adverse balance of payments.

15. My Government will seek to promote flexibility in those industries which remain under public management and to stimulate free enterprise by giving it a fuller share in our economic activity. They will be mindful of the great demands on our productive capacity, and will consider all methods for creating that sense of partnership between management and workers on which industrial peace and a higher level of productivity must depend.

16. My Government view with concern the serious shortage of labour, particularly of skilled labour, which has handicapped production in a number of essential industries. They will review, in consultation with representatives of those concerned, the possibilities of making available more labour for those industries and of ensuring the most efficient use of the existing labour force.

17. A Bill will be placed before you to annul the Iron and Steel Act with a view to the reorganisation of the industry under free enterprise, but with an adequate measure of public supervision.

18. Proposals will be introduced to facilitate the extension of private road haulage activities.

19. A measure will be laid before you for strengthening and widening the activities of the Monopolies Commission.

20. A Bill will be laid before you to re-introduce in the next Parliament representation of the Universities in the House of Commons. It will provide for the exercise of one vote only by each voter.

21. You will be asked to authorise for a period the continuation in force of certain emergency enactments and defence regulations which are due to expire next month, but My Ministers will examine these provisions with the object of embodying as many as possible of those which must remain in force in legislation requiring annual renewal by Parliament.

22. My Government will by every means in their power stimulate the building of new houses for My people and in doing so they will aim to use to the fullest extent both public and private enterprise. Their housing policy will have regard to the desire of many people to own their homes and to the special needs of the elderly.

[23. My Ministers will review the whole position of pensioners, including war pensioners, as circumstances permit.]

24. My Government will protect the social services by every means in their power and will strive to promote economy while at the same time ensuring the utmost efficiency.

25. My Ministers will take all possible steps to encourage production of food by the basic industries of agriculture, horticulture and fisheries.

26. Further progress will be made with the consolidation of the statute law.

27. Other measures will be laid before you in due course.

I pray that the blessing of Almighty God may rest upon your counsels.
CABINET

ECONOMY

Memorandum by the Chancellor of the Exchequer

In my paper C. (51) 1, I said that I wanted to inform the House, in my speech in the Debate on the Address, of the general lines on which I have asked my colleagues to review their expenditure.

2. I now ask my colleagues to approve the lines of the attached statement and to give me their full support in the campaign for economy, in the ways suggested. I shall keep in constant touch with them and shall give them all the help in my power.

R.A.B.

Treasury Chambers, S. W. 1.,

3RD NOVEMBER, 1951.
One of our most important tasks in combating inflation is to reduce Government expenditure. It is the classical function of the Chancellor of the Exchequer to see to this, and this is an aspect of the Treasury's functions to which I shall devote particular attention. With my colleagues' help I hope to be successful.

After only ten days in office, it would be a sign of levity in me to produce a complete programme of retrenchment. These things affect the whole country; they need careful thought and must be concerted. We shall lose no time, and we shall announce our measures as soon as we have determined them; the results of our work can be judged as a whole when the Estimates for next year are laid before the House.

Meantime I should like to tell the House how my colleagues and I have already set on foot the radical review of all Government expenditure which we consider necessary. Some critics have suggested that a Committee should be set up of outside investigators. I do not favour this course. Economy is not a prescription to be imposed from outside, and I do not want my colleagues to be put in the position of defendants, bound to protect their Departments against attack. They have already promised me their co-operation. The Treasury, of course, can and will make many suggestions where savings can be made; but each Minister, perhaps, is in the best position to enforce savings over the whole field of his Department, and to instil the sense of economy into all his officials. We shall work together on this as a team which it is the Chancellor's task to lead and to direct. It must be my special duty to ensure that all play their part in the common effort and that the drive to secure savings is pursued with the same intensity and the same sense of urgency in all Departments.

We are at the time of year when each Department prepares its estimates for the coming year and presents them to the Treasury. It is the time when the expenditure of Departments, and the number of their staff, is examined as a whole. This examination will be the basis of our work. I have asked my colleagues, and they have agreed, each of them personally to ensure that their estimates as submitted to the Treasury are cut to the lowest possible figure. I shall play my part in helping them to do so; and together we shall ensure that in the Estimates submitted to Parliament all waste and unnecessary expenditure is cut out and less essential services are deferred or slowed down wherever possible.

We shall pay particular attention to capital expenditure, and to the reduction of any activities which are keeping in Government employ those kinds of man-power which are most needed elsewhere. We shall watch those services in which the Government's expenditure is not directly or closely governed in Whitehall, I have in mind, to give only one example, local government services on which we pay grant. Expenditure here is often increased not by conscious and major acts of Governmental policy, but by the frequent admonitions to expand and improve which are given by the Departments concerned, working in recent years in an atmosphere where economy had a low priority. We shall review the thousand and one instructions, regulations and manuals of advice which go out from Whitehall so as to see that there, too, the same principle of reasoned economy is observed.

I must wait till my review of the draft estimates is completed before I am in a position to decide whether sufficient savings have been made. Hon. Members may rest assured that, if they are not enough, we will do whatever else is needed to put our affairs once more on a sound basis.
CABINET

THE KING'S SPEECH ON THE OPENING OF PARLIAMENT

Note by the Secretary of the Cabinet

I circulate for the information of the Cabinet the text of The King's Speech on the Opening of Parliament in the form in which it was submitted, by the Prime Minister's direction, for approval by His Majesty.

(Signed) NORMAN BROOK

Cabinet Office, S.W.1,

3RD NOVEMBER, 1951.
3RD NOVEMBER, 1951

CABINET

THE KING'S SPEECH ON THE OPENING OF PARLIAMENT

Note by the Secretary of the Cabinet

I circulate for the information of the Cabinet the text of The King's Speech on the Opening of Parliament in the form in which it was submitted, by the Prime Minister's direction, for approval by His Majesty.

(Signed) NORMAN BROOK

Cabinet Office, S.W.1,

3RD NOVEMBER, 1951.
THE KING'S SPEECH ON THE OPENING OF PARLIAMENT
6TH NOVEMBER, 1951

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS:

It is a matter of sincere regret to Me that I cannot address you in person on
this Opening of a new Parliament. I have been sustained and strengthened through
My illness by the prayers and the sympathy of all My peoples.

It has given Me great satisfaction that The Princess Elizabeth, accompanied by
her husband, has been able to undertake her projected journey to Canada and the
United States of America, and I have been deeply moved by the warmth of the
reception accorded both to her and to the Duke of Edinburgh.

The Queen and I are deeply touched by the sympathy and understanding shown
by My peoples in Australia, New Zealand and Ceylon on learning that We had, for
the second time, been prevented by My illness from carrying out Our plan to visit
them. Happily My elder daughter and her husband will make this journey in Our
stead; and they ardently look forward to their visit to these and other Common­
wealth countries through which they will pass in the course of their journey.

My Ministers will ever be anxious to maintain the intimate and precious ties
of friendship and understanding which exist between all the peoples of the Common­
wealth and Empire.

My Government will make it their first duty to ensure our national safety and,
in concert with the other members of the Commonwealth, the United States of
America and our European partners, will share in a supreme effort to build a more
tranquil and prosperous world. They will take the necessary measures to strengthen
our defences both in trained men and in equipment, to re-establish the Home Guard
and to develop Civil Defence.

My Government will faithfully support the United Nations as the World
instrument for peace and security. They will continue to play their part in Korea
with the aim of restoring peace and well-being.

My Ministers will try to repair the injuries our rights and interests have
suffered in Persia.

My Government regard the abrogation by the Egyptian Government of the
Anglo-Egyptian Treaty of Alliance of 1936 and the Sudan Condominium Agree­
ments of 1899 as illegal and without validity. They are resolved, in conjunction
with the Governments of the United States, France and Turkey, to press forward
with their proposals for joint defence arrangements in the Middle East. In the
meantime they will maintain their position in the Canal Zone under the terms of
the 1936 Treaty and will safeguard the international highway. Nothing can be
allowed to interfere with the rights of the Sudanese to decide for themselves the
future status of their country.

The text of the Japanese Peace Treaty signed at San Francisco on the 8th of
September will be presented to you before ratification. Legislation will be
introduced to give effect to certain provisions of the Treaty.

My Government will introduce legislation to regulate the position of
Commonwealth and foreign armed forces who are stationed in this country.

MEMBERS OF THE HOUSE OF COMMONS:

The estimates for the public services will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS:

First steps will be taken to fulfil the plans of My Ministers for the manage­
ment of Scottish affairs.

I have approved new arrangements to bring added strength to the counsels of
My Government upon the special problems and interests of Wales.
My Government view with grave concern the economic situation of the United Kingdom about which a full disclosure must be made to the nation. The recent deterioration in the balance of payments causes increasing anxiety and must be urgently remedied in order to restore the fullest confidence in the purchasing power of the pound, so that we may continue to be able to obtain from overseas the supplies necessary to maintain employment and an increasingly high level of production. The measures to this end must include drastic action to reduce the growing inflation in our economy, which threatens the maintenance of our defence programme and which, if unchecked, must cause a continuing rise in the cost of living. My Government regard this problem as overshadowing all other domestic matters. They are giving it urgent examination and will announce their conclusions and make proposals to Parliament in the immediate future. They will make a searching enquiry into Government expenditure with a view to reducing it wherever possible. While pressing on with domestic remedies they will also invite the other Governments of the Commonwealth to confer together on action which should be taken in concert to remedy the adverse balance of payments.

My Government will seek to promote flexibility in those industries which have been brought under public management and to stimulate free enterprise by giving it a fuller share in our economic activity. They will be mindful of the great demands on our productive capacity, and will consider all methods for creating that spirit of partnership between management and workers on which industrial harmony and a higher level of productivity must depend.

My Government view with concern the serious shortage of labour, particularly of skilled labour, which has handicapped production in a number of essential industries. They will review, in consultation with representatives of those concerned, the possibilities of making available more labour for those industries and of ensuring the best use of the existing labour force.

A Bill will be placed before you to annul the Iron and Steel Act with a view to the reorganisation of the industry under free enterprise but with an adequate measure of public supervision.

Proposals will be made to facilitate the extension of private road haulage activities.

A measure will be laid before you for strengthening and widening the activities of the Monopolies Commission.

A Bill will be laid before you to make provision in the next Parliament for the representation of the Universities in the House of Commons, on the basis of one vote only by each voter.

You will be asked to authorise for a period the continuation in force of certain emergency enactments and defence regulations which are due to expire next month. My Ministers will, however, review the whole subject with the aim of reducing the number of these controls and regulations and, wherever possible, embodying those which must be kept in legislation requiring annual renewal by Parliament.

My Government will do their utmost to stimulate the building of new houses for My people, using to the fullest extent both public and private enterprise. Their housing policy will have regard to the desire of many people to own their homes and to the special needs of the elderly.

In their policy towards the social services My Government will pursue the dual aim of promoting economy and ensuring efficiency.

My Ministers will vigorously encourage production of food by the basic industries of agriculture, horticulture and fisheries.

Further progress will be made with the consolidation of the statute law.

Other measures will be laid before you in due course.

I pray that the blessing of Almighty God may rest upon your counsels.
I attach a memorandum by the Minister of Fuel and Power about the dangers facing us on coal this winter. As we feared, and as is now evident, we have been left a most difficult legacy through the neglect to build up coal stocks during the summer to a reasonably safe level. At the present level there is a definite possibility of failure this winter to meet coal requirements over the whole field. More especially on the present level of house coal stocks there is, I am afraid, a certainty of a breakdown in supplies to the public unless urgent measures are taken to import coal.

I consider that it should be possible to arrange even at this late date for an import of ½ million tons. I recommend that this should be done.
Memorandum by the Minister of Fuel and Power

The coal situation facing us this winter is exceedingly grave.

2. I am advised that the minimum safe level of coal stocks is 19 million tons at the end of the coal summer, that is, at 31st October, but the stock level is now only about 17 million tons. This level is rather higher than last year’s but last year’s level was much too low and, although we were spared a really severe winter, disaster was only just avoided by -

(a) cutting exports during the winter by 3 million tons,

(b) importing over 1 million tons of coal from the United States

(c) a quite exceptional last-minute effort from the miners.

Moreover inland consumption is still rising. So far this year it has been 6.34 million tons more than last year.

3. Coal exports are now so low that we can expect no appreciable help from a further reduction. On the other hand, I find that practically nothing has been done to secure imports of coal. Apart from the small contribution from India there is at present nothing in sight, although I understand that the National Coal Board and my Ministry have throughout the summer been urging that American coal should be obtained.

4. The situation is particularly dangerous on “house coal”, i.e. the larger sizes needed by householders. The coal merchants began last winter with over 2 million tons in stock, and even at that level there was a serious shortage of coal before the end of the winter. During last January and February many people were unable for weeks on end to get any coal at all.

5. In spite of warnings from both the Merchants’ Federation and the Domestic Coal Consumers’ Council that action should be taken to build up stocks, the merchants’ stocks of house coal amount now only to just over 1 million tons, that is, half last year’s inadequate level. It is certain that unless vigorous measures are taken immediately there will be a breakdown of supplies after Christmas, although more coal has been delivered to householders this summer.

6. Industry is at present reasonably well stocked with coal, and I propose in the coming weeks to transfer some of the industrial coal to domestic consumers. I would let industry have from 90% to 95% of its full requirements and factories should be able to get by on this, but there may be some slight dislocation. Unfortunately, industrial coal being mainly in small sizes (“slack”) is not really suitable for use by itself in the ordinary domestic fire grate, and in addition, inland transport difficulties are likely to limit the quantity that can be thus transferred in the next few months to about ½ million tons.

7. This will not nearly bridge the gap and, if the house coal situation is to be saved, we must obtain coal from the United States. This ought to have been done during the summer, for had the imports been started then the shipping and other difficulties would not have been so serious as they must be now.
8. I recommend that without delay we should authorise the National Coal Board to purchase all the American coal that can be obtained and transported between now and the end of March. I realise that difficulties will arise both on shipping and on interference with other import programmes, and that it may not be feasible at this late date to arrange for an import of more than \( \frac{1}{2} \) million tons.

9. Under present arrangements, our need to import American coal has to be reported to the Organisation for European Economic Co-operation; any bid for the first quarter of 1952 is due to be made on Monday, 5th November. I recommend that we should ask for \( \frac{1}{2} \) million tons. Imports at this level might just see us through provided conditions during the winter are not unduly difficult.

G.L.

Ministry of Fuel and Power, S.W.1,

3RD NOVEMBER, 1951.
EFFECT OF IMPORTING AMERICAN COAL

Memorandum by the Minister of Supply

In considering the proposal to import \( \frac{1}{2} \) million tons of coal from the United States (C.(51) 5), the Cabinet should be aware of its likely effects upon steel production.

2. The decision to import \( \frac{1}{2} \) million tons of American coal into the United Kingdom last year resulted in a shortage of shipping which led to a large loss to us of iron ore shipments. If we now import \( \frac{1}{2} \) million tons of coal from the United States and, as before, the shipping is obtained mainly at the expense of iron ore, the loss to us during 1952 might be up to \( \frac{1}{2} \) million tons of iron ore. The effect of this would be to reduce steel production during 1952 from the target figure of 16 million ingot tons (which will in any case be difficult to achieve) by some 200,000 ingot tons.

3. On the assumption that -

(a) no cuts are made in the allocation of steel to the defence programme, and

(b) that no cuts are made in respect of domestic consumer goods or capital investment beyond those which are now being considered,

the curtailment of steel production must inevitably result in a reduction of exports from the engineering industries, possibly of the order of some £50 millions.

4. In addition, the cutting down of steel allocations would, by lowering production, have a most serious effect upon general efficiency and costs.

D.S.

Ministry of Supply, W.C.2,

5TH NOVEMBER, 1951.
THE KING'S SPEECH ON THE OPENING OF PARLIAMENT

Note by the Secretary of the Cabinet

I circulate for the information of the Cabinet the text of The King's Speech on the Opening of Parliament in the form in which it was finally approved by the Cabinet for submission to His Majesty.

(Signed) NORMAN BROOK

Cabinet Office, S. W. 1.,

5TH NOVEMBER, 1951.
THE KING’S SPEECH ON THE OPENING OF PARLIAMENT
6TH NOVEMBER, 1951

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS:

It is a matter of sincere regret to Me that I cannot address you in person on this Opening of a new Parliament. I have been sustained and strengthened through My illness by the prayers and the sympathy of all My peoples.

It has given Me great satisfaction that The Princess Elizabeth, accompanied by her husband, has been able to undertake her projected journey to Canada and the United States of America, and I have been deeply moved by the warmth of the reception accorded both to her and to the Duke of Edinburgh.

The Queen and I are deeply touched by the sympathy and understanding shown by My peoples in Australia, New Zealand and Ceylon on learning that We had, for the second time, been prevented by My illness from carrying out Our plan to visit them. Happily My elder daughter and her husband will make this journey in Our stead; and they ardently look forward to their visit to these and other Commonwealth countries through which they will pass in the course of their journey.

My Ministers will ever be anxious to maintain the intimate and precious ties of friendship and understanding which exist between all the peoples of the Commonwealth and Empire.

My Government will make it their first duty to ensure our national safety and, in concert with the other members of the Commonwealth, the United States of America and our European partners, will share in a supreme effort to build a more tranquil and prosperous world. They will take the necessary measures to strengthen our defences both in trained men and in equipment, to re-establish the Home Guard and to develop Civil Defence.

My Government will faithfully support the United Nations as the World instrument for peace and security. They will continue to play their part in Korea with the aim of restoring peace and well-being.

My Ministers will try to repair the injuries our rights and interests have suffered in Persia.

My Government regard the abrogation by the Egyptian Government of the Anglo-Egyptian Treaty of Alliance of 1936 and the Sudan Condominium Agreements of 1899 as illegal and without validity. They are resolved, in conjunction with the Governments of the United States, France and Turkey, to press forward with their proposals for joint defence arrangements in the Middle East. In the meantime they will maintain their position in the Canal Zone under the terms of the 1936 Treaty and will safeguard the international highway. Nothing can be allowed to interfere with the rights of the Sudanese to decide for themselves the future status of their country.

The text of the Japanese Peace Treaty signed at San Francisco on the 8th of September will be presented to you before ratification. Legislation will be introduced to give effect to certain provisions of the Treaty.

My Government will introduce legislation to regulate the position of Commonwealth and foreign armed forces who are stationed in this country.

MEMBERS OF THE HOUSE OF COMMONS:

The estimates for the public services will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS:

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Proposals will be made to facilitate the extension of private road haulage activities.

A measure will be laid before you for strengthening and widening the activities of the Monopolies Commission.

You will be asked to authorise for a period the continuation in force of certain emergency enactments and defence regulations which are due to expire next month. My Ministers will, however, review the whole subject with the aim of reducing the number of these controls and regulations and, wherever possible, embodying those which must be kept in legislation requiring annual renewal by Parliament.

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In their policy towards the social services My Government will pursue the aim of ensuring efficiency and providing value for money spent.

My Ministers will vigorously encourage production of food by the basic industries of agriculture, horticulture and fisheries.

Further progress will be made with the consolidation of the statute law.

Other measures will be laid before you in due course.

I pray that the blessing of Almighty God may rest upon your counsels.
SECRET
C.(51) 8
COPY NO. 28
7TH NOVEMBER, 1951

CABINET

DIRECTION TO THE IRON AND STEEL CORPORATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate the text of the direction which the Minister of Supply proposes to issue to the Iron and Steel Corporation.

(Signed) NORMAN BROOK

Cabinet Office, S.W.1,
7TH NOVEMBER, 1951.

DIRECTION TO THE IRON AND STEEL CORPORATION
OF GREAT BRITAIN

I, the Minister of Supply, in exercise of the power conferred on me by Section 4 of the Iron and Steel Act, 1949, hereby give to the Corporation the following Direction in relation to a matter which appears to me to affect the national interest:-

The Corporation shall not, in relation to any publicly-owned company or other company under their control, take any action

(a) which would alter the management or the financial structure of any such company, unless my consent in writing has previously been obtained, or

(b) which might prejudicially affect in any way the transfer to private ownership of any such company.

In this Direction the expressions "the Corporation" and "publicly-owned company" have the same respective meanings as in the Iron and Steel Act, 1949.

Dated the day of 1951.

Minister of Supply.
CABINET

TREATY OF PEACE WITH JAPAN: LEGISLATION

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

My colleagues will be aware that the Treaty of Peace signed with Japan at San Francisco on 8th September contains, in addition to obligations laid upon the Japanese Government, certain provisions requiring action by the Governments of the Allied Powers parties to the Treaty.

I propose that the legislation thus entailed by the Treaty in the United Kingdom should take the same form as that adopted to give effect to the Treaties of Peace with Italy, Roumania, Bulgaria, Hungary and Finland, namely a short enabling Act empowering His Majesty to make such arrangements, establish such offices, make such Orders in Council, and do such things as appear to Him necessary for carrying out the Treaty. The detailed legislation required would then be effected by Orders in Council under the Act.

I cannot give an exact date by which there will have been deposited those ratifications by Allied Powers parties to the Treaty which are necessary before the Treaty can come into force. It is desirable, however, that if possible the Bill should be passed through all its stages before the Christmas Recess. It would then be possible for it to receive the Royal Assent not later than January 1952.

I invite my colleagues to take note of this paper.

A. E.

Foreign Office, S.W. 1,
8th November, 1951.
## FESTIVAL PLEASURE GARDENS

Memorandum by the Minister of Works

Preliminary figures and estimates furnished by the Board of Festival Gardens, Limited, show the following picture:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Net capital expenditure and liabilities</td>
<td>£1,883,000</td>
</tr>
<tr>
<td>(2) Operating expenses for the 1951 season (approx.)</td>
<td>£(a) 500,000; (b) 2,383,000</td>
</tr>
<tr>
<td>(3) Gross revenue for the 1951 season</td>
<td>£1,238,000</td>
</tr>
<tr>
<td>(4) Present deficit [(2b) minus (3)]</td>
<td>£1,145,000</td>
</tr>
<tr>
<td>(5) Gross operating profit for the 1951 season [(3) minus (2a)]</td>
<td>£738,000</td>
</tr>
<tr>
<td>(6) Total loans to the Company (including £200,000 from the L.C.C.)</td>
<td>£1,432,000</td>
</tr>
<tr>
<td>(7) First repayment by Festival Gardens (Limited)</td>
<td>£270,000</td>
</tr>
<tr>
<td>(8) Present loan—Indebtedness [(6) minus (7)]</td>
<td>£1,162,000</td>
</tr>
<tr>
<td>(9) Surplus at present retained by the Company</td>
<td>£200,000</td>
</tr>
</tbody>
</table>

If it were decided to wind up the Company now the loss to be written off would be in the order of £1 million.

2. Attendances during 1951 totalled 8 million.
Checks on three days showed that 70–80 per cent. were Londoners, 18–25 per cent. provincials, and 1–5 per cent. tourists.

3. If the Festival Gardens are to continue I recommend:
   (i) Opening from 2:30 p.m. to 10:30 p.m. Man-power is saved by working only one shift.
   (ii) Closing on Sundays in accordance with the decision of the last Parliament.

4. On these assumptions the Board of Festival Gardens have given me the following rough estimates of the financial results for the next five years:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Maintenance and operating costs</td>
<td>£365,000 p.a.</td>
</tr>
<tr>
<td>(ii) Capital expenditure</td>
<td>£150,000</td>
</tr>
<tr>
<td>(iii) Revenue on the basis of one-half of the attendances in 1951</td>
<td>£620,000 p.a.</td>
</tr>
<tr>
<td>(iv) Profit over the next two years charging (ii) to this period</td>
<td>£360,000</td>
</tr>
<tr>
<td>(v) Profit over five years (against indebtedness of £1,162,000)</td>
<td>£1,225,000</td>
</tr>
</tbody>
</table>
5. I can take no responsibility for these estimates. The £150,000 for capital expenditure is said to be required mainly for purposes which do not call for building materials.

6. As far as I can judge the London public want the Festival Gardens to continue.

On 31st July the London County Council resolved that if—

"a continuation should be decided upon the Council would not raise objection to enabling legislation to permit an extension of not more than five years, but . . . that there should be an experimental period of two years after the conclusion of the Festival before any decision is taken for or against a permanent continuance and that the consent of the Council should be required to any extension beyond two years."

7. I recommend that the Cabinet give authority to—

inform the London County Council and the public that, in view of the demand for the continuance of the Festival Pleasure Gardens and the estimate of the Board of the Festival Gardens that a substantial part of the loan capital can be repaid out of profits, the Government have decided to continue the Festival Pleasure Gardens, and that legislation to enable this to be done for a period up to five years, subject to closing down at the end of two years should the Government and the London County Council so desire, will be introduced as soon as possible.

D. E.

Ministry of Works. S.E. 1,
— 8th November, 1951.
CABINET

CLOSER ASSOCIATION IN CENTRAL AFRICA

MEMORANDUM BY THE SECRETARY OF STATE FOR COMMONWEALTH RELATIONS AND THE SECRETARY OF STATE FOR THE COLONIES

We recommend that His Majesty's Government should issue a statement (as in Appendix I) strongly endorsing the proposed Federation of Southern Rhodesia, Northern Rhodesia and Nyasaland. The last Government failed to give a lead to opinion.

2. Federation will be of the greatest advantage economically, and is likely to provide the only effective means of resisting Afrikaner pressure on these territories.

3. The situation following the recent Victoria Falls Conference has reached a point at which the legislatures and public opinion in the countries concerned are awaiting a statement by His Majesty's Government.

4. In our view this should be made as soon as possible and before the Secretary of State for the Colonies goes to Malaya.

5. White public opinion in all three territories is generally in favour. On the other hand the Africans have declared their opposition. The strength of this was partly due to the lack of a lead from the last Government, which allowed the opponents of the proposals to misrepresent them.

6. African interests are fully secured by the proposal that there should be a Minister for African Affairs, ultimately responsible to the United Kingdom Government, and by the retention by the existing territorial governments of subjects most closely affecting Africans.

7. The fears expressed in Northern Rhodesia and Nyasaland against complete amalgamation are met by the assurance that no amalgamation will take place without the consent of the inhabitants of the three territories.

8. There is a good chance of winning over the African opposition by His Majesty's Government giving them a firm lead, but little or no chance otherwise. The statement proposes that a conference should be held in London in mid-1952 to reach final decisions. By that time we hope African fears will have been allayed.

9. Our views are set forth more fully in Appendix II, of which paragraph 13 outlines the steps which we think should now be taken. The conclusions of the Victoria Falls Conference are reproduced in Appendix III.

10. To sum up, we seek approval of the draft statement now proposed (Appendix I) and of the steps necessary to carry the scheme forward.

I.

O. L.

9th November, 1951.
APPENDIX I

DRAFT STATEMENT ON CENTRAL AFRICAN FEDERATION IN THE HOUSE OF COMMONS

His Majesty's Government are convinced of the urgent need to secure the closer association of the three Central African territories; and they believe that this would be best be achieved by federation, which they regard as the only form of closer association likely to meet the requirements of Central Africa.

2. As the House will be aware, a Conference attended by my predecessor and the former Secretary of State for Commonwealth Relations, and by representatives of Southern Rhodesia, Northern Rhodesia and Nyasaland, was held at Victoria Falls in September to consider the scheme for federation of the three territories put forward by the London Conference of officials last March.

3. His Majesty's Government have studied the statement issued at the conclusion of the Victoria Falls Conference (of which I will circulate a copy with the Official Report) and are in full agreement with it. In their view the recommendations of the London Conference of officials achieve the two essential aims of any scheme of closer association; they provide effective and representative machinery, both executive and legislative, for the handling of common Central African problems, and they contain full and adequate safeguards for African interests. His Majesty's Government would accordingly favour a scheme of federation between the three territories on the general lines recommended in the officials' report; they believe that such a scheme would be in the best interests of the African as well as the other inhabitants of the territories. They recognise that African opinion in the two northern territories has declared itself opposed to the proposals in the officials' report; but they trust that, in the light of the assurances agreed upon at the Victoria Falls Conference, and of the economic and other advantages of closer association, Africans will be prepared to accept them.

4. The assurances agreed upon at the Victoria Falls Conference are in the opinion of His Majesty's Government of great importance. It was unanimously agreed that, in any further consideration of proposals for federation, land and land settlement questions, as well as the political advancement of the peoples of Northern Rhodesia and Nyasaland, both in local and in territorial government, must remain as at present (subject to the ultimate authority of His Majesty's Government in the United Kingdom) the responsibility of the territorial Governments and Legislatures in each territory and not of any federal authority. It was also unanimously agreed that the Protectorate status of the two northern territories should be accepted and preserved; and that this excluded any consideration now or in the future of the amalgamation of the three Central African territories unless a majority of the inhabitants of the three territories desired it. His Majesty's Government fully endorse these conclusions and in any federal scheme would ensure that these rights should be formally embodied in the constitution. His Majesty's Government take the view that the statement of the Victoria Falls Conference which excludes amalgamation of the three Central African territories without the consent of a majority of the inhabitants should apply equally to amalgamation of any two of the territories or any part of them.

5. His Majesty's Government wish finally to draw attention to two other conclusions of the Victoria Falls Conference. First, there was general agreement that economic and political partnership between Europeans and Africans is the only policy under which federation could be brought about in the conditions of Central Africa, and that any scheme of closer association would have to give full effect to that principle. Second, the Conference expressed grave concern at the dangers which would flow from any weakening or dilution of the British connection and British traditions and principles in the three territories and agreed that they should be so strengthened as to ensure that they should continue to prevail. His Majesty's Government regard these conclusions as of the utmost importance.

6. His Majesty's Government are most anxious that there should be no delay in reaching final conclusions on the future relations of the Central African territories. The Victoria Falls Conference agreed that before decisions could be taken by Governments further discussion within each territory and between the four Governments would be required. The Conference therefore adjourned and expressed the hope that it could reassemble in London about the middle of 1952.
Government endorse this hope and propose that the resumed Conference should take place about July of next year. They will do all that they can to help ensure that the intervening period is used to the best advantage for the necessary discussions in Central Africa.

APPENDIX II

MEMORANDUM ON CLOSER ASSOCIATION IN CENTRAL AFRICA

For a number of years the closer association of Southern Rhodesia, Northern Rhodesia and Nyasaland has been under consideration; but no solution has been reached, largely because the United Kingdom Government has not been prepared to give a lead to public opinion in Central Africa. We are convinced that closer association of the three territories is an urgent necessity and that this should take the form of federation. Our reasons are given below; put briefly, we consider that the economic case for federation is a very strong one indeed, and that from the political point of view the creation of a strong British bloc in Central Africa is necessary to enable us to resist Afrikaner pressure on these territories. We are therefore anxious to give the necessary lead by declaring ourselves strongly in favour of federation; an opportunity for this is presented by the recent Victoria Falls Conference attended by our predecessors, on which we must make a statement. We would propose that the statement should be made in the House of Commons and that the text should be on the general lines of the draft contained in Appendix I. For psychological reasons we think it important that the statement should be made at the earliest possible date and we very much hope that our colleagues will agree that this should be done before the Secretary of State for the Colonies leaves for Malaya on 26th November.

2. The background to this matter is as follows. In March of this year a conference of senior officials of the United Kingdom, Southern Rhodesia, Northern Rhodesia and Nyasaland Governments met in London and agreed unanimously that closer association between the three territories ought to be brought about and that this should be done by federation. The report of the officials' conference (Cmd. 8233) put forward a detailed scheme designed to meet the special features of the Central African situation, including the self-governing status of Southern Rhodesia and the need to provide substantial safeguards for African interests. Under this scheme functions affecting the external relations of Central Africa and services which transcend territorial boundaries would be the responsibility of the federal Government and Legislature, while services most closely affecting the life of Africans would remain the responsibility of the territorial Governments and Legislatures. Within the territorial sphere the Northern Rhodesia and Nyasaland Governments would remain responsible, as at present, to His Majesty's Government in the United Kingdom. In publishing this report for public consideration and discussion on 13th June, the United Kingdom Government commended the report as a constructive approach to the problem, but made it clear that it was at that stage not committed to acceptance of any of the proposals.

3. In August and September Mr. Griffiths and Mr. Gordon Walker visited Central Africa to consult with public opinion. Mr. Griffiths spent three weeks in Northern Rhodesia and Nyasaland and held over eighty meetings with Europeans, Africans and others. Mr. Gordon Walker spent a week in Southern Rhodesia and discussed the problem with the Southern Rhodesia Government and a number of representative people. The reactions of public opinion to the proposals as expressed to Mr. Griffiths and Mr. Gordon Walker were as follows. In Northern Rhodesia and Nyasaland African opinion was almost unanimously opposed to the proposals, largely through unjustified fears of the consequences which would follow if they were adopted; European opinion was generally in favour. In Southern Rhodesia opinion was divided; a majority of European opinion was in favour of closer association, although many of them would prefer amalgamation to federation. The Southern Rhodesia Government was prepared to come out in favour of federation, although there were certain detailed points in the officials' report with which they did not agree.
4. In view of these differences of opinion it was not possible to reach definite conclusions at the Victoria Falls Conference, at which Mr. Griffiths and Mr. Gordon Walker discussed the problem with representatives of the three territories at the end of their tour. But, since the two Secretaries of State and all three Central African Governments were most anxious to keep the federation proposals alive, it was agreed that further discussion within the territories and between the four Governments would be needed before final decisions could be reached by the Governments. The Conference therefore adjourned and expressed the hope that they could reassemble in London about the middle of 1952. The Conference, with the exception of the African representatives but including the two Secretaries of State, declared itself in favour of the principle of federation. There was unanimous agreement on the necessity for maintaining and strengthening British traditions in Central Africa against dangers from outside—a reference to Afrikaner pressure which will have been understood by the public. There was also unanimous agreement on certain necessary safeguards for African interests in any scheme of federation which may be considered; this part of the conclusions should be helpful in the further discussions to be held with Africans in the northern territories.

5. In a report of their visit left on record by Mr. Griffiths and Mr. Gordon Walker for consideration after the General Election they strongly recommended that His Majesty's Government should now declare themselves in favour of the federal scheme.

6. In reaching conclusions in this matter there are three points which we must decide:

- (1) Is closer association necessary?
- (2) If so, what form should it take?
- (3) How should we proceed in the matter?

Is closer association necessary?

7. From the economic point of view there are the strongest arguments in favour of closer association. The economies of the Central African territories are linked by a common port at Beira for all three of them; a common railway system for the two Rhodesias; the dependence of copper mining in Northern Rhodesia on coal from Southern Rhodesia; the dependence of the two Rhodesias on manpower from Nyasaland; and the Zambesi and Shire river basin with its great potentialities for the development of hydro-electric power on a Central African basis. A vast effort of economic development will be needed if food supplies are to be adequate for the growing population and living standards are to be progressively improved. This development ought to proceed on a Central African basis so that the resources of the whole region may best be devoted to economic advancement. Experience over the past few years has shown that these matters cannot effectively be handled simply by co-operation between the three existing Governments; the only effective method of dealing with them is by a single federal authority answerable to a single Central African legislature.

8. From the political point of view the need for closer association is even more urgent. Immigration from the Union of South Africa into the two Rhodesias is almost double that from the United Kingdom and there is no doubt that Afrikaner immigration is being actively encouraged in certain quarters in the Union. A new party, which is in fact an Afrikaner party, has recently been formed in Southern Rhodesia. In Northern Rhodesia the position is still more serious and, unless effective action is taken, it is probable that at the next General Election in 1953 Afrikaners will obtain half the European seats on the Northern Rhodesia Legislative Council. Southern Rhodesia has already tightened up its immigration control and Northern Rhodesia is shortly to do the same. But immigration control is not sufficient by itself to resist encroachment by the Union. We are faced in Central Africa with pressure by a country far stronger economically and industrially than any of the Central African territories, led by a militant Nationalist party, with expansionist aims, anxious to strengthen its influence in the north. This pressure can be countered only by an equally firm policy of resistance to it both in the political and in the economic spheres, a policy which, in our view, has little chance of succeeding unless we can establish a British bloc of territories in Central Africa knit together by constitutional ties. The danger to British interests at present assailing the Central African territories cannot be too strongly emphasised. Positive steps must be taken to resist it and by far the most effective step would be active support for federation by His Majesty's Government.
9. For these reasons our firm conclusion is that closer association of the three Central African territories is an urgent necessity.

What form should closer association take?

10. Complete amalgamation of the three territories would have the merit of simplicity and many Europeans would prefer it to federation; but most responsible people in Central Africa to-day realise that amalgamation is not practical politics. The Victoria Falls Conference unanimously agreed that any consideration now or in the future of amalgamation of the three territories should be excluded unless a majority of the inhabitants of all the territories desired it. The Southern Rhodesia Ministers and representatives of Europeans in Northern Rhodesia in subscribing to this statement knew, of course, that there was no chance of Africans agreeing to amalgamation at any time in the near future. Amalgamation would involve the absorption of Northern Rhodesia and Nyasaland in a combined territory with a self-governing constitution broadly on the lines of the present Southern Rhodesia constitution, the bringing to an end of the Protectorate status of the two northern territories and the abrogation of the present control of the United Kingdom Government and Parliament over policy in these two territories. It would be bitterly and violently opposed by African opinion in Northern Rhodesia and Nyasaland and in our view would be quite unjustifiable. The same would apply to amalgamation of the two Rhodesias or the absorption of any part of Northern Rhodesia by Southern Rhodesia.

11. On the other hand, federation on the lines recommended in the officials' report would leave the three territories with their own Governments and Legislatures dealing with the subjects most closely affecting the lives of the people; and within the territorial sphere the United Kingdom Government and Parliament would retain their existing control over policy in Northern Rhodesia and Nyasaland. We are convinced that federation is the right solution and that the scheme put forward by the conference of officials is well adapted to the conditions of Central Africa. Certainly federation is the only form of closer association to which there is any chance of securing African agreement or acquiescence. We believe also that, given a lead by us, Europeans throughout Central Africa would accept a federal scheme.

How should we proceed in the matter?

12. Because of the pressure from the south we are anxious that final decisions on federation should be reached without undue delay. Nevertheless, we are sure that it would be wrong to attempt to force the proposals through now against the present African opposition in Northern Rhodesia and Nyasaland. If we did this we should provoke bitter and possibly violent opposition in the two Protectorates; moreover, we should have a considerable section of European opinion in Central Africa, particularly in Nyasaland, against us. If, on the other hand, we make a further attempt to persuade Africans and then seek to settle the matter at the 1952 London Conference—a course which the Southern Rhodesia Government and public opinion generally in Central Africa is expecting—we shall have the advantage of accepting what was agreed by the Victoria Falls Conference, including the African representatives, and of following the recommendations of our two predecessors. We may not be able to avoid controversy, but we can at least reduce it to the minimum. We are sure that a further attempt at persuasion must be made. We cannot promise that this will succeed; but if it is to have any chance of success we are strongly advised by the Governors of Northern Rhodesia and Nyasaland that it must be preceded by a definite statement by His Majesty's Government in favour of federation, which ought to be made at the earliest possible moment. Since such a statement will be primarily designed to win over Africans, it must deal fully with the safeguards for African interests and, in suitable terms, with the danger of Afrikaner pressure. It is with that in view that paragraphs 3 and 4 of the draft announcement in Appendix I have been included.

13. We accordingly recommend that the following action should be taken:

(i) A statement in the terms of Appendix I should be made in the House of Commons before 26th November endorsing the conclusions of the Victoria Falls Conference and declaring His Majesty's Government's view that there is an urgent need for the closer association of the Central African territories; that this should take the form of federation; and that His Majesty's Government would favour a scheme on the general lines of the report of the London Conference of officials.
(2) The Governors of Northern Rhodesia and Nyasaland should be authorised to arrange further discussions on the proposals with Africans in the two territories on the basis of His Majesty's Government's statement.

(3) The discussions proposed in paragraph 5 of the final communique of the Victoria Falls Conference (see Appendix III) between His Majesty's Government and the three Central African Governments, or between the three Central African Governments themselves, should be undertaken with the object of elucidating points of detail in the officials' report in preparation for the London Conference.

9th November, 1951.

I. O. L.

APPENDIX III

VICTORIA FALLS CONFERENCE ON CLOSER ASSOCIATION OF CENTRAL AFRICAN TERRITORIES

The Victoria Falls Conference issued the following communique after its final meeting on Friday, 21st September: —

The present Conference was convened by the Governments of the United Kingdom, Southern Rhodesia, Northern Rhodesia and Nyasaland for the purpose of discussing the question of Closer Association of the British territories in Central Africa.

The Conference opened at Victoria Falls on Tuesday, 18th September, and was of a representative character. In the case of Southern Rhodesia the representatives included the Prime Minister and other Ministers, and leaders of the Opposition parties in Parliament. In the case of Northern Rhodesia the delegation consisted of the Governor and official and unofficial members of the Legislative Council, including Africans. Nyasaland was represented by the Governor, senior officials and leading unofficial persons, European and African. The United Kingdom delegation consisted of the Secretaries of State for the Colonies and for Commonwealth Relations, accompanied by some of their Chief Advisers.

The Conference had before it the Report prepared last March by a number of senior official advisers of the four Governments concerned. The authors of that Report had been requested "to examine the problem in all its aspects and consider whether it is possible, in the light of this examination, for them to formulate proposals for a further advance to be made in the Closer Association of the three Central African territories which they could recommend to the Governments of these territories and to His Majesty's Government in the United Kingdom." Their work was purely exploratory and did not commit any of the participating Governments to the adoption of any proposals that they might formulate.

The Report of the London Conference of officials was unanimous on all points. Its main recommendation was that closer association between the three territories ought to be brought about and that the need for this is urgent. It recommended, further, that this should be done, not by amalgamation of the territories but on a federal basis, and put forward in some detail a scheme framed to take particular account of the special features of the Central African situation, including the self-governing status of Southern Rhodesia, and designed to provide substantial safeguards for the interests of Africans. Moreover, those matters most closely affecting the life of Africans would under the proposals in the Report come within the territorial and not within the federal sphere, and within the territorial sphere the Northern Rhodesia and Nyasaland Governments would remain responsible as at present to His Majesty's Government in the United Kingdom.

In announcing the present Conference it has from the outset been made clear that there was no intention of reaching decisions at it binding on any Government. It was realised that such a Conference might disclose points of difference with regard to the principle of federation as well as to the proposals made in Report to bring it into being. This has proved to be the case. It has become evident that further discussion within each territory and exchanges of views between the four Governments will be necessary, and the Conference has therefore adjourned.
It is hoped that the position can be sufficiently clarified to enable the Conference to reassemble in London about the middle of next year.

On the main question of federation as so far presented and examined, the Conference, with the exception of the African representatives, showed itself favourable to the principle of federation. The representatives of African interests in Northern Rhodesia explained that Africans would be willing to consider the question of federation on the basis of the Report of the London Conference of officials after the policy of partnership in Northern Rhodesia had been defined, and as so defined put into progressive operation.

There was general agreement in the Conference that economic and political partnership between Europeans and Africans is the only policy under which federation could be brought about in the conditions of Central Africa, and it was recognised that any scheme of closer association would have to give full effect to that principle.

The Conference was gravely concerned at the dangers which would flow from any weakening or dilution of the British connection and British traditions and principles in the three territories, and agreed that they should so be strengthened as to ensure that they should continue to prevail.

The Conference recognised the advantages which—if an acceptable scheme with adequate safeguards for all could be agreed upon—would arise from the common handling of problems that transcend territorial boundaries, such as communications, research, defence, higher education and the planning of economic development.

It has, however, been made clear at the Conference that one of the main obstacles to the general acceptance of federation rests in the apprehensions felt by Africans in the two Northern territories that federation might impair their position and prospects in the respective territories.

The Conference agreed that in any further consideration of proposals for federation—

(I) The Protectorate status of the two Northern territories would be accepted and preserved. This, therefore, excludes any consideration now or in the future of amalgamation of the three territories unless a majority of the inhabitants of all three territories desired it.

(II) Land and land-settlement questions in Northern Rhodesia and Nyasaland must remain, as at present (subject to the ultimate authority of His Majesty's Government in the United Kingdom), the responsibility of the territorial Government and legislature in each territory and not of any federal authority. The land rights of the African people in Northern Rhodesia and Nyasaland must remain secured in accordance with the existing Orders in Council on the subject.

(III) The political advancement of the peoples of Northern Rhodesia and Nyasaland, both in local and territorial Government, must remain as at present (subject to the ultimate authority of His Majesty's Government in the United Kingdom), the responsibility of the Government and Legislature of each territory, and not of any federal authority.

It was further agreed that if any form of closer association is eventually decided on, all these rights should be enshrined as an integral part of the constitution.

The Conference did not reach the stage of discussing the constitution and powers of the Federal Parliament, but the Southern Rhodesian delegation intimated that there were certain points in the Report as written with which they do not agree and which should be discussed with all concerned before the resumed Conference is held. These points would not weaken the powers of the territorial legislatures referred to in paragraph (II) above.

The Conference understood that other delegations might also have reservations on points in the report as written.
CONFIDENTIAL

C. (51) 98

9TH NOVEMBER, 1951

CABINET

ALLOCATION OF STEEL

Memorandum by the Chancellor of the Duchy of Lancaster

During the war all types of steel were allocated because the demand exceeded the supply. This position persisted until the middle of 1950 when general steel and alloy steel were freed from distribution control as they were in ample supply. Sheet steel and tinplate supplies were still inadequate and are still under distribution control.

2. In 1950 we had 12.93 million tons of finished steel for home use and export. It is estimated that in 1952 we shall have 12.78 million tons inclusive of imports. In this calculation 600,000 ingot tons of imports from the United States are assumed, 900,000 ingot tons of imports from elsewhere, and 16 million ingot tons of home production. Against this smaller supply we have much increased requirements. Defence requirements will be three times as high as in 1950, the building programme is 10 per cent higher, the home demand for plant and machinery is £150 millions higher, and the state of the balance of payments makes it very desirable to increase the level of exports of metal goods above 1950 levels. There has been some increase in the demand for steel in other sectors of the economy, such as the coal mines and the railways, and there is no substantial cushion of inessential uses.

3. It is impossible to assess accurately the gap between the supplies and the minimum essential demand but there is no doubt that we have a shortage of at least one million tons and that for a reasonable life we should require 1½ million tons more than we got last year from home production and imports.

4. The steel shortage first became acute in the middle of 1951. As immediate measures, exports of finished steel were cut, a "D.O." system of priorities was introduced to protect defence orders. A limited system for civil orders was also introduced in an effort to deal with non-defence cases where important production was held up by comparatively small amounts of steel. The priority systems have eased some difficulties but have created new difficulties by repercussion. The task of dealing with these difficulties by administrative measures has become unmanageable. Industries seriously affected include the engineering industry, mining, rail transport, shipbuilding, electricity generation, and food distribution.

5. The Labour Government consulted the Iron and Steel Federation, who agreed that an allocation scheme was necessary, and also consulted the National Production Advisory Council for Industry and the Federation of British Industries regarding the type of scheme to be introduced. They then announced that a distribution scheme would be introduced with effect
from the 3rd December. This is not now practicable as at least eight weeks will be needed after allocations to Departments have been decided to enable licences to be issued to firms and firms to validate orders. Industry is, however, anxious to know if there is to be any modification in the arrangements. I am advised that, if decisions on the allocation are reached by the end of November, the earliest date by which the allocation schemes for general steel and alloy steel could be brought into effect is the 1st February, 1952. The schemes for sheet steel and tinplate would continue on their present basis for the time being but consideration can be given to their simplification at a later stage. I have consulted the Minister of Supply, who would administer the scheme, and the other Ministers whose Departments receive large allocations. All agree that an allocation is necessary and that an announcement of our intention to introduce it should be made as soon as possible.

6. Unpleasant though it is, it seems to me inescapable that we should introduce these allocation schemes at the earliest feasible date. I am advised that this will not cause immediate difficulties for industry, provided that firms are given sufficient time between the date they receive their licences and the effective start of the allocation to give them ample opportunity to validate their orders with steel makers.

7. I now invite my colleagues to agree:

(a) to the introduction of schemes of allocation and distribution control for general steel and alloy steel;

(b) to an announcement in the sense in the Annex. This is agreed with the Minister of Supply, who would make the announcement;

(c) to the issue of a Statutory Order by the Minister of Supply reimposing distribution control of general steel and alloy steel as from the 1st February.

If this is approved I shall put forward as soon as possible recommendations as to the distribution of steel, which raises certain substantial questions of policy.

S.

Cabinet Office, S. W. 1.

9TH NOVEMBER, 1951.
ANNEX

OUTLINE DRAFT ANNOUNCEMENT ON STEEL ALLOCATION

On the 28th June the House was informed by the then Chancellor of the Exchequer that it was intended to introduce controlled distribution of the main forms of steel not already under control, and that a preferential system was being introduced to ensure that in the meantime defence orders were met and to enable Departments to deal in the civil field with serious production difficulties caused by the lack of comparatively small amounts of steel. Subsequently it was announced that a distribution scheme for carbon steel would be introduced from 3rd December, and that a further announcement would be made about alloy steel.

The Government have now reviewed the position. The prospects for 1952 are that the steel shortage will persist. There is no doubt that the shortage is interfering with supplies of steel for a variety of essential purposes and that uncertainty of supply is a serious handicap to industry.

In the circumstances we have decided to go forward with the allocation scheme. Some delay in the introduction of the scheme is however inevitable. Sufficient time must be given to allow industry to adjust orders and production schedules in the light of the authorisations to be issued to consumers. We propose therefore to bring the scheme into operation on 1st February, 1952. I intend to make an Order accordingly covering general steel and alloy steel. Meanwhile the preferential system will be continued.
I, the Minister of Supply, in exercise of the power conferred upon me by sub-section (1) of Section 4 of the Iron and Steel Act, 1949, hereby give to the Corporation the following Direction in relation to a matter which appears to me to affect the national interest:—

The Corporation shall not, without my consent in writing, take any action in the exercise and performance of their functions which will result in

(a) any alteration in the financial structure or management of any publicly-owned company or of any other company under the control of the Corporation, or

(b) the sale or disposal of the undertaking or any part of the undertaking of any such company or any securities held by any such company.

In this Direction the expressions "the Corporation", "publicly-owned company" "functions" and "securities" have the same respective meanings as in the Iron and Steel Act, 1949.

Dated the day of 1951.

Minister of Supply.
II. PREVIOUS DRAFT OF DIRECTION TO THE IRON AND STEEL CORPORATION OF GREAT BRITAIN

I, the Minister of Supply, in exercise of the power conferred on me by Section 4 of the Iron and Steel Act, 1949, hereby give to the Corporation the following Direction in relation to a matter which appears to me to affect the national interest:-

The Corporation shall not, in relation to any publicly-owned company or other company under their control, take any action

(a) which would alter the management or the financial structure of any such company, unless my consent in writing has previously been obtained, or

(b) which might prejudicially affect in any way the transfer to private ownership of any such company.

In this Direction the expressions "the Corporation" and "publicly-owned company" have the same respective meanings as in the Iron and Steel Act, 1949.

Dated the day of 1951.

Minister of Supply.
POSSIBILITIES OF INCREASING THE SUPPLY OF COLONIAL FOODSTUFFS AND RAW MATERIALS TO THE UNITED KINGDOM

MEMORANDUM BY THE SECRETARY OF STATE FOR THE COLONIES

Figures illustrating Colonial exports of selected commodities in recent years are given in Appendix I. Present production of most of them is at an "all-time high," partly as the result of the efforts devoted to Colonial development during and since the war, partly under the stimulus of the need to earn or save dollars and partly as a natural response to rising prices. Nevertheless, it is possible that supplies to the United Kingdom of a few such materials can be increased even in the short term. Paragraph 6 of this paper gives a list of these materials and more extended notes on them are contained in Appendix II. There are also some other materials of which the supply could be increased in the longer term. These commodities are listed in paragraph 7 of this paper, and more extended notes on them are contained in Appendix III. The remaining products of the Colonial Empire fall into one of two classes. Either they are already produced in greater quantities than the United Kingdom requires, or the prospect of increasing supplies of them is remote. All the more important commodities in the first of these two classes and a selection of those contained in the second class (in principle those commodities of which we should particularly like to get Colonial supplies) are listed in paragraph 8, notes on them being contained in Appendix IV.

2. These lists are, of course, based on our present knowledge; there is always the possibility of new mineral deposits being discovered or new crops being established, but neither of these processes could lead to very early results.

3. I have also deliberately excluded from this paper any mention of the need for increasing the production of Colonial products for purposes other than increasing the supply to this country, for example increasing the dollar earnings of the sterling area.

4. I have touched only lightly on the possibility of diverting to this country supplies which now go elsewhere. The possibility of action of this kind has been pursued very vigorously during the last few years. The bulk of the Colonial materials in which this country is deficient now comes here. The remainder mostly goes to countries where it earns dollars for the sterling area or to countries, mostly in Western Europe, where it earns us good will. Some diversion from these destinations might in some cases be possible, if it were thought to be on balance desirable, and if consumers here were prepared to pay the Colonial suppliers as good a price as their foreign customers, but it is not likely to affect any large volume of goods.

5. Before I set out the three lists to which I have referred above, I should like to call attention to what can, perhaps, best be called the conditions precedent to the expansion in the supply of such goods to this country.

(a) First, in some cases, particularly in the expansion of the production of agricultural products, it will be necessary to maintain and even expand the technical and advisory services of the Governments concerned. Peasant production plays a large part in Colonial agriculture and if, for example, the African farmer is to produce more cotton, he must be
given better planting material and advice on how to use it. This is part of the ordinary functions of the Colonial Office and Colonial Governments, and I need say no more about it.

(b) Second, Colonial Governments must be able to obtain the necessary materials (steel, cement, &c.), and capital equipment to make the improvements and expansions to roads, railways, harbours, power installations, and so on, which are necessary to enable the increased volume of goods to be handled. I shall present to my colleagues a separate paper in which I shall deal with this subject and the cognate subjects mentioned in sub-paragraphs (d) and (e) below, against the background of the balance of payments position of the Colonies, which are in substantial surplus both overall and on dollar account.

(c) Third, as a corollary to this, the Governments and public authorities concerned must be given access to the money market to the extent that this is necessary, to supplement their own resources, and thus enable them to finance these purchases. I would hope to be able to settle with the Chancellor of the Exchequer any points which arise under this heading.

(d) Fourth, to the extent that expanded production is dependent on private enterprise, the individuals and corporations concerned (mining companies, plantation companies, and the like) must be given facilities to procure the machinery and other capital goods which they need to enlarge their undertakings.

(e) Fifth, as a corollary to this, some changes may be required in our fiscal system to encourage the investment of new money in the Colonies. This is obviously a subject which I shall in the first instance have to discuss with the Chancellor of the Exchequer.

(f) Sixth, the producer cannot be expected to increase his efforts if at the end of it all he cannot use the fruit of his labours to buy more of what he needs. It will be necessary, therefore, to ensure that his wants are carefully studied by exporters and that, if the desired goods are scarce, adequate quantities are made available to him.

6. The following is a list of the commodities of which there is some prospect of increasing the supply to this country in the short term (Appendix II):

Copper.—A substantial increase in supplies from Northern Rhodesia may be expected in the next year or two if more coal can be obtained from Southern Rhodesia.

Cotton.—There are fairly large possibilities of increasing supplies from East and (to a less extent) West Africa.

Manganese.—Some modest increase in production in the Gold Coast can be hoped for and some existing exports could be diverted to this country if its quality demands were less exacting.

Petroleum.—Production is still increasing in Borneo and Sarawak and there are some possibilities of developing new sources of production, particularly in Nigeria.

Pyrites.—There are possibilities of some modest expansion in Cyprus and some additional supplies will shortly be obtained by diversion from other countries.

Sugar.—The output of sugar in the Colonies is steadily rising and the end is not yet in sight.

Timber.—The possibility of bringing larger quantities of Colonial timbers to this country depends chiefly on persuading the users to accept Colonial hardwoods in place of the European and North American softwoods to which they are accustomed, and on expanding transport and saw-milling facilities in West Africa.

Vegetable Oils and Oilseeds.—A considerable increase in production is still possible, as a result mainly of improved production techniques, provided transport difficulties in Nigeria can be overcome.

7. The following is a list of the commodities of which there is some prospect of increasing the supply to this country in the medium or long term. (Appendix III):

Aluminium.—No aluminium is at present produced in the Colonies, but there are massive quantities of the raw material, bauxite, exist, and there is a very large project
for erecting a hydro-electric installation and an aluminium smelter in the Gold Coast is in an advanced stage of preparation. The smelter could not, however, come into production in less than about eight years.

Bananas.—Supplies from Jamaica should be back to the pre-hurricane level within about a year. For further increases in supplies we shall have to look rather to other British Caribbean territories and the British Trust Territory of the Cameroons.

Hides and Skins.—These commodities are by-products and any increase in output is dependent on an increase in livestock populations and outlets for meat and other products. The process is likely to be a fairly slow one.

Iron Ore.—Increases in the supply to the United Kingdom are dependent principally on the development of a known but rather remote mineralised area in Sierra Leone, with considerable consequential capital investment.

Jute and Jute Substitutes.—These are new crops for the Colonies and development will inevitably be slow.

Lead and Zinc.—Present output of these minerals in the Colonies is relatively small. Other deposits are known or suspected but their development will be expensive and slow.

Pulping Materials.—The commodities normally used for this purpose (soft woods) hardly exist in the Colonies. An increase in supplies to this country is dependent partly on softwood plantings and partly on proving the utility of materials hitherto not used for these purposes. The outlook is not very promising.

Tea.—There is already some tea production in East and Central Africa and Malaya, but any increase in the supply of qualities acceptable to the United Kingdom market is dependent upon the production and distribution of suitable disease-free planting material, a rather slow process.

Tobacco.—The Colonies already supply nearly all the pipe tobacco smoked in this country and, owing to a change in public taste, the demand for this is going down rather than up. Development of the production of the increasingly popular cigarette tobacco of acceptable quality is a slow process.

Tungsten.—Small deposits are known to exist and others may be found, but output hitherto has been small compared to the needs of the United Kingdom. A small but useful increase is to be expected from Uganda.

The following is a list of the principal commodities of which it is unnecessary, or apparently impossible, to increase the supply to this country (Appendix IV):

Cereals.—On balance the Colonies are importers of rice and wheat and more or less self-sufficient in coarse grains. Prospects of increasing production more quickly than the increase in demand are not good.

Coal.—The best that the Colonies where coal is mined can hope to do, on the basis of present information, is to meet the needs of themselves and adjacent British territories. Even this is uncertain.

Cocoa, Coffee, Rubber, Sisal, Tin, Diamonds.—Colonial production exceeds United Kingdom requirements. This does not, of course, mean that increase of production is not desirable for other purposes, e.g., dollar earning.

Nickel, Natural Sulphur.—These have never been produced in the Colonies and known deposits are negligible.

Meat.—There are considerable prospects of increased production, but current local demands are much in excess of current supplies and rising at such a pace that it is very doubtful whether an export surplus will ever emerge.

To sum up, I see some prospect of an increase in the supply of eight or nine important food-stuffs and raw materials to this country in the relatively short term, and some prospect of increasing the supply of another eight or nine important food-stuffs and raw materials in the medium and long term. I have pointed out that this increase is dependent in most cases on certain conditions being fulfilled and I ask my colleagues to give me all the help they can in ensuring that they are fulfilled.

O. L.

Colonial Office, S.W. 1,

12th November, 1951

41428
### APPENDIX I

**GROUP I (COMMODITIES OF WHICH SUPPLIES TO THE UNITED KINGDOM CAN POSSIBLY BE INCREASED IN THE SHORT TERM)**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Unit</th>
<th>1936</th>
<th>1946</th>
<th>1950(?)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Exports</td>
<td>Total</td>
<td>Exports</td>
</tr>
<tr>
<td></td>
<td>exports</td>
<td>United</td>
<td>exports</td>
<td>United</td>
</tr>
<tr>
<td>Copper</td>
<td>000 tons</td>
<td>153</td>
<td>78</td>
<td>181</td>
</tr>
<tr>
<td>Cotton</td>
<td></td>
<td>87</td>
<td>14</td>
<td>52</td>
</tr>
<tr>
<td>Manganese</td>
<td></td>
<td>220</td>
<td>21</td>
<td>256</td>
</tr>
<tr>
<td>Oil, petroleum</td>
<td></td>
<td>220</td>
<td>21</td>
<td>256</td>
</tr>
<tr>
<td>Pyrites</td>
<td></td>
<td>220</td>
<td>21</td>
<td>256</td>
</tr>
<tr>
<td>Sugar</td>
<td></td>
<td>984</td>
<td>604</td>
<td>888</td>
</tr>
<tr>
<td>Timber</td>
<td>Million</td>
<td>13</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Vegetable oils and oilseeds</td>
<td>000 tons</td>
<td>1,353</td>
<td>(450)(?)</td>
<td>858</td>
</tr>
</tbody>
</table>

#### NOTES

(1) These figures contain a number of estimates; this is particularly true of the exports to the United Kingdom.

(2) Estimate.

### GROUP II (COMMODITIES OF WHICH SUPPLIES TO THE UNITED KINGDOM CAN POSSIBLY BE INCREASED IN THE MEDIUM OR LONG TERM)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Unit</th>
<th>1936</th>
<th>1946</th>
<th>1950(?)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Exports</td>
<td>Total</td>
<td>Exports</td>
</tr>
<tr>
<td></td>
<td>exports</td>
<td>United</td>
<td>exports</td>
<td>United</td>
</tr>
<tr>
<td>Bananas</td>
<td>000 tons</td>
<td>396</td>
<td>263</td>
<td>110</td>
</tr>
<tr>
<td>Bauxite</td>
<td></td>
<td>170</td>
<td>11</td>
<td>1,234</td>
</tr>
<tr>
<td>Hides and skins</td>
<td></td>
<td>19</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Iron ore</td>
<td></td>
<td>578</td>
<td>(382)(?)</td>
<td>604</td>
</tr>
<tr>
<td>Lead</td>
<td></td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Tea</td>
<td></td>
<td>7</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Tobacco</td>
<td></td>
<td>7</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Tungsten(?)</td>
<td>Tons</td>
<td>1,660</td>
<td>554</td>
<td>169</td>
</tr>
<tr>
<td>Zinc</td>
<td>000 tons</td>
<td>20</td>
<td>16</td>
<td>17</td>
</tr>
</tbody>
</table>

#### NOTES

(1) These figures contain a number of estimates; this is particularly true of the exports to the United Kingdom.

(2) Estimate.

(3) 1936 Malaya only (Scheelite and Wolfram).
GROUP III (COMMODITIES OF WHICH IT IS UNNECESSARY OR APPARENTLY IMPOSSIBLE TO INCREASE SUPPLIES TO THE UNITED KINGDOM)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Unit</th>
<th>1936</th>
<th>1946</th>
<th>1950(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Exports</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td>exports</td>
<td>United</td>
<td>exports</td>
</tr>
<tr>
<td>Coal</td>
<td>000 tons</td>
<td>47</td>
<td>—</td>
<td>188</td>
</tr>
<tr>
<td>Cocoa</td>
<td></td>
<td>410</td>
<td>101</td>
<td>344</td>
</tr>
<tr>
<td>Coffee</td>
<td></td>
<td>40</td>
<td>7</td>
<td>44</td>
</tr>
<tr>
<td>Diamonds</td>
<td>000 carats</td>
<td>2,076</td>
<td>2,041</td>
<td>1,262</td>
</tr>
<tr>
<td>Rubber</td>
<td>000 tons</td>
<td>528</td>
<td>47</td>
<td>541</td>
</tr>
<tr>
<td>Sisal and other</td>
<td></td>
<td>126</td>
<td>38</td>
<td>146</td>
</tr>
<tr>
<td>hard fibres</td>
<td></td>
<td>93</td>
<td>15</td>
<td>18</td>
</tr>
</tbody>
</table>

Note

(1) These figures contain a number of estimates; this is particularly true of the exports to the United Kingdom.

APPENDIX II

NOTES ON COMMODITIES, OF WHICH SUPPLIES TO THE UNITED KINGDOM CAN POSSIBLY BE INCREASED IN THE SHORT TERM

COPPER.
COTTON.
MANGANESE.
PETROLEUM.
PYRITES.
SUGAR.
TIMBER.
VEGETABLE OILS AND OILSEEDS.

Copper

Northern Rhodesia is the third largest producer of copper, ranking after the United States and Chile. Output in Northern Rhodesia amounted to 276,000 tons in 1950. It is expected to reach 306,000 tons in 1951, of which the United Kingdom will get 281,000 tons, the balance going to South Africa and Sweden under long-standing arrangements. If they get adequate supplies of coal the copper companies estimate that they will be able to produce about 350,000 tons of copper in 1952. Coal supplies are obtained from the Wankie Colliery in Southern Rhodesia and have hitherto been inadequate. Plans have, however, been made to increase the output of the colliery and to improve the transport of coal to the Copper Belt. Considerable expansion of copper production facilities is taking place at the Northern Rhodesia mines and, provided that coal supplies and transport are adequate, the output of copper should in about three years’ time be adequate to meet all the requirement of the United Kingdom.

Copper concentrates are produced in Cyprus. The output is about 20,000 tons a year and owing to the lack of reserves it is unlikely that this output will be increased.

The Rio Tinto Company in association with the Frobishier Company of Canada plans to develop copper deposits at Kilembe in Western Uganda and to smelt the concentrates locally. They estimate that production will be about 15,000 to 20,000 tons of copper a year; but it will be four or five years before this figure is reached. The construction of 150 miles of railway to the mine has been commenced.
Cotton

Colonial cotton production is in the region of 500,000 bales (of 400 lb.) per annum, of which, *East Africa* accounts for some 400,000 bales and *Nigeria* for 75,000. In these territories there are opportunities for large expansion of production.

Production is limited by erratic rainfall, indifferent soils, pests and diseases, backward agricultural techniques and underdeveloped transportation systems. The Governments concerned and the Empire Cotton Growing Corporation are striving to improve yields and acreage under cotton by introducing improved strains, fertilisers, disinfection of seed and improved peasant cultivation methods. New areas are being developed by the building of roads and ginneries and the wider distribution of seed.

About half of the Colonial production comes to the United Kingdom, the bulk of the remainder being sold to India under an arrangement first made during the war. An increasing proportion of the production is likely to be absorbed by local spinning and weaving industries.

Manganese

Next to Russia the *Gold Coast* is now the world's largest producer. Exports of Gold Coast manganese in 1950 amounted to 711,000 tons; production was then running at the rate of 750,000 tons a year. As a result of representations made to the operating company they agreed to increase production as much as possible. It is now running at the rate of 850,000 tons a year and they hope to increase it to 900,000 tons. There has recently been difficulty in obtaining supplies of coal from Nigeria. Shipments from South Africa, which were suspended, have now been resumed and the coal situation is at present satisfactory. The operating company, although British, is controlled from the United States. Nevertheless, the company has hitherto given the United Kingdom a fair share of output and it is expected that this country will also receive a satisfactory share of any increase in production. There is another small manganese mine in the Gold Coast but it exported only about 4,000 tons. It has recently been acquired by a new company which hopes to increase production substantially.

Deposits of rather low-grade manganese in *Malaya* were worked by the Japanese companies before the war and the ore was exported to Japan. These mines appear to have been practically worked out. When it is possible to resume prospecting in Malaya other deposits of manganese may be discovered.

Manganese is also known to exist in British Guiana, Fiji and the British Solomon Islands Protectorate and these deposits are now being examined.

Petroleum

The only Colonial production of oil is in *Trinidad*, *Brunei* and *Sarawak*. Production in Brunei has doubled since the war and this territory has now replaced Trinidad as the largest Colonial producer. In 1950 the production was 4 million tons in Brunei, 2/3 million tons in Trinidad and 60,000 tons in Sarawak.

It is doubtful whether there will be any increase in production from land areas in Trinidad; recently licences have been issued for prospecting in the marine areas and there is a possibility of oil being found there. Prospecting is also continuing in Brunei and Sarawak.

Considerable prospecting for oil has been carried out in the Colonial territories by the Anglo-Iranian and Shell Companies both before and since the war. So far the only promising results have been obtained in *Nigeria*, where drilling was commenced by these two companies jointly in September. American E.C.A. geologists working in co-operation with Kenya Government geologists have found an oil structure in the Northern Frontier Province. This has stimulated interest in the oil possibilities of the East African territories and the Shell and Anglo-Iranian Companies have applied for exploration licences in *Kenya*, *Tanganyika* and *Zanzibar*. The Uganda Government Geological Survey have been drilling for oil near Lake Albert and it is proposed to invite one of the larger oil companies to continue this work.

The Gulf Oil Corporation of the United States has been given oil prospecting rights in *Barbados* and *British Honduras* and is now conducting a survey in these territories.
Pyrites

There is a considerable production in Cyprus of pyrites of an average grade of 48 per cent. sulphur. Exports from Cyprus in 1950 amounted to 480,000 tons, which was a record. It is unlikely that it will be possible to improve on this figure very much unless new deposits are discovered. Prospecting is now taking place. The bulk of the Cyprus production goes to traditional markets in Europe, principally France, where there are plants for the extraction of sulphur. The United Kingdom also takes a small quantity and as the programme of the conversion of sulphur plants in the United Kingdom to burn pyrites proceeds imports of pyrites will be increased. The Ministry of Materials has arranged with the operating companies in Cyprus for imports of 120,000 tons a year.

There are also deposits of pyrites in Kenya and Tanganyika, but the long haul to the coast and the heavy freight on this bulky cargo would make export to the United Kingdom uneconomic. It may be possible, when railway communications are developed, to use these deposits for African requirements.

Sugar

Colonial exports, which before the war were rather less than 1 million tons a year, are now in round figures 1½ million tons, of which about 60 per cent. comes from the West Indies, a third from Mauritius and a twelfth from Fiji. The United Kingdom Government undertook to purchase the whole of the Commonwealth exports from 1948 to 1952, inclusive. An Agreement, to become fully operative in 1953, was negotiated in principle in 1949-50 between His Majesty’s Government and the Commonwealth sugar producers, under which for several years the greater part of the Commonwealth exports is to be purchased by the United Kingdom at negotiated prices, and the Commonwealth production is for the present to be limited, in the expectation of a new International Sugar Agreement, to 2,375,000 tons. It was felt that unless a limit was set to production there would be no chance of securing an international sugar agreement. The export limit agreed upon was well above the current level of production and much higher than the export limit under the 1937 International Sugar Agreement, in the case of the Colonies, more than 60 per cent. higher. It was considered that unless there was room for a little foreign sugar in the United Kingdom market the countries participating in the Commonwealth Agreement would not be able to enter into negotiations for a new International Sugar Agreement. The limit of 2,375,000 tons is the sum of the United Kingdom’s estimated domestic sugar consumption for 1953 (less the production of beet sugar in the United Kingdom and 225,000 tons reserved for foreign sugar) and Canada’s estimated import of cane sugar. The Colonial export limits under these arrangements total 1,575,000 tons (West Indies and British Guiana 900,000; Mauritius 470,000; Fiji 170,000; British Honduras 25,000; East Africa 10,000). At the time of the negotiations an international agreement seemed very desirable, since there was a real fear of a world surplus of sugar. That fear has not altogether disappeared but it has become considerably more remote. The Commonwealth as a whole is about half a million tons short of the total Commonwealth export limit, but the main producing areas in the Colonies are expected to reach their limits within a few years, and one or two of them, notably Mauritius, are already very near their individual quotas.

Discussion on a number of matters affecting the Commonwealth Sugar Agreement are about to begin with representatives of all the Commonwealth producers.

Timber

Colonial exports of timber are small in comparison with United Kingdom requirements (in 1949 Colonial exports were little more than 10 per cent. of United Kingdom imports). Colonial output of softwood, which the United Kingdom mainly requires, is negligible and will remain so for many years since indigenous Caribbean forests are becoming exhausted and extensive plantings of exotic softwoods now being made in East Africa will not produce large exports of marketable lumber for twenty or thirty years.

Nevertheless the growing exports of Colonial hardwoods and their increased substitution for softwoods in the United Kingdom markets which has been brought about by the need to conserve dollars gives ground for confidence that a small but still substantial contribution to the alleviation of the United Kingdom’s timber difficulties can be made by the Colonies.
About 50 per cent. of Colonial hardwoods come to the United Kingdom, the remainder being sold for dollars or to nearer and natural economic markets. Increased production, especially in West Africa, the main source of United Kingdom imports of Colonial hardwood, depends on better transport facilities and increased sawmill capacity. Attention must also be paid to quality and grading.

From the consumers' point of view, Colonial timbers as a substitute for dollar softwoods suffer from being dearer (increased production should remedy this to some extent); little is known of the qualities of many varieties, some are hard to work, and others susceptible to insect attack or technically inferior in other respects for structural purposes. The research on Colonial timbers carried out by the Forest Products Research laboratory has to be accelerated and building methods and specifications adapted to the hitherto untried uses of hardwoods.

Oil Seeds and Vegetable Oils

Current exports from the Colonies in terms of oil equivalent are over 750,000 tons annually. This compares with an average of 729,000 tons in the five years before the war. That present exports are no higher is due partly to increased use and local processing for food, partly to the decline in production in the Western Pacific arising from war damage and shortage of labour, and partly to drought in Nigeria which resulted in very poor crops in each of the last two seasons.

The main producing areas are West Africa which contributes about 70 per cent. of the Colonies' total, Malaya and the Western Pacific, and the bulk of the exportable surplus of these territories, together with coconut oil from Zanzibar and some oil seeds from East Africa, are purchased by the Ministry of Food, mostly under long-term contracts. Supplies from the Colonies now represent nearly 55 per cent. of the total United Kingdom imports of oil seeds and vegetable oils.

There are Marketing Boards in West Africa and in some of the Western Pacific territories. In West Africa considerable sums have been accumulated by the Boards for purposes of stabilisation, research and the development of the industries. Amongst the steps being taken to increase production and the efficiency of the industries are, research into pests and diseases; fertiliser trials in Nigeria; the introduction of improved types of palm and varietal trial plantings of groundnuts in all areas; and the increasing use of mechanical aids to cultivation and processing. In Nigeria and Sierra Leone the introduction of "Pioneer Oil Mills" in the principal growing areas is resulting in the production of more palm oil of a quality far superior to that produced from an equivalent quantity of fruit by traditional hand methods. These measures should result in substantial increases in production over the next few years if supplies of consumer goods can be augmented, railway equipment delivered to time and labour relations on the railways improved. Lack of shipping has also been a cause of anxiety recently.

APPENDIX III

NOTES ON COMMODITIES OF WHICH SUPPLIES TO THE UNITED KINGDOM CAN POSSIBLY BE INCREASED IN THE MEDIUM OR LONG TERM

ALUMINIUM.
BANANAS.
HIDES AND SKINS.
IRON ORE.
JUTE AND JUTE SUBSTITUTES.
LEAD.

PULPING MATERIALS.
TEA.
TOBACCO.
TUNGSTEN.
ZINC.

Aluminium

Bauxite, the raw material aluminium, is worked in British Guiana by a subsidiary of the Aluminium Corporation of Canada to supply their plants in West Africa, and in the Gold Coast by the British Aluminium Company to supply their plants in the United Kingdom. American and Canadian companies are developing bauxite deposits in Jamaica.
There are further large deposits of bauxite in the Gold Coast where it would be possible to generate sufficient power from the Volta River to manufacture about 200,000 tons of aluminium a year. Production at the rate of about 80,000 tons per year in the first instance would start in about eight years' time. Negotiations are proceeding with Aluminium Limited of Montreal and the British Aluminium Company with regard to the financing of the project, and the question will be referred to Ministers shortly.

In North Borneo there is sufficient water power to generate current for the production of about 130,000 tons of aluminium a year. So far, adequate supplies of bauxite to maintain an aluminium plant of this capacity have not been discovered in North Borneo or Sarawak, but prospecting work is being continued. There are adequate supplies of bauxite in Malaya and Indonesia. It has, however, been decided that, for strategic and other reasons, the Volta River Scheme in the Gold Coast is preferable to the North Borneo Scheme. There are also large deposits of bauxite and possibilities of water power in Nyasaland and these are being examined by the British Aluminium Company and the consulting engineers to the local Government.

Bananas

As the result of disease and a severe hurricane in 1933–34, the production in Jamaica, which had before the war been the world's largest exporter, fell off sharply and only began to recover in 1947. In 1949 about 73,000 tons were exported. The Ministry of Food has a long-term contract to purchase all the Colony's exports if offered. The hurricane of 1951 destroyed the greater part of the banana crop, but it is expected that production will be restored within the next year. Attempts are being made to establish a large-scale export trade, in a variety of banana which is resistant to Panama disease. Exports from the British Cameroons are about 55,000 tons a year. Post-war exports have all been to the United Kingdom, where the Ministry of Food has been the sole purchaser. Attempts are being made to restore the banana industry in Dominica and to establish a significant exporting industry in British Honduras.

Hides and Skins

Colonial exports have in recent years made a considerable contribution to the increased world demand for hides and skins. The rate of slaughter of native cattle, which is not entirely determined by economic motives, is, however, a limiting factor. In 1950 exports from East Africa were valued at above £4 million and from the Somaliland Protectorate at about £1 million. Exports from Nigeria were worth more than £6 million, nearly half in respect of untanned goat skins, of which appreciable quantities are sold to the dollar area.

Iron Ore

Iron ore is produced in Sierra Leone, Malaya and Hong Kong. In Sierra Leone the lumpy ore at Marampa will be worked out by 1953. There are, however, large deposits of powder ore which has to be concentrated in Sierra Leone before shipment. It has then to be sintered before being fed to the blast furnaces. Until recently sintering capacity in the United Kingdom was limited and the company developing the Marampa deposit had to seek markets for their powder ore elsewhere. They have contracted to supply consumers in the United States and Germany, but the former will only take powder ore if they receive a proportion of lumpy ore. The company have therefore to divide their diminishing supplies of lumpy ore with the United States and the United Kingdom. The United Kingdom is now getting about 600,000 tons and the company have promised to see whether they can increase this figure by 30,000 tons for the current year. Shipment of ore has been made to Germany since the mine was opened and the company are loath to break off this long-standing connection. The company cannot ship more than 1½ million tons of ore per year owing to railway and port limitations and this limit has been almost reached.

There is another deposit of high-grade iron ore at Tonkolili in Sierra Leone over which the company operating at Marampa have rights. They are now making plans for the development of this deposit and are in negotiation with British Iron and Steel Corporation (Ores) Limited for a long-term contract. The capital investment in this new development would be over £10 million and it will
be necessary to extend the existing railway line from Mafampa to Tonkolili, a distance of about 80 miles.

Iron ore was worked by Japanese companies in Malaya before the war and exported to Japan. Output reached as much as 2 million tons a year. Work has been resumed and projects are on foot to expand production but financial and economic market, as also that in Hong Kong, is Japan, and it is doubtful whether it would be economic to import it into the United Kingdom.

Large deposits of iron ore in Nigeria were investigated by the Bethlehem Steel Corporation of the United States a few years ago, but the corporation decided that it would not be economic to develop them. There are also deposits of magnetite and hematite in Northern Rhodesia, Tanganyika and Uganda; these are being investigated with a view to development if possible.

Jute and Other Soft Fibres

Jute has not so far been produced in the Colonies, and there is only a limited production of substitute soft fibres. Recently, however, the possibility of establishing an alternative source of jute to India and Pakistan has been examined and Colonial Governments have been conducting growing trials while the Colonial Office has undertaken research on mechanised harvesting and fibre production. There appear to be prospects of successfully growing jute on a commercial scale in British Guiana and the establishment of a pilot project is at present under discussion with the Dundee jute industry. Even if the pilot project should prove successful it would take some years to achieve commercial production and fairly heavy capital investment would be needed, since labour is too scarce in the Colonies to permit peasant production as in India and Pakistan, and Colonial production would have to be mechanised. Since the same problem of mechanised production arises for substitute fibres, work is being mainly concentrated on jute in view of its superiority.

Lead

Lead is being produced at present in Northern Rhodesia, Hong Kong and Tanganyika, but the quantities are relatively small.

In Northern Rhodesia it is produced as a lead-zinc ore with a preponderance of zinc. Production in 1950 amounted to 13,685 tons. As in the case of zinc, there is little likelihood of any appreciable increase in output owing to the lack of reserves.

There is a small production of lead in Hong Kong. In 1939 it amounted to over 3,000 tons of ore but up-to-date figures are not available.

A lead mine has been developed at Mpanda in Western Tanganyika and the Government have built a railway extension of over 100 miles from the Central Railway to the mine at a cost of about £1 million. The results of development at the mine have been so far disappointing and the output has been very small. The operating company has been negotiating with the Economic Co-operation Administration for some time with a view to obtaining a loan for development purposes.

The American Smelting and Refining Company in co-operation with the National Mining Corporation of the United Kingdom are investigating lead-zinc deposits in Nigeria, and they have tentatively agreed with the Nigerian Government the terms of a mining lease. Prospecting is still being carried on and the latest information is that it is doubtful whether this will be as large a proposition as was expected. See also the reference under zinc.

Pulping Materials

Pulping materials are used for paper, fibre boards and for the production of cellulose for rayon manufacture. They are produced from timber or plants such as reed, bamboo, papyrus, sugar cane, &c.

Wood pulp for paper has hitherto been made exclusively from softwoods. Tropical hardwoods which are shorter fibred are technically inferior and occur in mixed stands and not like pines in homogeneous forests. The French claim to have overcome the technical difficulties of dealing with mixed stands of hardwood, but have not so far substantiated this claim with details. They are being pressed to divulge this. Research has been carried out in this country by the Colonial Products Advisory Bureau and the Forest Products Research Laboratory, but so far results have not been promising.

Careful and detailed enquiries have been made into the use of bamboo, papyrus, &c., for paper pulp, but so far it has not proved possible to put forward an economic proposition.
Sugar cane waste (bagasse) is usually required as fuel for sugar factories, but in Trinidad, where oil fuel is available, bagasse is manufactured into wallboard. The production of cellulose for rayon from fast-growing tropical softwoods appears a more promising proposition and it may well be possible to develop such a project in East Africa.

Tea

Colonial exports are insignificant in relation to world trade, but efforts are being made to expand production in East and Central Africa, which are the most important producing areas. Considerable quantities of East African teas go to North American, while cheaper grades are sold in adjacent African, territories. An institution has been set up for tea research in East Africa. No rapid expansion of the industry on a large scale can be expected, since, in addition to the time the crop takes to mature, the problems of improving quantity, of developing adequate supplies of good and disease-free planting material, and of overcoming the shortage of labour must take time.

Tobacco

Nyasaland, the principal Colonial exporter, produces pipe tobacco. Production has increased greatly since before the war, but a recent decline in the United Kingdom demand as a result of high duties is likely to result in a fall of production. Northern Rhodesia produces flue-cured cigarette tobacco. Exports have increased from 1 million lbs. a few years ago to about 10 million lbs. in 1951, the principal markets are the United Kingdom, South Africa and Australia. North Borneo has been exporting cigar wrapper leaf to the United Kingdom since 1949. Total exports in 1950 amounted to £230,000. Cyprus exports some cigarettes and cigarette leaf to the United Kingdom and there is a small but expanding market for Cyprus latakia in the United States.

Taking advantage of the prohibition of imports of Cuban cigars into the United Kingdom during and after the war, Jamaica considerably expanded its cigar industry. Exports of cigars to the United Kingdom from Jamaica increased from 250,000 in 1939 to nearly 26 million cigars in 1947. This was more than the market could absorb and heavy stocks accumulated here; moreover in 1947 and 1948 the United Kingdom import duty was greatly increased. As a result there has been a considerable slump, and exports of Jamaican cigars to the United Kingdom are now running at about 11 million a year. Under the recently concluded Anglo-Cuban Trade Agreement limited quantities of Cuban cigars to the value of $500,000 per annum are to be admitted to the United Kingdom during 1952 and 1953 and may well replace an equivalent number of Jamaican cigars.

Tungsten

The only Colonial territories in which tungsten ores are produced at present are Uganda and Malaya. The deposits in these territories appear to be comparatively small. Output in Uganda is about 130 tons a year and in Malaya between 20 and 30 tons. The possibilities of increasing production in Uganda are now being investigated in co-operation with the Ministry of Supply, who have offered producers a long-term contract.

Zinc

The only Colonial production of zinc is in Northern Rhodesia, where it is mined with lead and vanadium ores. Production has increased from 10,000 tons in 1938 to about 23,000 tons a year at present. Any further appreciable increase in production seems unlikely as recent prospecting work has proved disappointing. Most of the output goes to the Union of South Africa.

There are considerable deposits of lead-zinc in Nigeria and agreement has recently been reached for the grant of a mining lease of the deposits to a syndicate in which the American Smelting and Refining Company and the National Mining Corporation (a United Kingdom company) are the chief shareholders. Prospecting of the deposits is still continuing and it is not yet possible to say what the results will be.
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Cereals

Rice.—The Colonial Empire has in recent years become less dependent on external supplies, but for geographical and demographic reasons is likely to remain a net importer. African production is all required locally; increases in the South-East African territories, although they are proportionately large, still fall far below rationed requirements; and British Guiana’s exports to the West Indies, which are locally important, can only be increased at heavy capital cost.

Wheat.—Wheat is grown in some parts of East Africa and the Kenya Highlands have some surplus. With this exception the climate in Colonial territories is not suitable for wheat.

Coarse Grains (Maize, Millet, Sorghum).—With the exception of the East African territories which occasionally have a small surplus of maize, Colonial territories are at the best self-sufficient. The production of these grains for export to the United Kingdom as animal feeding-stuffs has not been thought possible, since (1) the present supplies are used almost entirely for human consumption; (2) further expansion of production could only be at the expense of other crops; (3) investment of capital to increase production would have to be covered by an uncompetitive purchase price, which the potential exports have been considered too small to justify.

Coal

There are deposits of low-grade coal in a number of Colonial territories but production is confined to Nigeria and Malaya, and it is unlikely that Colonial coals will ever be competitive in world markets. Their development as sources of local fuel is being examined in Tanganyika, Nyasaland, Sarawak and North Borneo.

Cocoa

The sterling area is a net exporter of cocoa, which is a very large dollar earner. Last year sales of cocoa to the dollar area were valued at approximately U.S. $100 million. The total current exports of the Colonies are about 360,000 tons, of which all except some 10,000 comes from the Gold Coast and Nigeria, where the principal limiting factor is swollen shoot disease, new planting having just about enabled the level of production to be maintained. The West Indian industry is just beginning to recover from the sharp fall in production due to bad cultivation and disease. Experiments are in hand in the Far Eastern territories and in the Solomon Islands, but even if they are successful no substantial production can be expected there for several years.

Coffee

Well over 90 per cent. of Colonial exports come from East Africa, where there has been a considerable increase over the pre-war production. This increase is due to the higher output of Uganda. Small quantities of coffee are also produced in Jamaica and West Africa.

Part of the Colonial production is sold to the Ministry of Food under long-term contracts at prices which have turned out to be consistently far less than world prices. On the other hand it is thought that any substantial increase in
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the retail price would lead to consumer resistance in the United Kingdom. Some of the United Kingdom purchases are resold for dollars. There are considerable sales of East African coffee on the free market both to the dollar area and Europe.

**Diamonds**

Diamonds are produced in Tanganyika, the Gold Coast, Sierra Leone and British Guiana in that order of importance. Supplies of industrial diamonds are more than adequate for the needs of the United Kingdom but the increases in production to be expected from Tanganyika and the Gold Coast should earn valuable hard currency.

**Meat**

The Colonial Empire is as a whole deficient in supplies of animal protein. There seems to be no prospect even in the long term of obtaining appreciable supplies of meat for the United Kingdom except from East and Central Africa. But carcase meat cannot be imported from those territories because of the prevalence of rinderpest. Canned meat and under certain conditions pig meat can be imported and these industries are at present being developed on a comparatively small scale in Tanganyika and Kenya.

**Nickel**

Up to the present no nickel has been produced in Colonial territories. A low grade deposit was discovered in Tanganyika in 1945, but it would probably be difficult to concentrate the ore. The International Nickel Company is now prospecting for nickel in Tanganyika over an area of 1,720 square miles.

**Sulphur**

There are no appreciable deposits of natural sulphur in the Colonial territories. A deposit in the New Hebrides was recently examined by a mining geologist from Australia. His report was disappointing. He said that there was not more than about 10,000 tons and the working of the deposit would be most difficult. There are other minor occurrences of natural sulphur in the Colonies but it is very doubtful whether it would be possible to work them economically.

**Rubber**

Malayan rubber and that from other Colonial territories in South-East Asia are the Colonial Empire's most important dollar earner, and supplies are far more than adequate to meet the needs of the United Kingdom itself. Maintenance and expansion of output depends on restoration of law and order in Malaya and accelerated replanting particularly of small-holdings with high-yielding trees. Such replanting is essential also if natural rubber is to compete with synthetic and still give a reasonable return to the producer.

**Sisal and Hard Fibres**

Colonial (East African) production of sisal is far more than adequate to meet the United Kingdom requirements; large quantities are also exported to Europe and to the United States and Japan. Production is expected to increase steadily but slowly as current new plantings come into production.

**Tin**

Malaya and Nigeria together produce about 40 per cent. of world output which is about three times the amount required by the United Kingdom. In order to maintain production the first need is an increased measure of law and order in Malaya so that prospecting can be resumed and the much depleted reserves restored.
GERMAN FINANCIAL CONTRIBUTION TO DEFENCE
MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

Introduction
I submit for the information and consideration of my colleagues a memorandum on the German financial contribution to defence which has been prepared by officials of the Ministry of Defence, Foreign Office, Treasury and other Departments concerned. The paper raises crucial questions which my colleagues will wish to have an early opportunity to consider.

2. The position reached in tripartite negotiations described in the annexed memorandum may be summarised as follows.

Summary Statement of Problem
3. We are committed with our Allies to the policy of trying to secure, by negotiation with the German Federal Government, an adequate German military contribution to the European Army for the defence of Western Europe:
4. Financial and economic necessities preclude us from accepting any additional burden to our present £4,700 million defence programme. This means in practice not only that we are not prepared to contribute financially to the cost of raising a German army, but also that we must continue to insist that our essential DM. expenditure on defence in Germany is paid for by the Germans.
5. The efforts which our representatives have been making to reconcile these conflicting considerations by obtaining French and United States agreement to a basis of negotiation with the Germans which avoids raising the possibility of a financial gap resulting from German rearmament are foredoomed to failure. A German contribution on the scale recommended by SHAPE and accepted by the European Army conference is bound sooner or later to give rise to such a gap. As shown in paragraphs 10-13 of the Annex, the size of the gap might be of the order of £700 million (DM. 8 thousand million) up to mid-1954.
6. Given our critical financial and economic position, there appear in practice to be only three ways in which this gap can be filled: —
   (i) by the Americans;
   (ii) by a substantially smaller German military contribution;
   (iii) by a reduction of our defence effort, either in Germany or elsewhere, in such a way as to relieve our balance of payments
or by a combination of all three.
7. But there is no prospect of getting the United States to commit itself on (i) until
   (a) we have had our negotiations about the defence contribution with the Germans, seen what we can get out of them and measured the width of the gap;
   (b) the Temporary Committee of the North Atlantic Council has completed its report on a reconciliation of military objectives with economic possibilities for N.A.T.O. countries generally.
8. In theory, the problem of the financial gap created by a German contribution to defence is pre-eminently a matter for consideration by the Temporary Council Committee. But they would have difficulty in tackling it realistically without more precise information as to its size and as to what they call the politico-economic capabilities of Germany. Information of the type they require will only be forthcoming after the proposed negotiations with the Germans.
CABINET

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9. They could not tackle it at all until their exercise with respect to the N.A.T.O. countries is completed in December. But any substantial delay in beginning negotiations with the Germans on this crucial issue may prejudice the whole of our proposed contractual relationship with the Federal Republic.

10. Since we are unlikely to reach early agreement on how the financial gap should be filled, we should have to begin negotiations with the problem of the gap unresolved between the Allies. This course would have the following disadvantages:

(i) Even if we reserve our position vis-à-vis our Allies about making any increased financial contribution to defend ourselves, we shall almost certainly be led into a situation in which we are involved in some further financial commitment.

(ii) It would leave the way open for the Germans to maintain, which they may well do in any event, that they should pay for their forces and we for ours.

(iii) It would commit us vis-à-vis the Germans to accepting SHAPE’s force requirements, regardless of their financial consequences.

11. Against these disadvantages must be set the risks of not going forward at an early date with the negotiations with the Germans. For the reasons set out in paragraphs 7, 8 and 9 above, it is only by negotiating with the Germans that we shall be able to put full pressure on both the Americans and the Germans to make the maximum financial contribution and so be in a position to assess the potential magnitude of our own liabilities.

Recommendations

12. Any recommendations on procedure turn, however, on whether my colleagues would in the last resort prefer either—

(i) to reduce our own forces in Germany or economise elsewhere in our defence programme in a manner which would relieve our balance of payments; or

(ii) to depart from our present policy of declining to accept any additional defence burdens or any additional external burdens; or

(iii) to see the German military contribution very substantially reduced below the figures recommended by SHAPE.

13. Each of these courses is clearly open to the gravest objection. Course (i) would mean a major readjustment and reduction of our own defence effort. Course (ii) appears out of the question, since, on account of the crisis in our balance of payments, even our present defence programme is endangered. Course (iii) would create serious political difficulties with both the Americans and the Germans, endanger the whole contractual settlement with Germany and put at risk the whole concept of European defence, to which the German contribution is the key. Moreover, there is no guarantee that the Germans would agree that their resources released by cutting back the German forces contribution would become available for the support of Allied forces.

14. I recommend that—

(a) if my colleagues share my view that course (iii) would be unacceptable, we should endeavour to secure agreement to proceed to negotiate with the Germans at an early date. In this event I should propose to take the opportunity at the forthcoming meeting of the three Foreign Ministers on 21st November to make it clear that our agreement to entering into these negotiations with the problem of the gap unresolved does not mean that we shall at any time be prepared to accept any additional financial burden;

(b) if my colleagues consider the risks in course (iii) above must be taken, we should at once make our position clear to our Allies and to SHAPE and endeavour to secure agreement on a radical scaling down of the German contribution.

A. E.

Foreign Office, S.W. 1,
13th November, 1951.
ANNEX

GERMAN FINANCIAL CONTRIBUTION TO DEFENCE
REPORT BY MUTUAL AID COMMITTEE

Historical Background
At the meeting of the Foreign Ministers of France, the United Kingdom and the United States, in September 1951, at which it was agreed that the German Federal Republic should make a contribution to Western Defence within the framework of the proposed European Defence Community (E.D.C.), it was decided that officials of the three Governments should meet in order to prepare recommendations on the financial questions raised by the making of a German defence contribution, as a preliminary to negotiations by the High Commission with the German Federal Government. It was laid down that the basic assumption of the examination was that it should provide for a use of German resources for defence to an extent comparable to that of other principal Western countries, including their expenditure outside Europe.

2. A German defence contribution will raise for the German Federal Government the same sort of financial problems as confront the United Kingdom and the other North Atlantic Treaty Organisation (N.A.T.O.) countries, but there is the special circumstances in the German case that substantial Allied forces are located in Germany. The local costs of these forces have up to date been met, as occupation costs, by Germany and not by the Allied countries themselves, and we and the French at least have so far proceeded on the assumption that although the level of these costs would under a contractual relationship with Germany have to be agreed upon with the Federal Government, they would continue to be so met. The problem, therefore, which faced the Tripartite Group on Germany which has been meeting in London, was to get a German contribution to defence which would cover both its own contribution to the European Defence Community and the local costs of Allied forces in Germany.

3. The instructions given to the United Kingdom Delegation to the Tripartite Group were based on the decision that our present programme of expenditure on defence is a maximum, and that if a total German financial contribution worked out on the basis referred to above proved to be inadequate to cover both Allied and German costs, the United Kingdom could not bear any part of this gap. In order to minimise the risk of such a gap arising, it was agreed that we should accept that drastic economies would have to be applied to our own local costs in Germany, and if necessary that those costs which were not truly related to our defence effort should be transferred to our own budget, e.g., we should transfer expenditure not strictly related to defence which arises from the activities of the Embassy as successor to the British element of the High Commission. It was hoped that at any rate during the initial period of building up German forces the total expenditure which Germany could afford to allot to defence would cover both Allied and German costs, on the assumption that military equipment would be supplied free from abroad as end-item aid.

Obstacles to Progress
4. Progress in the Tripartite Group has been slower than expected, not only because of the different financial positions of the three Allies which necessarily meant that the United Kingdom and French Delegations have had to show considerable caution in the approach to a final assessment of what is possible, but also because various activities have been occurring elsewhere which have had a bearing on the discussions and have interfered with the time-table. These were:

(a) The examination of the political and economic capabilities of the N.A.T.O. countries to make the maximum contribution to Western defence, which is being carried out in Paris by the Temporary Council Committee (T.C.C.) of N.A.T.O., under the supervision of its tripartite Executive Bureau.

(b) The Conference on the setting up of a European Defence Community in Paris, consisting of representatives of France, Italy, Belgium, Luxembourg, Netherlands and Germany.
The tripartite consideration in London of the security controls to be maintained on the German armaments industry, which has resulted in the preparation of recommendations to the three Governments which would greatly extend the range of military equipment that Germany is to be allowed to make.

5. The first of these, the review of the capabilities of all N.A.T.O. countries, has affected consideration of the German contribution to defence because the Executive Bureau required to know what forces Germany could contribute and how they and the Allied forces in Germany would be financed in order to fit these into the total picture which the T.C.C. is required to present to the North Atlantic Council. The Executive Bureau, therefore, asked the Paris Conference on the European Army in collaboration with Supreme Headquarters (S.H.A.P.E.) to prepare an estimate of a possible German military force in the period up to 30th June, 1954, and asked Supreme Headquarters, in consultation with the T.C.C.'s own Screening and Costing Staff, to work out the estimated cost by twelve-month periods up to that date. Simultaneously, the Executive Bureau asked the Tripartite Group in London what in its view the total defence expenditure of the German Federal Republic should be, on the assumption that it was making the maximum possible defence contribution consistent with its economic and political capabilities, together with the estimated cost of maintaining Allied forces in the Federal Republic. The Paris Conference on the European Army reached agreement with S.H.A.P.E. that the basis of its conclusions should be the building up of 12 German divisions, an Air Force of 1,158 front-line aircraft and a small naval contingent by 30th June, 1954, and S.H.A.P.E., together with the T.C.C. Screening and Costing Staff, worked out the total cost of this force up to the same date. The Tripartite Group in London for its part made a calculation of what in its view the maximum financial burden on the German Federal Republic for defence could be in 1952-53 and 1953-54, and the expected local cost of Allied forces in Germany in these two years, and sent the figures to the Executive Bureau. They had to point out, however, that until there had been tripartite negotiations with the Federal Government, no estimate of Germany's political and economic capacity to incur expenditure on defence had any real validity. The figures arrived at are discussed further in paragraph 10 and following paragraphs below.

6. The second of the three activities referred to in paragraph 4 above, the discussions in the Paris Conference on the European Army, has affected the work of the Tripartite Group because the French Delegation has felt it necessary to go slow on a number of issues and to raise difficulties about reaching any conclusions until the exact character of a German contribution to the European Defence Community could be worked out. The French Government proposes to commit to the E.D.C. all its forces in Europe other than those required to support its overseas forces together with certain base troops, and it is not prepared to agree to German forces any larger than those committed by the French. Thus the French Government wishes the German financial contribution to the E.D.C. to be as large as, though no larger than, its own, and to be made in the form of a lump sum annual contribution to a common budget of the E.D.C. Under this common budget there would no longer be separate German or French costs. The French hope is that by these arrangements and by the extensive use of free equipment from the United States the Germans would help to finance the French Army. This conception together with the complete uncertainty which prevails either on what this common budget would look like or on the amount of the contribution the French Government would like to see the Germans make to the E.D.C., has impeded progress in London.

7. The third development referred to in paragraph 4, the preparation of new recommendations on security controls on the German armaments industry, is likely, if these are approved, to have far-reaching effects not only on the whole armament production position in Europe and so on the possibility of providing the N.A.T.O. forces with the equipment they need, but also specifically on the cost to the Federal Government of building up German forces. The more Germany can produce its own equipment the less it will need to receive from abroad. This will reduce the pressure on the supplies of equipment available for N.A.T.O. countries, but it means that the building up of German forces will make larger demands on the German financial resources available for defence and so leave less for the support of the Allied forces in Germany.
8. Finally, it should be noted that in addition to the uncertainties produced by the various simultaneous activities referred to above, there is the general uncertainty which affects Germany as much as the other N.A.T.O. countries of what will be the distribution of American aid in support of the defence programme. Until the T.C.C. examination of the defence efforts of all N.A.T.O. countries has been concluded the United States Government will not make any decisions in regard to the distribution of aid; the United States Delegation to the Tripartite Group in London have made it clear that there could be no question of their Government deciding on what aid would be available for Germany until much further progress has been made on the whole question and, in particular, until progress has been made in the tripartite negotiations with the Federal Government, in the course of which it will become clearer how great an effort the Germans themselves are prepared to make.

9. It will be seen from this account that there are few certain elements in the whole situation. Nevertheless, the discussions which have so far taken place make it clear that a problem of very great magnitude is emerging.

**The Central Dilemma**

10. The calculation by the Tripartite Group of the total financial contribution to defence which could be asked of the Federal Government amounted to:

- 1952-53—DM. 12·5 thousand million
- 1953-54—DM. 15·15-5 thousand million

Total DM. 27·5-28 thousand million

(a) Periods are from July to June—the N.A.T.O. year.
(b) Prices are those at October 1951 (adjustments will be needed to correct to expected prices at time of expenditure).

(Note DM. 1,000 million is roughly £85 million)

These figures compare with expected expenditure in the current financial year April 1951—March 1952 of DM. 7·5 thousand million for Allied costs alone; this shows the magnitude of the effort the Germans would have to make, one which in view of their federal structure and the shortcomings of their fiscal system, they will have great difficulties in making, even if the Federal Government is wholehearted in making it, an assumption which cannot be tested until negotiations with it have begun.

11. The figures were worked out before the preparation of the new recommendations on security controls on the German armaments industry; if the recommendations on the latter are approved, the German defence contribution would be able to include a substantially larger industrial effort than was foreseen, which through its demands on raw materials and its interference with German export trade would have an effect, possibly a substantial one, on the German balance of payments position. The extent of this effect could not, however, be measured without German collaboration, and whether it would interfere with Germany's spending the above sums on defence or not would turn on future American decisions regarding the provision of economic aid. While, therefore, these figures may not be finally adopted, they cannot be improved upon at the present stage.

12. With regard to the local costs of Allied forces in Germany of the character which are at present being met by the Germans, it is estimated that these will be about:

- 1952-53—DM. 8 thousand million
- 1953-54—DM. 9 thousand million

Also in the N.A.T.O. year July—June, and at present prices.

These figures are being subjected in the Tripartite Group to a detailed examination in order to reduce expenditure to an essential minimum and also to eliminate items which are not true defence costs and so can no longer be defended as properly chargeable to the Germans. Until this examination has been completed more precise figures cannot be given, but those above show the order of magnitude of Allied local costs in Germany. They include the local costs of French and Belgian forces in Germany which, according to the E.D.C. intention, would in due course be met not directly by the Germans but indirectly through the common budget of the E.D.C.
Using these figures, the following sums would be left to meet the cost of German forces:

- 1953–54: DM 6 to 6.5 thousand million.

Total: DM 10.5 to 11 thousand million.

On the other hand, the estimate of the cost of building up the German forces of 12 divisions and 1,158 front-line aircraft by 30th June, 1954, compiled by SHAPE together with the T.C.C. Screening and Costing Staff, referred to in paragraph 5 above, gives a total expenditure in the two years of the equivalent of about DM 50 thousand million and on a very conservative estimate of the amount of equipment that could be produced in Germany if the security controls recommendations are approved and assuming that the balance was supplied free, at least half of this total, say DM 26 thousand million, would be spent in Germany and would therefore fall on the German budget. Even if the security controls recommendations were not approved and most military equipment were supplied free from abroad, the local cost of the German forces would, on the figures referred to, amount to DM 19 thousand million. On this most favourable assumption there will still be a gap over the period of DM 8,000 million or roughly £700 million. The figures are not considered to be wholly realistic, since they are based on assumptions about when the programme could start, the availability of equipment and the ability of the German building industry to put up the necessary installations in time to accommodate the forces; they are being further examined with a view to producing revised figures, but whatever adjustments are made it will be impossible to escape the conclusion that the cost to the Federal Government of the German forces will exceed the sums available after Allied local costs have been met. Whether this gap will occur by June 1953, is still uncertain, but there can be absolutely no doubt that it will occur during 1953–54.

It is already clear, therefore, that the total German financial contribution to defence will not be adequate to cover both Allied local costs and the local costs of establishing German armed forces, and some means will have to be found of dealing with the gap. The alternatives are:

- (a) Part of the Allied costs or of German expenditure might be met by the Allies.
- (b) The target for the German armed forces should be reduced.
- (c) Part of the Allied forces should be withdrawn from Germany as the German forces build up or the Allied defence effort elsewhere should be curtailed.
- (d) A combination of these methods might be used.

As the whole basis of the French plan, which is known to the Germans, is that the German forces should be in fixed relationship to the French forces within the E.D.C., it is very unlikely that the Federal Government would accept any smaller target than that now proposed, of which (including the cost) it has been made aware through the European Defence Community, and the attempt to persuade it to do so might well seriously affect the ability of the Allies to keep the Federal Government on its present course of joining the Western camp. The fact that German forces were being kept down in order to enable Germany to pay for Allied forces in Germany would provide material for the German Opposition to which Dr. Adenauer would have no reply. On the other hand, the United Kingdom has set its face against bearing any part of its local defence costs in Germany, because to do so would require it to exceed its existing defence programme which is already straining its economic resources to the limit as well as adding to its very serious balance of payments difficulties. The United States Government is probably prepared to pay part of its defence costs in Germany and to supply a certain amount of equipment free, but it seems extremely unlikely that it would be ready to do so on such a scale as would leave enough money from German sources to meet the costs of the other Allies. Acceptance of the necessity of withdrawing Allied forces from Germany as the German forces were built up, even if this withdrawal were confined only to the British and French forces, would clearly have very serious military and political implications, as would the curtailment of any other part of the defence effort. A combination of the various methods would entail the disadvantages of each of them to a lesser degree.
Problems for Solution

16. It is difficult to expect Governments to take final decisions on this very serious and complex question until the facts have been more fully examined. There is, however, the immediate necessity of choosing the procedure for going forward in the examination of the problem, the solution to which would be influenced by a knowledge of how Governments are likely to react when more positive facts are laid before them. We must decide whether we begin discussing with the German Federal Government their financial contribution to defence, before we know whether a solution can be found to the problem of the potential excess burden on Germany referred to above.

17. On political grounds, it is most desirable that the working out of our general contractual relationship with Germany, on which the negotiations between the Allied High Commission and the Federal Government are already covering a wide field, should not be held up because of the delay in approaching them on this financial question. Everything which delays the concluding of the new contractual relationship adds to the difficulties of the Federal Government in Germany and to the Allied difficulties in securing a satisfactory form of agreement. From the military point of view, anything which delays the conclusion of a military agreement with the Germans and the beginning of the establishment of German forces is to be deplored. Finally, the figures for a German financial contribution to defence and for the cost of building up German forces must all have a strong element of unreality about them until they have been discussed with the Germans themselves, who alone know what their difficulties are. The United States Delegation to the Tripartite Group is pressing strongly that we should enter discussions with the Federal Government at a very early date, even though many elements in the problem facing us are unknown.

18. On the other hand, it cannot be denied that to adopt this course and begin negotiations with Germany has risks. It is true that the three Governments are already committed to the building up of a German military force within the E.D.C., though the United Kingdom is not formally committed to the size of that force recommended by the Standing Group of N.A.T.O. and the E.D.C. They will, however, commit themselves still further, more particularly as regards the size of the force, by entering into negotiations about finance. These negotiations are not likely to reveal that the estimates made by the Tripartite Group are over-favourable to the Allies, having regard to the very great increase in the defence effort they have assumed that Germany should make, and they are likely to bring out more strongly the German reluctance to bear the whole or even part of the Allied local costs. We do not know how any excess burden on Germany resulting from the presence of Allied forces in Germany as well as German forces will be dealt with. We do not know how much American aid will be available, how it will be distributed, and whether more aid for Germany will mean less for us. We cannot feel confident of the outcome on these issues if we embark on early negotiations with the Germans. On the other hand, it is only in the course of such negotiations that we shall discover where we stand on these questions.

19. Thus it is necessary to know whether Ministers see objection to our entering into negotiations with the Germans at an early date and in advance of a clear agreement between the three Governments on the measures that would be taken to deal with any excess when it arises, even though the delay in beginning the negotiations may hold up the whole programme in Germany and increase the political risks of our failing to reach eventual agreement with the Federal Government.
CABINET

THE SUDAN

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate herewith a draft by the Foreign Secretary of a statement on the Sudan.

(Signed) NORMAN BROOK

Cabinet Office, S. W. I.,

13TH NOVEMBER, 1951.
Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate

a draft by the Foreign Secretary of a statement

(Signed) NORMAN BROOK

Office, S.W.1.,

November, 1951.
In view of the uncertainty caused in the Sudan and elsewhere by the Egyptian Government's unilateral action in purporting to abrogate the 1936 Treaty of Alliance and the Condominium Agreements of 1899, His Majesty's Government find it necessary to re-affirm that they regard the Governor General and the present Sudan administration as fully responsible for continuing the administration of the Sudan.

2. His Majesty's Government will give the Governor General their full support for the steps he is taking to bring the Sudanese rapidly to the stage of self-Government as a prelude to self-determination. While awaiting the recommendations of the present Amendment Commission His Majesty's Government are glad to know that a constitution providing for self-Government may be completed and in operation by the end of 1952.

3. Having attained self-Government it will be for the Sudanese people to choose their own future status and relationship with the United Kingdom and with Egypt. His Majesty's Government consider that the attainment of self-Government should immediately be followed by active preparations for the ultimate goal of self-determination, the attainment of which nothing be allowed to delay. They reaffirm their determination that everything will be done to ensure that the Sudanese will be able to exercise their choice in complete freedom and in the full consciousness of their responsibilities. His Majesty's Government with whose support the Sudan Government have brought the Sudanese to their present stage of development, are confident that they will work with united enthusiasm to reach their final goal. His Majesty's Government meanwhile guarantee to ensure the defence and security of the Sudan during the intervening period.
BREVITY

Note by the Prime Minister

Official papers are too long and too diffuse. In 1940 I called for brevity. Evidently I must do so again. I ask my colleagues to read what I wrote then (it is reproduced overleaf) and to make my wishes known to their staffs.

I also invite attention to the Foreign Secretary’s recent despatch to Heads of Missions about the length of telegrams.

W. S. C.

10, Downing Street, S.W. 1,
20th November, 1951.
W.P. (G) (40) 211 of 9th August, 1940

To do our work, we all have to read a mass of papers. Nearly all of them are far too long. This wastes time, while energy has to be spent in looking for the essential points.

I ask my colleagues and their staffs to see to it that the Reports are shorter.

(i) The aim should be Reports which set out the main points in a series of short, crisp paragraphs.
(ii) If a Report relies on detailed analysis of some complicated factors, or on statistics, these should be set out in an Appendix.
(iii) Often the occasion is best met by submitting not a full-dress Report, but an *Aide-mémoire* consisting of headings only, which can be expanded orally if needed.
(iv) Let us have an end of such phrases as these: "It is also of importance to bear in mind the following considerations . . . .", or "Consideration should be given to the possibility of carrying into effect . . . ." Most of these woolly phrases are mere padding which can be left out altogether, or replaced by a single word. Let us not shrink from using the short expressive phrase, even if it is conversational.

Reports drawn up on the lines I propose may at first seem rough as compared with the flat surface of officialese jargon. But the saving in time will be great, while the discipline of setting out the real points concisely will prove an aid to clearer thinking.

W. S. C.
Sir,

On my return to the Foreign Office I have remarked on the length of some of the telegrams sent to me by Heads of Missions. I know that you have been trying to reduce the number and length of telegrams sent by you to the Foreign Office but many telegrams are still too long.

2. If I am to read your telegrams you must keep them short. I make this appeal most earnestly to you all.

I am, with great truth and regard,

Sir,

Your obedient Servant,

ANTHONY EDEN.

Foreign Secretary’s Despatch of 7th November, 1951
CABINET

MAN-POWER

MEMORANDUM BY THE MINISTER OF LABOUR AND NATIONAL SERVICE

I attach a memorandum on man-power giving (I) the facts of the present situation, (II) the steps already taken, and (III) the further measures proposed.

2. The situation disclosed is a serious one. We are very short of man-power, particularly of skilled workers, and the additional resources available over the next two years are inadequate. If the present shortage of steel is overcome, man-power will become our basic shortage. The steps already taken are not sufficient to provide the additional labour required for the defence and export programmes and for essential civilian production. Further measures must therefore be taken.

3. Less important production for the home market must be cut down in order to make available workers required for essential production.

4. The main man-power problems are to ensure the best possible distribution of our labour force, to secure its most efficient use and to improve its quality. I propose—

(I) A Regulation of Engagement Order to ensure that all workers come to the Employment Exchanges for a job

This would—

(a) enable the Exchanges to inform workers of the important vacancies and try to persuade them to take them;
(b) help to prevent workers drifting away to unimportant jobs;
(c) go a long way towards preventing employers taking on workers unnecessarily; and
(d) greatly diminish the poaching of workers by employers.

The Order would be enforced through the employer, who would be liable to prosecution if he engaged a worker otherwise than through an Employment Exchange. There would be no penalties on workers.

(2) A revival of the system of Technical Labour Supply Inspectors

This would—

(a) Expose and help to prevent the extravagant use of labour, particularly of skilled labour; and
(b) enable the demands of employers to be examined and prevent labour being supplied where it is not really needed.

(3) A comprehensive examination by each industry of their arrangements for training

This would involve a review by each industry of—

(a) Apprenticeship and other schemes for training young persons, including the period of training and the age limits on starting and finishing training;
(b) training arrangements for adults on entering industry;
(c) training arrangements for adults already in employment, with particular reference to upgrading training and the training of supervisors.
5. I believe that these measures are essential. It will be necessary for the T.U.C. and the British Employers' Confederation to be consulted on these proposals. I shall hope to obtain their agreement and I ask for authority to open negotiations with them at once.

W. M.

Ministry of Labour and National Service, S.W. 1,
15th November, 1951.

MAN-POWER

PART I.—THE FACTS OF THE MAN-POWER SITUATION

RECENT CHANGES IN EMPLOYMENT

1. There are more people in employment to-day than at any previous date in peace-time. The total working population is about a million higher than in 1939 and is still growing. In the last 12 months it increased by nearly 270,000 (1 per cent.). Unemployment is very low and forms no substantial reserve of labour.

2. The most vital sectors of our economy to-day are the basic industries and services (of which coal and rail transport present the most serious man-power problem) and manufacturing industry (within which the engineering and aircraft groups are the most important). The following figures show the man-power movements in those industries for the preceding 12 months:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Manufacturing industry</td>
<td>+183,000</td>
</tr>
<tr>
<td>Within manufacturing industry</td>
<td>+104,000</td>
</tr>
<tr>
<td>and vehicles group</td>
<td></td>
</tr>
<tr>
<td>Aircraft manufacture</td>
<td>+18,000</td>
</tr>
<tr>
<td>Coal mining</td>
<td>+5,000</td>
</tr>
<tr>
<td>Railway transport</td>
<td>-14,000</td>
</tr>
</tbody>
</table>

3. With the exception of railway transport (although the position there has recently shown some improvement) these figures show a movement in the right direction, but when we turn to look at the present demands and at future prospects the problems are serious and urgent.

THE PRESENT POSITION

4. In spite of the increased numbers at work, and of a slight decrease in the demands of industries producing mainly for consumption, the total of vacancies notified to Employment Exchanges which were outstanding at the end of September was 410,500; 51,000 higher than a year ago. Of the total vacancies for adults (290,000), 94,000, or over 32 per cent., were identified as First Preference* an increase of 65 per cent. over a year ago. Of these 25,000 were identified as part of the defence programme, a rise of 16,000 since the beginning of the year. In the four weeks preceding 26th September, 1951, it was only possible to place 22,700 adult workers in First Preference vacancies, of which 5,000 were in defence vacancies.

5. Of the total of 410,000 vacancies, the number in metal manufacture, engineering and vehicles amounted to 105,000, and in the very important aircraft industry to 8,700.

6. One of the most serious shortages is skilled engineering workers. The number of outstanding vacancies in the principal skilled engineering occupations has

* First preference vacancies are those identified as being connected with work which is of the highest national importance, i.e., certain named industries and services, e.g., agriculture, coal-mining, cotton-spinning, iron and steel, electrical generating plant, railway operating services and vacancies on defence or export work.
increased from 18,000 to 34,000 in the last 12 months. There is practically no unemployment amongst skilled men.

7. In the railways the outstanding vacancies are for 23,000 workers and in coal-mining for 8,500 workers. The National Coal Board has estimated that a total of 15,000 more workers are required in the coal-mines by the end of the year, but there is no hope of providing this number.

8. Not all these outstanding vacancies represent net additional demands for labour since many of them are on account of normal turnover and will be filled in a relatively short time from workers leaving other jobs. On the other hand, employers do not notify all their vacancies to the Exchanges and to that extent they are an understatement of the shortage. In particular, the Ministry of Supply estimate that the aircraft industry at present is about 20,000 workers short of the numbers which it should have employed had the planned programme been maintained.

FUTURE DEMANDS

9. Turning to the future demand, the defence programme requires the employment of between 400,000 and 500,000 additional workers on defence production in the manufacturing industries, most of them between mid-1951 and mid-1953. 120,000 are required by March 1952 according to production plans, and of these about 44,000 are for the aircraft programme and about 7,000 for the Royal Ordnance Factories. H.M. Forces require in the next two years an increase of some 75,000. The export industries in the main require to retain their existing labour force and do not need an increase, except the engineering industry, where the limiting factors on increased export may be both raw materials and man-power. For the basic industries and services the demand is smaller in numbers but difficult to fill and of fundamental importance to the whole defence and export programme. The total demand for extra workers may, therefore, be altogether between 500,000 and 600,000 for defence, H.M. Forces and essential industries and services. This does not mean that the full number of workers will be required physically to transfer from one factory to another since a proportion will switch to defence production inside the works. But in any case the numbers required for the aircraft programme amounting to 85,000 to 90,000 extra workers and those required for the Royal Ordnance Factories, some 18,000 workers, will have to be supplied through the engagement of additional workers by the firms concerned.

SOURCES OF LABOUR SUPPLY

10. On the other side of the balance sheet it is necessary to consider the following possible sources of labour supply: —

(a) a reduction in unemployment;

(b) any further increase in the total working population; and

(c) any movement of labour from other production and services.

11. First, the level of unemployment throughout 1951 has been lower than during any year since 1945 and there is practically no reserve of labour there to fill the gap between demand and supply.

12. Second, there has been an average increase of 140,000 per year in the total working population over the past three years. This consists mainly of persons postponing retirement, pensioners returning to work, and married women who do not normally work, taking employment. It would be unwise to count on a continuing increase in the total working population at the rate of the last two or three years, and I do not think that we should put the total addition for the period mid-1951 to mid-1953 above 200,000.

13. The third source of labour supply is labour becoming available from less essential production either by a voluntary transfer of resources to defence, export or other essential work, or as a result of raw material shortages. I exclude here release of labour brought about by deliberate curtailment of activity in order to release labour. Voluntary movement by individual employers and workers towards important work would increase if the public were given a strong enough lead and sense of urgency. The work of the Employment Exchanges in influencing the choice
of workers who come to the Exchanges in the course of normal turnover would be assisted by such a lead, though it is unlikely to influence their choice unless the conditions of employment of the work also compare reasonably well. It is difficult to assess the size of the contribution which can be expected from this source, since it will be influenced by decisions on many aspects of Government economic and fiscal policy. The shortage of steel in particular will affect the engineering industries, on which 70 per cent. of the rearmament programme falls, and should, therefore, assist the process of transfer of labour to the defence programme.

THE IMPORTANCE OF THE LOCAL PROBLEM

14. An examination of national figures only is, however, misleading because demand and supply vary in intensity in different parts of the country. It is only by examining the incidence of the defence programme in different areas that a full appreciation of the nature and magnitude of the labour problems can be obtained. The difficulties created by the inevitable concentration in certain areas are clearly brought out by detailed examinations which are being undertaken of certain areas where the difficulties of labour supply for the defence programme and other vital production are marked. The main areas so far identified are Coventry, the Preston/Chorley/Blackburn area; Bristol and Gloucester; Chelmsford; the Potteries.

15. These facts emphasise three important points:—First, that unless the administration of such measures as may be taken to reduce production is flexible, the maximum amount of labour will not be released where it is urgently needed, and too much may be released in areas where the labour might be frittered away, or indeed unemployed. The second point is that even where this is done to the maximum extent compatible with reasonable administration, it will still leave unsolved the labour supply problems of certain areas of particularly heavy demand where defence and export clash. Third, that there will have to be a considerable movement of labour from one job to another in the process of meeting the demands of the defence programme. Where this is so there is always a considerable wastage of labour in the process which must be minimised as far as possible.

Summary of Part I

16. To summarise, therefore:—

(a) there is an additional demand over the next two years of between 500,000 and 600,000 workers for defence, H.M. Forces and essential industries and services, and this at a time when the general pressure of demand for labour is very high;

(b) towards the end of the period there may be some small decrease in the numbers unemployed when the re-deployment of labour is complete and some increase in the total working population which may amount to 200,000;

(c) there should also be some transfer of labour from less essential production as raw material shortages or measures to reduce the demand on production begin to take effect and, if public feeling is aroused, some increase in voluntary movement from less essential employment to defence, export and other essential production;

(d) the incidence of the demand falls unevenly between different parts of the country and thus intensifies the difficulty of ensuring that all the resources of labour available can be concentrated to meet the essential demands;

(e) no mere arithmetical closing of the gap will solve the labour supply problem.

PART II,—MEASURES ALREADY TAKEN

17. On different occasions during the last year, the National Joint Advisory Council was consulted on the steps which both sides of industry might take to assist in the effective deployment of labour for carrying out the Rearmament Programme. A number of proposals were agreed and have been sent by the Council to its constituent members. A letter was also sent to certain National Joint Industrial
Councils asking them to give these recommendations careful consideration. Of these the most important are—

(a) The practicability of some extension of overtime as a means of increasing production;

(b) the part-time employment and training of women on semi-skilled processes;

(c) the development of schemes of upgrading and training to offset the scarcity of skilled workers.

In suitable cases, it was further suggested, that the training which industry could provide itself might be supplemented in Government Training Centres (G.T.C.) on the lines which proved successful in the last war.

18. The response of industry to these recommendations has been encouraging. In many firms satisfactory schemes of upgrading and training have been introduced and, in accordance with an agreement now reached with the engineering industry at national level, local arrangements are being made for admitting a limited number of able bodied workers to classes in G.T.C.s. providing training in some of the scarcity skilled occupations.

19. Suitable arrangements have also been made for dealing with labour redundancies when they arise. Employers have been asked to give Local Offices of the Ministry timely notice of the number and type of workers that they expect they will shortly no longer require, and workers who are about to be discharged have been encouraged to register with Local Offices before they actually become unemployed. These arrangements are designed to assist workers to pass from one job to another without an intervening period of unemployment.

20. As work on the Defence Programme builds up to its peak the scarcity of labour of the right type is going to be increasingly felt. To meet this problem the steps so far taken, including schemes for upgrading and training, are by themselves inadequate. More drastic measures are now required.

PART III.—PROPOSED FURTHER MEASURES

21. The only effective way of making available the workers required for the defence and exports programmes and essential civilian production is by cutting down other less important production for the home market. By whatever methods this may be done it will be further necessary to ensure that defence and other production gets the benefit of the workers that are released and that labour is effectively and economically used. I shall wish, at the right time, to urge that measures chosen for reducing less essential production are operated so as to release labour in areas where it is wanted and to avoid throwing them out of work where suitable alternative employment is not available. But whatever steps are taken to release labour I am convinced that they must be supported by complementary measures on the man-power side to ensure that the labour goes where it is required. The redeployment of labour is not a simple process. By no means all of the workers who may be discharged from their present employment will be suitable for filling vacancies connected with defence and other essential production, and they may drift into unimportant jobs. What is wanted is an opportunity to guide all workers becoming available for employment into work with firms genuinely in need of additional labour where their capacities will not be wasted. At the same time, it is necessary to secure the most efficient use of our existing labour force and to improve its quality.

REGULATION OF ENGAGEMENT ORDER

22. During and after the war various Restriction and Control of Engagement Orders made it illegal for an employer and a worker to enter upon an engagement for employment except with the permission of the Ministry of Labour. An employer, therefore, could only obtain his workers and workers could only obtain employment through an Employment Exchange. While penalties were imposed for non-compliance, the main sanction behind the Order was the use of the power of direction.

23. The only certain and fully effective method of ensuring that the labour released by cuts in production or otherwise goes where it is wanted would be by
a similar Control of Engagement Order coupled with the power of direction of individuals. In present circumstances, however, the use of powers of direction is out of the question, but a Regulation of Engagement Order without power of direction, and operated on the following lines, would go some distance towards solving the problem.

24. The Order would place an obligation upon an employer not to obtain his workers otherwise than through an Employment Exchange. In practice this would compel workers to obtain their jobs through an Exchange because otherwise an employer could not legally engage them. The only penalty would be that imposed on the employer. Power would be taken in the Order to exclude certain parts of the country, so that, if experience showed that the Order was not necessary in some areas, these areas could be excluded from its operation. Agriculture and coal-mining would be excluded, as would registered dock workers, merchant seamen and fishermen.

25. The main object of the Order would be to make all workers seeking employment come to the Employment Exchanges. This would enable the Exchanges to inform workers of the important vacancies and try to persuade them to take them. The Exchanges would thus be able to go a long way in preventing employers who are making an extravagant use of their labour from taking on additional workers and in ensuring that workers do not drift away into unimportant employment. The Order would also reduce substantially the amount of poaching of workers by employers that is at present going on. Experience during the war showed that an Order of this kind was the only effective method of achieving this.

26. I would make it clear from the start that there is no intention of compelling workers to accept employment which they were unwilling to take. On coming to Exchanges to seek employment they would be told plainly what were the most important jobs suitable for them and urged in the national interest to agree to be submitted to one or other of them. If a worker could not be persuaded to take one of the jobs offered to him in defence or export production, he would then be permitted to take the employment for which he asked (except in the case where we felt a firm was fully manned).

27. This method of administering the Order would enable Employment Exchanges to perform their proper functions and would encourage workers to think of an Exchange as a place where they would be told and given good advice about suitable opportunities for employment while still remaining free to choose their jobs.

LABOUR SUPPLY INSPECTION

28. I am proposing to revive, on a limited scale, a system of labour supply inspection on the lines of what was done during the war. The duties of the technical labour supply inspectors will be to visit selected firms and obtain information about the ways in which they are using their labour and, if vacancies for particular kinds of workers have been notified to Local Offices, to ascertain how far these additional workers are really needed and the extent to which the requirements could be met by the firm from its own resources. They will examine whether skilled labour is being extravagantly used or engaged on unimportant work and whether under-employment exists. Employers might then be invited to consider the recommendations made by the Inspectors and to take appropriate action to carry them out.

29. A system of Labour Supply Inspection will enable the Ministry of Labour to decline to supply labour where it is not really needed. It will not, however, of itself, ensure that employers discharge the workers they do not require. If an employer is unco-operative, it will be necessary to bring pressure to bear upon him and I have no doubt that an effective instrument for this purpose would be to cut down his supplies of raw material.

TRAINING

30. Many apprenticeship and other training schemes for young persons are out of date. With modern intensive methods of training the period of apprenticeship could in many cases be reduced. Also, at present only young persons under 21
can be apprentices; this again is out of date and, as in the United States, adults
should be admitted to apprenticeship schemes without an upper age limit.

31. Training arrangements for adults entering industry are frequently
inadequate and need to be reviewed by each industry.

32. If industries are to improve the quality of their existing labour force, they
must modernise their arrangements for training adults already in employment, par-
ticularly the training of supervisors and the schemes for upgrading training. Recent
developments make it necessary that, in addition to examining their training in
production methods and processes, industries should review their training in such
subjects as industrial relations, works study, works information and communications.

33. I propose to ask each important industry to undertake a comprehensive
examination of their arrangements for training with a view to improving the
quality of their labour.
GERMANY: FINANCIAL CONTRIBUTION TO DEFENCE

Memorandum by the Lord Privy Seal

At the invitation of the Cabinet (C.C.(51) 7th Conclusions, Minute 4) I have discussed with the Chancellor of the Exchequer, the Paymaster-General and representatives of the Foreign Office the problem set out in the Foreign Secretary's memorandum (C.(51) 15) on the German financial contribution to defence.

2. We reached the following conclusions:

A. The negotiations with the German Federal Government should be started at an early date. We were in entire agreement with the Foreign Secretary's proposal that he should endeavour to secure agreement to this course at the forthcoming meeting of the three Foreign Ministers on 21st November.

B. In order to leave no room for doubt about our inability to accept any additional financial liability as a result of German rearmament we share the Foreign Secretary's view that we should make it clear that while the problem of the gap remained unresolved His Majesty's Government could agree to enter into negotiations with the Germans only on the clear understanding that we were not prepared to accept any additional financial burden.

C. We should not depart from our present policy of declining to accept any additional defence burdens or any additional external burdens.

D. Although the rough estimate given in C.(51) 15 of the cost of building up the German forces would certainly prove to be substantially higher than the expenditure ultimately involved, a considerable gap would almost certainly remain. This gap could in fact be filled only by a United States contribution.

E. A reduction in our own forces in Germany would not be acceptable, though a further economy in our expenditure on them must be achieved. In his discussion with the two Foreign Ministers the Foreign Secretary could make it clear that we were now engaged in re-examining our defence costs in Germany and elsewhere with a view to eliminating all unavoidable expenditure.

Office of the Lord Privy Seal, S.W.1,

17TH NOVEMBER, 1951.
BRITISH BROADCASTING CORPORATION - 
CHARTER AND LICENCE 
Memorandum by the Postmaster General

The Charter and Licence of the B.B.C. expire on 31st December, 1951, and the term of office of all the Governors comes to an end on the same day. It is therefore urgently necessary to decide what action should be taken to continue the Corporation.

2. My colleagues will be aware that the Broadcasting Committee presided over by Lord Beveridge reported on 15th December, 1950 (Cmd. 8116); that the late Government presented a White Paper on the Report in July last (Cmd. 8291); and that debates took place in the House of Commons and House of Lords on 19th July and 25th July respectively. The main discussion centred round the issue of monopoly; the proposed term of 15 years for the new Charter; the proposal to cut the Parliamentary grant to the B.B.C. to 85% of the net licence revenue, and the proposals respecting Broadcasting Councils for Scotland, Wales and Northern Ireland.

3. The procedure, had there been no change of Government, would have been for the Government to incorporate their final decisions in a draft Charter and in a Licence and Agreement and to present both documents to the House of Commons and House of Lords.

4. In view of the proposal that the House should adjourn early in December, it would be unwise to hurry final decisions on the terms of a Charter and Licence, and in any event impossible to prepare these documents in time to permit of a debate before the House rises. I suggest, therefore, that we should inform the House that further time will be required for the consideration of the wide range of topics discussed by the Broadcasting Committee and that we intend to continue the British Broadcasting Corporation by means of a short Charter and Licence for a limited period, generally on the terms and conditions of the existing documents.

5. If this proposal is agreed, two questions arise. The first is the period of extension. If my colleagues are of the view that the Corporation should continue on substantially the present basis, I suggest that the extension should be for six months. That time should be sufficient for us to consider all the issues arising, including the question whether, while maintaining the Corporation as the sole broadcasting authority entitled to a grant of Parliament, we wish to breach their monopoly to a greater extent than was contemplated by the late Government, for example, by announcing that we reserved the right to license
other bodies to conduct sponsored broadcasting. That right exists today as a matter of law but the Government White Paper of 1946 (Cmd. 6852) declared that the B.B.C. would continue to be the only body licensed to originate broadcasts in this country. If, however, still more fundamental questions, such as a break-up of the B.B.C., are to be considered, we should, I think, require extension for a year. I hope that we can at once rule out this alternative.

6. An extension of six months - which I recommend - would involve a debate in the early part of 1952 and my colleagues will no doubt consider whether this fits the Parliamentary time-table.

7. The second question is whether we should for the period of extension continue to pay the full 100% of net licence revenue to the Corporation, or whether we should forthwith adopt the proposal of the late Government to pay only 85%. The difference for the first six months of 1952 would be about £900,000. I think that there is great advantage in following up without delay the proposal of the previous Government and the case for the reduction to 85% is reinforced by the present financial position of the country. In reaching this conclusion I have not overlooked the statement made by Mr. W.S. Morrison, leading for the then Opposition in the debate of July, that "it would be very unwise to give the B.B.C., less than the whole of the licence revenue at this time", and the possibility that the Opposition might use this statement against us (or even use it as a pretext for pressing for a debate). I hope that my colleagues will concur in my conclusion to reduce the grant to 85% for the extension period.

8. An extending Charter and Licence of this kind would not require formal approval by Parliament as this short term Licence would not come under Standing Order 87. I am advised that it would be sufficient to announce our intentions in a Statement after Questions and to present the draft Charter and (executed) Licence as soon as possible to both Houses for their information. There would seem to be little reason why the Opposition should press for any debate at this stage: if they do, the matter would no doubt be discussed through the usual channels.

9. During the period of grace that I propose that we should give ourselves the most important issues to be dealt with will be the point mentioned in paragraph (5), the problem of National Councils and the period of the new Charter. On the only points on which it is now necessary for me to seek immediate decisions, I recommend:

(a) that any break-up of the B.B.C. should be ruled out,

(b) that the Charter and Licence should be extended for six months (paragraph 5), and

(c) that the grant be cut to 85% from 1st January, 1952 (paragraph (7)).

D.

Post Office Headquarters, E.C.1,

17TH NOVEMBER, 1951.
MEMORANDUM BY THE SECRETARY OF STATE FOR COMMONWEALTH RELATIONS

Bamangwato affairs demand action by His Majesty's Government urgently. The Reserve is in a turmoil. The people are perplexed about the Government's intentions. Parliamentary questions are being asked. Tshekedi is returning to London.

2. A summary of the past is attached in Annex B.

3. The question requiring immediate decision is Tshekedi's future, but my colleagues should know in broad outline the over-all solution I have in mind.

4. There is no solution which does not include factors open to justifiable criticism. We must therefore be content with finding a solution which contains the greatest number of good points and is otherwise defensible. It calls for a gradual approach and its announcement will require careful timing.

5. The comprehensive solution I have in mind is:

(1) the effective exclusion of Tshekedi Khama from the political life of the Bamangwato allied with his return to the Reserve as a private person at the earliest moment consistent with the peace of the tribe and his own safety;
(2) reconciliation between the tribe and Rasebolai Khama, chief lieutenant of Tshekedi and third in adult succession to the chieftainship, and his promotion as a prospective nominee by the tribe for the chieftainship; and
(3) the announcement, after an appropriate interval, of the permanent exclusion of Seretse Khama from the chieftainship of the tribe as a necessary preliminary to their nomination of Rasebolai.

(1) will quiet the tribe and make possible its effective administration under the District Commissioner, who for the present will continue as Native Authority, in which capacity he exercises some of the functions of chief. (2) will offer a rallying point, alternative to Seretse, for the traditional allegiance of the tribe. (3) will remove permanently from the Union Government a potentially powerful weapon in its campaign for incorporation of the High Commission Territories and the declaration of a Republic.

6. Under an exclusion order issued in accordance with the White Paper policy, Tshekedi cannot enter the Reserve save with permission, which is granted or withheld according to the situation in the Reserve (see paragraphs 13 and 14 of Annex B). He smarts under a sense of injustice. As soon as we can we must permit him to return to look after his large personal interests. But the observers' reports confirm the existence of such strong feeling against him in the tribe that his return now could only lead to serious disorders and danger to his life. He himself, by recent provocative actions, has aggravated feeling against him. The tribe do not believe his renunciation of claim to the chieftainship and blame him for Seretse's
exclusion. The immediate need is to quiet their fear of his return to power and to do this Government must make it evident that he will be effectively excluded from their political life. The frequency of his visits and the prospects of his ultimate residence in the Reserve will depend upon his own actions.

7. The Bamangwato are so firmly wedded to the hereditary chieftainship that the idea of a council system, put forward in the original White Paper, of itself offers no alternative. The only satisfactory solution is the promotion of a suitable person as chief instead of Seretse. With both Seretse and Tshokwane out of the running for the chieftainship, Rasebolai would be the obvious choice. He would be acceptable to Government, but his advancement towards office must be cautious, since his association with Tshokwane has made him suspect by the tribe.

8. Most of the tribe want Seretse back. To let him and his white wife return in any capacity would provoke an immediate demand in South Africa for the transfer of the Territories, a demand in which all white South Africans, including those of British descent, would be united. This was the view of General Smuts and is confirmed by the present leader of the United Party in South Africa. (South Africans are very sensitive and emotional over racial purity; mixed marriages are prohibited and sexual relations between persons of different colour are a criminal offence.) A strong indication has been given that the present Government of South Africa would resort to economic sanctions against the Territories, which, geographically and economically, are virtually defenceless. All our relations with the Union would be seriously impaired and we would probably lose the Territories. Our interests in Southern Africa therefore demand the continued exclusion of Seretse. But if his exclusion is to be permanent it is unfair to him and to the tribe to keep alive hopes of his ultimate return. Moreover, it makes any permanent solution of the problem impossible. But to announce his permanent exclusion before the tribe has been suitably conditioned for it by the removal of their fears about Tshokwane and the promotion of a possible alternative chief, would provoke an explosion from them. Moreover, the effect on colonial opinion of substituting permanent exclusion in place of the undertaking to review the position in not less than five years would be serious and would have to be carefully considered.

9. In short, my purposes would be to restore peaceful conditions in the Reserve by determining forthwith the future of Tshokwane, doing all that is possible for him while at the same time allaying the fears of the tribe; to secure the return of Rasebolai to the Reserve and to promote his popularity with the tribe; and, at as early a date as possible, and certainly before the end of the five-year period laid down in the White Paper, to announce the permanent exclusion of Seretse and to bring about the nomination by the tribe of Rasebolai as chief.

10. At this stage, I ask only for approval of the first step which is to make clear our intentions regarding Tshokwane. In Annex A, I submit the draft of a parliamentary question and reply indicating these intentions. In it we make clear that we are sympathetic over the present deprivation of his liberty of movement in the Reserve and that, provided he will co-operate in allaying the tribe’s fears, we mean to work towards its restoration. I would give Tshokwane, who has asked for an interview with me, opportunity to see me before the reply is given in the House. I would accord the same courtesy to Seretse, who has also asked for an interview.

11. There is no reason why the observers’ reports (Annexes C and D) should not be published. My proposals are kinder to Tshokwane than their recommendations.

Commonwealth Relations Office, S.W. 1,
19th November, 1951.
ANNEX A

DRAFT PARLIAMENTARY QUESTION AND REPLY

P.Q.—To ask the Parliamentary Under-Secretary of State for Commonwealth Relations the Government's intentions regarding the request of Tshekedi Khama for permission to return to the Bamangwato Reserve.

Reply

The Secretary of State is desirous that there should be no permanent suppression of Tshekedi Khama's private rights in the Bamangwato Reserve. The Secretary of State is convinced that the interests of peace in the Reserve demand that Tshekedi Khama should be excluded from the political life of the tribe. He has several times reiterated his renunciation of all claims to the Chieftainship, and such a renunciation is clearly incompatible with his continued exercise of political influence in the tribe's affairs. The sooner his exclusion from their political life is shown to be effective, and it is the intention of the Secretary of State to make it so, the sooner will it be possible to permit to him progressively greater freedom of movement within the Reserve for his private purposes. Ultimately, it is hoped, it will be possible for him to return permanently to his home as a private person, but that hope will depend for its fulfilment very largely upon his own recognition of the requirement which the Secretary of State regards as paramount, namely, that he abstains from intervention in the political affairs of the tribe.
ANNEX B

A NOTE ON BAMANGWATO AFFAIRS

The Bechuanaland Protectorate is one of three territories lying within or on the borders of the Union of South Africa, administered directly by the United Kingdom. The South Africa Act, 1909, provided for the possible transfer at some future date of these territories to the Union. During its passage through Parliament the United Kingdom Government gave pledges that transfer should not take place until the inhabitants of the territories had been consulted and the United Kingdom Parliament given an opportunity of expressing its views. The inhabitants have been and are strongly averse from transfer. But owing to their geographic and economic position and their complete dependence on Union assistance, South Africa could exercise a stranglehold if it wished. Although White South Africans generally want transfer, the Union Government is likely to be deterred from drastic action if opinion in favour of transfer remains lukewarm, as it is likely to do so long as His Majesty’s Government, in its administration of the three territories, avoids doing anything likely to inflame and unite White South Africans in a demand that the territories be handed over.

2. The Bamangwato tribe inhabits 40,000 square miles in the middle of the Bechuanaland Protectorate. It has a population of roughly 100,000, consisting of about 20,000 Bamangwato proper and about 80,000 allied tribes. The system of administration has been for the Government of the territory to work through local tribal institutions. Among the Bamangwato the native administration was conducted by a Chief who enjoyed considerable power and exercised it through a series of Chief’s Representatives (all Bamangwato) in charge of the outlying areas of the allied tribes.

3. The hereditary chiefs of the Bamangwato have been drawn for many generations from the Khama family, which has produced several distinguished African rulers. Seretse’s father died when he was a boy, hence Tshekedi’s regency. For 23 years Tshekedi administered the affairs of the tribe efficiently but rigorously and perhaps sometimes harshly.

4. Seretse Khama was educated in South Africa and later at Oxford and London. In September 1948, then being 27 years old, he married a white woman, Miss Ruth Williams. He did this despite efforts to dissuade him, which, because of the disastrous results that the marriage was bound to have for the tribe, were made by responsible British officials and by the tribal leaders, including his uncle, Tshekedi.

5. The tribe as a whole was seriously shaken and perplexed by the marriage. This is shown by the history of the three kgotlas (tribal meetings) which were held at Serowe, the Bamangwato capital, in 1948 and 1949 to discuss this crisis precipitated by Seretse. At the first, in November 1948, condemnation of the marriage was almost unanimous; at the second, in December 1948, opinion against it had begun to waver. After this second meeting Seretse returned to England to continue his law studies, but in June 1949 he went back to the Reserve and at the third kgotla succeeded in obtaining a large majority in his favour.

6. An important, and probably the decisive, factor in this swing-over to Seretse was the tribe’s fear of Tshekedi. Although progressive and efficient, Tshekedi had, because of his strictness, incurred unpopularity particularly towards the end of his twenty-three years as Regent. The tribe feared that if they rejected Seretse they would have Tshekedi over them, not merely as Regent but as permanent Chief. Tshekedi and his chief followers were adamant in their objection to the marriage. They went into voluntary exile from the Bamangwato Reserve, formally stating that they “challenged” the kgotla’s decision, that native law and custom had been violated, and that they would not accept a white woman as the Chief’s consort.

7. All available evidence confirmed that public opinion in South Africa and Southern Rhodesia would be greatly incensed by the recognition as Chief of Seretse, married as he was to a white woman. The Union Government declared Seretse and his wife prohibited immigrants in South Africa.

8. Faced with a most invidious choice between, on the one hand, provoking the Union to a point of applying “sanctions” against the three High Commission...
Territories and, on the other hand, antagonising the Bamangwato tribe and indeed, a very large body of non-Europeans throughout the Commonwealth, the High Commissioner advised that we should play for time. He therefore recommended that a Judicial Enquiry should be held. He suggested that the following reasons could be given for holding an Enquiry, and that, if established, they would justify withholding of recognition from Seretse:

(a) that the third kgotla was not fully representative of the tribe;
(b) that the deliberations of the three kgotlas were too indefinite;
(c) that the status of Seretse's wife and of any children of the marriage was obscure; and
(d) that there was the danger of a split in the tribe.

9. The High Commissioner's advice was taken and a Judicial Enquiry into the Bamangwato crisis was held. Its two findings were as follows:

(1) that the kgotla held in June 1949, at which Seretse was designated as Chief, was properly convened and assembled and its proceedings conducted in accordance with native custom; and
(2) that, having regard to the interests and well-being of the tribe, Seretse was not a fit and proper person to discharge the functions of Chief.

In its Report the Judicial Enquiry made it clear that the main reason why Seretse was not a fit and proper person was that his recognition as Chief would produce reactions in the Union of South Africa and in Southern Rhodesia which would have the gravest consequences for the Bamangwato tribe, the Bechuanaland Protectorate, and the other two High Commission Territories of Basutoland and Swaziland. The Government agreed with the Judicial Enquiry's two findings, but considered it impolitic to publish the Report, because of the reasons given for the findings.

10. As the crisis was likely to be solved if Seretse voluntarily renounced the Chieftainship, he and his wife were invited to London for discussions. He accordingly came to London but refused to abdicate, saying that he could not do so without consulting the tribe.

11. It was therefore decided, in March 1950, that recognition of Seretse's succession to the Chieftainship should be withheld for a period of years sufficiently long for the disappearance of the tendencies to disruption which threatened the unity and well-being of the tribe. During this period, which would not be less than five years, the system of direct rule, which would have to be introduced as a temporary expedient, would be progressively modified and steps taken to associate the tribe with the administration of its affairs through a system of councils.

12. This decision was announced in the House of Commons on 8th March, 1950, and on 22nd March a White Paper (Command 7913) was published which gave the following reasons for the decision:

(a) that recognition of Seretse whose marriage had already caused Tshekedi and a large number of followers to leave the Reserve would cause a serious split in the tribe;
(b) that Seretse, by contracting his marriage without prior consultation with the tribe and against all good advice, showed himself to be unmindful of true tribal interests and of his public duty;
(c) that the uncertainty of the status of any children of the marriage was likely to cause serious disputes within the tribe.

The White Paper was at pains to make out that the Government was not influenced by any representations from the Government of the Union of South Africa or Southern Rhodesia on the matter.

13. The White Paper required that, throughout the period during which recognition was to be withheld, Seretse should live outside the Bechuanaland Protectorate, and that Tshekedi should live outside the Bamangwato Reserve and should not enter it without special permission. (Consideration was given to leaving Seretse in the Bechuanaland Protectorate, whilst excluding him from the Bamangwato Reserve, but this possibility was abandoned mainly because good administration of the tribe would be impracticable with Seretse near at hand.) On 1st April, 1950, Seretse returned with our permission to the Bechuanaland Protectorate to attend to
certain private affairs. He later refused to leave voluntarily for England and expulsion orders were served on him. Accompanied by Ruth, he finally left for England by air on 17th August, 1950.

14. In early April 1951 Tshekedi came to London ostensibly to discuss his "private affairs." During the preceding twelve months he had been living close to the Bamangwato boundary in the adjoining Bakwena Reserve, and had at first been given generous facilities to enable him to look after his property and interests in the Reserve. But his increasing unpopularity and a desire on the Administration's part to secure the tribe's co-operation over councils, &c., had led to stricter treatment of him. During talks in London, Tshekedi made various proposals about splitting the tribal area or federating it with a neighbouring tribe. As these proposals would have been bitterly resented and resisted by the Bamangwato, the Government declined to entertain them and thereafter the discussions were mainly concerned with Tshekedi's private rights as a great cattle-owner.

15. Tshekedi asked for the rescinding of the exclusion order made against him and for permission to live in the Reserve as a private person. He asserted that he could not from a distance deal properly with his private and business affairs. He also wished the Government to pursue a firmer line with his enemies and so pave the way for the return to power of his followers. The Administration held, however, that amongst the Bamangwato it was impossible, with a man of Tshekedi's stature, to differentiate between his personal and his public capacities. The Bamangwato feared him and did not want him back in any capacity. The Secretary of State proposed, even though this was rather more than the Bamangwato were likely to accept peaceably, that Tshekedi should be allowed limited access to his cattle posts and that as many as possible of his cattle should be concentrated with Government's assistance in an area near his then place of residence, in the land of a neighbouring tribe, provided that Tshekedi, who had already renounced the Chieftainship, would give certain undertakings, e.g., that he would accept the White Paper decisions and would not interfere in the affairs of the Bamangwato. Tshekedi rejected these proposals. He regarded them as inadequate and he doubted the sincerity of the Government's intentions towards him. He then demanded full liberty of movement and action.

16. Tshekedi then pursued his case publicly with considerable success. In June 1951 an Opposition motion was tabled deploiring the decision to banish Tshekedi without hearing or enquiry into the grounds for such banishment, and calling upon Government to rescind the banishment order and to allow him to dwell freely within the territory of his tribe. The Government considered that this would be a piecemeal destruction of the White Paper policy culminating in Seretse's inevitable return too. Reports from the High Commissioner showed that Union reactions to Seretse's return in 1951 would be even more violent than they would have been a year previously and that the return of Tshekedi alone would lead to serious and sustained trouble in the Reserve. The Government accordingly stood firm on the White Paper decisions but undertook that the tribe's attitude to the question of Tshekedi's return should be ascertained more precisely at a further kgotla of the Bamangwato attended by observers from the United Kingdom. The motion was defeated.

17. The Opposition parties declined to send any of their members and instead of a Parliamentary delegation three independent observers (M. Bullock, Mr. Lipson and Professor Macmillan) were despatched. It was hoped that a joint kgotla, i.e., one which would include Tshekedi and his followers, could be summoned for the observers' benefit. The tribal leaders refused to agree to the attendance of Tshekedi and his followers and efforts to arrange a joint kgotla were abandoned. Instead the observers attended a series of local meetings throughout the Reserve to sound opinion. In September the observers submitted their reports which are annexed. Mr. Lipson argued that the Bamangwato would for the most part acquiesce in Tshekedi's return, if Seretse were allowed back too. All three agreed that there was a strong feeling against Tshekedi in the Reserve. In the words of Mr. Bullock and Professor Macmillan:

"On this one question we have no hesitation in declaring that the return of Tshekedi Khama in any capacity whatsoever at the present time and in the present circumstances would be contrary to the wishes of the majority of the tribe and bitterly resented by a substantial number. On this issue emotions now run dangerously high throughout the tribe."
ANNEX C

JOINT REPORT BY MR. H. L. BULLOCK AND PROFESSOR W. M. MACMILLAN

1. Background

In July last we were asked by the Secretary of State for Commonwealth Relations to undertake a mission in the Bamangwato Reserve of the Bechuanaland Protectorate. The object of our mission is best set out in the following extract from a letter addressed to us by Mr. Gordon Walker on 20th July:

"As I have explained in the House of Commons, the purpose of your visit is to report on the single question of the attitude of the tribe to Tshekedi Khama's return to the Bamangwato Reserve as a private individual.

As I also told the House, I intend to invite the Bamangwato tribe to hold a special kgotla under the presidency of an impartial person in order to establish their views on this question. I will cause my invitation to the tribe to hold this kgotla to be presented to them at a meeting with the tribal representatives in your presence. I have made it clear to the House that in my view this kgotla should be attended by Tshekedi Khama and his followers.

I hope you will use your best endeavours and all the weight of your influence to persuade the tribe to agree to hold such a kgotla and to re-emphasise to them that Tshekedi Khama has renounced all claims to the chieftainship. I would be grateful for your views and advice on details of arrangements for the holding of this kgotla. Any decisions that have to be taken must of course be mine, but I shall much value your advice and recommendations. Please do not hesitate to consult and advise me on any matters you wish at any stage of your visit.

I of course leave to your judgment any steps besides the holding of the kgotla that you may decide to take to ascertain for yourselves the views of the tribe on the question at issue and to consult with neighbouring chiefs and any other people you may wish to see. You may count on the full co-operation of my officers in any such steps that you may see fit to take and in all other ways."

2. The circumstances in which the issue of Tshekedi Khama's return to the Bamangwato Reserve came before Parliament are well known and need be recorded here only very briefly. For 23 years 1923-49 Tshekedi Khama had ruled the Bamangwato people as Regent for his nephew, Seretse Khama, the heir to the Chieftainship. During all these years Tshekedi had been in the position of father and mentor to Seretse and had cared for his affairs within the Reserve. Differences arose between them over Seretse's marriage in 1948. The tribe also was divided on this matter, and at the instance of Tshekedi, a series of kgotlas was held to discuss his position. Later a judicial commission was appointed to enquire into the circumstances that had arisen. In consequence of that commission it was decided by the Secretary of State that the chieftainship should be held in abeyance for five years and that Seretse Khama should for that period be required to live outside the Bechuanaland Protectorate. At the same time Tshekedi Khama was required to live outside the Bamangwato Reserve. These decisions, and the reasons for them, are recorded at length in the White Paper (Cmd. 7913) published in March 1950.

3. During the years of his regency, Tshekedi had cared for the cattle and other property that appertained to the chieftainship, to himself and to Seretse. In 1950 an effective distribution of this property was made. It is understood that, in fact, this distribution has given rise to disputes between the tribe, representing the chief, and Tshekedi, but such disputes will be a matter for the courts and do not concern this mission.

4. Since his departure, Seretse Khama has apparently experienced no difficulty in leaving his property within the Reserve to be managed by one Keaboka, fourth senior member of the chiefly family, who has since been nominated by the tribe as its leading representative and its "messenger" for the purpose of dealing with Government. Tshekedi, on the contrary, has not found it possible to leave his property to the care of a representative, and in 1950 sought and obtained the permission of the High Commissioner for a series of visits to the Reserve for the purpose of managing his affairs. These visits were made the subject of representations to the High Commissioner by representatives of the tribe, it being alleged
that his presence in the Reserve was repugnant to the tribe, which was disturbed as to the intentions of both Tshekedi and Government. It is understood that the Secretary of State entered into prolonged negotiations with the intention of arriving at an accommodation with Tshekedi Khama that would secure to him adequate control of his property and yet be acceptable to the tribe. Those negotiations failed and the Secretary of State thereafter decided that the interest of peace and good order within the tribe demanded the re-enforcement of the exclusion order against Tshekedi Khama. Thereafter Tshekedi, having publicly renounced all claim to chieftainship, demanded the right of free access to the Reserve as a private individual. The issue found its way to Parliament, in order to satisfy which the Secretary of State offered to send observers to the Protectorate to report on the true state of feeling within the Reserve.

5. The Bamangwato Reserve has an area of 40,000 square miles and a population roughly estimated to be 100,000 people. Of these only rather less than 20,000 belong to the Ngwato tribe proper, the remainder having from time to time broken away from their original tribes and affiliated themselves with the Ngwato tribe and acknowledged its supremacy. The Reserve is divided into nine districts, the chief of which is that surrounding Serowe, which is also the capital of the Reserve. The Serowe district is the stronghold of the Ngwato tribe proper, but a number of its members reside in the several districts and are normally amongst the most influential persons in them. The dominance of the Ngwato is ultimately due to the genius of Khama (1875–1923) who made his kingdom a rallying point for tribes scattered over the huge area in times when security was threatened from the North by raiding Matabele and from the South-East by the encroachment of European farmers. Khama's protection of the lesser tribes was made more effective by the backing he himself enjoyed from the Government of his great patron, Queen Victoria. Yet at that time, and even later, the protecting Government was in no position to assume what has come to be known as “direct” rule over this vast territory, so that from the beginning the Protectorate administration came to rely even for the maintenance of law and order almost entirely on the discipline enforced, until 1923 by Khama, and latterly by the Regent, Tshekedi. In consequence of this, native custom has been distorted and the power of the Chief raised considerably above any checks traditionally exercised by the people of the tribe over the chiefs' autocracy.

6. It was the great achievement of Khama's system that the rule he imposed through Bamangwato Representatives with the backing of the “regiments” from Serowe and ultimately of His Majesty's Government was loyally accepted and still is by the out-lying dependants. More than once some of us were corrected and told not to speak or think, e.g., of Bakalaka or Bakalanga, since all claim to be Bamangwato. Even if they have made little material progress these people were wisely allowed to retain their own tribal headmen and they continue to speak four or five distinct languages.

7. The Reserve, and all its people, are normally ruled by the chief, who occupies his position by right of birth. To each district he nominates a person known as the chief's representative, who rules on his behalf. The system is Khama's and the agents of the system, though they may constitute something like a civil service, were and still are drawn largely, though not now exclusively, from the members of Khama's family, being thus undoubtedly also a privileged aristocracy. Their Office clearly brings some profit as well as social prestige and they are intensely conscious and jealous of their order of precedence. In spite of the great almost untracked distances this ruling class maintain close links with each other and with Serowe, where they frequently gather for meetings, and where, as a result, tribal politics often have the intensity and ferocity of a village family dispute. The unity of the tribe is, nevertheless, something very real and jealously guarded, even if the system is thus aristocratic and, although not exclusively, autocratic. Certainly it admits of no organised opposition: to stand out against the ruling power on any major issue is to be guilty almost of treason.

8. Yet there are certain checks upon the use of power by the chief. The first of these is the kgotla, a meeting at which, in theory, every male adult member of the tribe has the right to attend and to be heard. We return to the point that the recent exclusion of Tshekedi's supporters is based on the ground that they have transferred their allegiance to another tribe, the Bakwena. Such kgotla meetings may take place at the village or district level, but it is accepted that all the great
affairs of the tribe are discussed and determined in the presence of chiefs’ representatives and tribal headmen meeting in formal kgotla at the Ngwato stronghold, Serowe. No vote is normally taken at such meetings. When all who wish have spoken the chief, or person presiding on his behalf, assesses the feeling of the meeting and announces his decision. In theory, as Tshekedi Khama had himself claimed lately, that decision may be his own and need not accord with the feeling of the meeting; in practice a strong chief can possibly go contrary to the views of the majority. The meeting in kgotla is, however, an essential part of the system of native rule and is accorded much respect by the Bamangwato as by other tribes of the Protectorate.

9. The second check upon the absolute rule of the chief is the devotion to tradition and to precedent embodied in the complex and unrecorded system of native law and customs. Tshekedi himself told us it is “case law.” Arguments may and do arise as to the particular application of native law and custom. (e.g., as to the present claims of Tshekedi Khama), but custom is certainly a restraining force of some potency.

10. The Chieftainship of the Bamangwato has remained with the house of Khama, to which both Tshekedi and Seretse belong and which has included among its members some very remarkable Africans. Of these last Tshekedi Khama is acknowledged to be one, but all members of the very large royal family, whatever their personal merits, are to be reckoned with as people of influence.

11. The foregoing represents, in brief outline, the organisation of the tribe as it has existed for many years. It should be recorded that in recent months the Administration has been engaged, we understand with success, upon a series of reforms designed to establish more firmly the democratic principle. The intention is to establish councils on a new democratic model, comprising representatives nominated by the village kgotlas in each district of the Reserve, these councils being advisory to the chief’s representatives, who would themselves be nominated by the district kgotlas and confirmed by the full (i.e., tribal) kgotla at Serowe. The district councils would in turn send representatives to a central council at Serowe, which would in due course become the constituted Native Authority, and in effect the executive, or working, committee of the tribal kgotla. In these reforms members of the subsidiary or “allied” tribes were to have equal standing with members of the Ngwato and, in fact, a number of them had been nominated both as chief’s representatives and council members. All progress on these reforms ceased when the future of Tshekedi Khama came before Parliament. Then, as is well known, disturbances occurred within the Reserve.

II.—Moves towards a “Joint” Kgotla

12. We arrived in the Reserve on 27th July and were met by the High Commissioner and officials of the Administration, who most willingly placed themselves at our disposal and helped us in very way without in any way interfering with our judgment concerning the things we desired to find out. Indeed, we had made our minds up from the time of the appointment that nothing should prevent us from coming to our own conclusions; we made this quite clear to everyone concerned and it was appreciated by them.

13. We immediately addressed ourselves to the task of securing agreement to a special meeting of the tribe in kgotla with Tshekedi Khama and his supporters present. It had been hoped that the invitation to convene such a kgotla would be extended, and the arrangements for it discussed, at a meeting attended by representatives of both the tribe and Tshekedi (the latter had not himself yet returned to Africa). We were informed that the tribal representatives had resolutely refused to attend such a meeting and we perforce agreed to see the parties separately. We saw representatives of the tribe on 29th July and the supporters of Tshekedi, headed by Rasebolai, on 30th July. On each occasion the invitation to take part in the joint kgotla was extended on behalf of the Secretary of State by the High Commissioner (on 29th July by Sir Evelyn Baring, and after his departure, on the 30th by Mr. R. E. Turnbull). On the morning of the 29th the tribal representatives merely welcomed us as their guests and said that they were empowered to listen but not to answer. They agreed to meet us again, for informal discussion, in the afternoon, but, in the event, maintained the same attitude. They would not
give us a precise date for their reply, but, upon our representations of urgency, promised that it would be soon. On 30th July the supporters of Tshekedi welcomed the proposal for a joint kgotla and promised their full co-operation. It can be stated that on that occasion, and on every subsequent one of our meetings, the supporters of Tshekedi gave every evidence of desiring to face their opponents at a joint meeting. It was clear that our difficulties in arranging it would lie only with the established representatives of the tribe.

14. We also had informal talks with the lawyers representing both sides of the dispute stressing all the time the need for a large tribal kgotla with both sides present and taking part in the discussions so that we could obtain a free, fair and independent expression of opinion on the issue before us.

15. Meanwhile, on 30th July, a meeting stated to be representative of the tribe had been convened in kgotla at Serowe and a reply on behalf of the tribe to the Secretary of State's invitation reached us through the District Commissioner on 31st July. The reply was to the effect that the tribe regretted that only under the presidency of Seretse, Tshekedi's one senior in the tribe, would it be possible under Bamangwato law and custom to permit Tshekedi's presence. It went on to suggest that the interests of all would be best served if we agreed to travel throughout the Reserve and make direct contact with the people in the villages and towns.

16. At our invitation a small deputation, led by Keaboka, visited us informally on the morning of 1st August. They enlarged to some extent upon the reasons for the refusal (these reasons will be discussed later in this report) but were clearly unwilling to amend their attitude.

17. The refusal was firm, but we were not then disposed to accept it as final. It was, nevertheless, obvious that any process of persuasion would be prolonged and might even then be unsuccessful. It therefore appeared to us to be the wiser course to adopt, as an interim measure, the suggestion of the tribal representatives for a series of district meetings, in arranging which they were prepared to co-operate. It seemed, indeed, that quite apart from the knowledge we would gain of the Reserve and its people a programme of such meetings might be the best means of establishing confidence in our mission and thereby persuading the representatives of the tribe of the wisdom of holding a joint kgotla.

18. In the ensuing nine days we travelled an aggregate of 1,500 miles and were present, either together or separately, at 8 meetings attended by perhaps 4,000 members of the tribe. Before our departure the tribal representatives, though they could not agree to a joint kgotla with Tshekedi present, said they would not offer objection to the presence at such local meetings of any of Tshekedi's supporters who lived in, or happened to be present in, the several localities. In fact, supporters of Tshekedi appeared at only four of these earlier meetings. At Mahalapye some 30 of them appeared before our arrival, but the reaction of the gathering was so antagonistic that they had no choice but to leave under police protection. At Madinare nine of Tshekedi's supporters and at Bobonong one, appeared; in both cases the people refused to proceed with the meeting until after they had departed. At Sefhare (claimed by Tshekedi to be a centre where support for him is strongest) 30 Tshekedi men, some of them from Rametsana, sought to attend the meeting at which 300 persons were present. Mr. Lipson intervened in their behalf and in this instance the Headman allowed them to remain. It is significant of the weight of influence attaching to rank that Tshekedi himself presently claimed that his Sefhare supporters owed this immunity to the seniority enjoyed by their foremost leader.

19. The meetings were most successful in the interest they attracted. At all times the tribesmen were most polite and courteous, making us welcome, but they also made overwhelmingly clear their attitude to Tshekedi. This they did not by vote so much, although in one or two instances votes were taken, but by methods reminiscent of a Quaker meeting, i.e., after many speeches from the tribe the headman expressed the spirit of the meeting. Often it was pointed out to us that the question we were putting had been answered by the tribe more than once or twice before and that they had given clear and definite answers which left no room for doubt.

20. On Friday, 10th August, we all three reassembled at Mahalapye and resumed our efforts to persuade the tribal representatives to agree to the holding of a joint kgotla. In those efforts we were supported by the Administration. On
the morning of 11th August the High Commissioner met some 60 of the repre­sentatives and in the afternoon we saw the same people. Both meetings were unsuccessful and at the second the tribal representatives went so far as to suggest that if they were pressed further on the point they would be unable to continue their co-operation with us, even limited as it was to district meetings.

21. Time had begun to press, and it was necessary for us to consider the recommendations we could make to the Secretary of State as to the proposed joint kgotla and our further programme. In the event, we advised the Secretary of State, strongly and unanimously, that the effort to secure a joint kgotla should be abandoned. In doing so we further expressed our unanimous and unqualified opinion that the alternative programme of investigation upon which we were engaged would give us all the opportunity we needed to arrive at a true valuation of the views of the people of the Reserve on the one question that was before us. Our reasons for making these recommendations may be summarised as follows:—

(1) The smaller informal district meetings which we had attended and which, as stated above, numbered in the aggregate some 4,000 persons, had been a success in that we had been able to make intimate contact with the rank and file of the tribe, many of whom freely expressed their opinions in open debate.

(2) The freshness of discussion at these meetings, and the variety of speakers, had been such as to rule out the possibility of wholesale previous direction. It is true that the failure to arrange for a joint kgotla meant that Tshekedi Khama had had no opportunity to state his case in person to the people of the Reserve and that, consequently, we had had no opportunity to observe their reactions to such a personal statement. It is not for us to hazard conjecture as to the effect upon the tribe of a statement of his case by so compelling a personality as Tshekedi Khama, but we have no hesitation in recording our conviction that in their present mood the people of the Reserve would not, in fact, give him a hearing.

(3) To force the joint kgotla against the wishes of the tribal representatives would almost certainly be answered with a boycott by their supporters. The ability of the tribe to boycott a meeting had been effectively demonstrated in 1950, and we decided that a kgotla summoned in such circumstances, attended as would be likely only by Tshekedi and his supporters, would in no way advance the primary purpose of our mission. More was likely to be gained from the meeting, already arranged, with Tshekedi and his people on his own ground where there would be no opposition and no difficulty in securing the attendance of his supporters.

(4) Again, we had already received evidence of such strong feeling within the tribe that we could not ignore the possibility that, even if a joint kgotla could be arranged, emotions might gain the upper hand and the kgotla end in disorder.

(5) Finally, although we had faithfully undertaken the task imposed upon us by the Secretary of State of seeking to secure a joint kgotla, it was the case that native law and custom would make a full tribal kgotla essential only if a decision were required from the tribe. Our mission was only to assess the state of feeling within the tribe and our ability to do this in one large formal kgotla might actually be restricted.

22. In making these recommendations we received the full support of the High Commissioner and the Administration. On Tuesday, 14th August, we learnt that the Secretary of State had accepted our recommendations and had decided that the intention to hold a joint kgotla could be abandoned in favour of our alternative programme of investigation.

III.—Alternatives to the Joint Kgotla

23. On Monday, 13th August, we met Tshekedi Khama at Rametsana, the locality within the Bakwena Reserve just south of the Bamangwato border to which he had retired in 1949 and to which Seretse's father had been exiled by his own father many years before. We held three private meetings with Tshekedi and attended a public meeting of fully 200 of his supporters, at which Chief Kgari of the Bakwena was also present. Tshekedi repeated the arguments which have become so familiar in interested circles in London. He expressed the belief that
if he were allowed into the Bamangwato Reserve he could ensure a joint kgotla. As we state elsewhere in this report, remembering how the High Commissioner’s meeting was boycotted in 1950, we did not share his confidence.

24. On August 15th we were present at yet another district meeting at Palapye. A number of Tshekedi’s supporters sought to attend, but their presence was resented by the mass of the people and the headman asked us to arrange for them to leave before the meeting could proceed. Appeals failed to move the people, and after some discussion between ourselves we agreed that since it was their own meeting the headman himself must take responsibility for asking them to go.

25. On Thursday, 16th August, we held our final meeting in the Reserve, at the capital, Serowe. This was a most impressive gathering of between 5,000 and 6,000 people, presided over by Keaboka as leading tribal representative, who had also invited the small European population of Serowe to be present as witnesses. Keaboka did not himself address the meeting except as Chairman to introduce us and state our object. If there were nominated speakers among those taking part there were certainly more who spoke extempore and took their chance among the many who wished to speak. The refusal to agree to a joint kgotla was forcefully explained and on two occasions, by loud and spontaneous acclamation, the meeting left no doubt as to the general feeling on the subject of Tshekedi’s return. No recognised followers of Tshekedi were present and none sought to attend.

26. In the afternoon of the same day we met and talked with more than 1,000 women of the tribe, a succession of whom passionately and even threateningly elaborated the theme “we do not want Tshekedi back.” (Women, too, were the ringleaders in the disturbance at Mahalapye that made it impossible for Tshekedi’s small band of supporters to state their case at our meeting.) This we note as a novel departure in local custom, since it is not the women’s habit to engage in political discussion. That they should have done so on this occasion is evidence of the strong emotion they feel on the subject of the present dispute.

27. On 17th August, at Gaberones, we met, in the morning, some of the leading Europeans in the Protectorate, members of the European Advisory Council. In general they confirmed our interpretation of views expressed at the tribal meetings. They were helpful especially about the economic background, an important aid to understanding, but outside the scope of this report.

28. In the afternoon we met chiefs of other tribes in the Protectorate, with their leading advisers, in all some twenty-six members of the Protectorate African Advisory Council. It is of interest that this Council were strongly of opinion that full discussion demanded the presence of both parties to the dispute, expressing regret that the Bamangwato representatives failed to accept the invitation to attend. Tshekedi was present, and the fact that those who spoke did so in his favour is perhaps a tribute to his great personal magnetism, but it also reflected the preoccupied concern of the speakers for the rights and privileges of Chiefs and chiefly families.

29. There was also made available to us for questioning a panel of respected Africans versed in native law and custom. It is evidence of the difficulty of interpreting custom that Tshekedi objected to all three members of this panel (one of whom is an expert constantly used in the Courts) but by this we were not greatly moved since there was now little that we had need to refer to them.

30. We then left the Bechuanaland Protectorate for Swaziland, where, on Monday 21st August, we had the pleasure of meeting Sobhuza, Paramount Chief of the Swazi Nation, and his Council. The Paramount Chief, a very distinguished African, strongly urged that the Bamangwato dispute in all its aspects be submitted to a conference of leading Africans. On a major issue, however, he was sceptical about the very possibility of Tshekedi returning to his country as “a private citizen.”

IV.—Conclusion

31. In pursuing our task many matters came to our attention but only upon one, the views of the people of the Reserve on this question of the return of Tshekedi Khama as a private individual, are we called to judge. On this one question we have no hesitation in declaring that the return of Tshekedi Khama in any capacity
whosoever at the present time and in the present circumstances would be contrary to the wishes of the majority of the tribe and bitterly resented by a substantial number. On this issue emotions now run dangerously high throughout the tribe.

32. Only on one condition, that Seretse Khama were present to preside, would the people agree to hear Tshekedi. That possibility is outside our terms of reference.

33. The main reason advanced to us, at our many hearings, for the refusal to hold a joint kgotla in the presence of Tshekedi was this; that Tshekedi, having left the Reserve and declared his allegiance to the Bakwena tribe, had thereby surrendered his right to take part in Bamangwato tribal discussions, and that by departing from native law and custom so far as to permit his return to attend a tribal kgotla, they would open the way to a resumption by him, by the mere force of tradition, of all the authority that previously pertained to him as the senior member of the tribe second only to Seretse. This argument rests upon the claim that by native law and custom Tshekedi’s presence in a tribal kgotla would make him again a member of the tribe, and the rest would inevitably follow. We do not regard it as incumbent upon ourselves to pronounce upon this question of native law and custom. It is sufficient to state that it is the view clearly and strongly held by the tribe. To them “private citizenship” is impossible to a man of Royal rank.

34. In fact, the mass of the tribe reject Tshekedi Khama’s declaration of his renunciation of all claim to the chieftainship. In their view, whatever the intentions of Tshekedi, once he was again received as a member of the tribe, his claim to seniority within the tribe would be inalienable, even by himself. It is their contention that in making this renunciation, Tshekedi Khama was appealing to a British way of thought, and one that he knew to be foreign to the Bamangwato.

35. It must be recalled that the present division in the tribe arose not from Tshekedi’s going but from Seretse Khama’s defiance of tribal opinion by marrying as he did in September 1948 without the tribal sanction that custom demanded. The division only became palpable after June 1949 when, in the kgotla meeting called by himself, Tshekedi suffered political defeat. In this connection, we were impressed by the evidence that Tshekedi’s action in leaving the reserve was indeed “strictly in accordance with tribal law and custom.” He then appeared to accept and act on the tradition that there is no place for an opposition party within the tribe, and at the tribal kgotla, and that a defeated leader can only “retire to his cattle post” or, preferably, banish himself altogether.

36. If western phraseology is at all applicable Tshekedi’s Government suffered a parliamentary defeat on a vote of confidence. It appears to the tribe, therefore, that Tshekedi’s demand for readmission to the Reserve goes back on his former decision and is an attempt to climb back to power, with his Ministers, with the backing of the Bechuanaland Protectorate Administration and of His Majesty’s Government. It has even been suggested that the true analogy is to be found in Charles the First’s dealings with his Parliament.

37. At this point the conventions of the tribal aristocracy and hierarchy, and especially their general acceptance by the people, gravely complicate the issue. At every meeting we attended it was obvious how every man knows his own station, from the lowest to the highest, and it is particularly at the highest levels that this matters. Genealogical tables are readily available making clear (what every tribesman knows) the present rank in the hierarchy of the almost innumerable individuals of the Royal family—Seretse is No. 1, Tshekedi No. 2, Rasebolai (Tshekedi’s right hand) No. 3, Keaboka No. 4 and so to the nth. During our visit, Rasebolai—No. 3—having been “ordered” out of Serowe by the tribal representatives was eventually bowed out with salutations of “Nkosi” (Chief). At every point we were met by the argument that these Royal rights are an inalienable birth-right.

38. The chief fear is that if Tshekedi returns in the absence of a superior he will and must step as of right into the position of Chief and bring about a counter-revolution—and this in spite of what amounted to his constitutional displacement by the kgotla in 1949. It is, in fact, impossible to conceive of Tshekedi “as a private citizen” so long at least as the Serowe kgotla is the dominant factor in Bamangwato politics. If he is at liberty to attend he automatically becomes its chairman and ruler, and he has himself gone so far as to claim that by custom the decision of the kgotla is the decision of the president alone.

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39. In the course of our investigations we were faced with a series of personal grievances, some of them dating from many years past, against Tshekedi. After 23 years of personal rule personal grudges were perhaps to be expected. There can be no doubt of the great administrative ability shown by Tshekedi Khama in the past, nor that he has great ambitions for the Bamangwato tribe. We received an impression, none the less, that if only for want of effective administrative machinery, Tshekedi’s personal exercise of power paid little regard to the individual or his rights. It is significant that the spokesmen of the allied tribes in the “back blocks” were solid with those elsewhere in their expressed opposition to the return of Tshekedi. In their eyes even his laudable work for the Bamangwato Secondary School at Moen (?) involved them chiefly in the payment of a heavy cattle levy which left so much less revenue for the establishment or development of schools needed in their own localities. Clearly wishing to continue to enjoy greater freedom to manage their own affairs, the people now fear the return of this powerful personality.

40. We would record also that we have received ample evidence that this hostile feeling extends, in lesser but still large part, to the leading supporters of Tshekedi, the so-called Rametsanes. It is our view that this feeling is one of such strength that the Administration may have to give this minority positive protection. Although the emotional storm makes it hard to judge the number of those who would in different circumstances be prepared to follow Tshekedi, there is no doubt that his active supporters include a high proportion of the ablest and administratively most experienced members of the Bamangwato and that their permanent exclusion from the Reserve would represent an impoverishment of the tribe.

41. Perhaps our overriding impression is this, that the greatest need of the people of the Bamangwato Reserve is a period of peace to go about their everyday affairs freed from the distraction of continuing disturbances resulting from consideration of the affairs of members of the chiefly house.

H. L. BULLOCK.
W. M. MACMILLAN.

September 1951.
ANNEX D

REPORT BY MR. D. L. LIPSON

1. The purpose of the visit of the three observers to the Bamangwato Reserve was to find out and report on one question only: whether the tribe was in favour of the return of Tshekedi to the Reserve as a private individual or not, he having renounced all claims to the chieftainship.

2. It was originally hoped to obtain this information by the summoning of a special kgotla to be held at the capital, Serowe, which Tshekedi and his supporters would attend. We were to convey to the tribe the invitation from the Secretary of State to hold such a meeting.

3. Our first aim was to get both the opponents and supporters of Tshekedi to agree to the holding of a joint meeting. It was necessary to approach each side separately in order to obtain consent. Soon after our arrival in the Reserve we met on two occasions representatives of the tribe who were opposed to Tshekedi and urged them to accept the Secretary of State’s invitation. They answered that before giving their reply they must consult those whom they represented in the various districts from which they had come. Subsequently they declined the invitation. The reason they gave was that it would be contrary to “native law and custom” to hold such a meeting. Tshekedi, they said, had left the Bamangwato and gone to the Bakwena tribe, to whom he now owed allegiance and paid taxes; he could not, therefore, take part in a kgotla of the Bamangwato. They declared that they were at war with the supporters of Tshekedi and could not agree to sit down at a meeting with them.

4. Our approach to the representatives of the supporters of Tshekedi, whom we next met, resulted in an immediate acceptance of the Secretary of State’s invitation. They welcomed, and to the end continued to ask for, a joint kgotla.

5. The representatives of the tribe in refusing the Secretary of State’s invitation said that they were willing for us to move freely throughout the Reserve and to attend kgotlas in the districts. These would enable us to ascertain the views of the tribe on the question of Tshekedi’s return.

6. We decided that it would be unwise at this stage to press our request for a special joint kgotla lest it might lead to the tribal representatives being unwilling to co-operate with us in the holding of the district kgotlas. They had already told us that if a special joint kgotla was summoned by the District Commissioner, who was the legal Native Authority, they would boycott it, as they had done on a previous occasion. We should then be faced with the presence of only Tshekedi and his supporters and that would not serve the purpose of our mission. We hoped, however, that if the district kgotlas were a success and we were able to convince the tribal representatives as a result of better acquaintance with us that we were what we claimed to be— independent observers, not concerned with taking sides as to whether Tshekedi should return or not, but only anxious to obtain the true view of the tribe as a whole on this matter—that they might later be willing to reconsider their decision against a joint kgotla.

7. We then decided that in order to cover the whole Reserve it would not be possible for the three observers to attend all the district kgotlas, so agreed to go separately on tour and each one of us to take his share of the meetings.

8. Before doing this we held a tribal meeting at Mahalapye at which all three of us were present and spoke and heard the views of those present.

9. At only one of the district kgotlas, that at Sefhare, were supporters of Tshekedi allowed to be present, and there it was in consequence of a special appeal made to the headman. At this meeting the 300 present included 40 supporters of Tshekedi, some of whom spoke and were heard without interruption by the rest.

10. These district kgotlas had this advantage: many of the speakers described themselves as private individuals. In this way we were enabled to obtain the view of the rank and file. At a special kgotla the speeches would have been made by the leaders only.

11. All the same the district kgotlas were only a second best. Nothing could help us so much to form a true opinion of the views of the tribe as a joint kgotla.
at which both parties to the dispute were present and were able freely to express
their views.

12. On our return from tour we made a further attempt to secure a joint
kgotla. An appeal was made to 60 representatives of the tribe, but they persisted
in their refusal.

13. We three observers then went to Rametsana to meet Tshekedi and 200 of
his supporters who were there with him. We had three meetings with Tshekedi
personally and one with his supporters. He and other speakers declared that he
renounced all claims to the chieftainship, had committed no crime, all that he asked
for was permission to return to the Reserve as a private individual and look after
his own personal affairs. (He is the owner of a large number of cattle, the majority
of which are in the Reserve, and maintained that their proper care required his
personal visits to the cattle posts in the Bamangwato territory.) He asserted that
he had been banished without trial not by the tribe but by the British Government.

14. The Rametsana meeting was followed by two others, one at Palapye and
the other at Serowe. At the former, attended by about 400, the headman insisted
on the exclusion of 5 Tshekedi supporters who had come there. A strong protest
was made against their exclusion, but efforts to secure their attendance did not
succeed, and the meeting proceeded without them.

15. The exclusion here and at other meetings of supporters of Tshekedi was
proof of intimidation. It is true that the number excluded was small but it is reason­
able to suppose that there were many other supporters of Tshekedi who were afraid
attempts to attend meetings because they feared violent treatment from their
opponents.

16. The Serowe meeting was the largest we had attended. There were over
5,000 present. A final appeal was made there for a joint kgotla. It was pointed
out to those present that, large and important as the meeting was, it was not the
kgotla which the Secretary of State had hoped would take place because it was
representative of only one side. The appeal fell on deaf ears. There can be little
doubt that the representatives of the tribe had made up their minds before we
entered the Reserve not to accept the Secretary of State's invitation to a joint kgotla.
They paid no heed to the arguments used in favour of acceptance. In my opinion
one reason for their refusal was their fear of the influence the presence of Tshekedi
and his supporters at a joint kgotla might have in winning over some of their sup­
porters to his side. The experience of the meeting at Sefhare showed that it was
possible for supporters of Tshekedi to be present at a kgotla and speak without fear
of violence, if the leaders gave their consent to their being present. The blame,
therefore, for the refusal to hold a joint kgotla rests entirely on the representatives
of the tribe. I believe that, if they had agreed to a joint kgotla, their followers would
have accepted their decision.

17. In the afternoon we attended a meeting of the women of Serowe at their
special request. This was a unique event since the kgotlas were attended only by
the male population; women had never before held such a meeting. Between 1,200
and 1,500 women came to the meeting and many of them spoke. They pursued the
same anti-Tshekedi line which we had heard from the men speakers at their kgotlas.
If anything they were more bitter in their denunciation of Tshekedi and indulged in
more threats against his person, if he returned to the Reserve, than we had heard
from the men. It is a matter of conjecture how they came to be so violently anti­
Tshekedi.

18. In the course of these meetings we addressed between us from 11,000 to
12,000 of the adult population. It was quite clear that the overwhelming majority
of them were strongly opposed to Tshekedi's return under existing circumstances.
The principal reasons for this appeared to be:

(a) They held Tshekedi chiefly responsible for the banishment of Seretse. This,
of course, is not true. They believed that his opposition to Seretse's
marriage was due to the desire to obtain the chieftainship for himself.

(b) Tshekedi had been Regent during Seretse's minority for 22 years
and had certainly many achievements to his credit, but it was alleged
that his rule had become increasingly autocratic, harsh and cruel and
that in the carrying out of schemes, excellent in themselves, he had shown
no consideration for those who had to do the work they entailed.
They insisted that it was not possible for Tshekedi to return to the tribe as a private individual; he was by birth second in rank only to Seretse. If he returned, while Seretse was absent, he would automatically have the right and influence which his royal birth demanded according to native law and custom. “He was a chief by birth,” they said, “only God could take his right away.” In practice, therefore, it is not possible for Tshekedi to live in the tribe as a private individual in the absence of Seretse.

They further declared that according to native law and custom Tshekedi, before he could return to the tribe, would have to come and ask for forgiveness from the chief of the tribe and obtain his consent to be readmitted. In view of Seretse’s banishment the tribe had no chief and, therefore, there was no one to whom Tshekedi could make his appeal.

During the course of our three weeks’ stay in the Reserve we also discussed the question of Tshekedi’s return to the tribe as a private individual with the lawyers representing both parties to the dispute, with representatives of the traders in the Reserve, with the European and African Advisory Councils, and other leading African chiefs. After leaving the Reserve we visited Swaziland and had a very interesting meeting with the Paramount Chief, Sobhuza, who discussed with us the reactions of the quarrel in the Bamangwato on the African race.

The meetings we had attended gave the impression that there was an overwhelming majority against the return of Tshekedi but, before coming to this conclusion, there are other factors to be taken into consideration. Tshekedi was banished from the Reserve. His opponents, on the other hand, were in control of the tribe and were free to organise opposition to his return. The Secretary of State had undertaken that, if a special joint kgotla took place, the banishment of Tshekedi would be suspended for the three weeks during which the arrangements for it were being made. He would then have been free to visit the Reserve, organise his supporters, deal with any attempts at intimidation of them and encourage them to come forward openly in his support. Further, at the joint kgotla he would have the opportunity of stating his case and attempting to remove what he considered to be unfair accusations against him. Tshekedi is undoubtedly a man of very great ability and, in view of this and of his right of precedence, his presence at such a kgotla might have influenced many to have changed over to his side. It would also have been possible to have put to the test the fears that were expressed in some quarters that his return to the Reserve would lead to serious violence and disorder.

It is not easy to assess what proportion of the tribe would have been won over to favour Tshekedi’s return if he had been as free to make out his case for it as his opponents were to make out theirs against it. My own view is that, in spite of all that Tshekedi could have done, there would still have been a substantial majority against his return, so long as Seretse remained in exile. The chief fear of very many of those who were opposed to Tshekedi’s return would probably be removed had Seretse also been allowed to return. They would, for the most part, acquiesce in his return, if Seretse were back in the tribe as chief and agreed that Tshekedi might rejoin the Bamangwato. Meanwhile conditions in the tribe are deteriorating owing to the lack of strong leadership.

21th August, 1951.

D. L. LIPSON.
CABINET

BALANCE OF PAYMENTS OF THE COLONIAL TERRITORIES

MEMORANDUM BY THE SECRETARY OF STATE FOR THE COLONIES

The memorandum which I attach concerns the balance of payments of the Colonial territories taken as a whole in relation to the crisis of the sterling area. It sets out the particular position of the Colonies and the extent to which this differs from that of the sterling area as a whole. It suggests the course of action to be followed so far as the Colonial territories are concerned. The need to define our policies arises from a number of factors:

(1) It is urgent to decide whether we must ask the Colonies to take measures corresponding to those which we have decided upon in the United Kingdom or which we may be asking the Independent Commonwealth to take.

(2) Important decisions are about to be taken on the allocation of exports, particularly of steel, to the Commonwealth and the Colonies.

(3) The policy to be followed in respect of the Colonies must be settled well in advance of the Conference of Commonwealth Finance Ministers.

The main implication of this paper is that we should not ask the Colonies to increase restrictions on their imports in order to assist the sterling area to correct the overall deficit. The paper goes further and argues that in certain matters they should indeed be given specially favourable treatment. The argument is founded on the facts about the current and expected Colonial surplus. But I want to stress two things.

Firstly, I do not underestimate the vital interest of the Colonies in the health of the sterling area; their economic and currency systems are integrated into the sterling system. Their trade depends in large part upon the multilateral trading system of which the sterling area is one of the principal props. If the sterling area collapsed the economies of most of the Colonial territories would be shaken to their roots.

Secondly, I would stress the political aspects of the problem. We are directly responsible for the welfare of the Colonial peoples. We have preached and continue to preach the gospel that they must be developed in order to make adequate contribution to the world's needs and to raise their own standards of living, which are for the most part miserably low. A certain amount of progress has been made, but there is undoubtedly a growing feeling of discontent and dissatisfaction at the way in which progress is hampered by decisions taken in the United Kingdom limiting the Colonies' freedom to use fully their monetary and financial resources for their own development. It may be possible to set other technical arguments against some of the technical arguments advanced in the attached paper. But, however that may be, I feel it my duty to warn my colleagues...
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of the serious political consequences which will follow if we cannot go further towards meeting the needs and aspirations of the Colonial peoples on the economic front than we have been able to do so far.

The specific recommendations of the paper for which I seek the support of my colleagues are:

(i) United Kingdom policies should be based on a recognition of the claim of the Colonies, in present circumstances, to a volume of imports which permits both progress in development to continue and some improvements in standards of living to take place even during the rearmament period. This may mean not only efforts to increase total volume of United Kingdom exports, but also, in appropriate cases, according to exports to the Colonies a higher priority than they at present enjoy, and, if necessary, a higher place than exports to the rest of the sterling area.

(ii) There should be more favourable allocations from the United Kingdom of scarce goods which are subject to allocation, notably steel and tinplate. As regards the former, 250,000 tons per annum would be the minimum consistent with the general policies advocated above.

(iii) The question of the import policies which Colonial Governments should be asked to follow should be considered between the Treasury and the Colonial Office on the basis that those policies should take account of the special position of the Colonial balance of payments within the sterling area balance of payments, in so far as this is possible without inviting repercussions in the sterling Dominions such as to threaten the unity and stability of the area.

(iv) United Kingdom industry should be encouraged to study more closely and try to meet the present and future demands in the Colonies for consumer goods.

(v) The position should be kept regularly under review interdepartmentally.

O. L.

Colonial Office, S.W. 1,
19th November, 1951.
ANNEX

MEMORANDUM ON THE IMPLICATIONS OF THE COLONIAL BALANCE OF PAYMENTS POSITION

1. Examination of the balance of payments accounts shows that, whereas the United Kingdom and the other independent members of the sterling area have been running since 1950 into rapidly increasing deficits in their current accounts with both the dollar area and the rest of the world, the Colonial territories have maintained, and, if present trends and policies continue, will continue to maintain a substantial surplus.

The principal figures are as follows:

Sterling Area

Oversea Balance of Payments, 1950–52

<table>
<thead>
<tr>
<th></th>
<th>£ million</th>
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<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1950</td>
<td>1951</td>
<td>1952</td>
</tr>
<tr>
<td></td>
<td>(actual)</td>
<td>(partly forecast)</td>
<td>(forecast)</td>
</tr>
<tr>
<td>United Kingdom current account</td>
<td>+221</td>
<td>-472</td>
<td>-540</td>
</tr>
<tr>
<td>Independent Sterling Area current account</td>
<td>+101</td>
<td>-34</td>
<td>-355</td>
</tr>
<tr>
<td>Bahrain current account</td>
<td>+14</td>
<td>+23</td>
<td>+35</td>
</tr>
<tr>
<td>Colonies current account</td>
<td>+131</td>
<td>+212</td>
<td>+90</td>
</tr>
<tr>
<td>Total Sterling Area current account</td>
<td>+467</td>
<td>-271</td>
<td>-770</td>
</tr>
</tbody>
</table>

At the same time the sterling assets of the Colonies in London have now topped the £1,000 million mark, having grown by about £400 million during the past eighteen months.

2. Part of the Colonies' surplus on current account is attributable to United Kingdom military expenditure in the Colonies and direct grants of one type or another to the Colonies. If there were no military expenditure and no direct grants the Colonial surplus would be reduced to £58 million in 1950 and to £124 million (partly estimated) in 1951, whilst the forecast for 1952 would show a slight deficit. On the other hand military expenditure in the Colonies represents services provided by the territories to the forces on the basis of agreed arrangements for sharing defence expenditure throughout the Colonies, whilst grants in aid of Colonial Development and Welfare are made as a result of His Majesty's Government's recognition of the need of the Colonies for financial assistance, in view of the wide differences in the standard of living between the United Kingdom and the Colonies.

3. More detailed statistical information is contained in the appendix. The figures there quoted indicate that both the general movement referred to above and also the very substantial dollar surplus within the general surplus apply to all the main regional groups, though in varying degrees. Statistical information for the period before 1950 is insufficient to enable a detailed comparison to be made between current figures and those of the early post-war years. The probability is, however, that, although there was an increase of some £100 million in the Colonies' sterling balances over the four years 1946–1950, this was more than cancelled out by movements of capital in the opposite direction and by a moderate import surplus, so that the Colonies during that period may have had a moderate balance of payments deficit.

4. The situation since 1950, which stands out in marked contrast has, of course, been due in the first place to the exceptional increase in the earnings of the Colonies due to high prices as a result of rearmament and other world factors. But high prices and earnings by themselves would not have led to a surplus, which only arises because imports have not risen as fast as exports. (In fact, while exports have almost trebled in value between 1948 and 1951 imports have only about doubled.) The surplus is due in fact to two main factors. Firstly, part of the proceeds of the sale of Colonial products have, in these times of high raw material prices, been creamed off, partly by marketing boards and similar organisations and partly by Governments, and have been laid aside in reserves. This has, of course, been done deliberately and to a large part it has been done with the sole
purpose of creating reserves for use for stabilisation or for expenditure on research and development in less prosperous times. To some degree, however, the extent of the funds so diverted from the producer has also been due to knowledge of the authorities concerned of the difficulties of obtaining supplies from abroad and consequent fears of inflation. The second series of factors has consisted of the effect of the world situation and decisions taken by other Governments on the availability of imported supplies for the Colonial territories. The world-wide shortage of capital goods, particularly steel, and the reduction, since the end of 1950, in the quantities of the latter which have been allocated for export to the Colonies from the United Kingdom, have acted as a severe brake on the implementation of development programmes, both public and private, just as they had gained momentum. An increase in the volume of steel imports would not by itself substantially affect the Colonial balance of payments surplus; and the urgent need for a greater volume of steel exports to the Colonies arises at least as much from the crying need of development and the political effect of it being held up for lack of steel in the present balance of payments situation as from that situation itself. Nevertheless, since steel is a key item in development, the increased volume of steel supplies would generate expenditure on other capital goods as well as consumer goods for those engaged in development and consequently would lead to a much greater expansion of the total volume of imports. For consumer goods the position has been rather better; but even in this field more would have been imported if there had not been a shortage of supplies of certain kinds of goods, such as hollow ware and certain types of textiles (e.g., baftes and shirtings in Nigeria) which are particularly needed in Colonial territories.

5. To lay aside reserves in prosperous times is a very sound principle, and it should certainly not be argued that the Colonial territories should never have a balance of payments surplus. Indeed, one of the principal aims of war-time and post-war policy has been to build up reserves as an insurance against future declines in export earnings. Even on present prospects it will be necessary to maintain a high absolute level of reserves since it would be imprudent to assume that the current level of earnings could be maintained indefinitely. But reserves are already high and the longer the process of accumulation goes on, the less easy is it to justify, especially in countries where the need for an early rise in a very low standard of living is universally recognised, and at a time when there appears no early prospect of a substantial decline in raw material prices. The marketing boards in West Africa and Uganda have already accumulated very large surpluses indeed and are under sharp criticism for holding down unduly the standard of living of the producers whose interests they are meant to represent. Equally, Governments will find it increasingly difficult to get support in Legislatures and from the public for the continuation of present taxation levels, let alone their increase, if more of the funds accumulated through past taxation cannot be spent on the development which is so urgently needed and for which they were intended. In short, any further substantial deliberate withholding of purchasing power from the Colonial producer seems to me to be unjustified and, in all probability, would in any case be politically impracticable.

6. It seems clear, therefore, that steps must be taken, in so far as it is within the power of the United Kingdom to take them, to secure a better flow to the Colonies of the supplies which they require and on which they must be allowed to spend their earnings if discontent and severe inflation, with all its dangerous possibilities, are to be avoided. That this is necessary on grounds of Colonial policy cannot be disputed; and in this connection it must not be forgotten that the United Kingdom Government has a special constitutional responsibility for the Colonial territories such as it does not have even for other members of the sterling Commonwealth. But it is also, it is submitted, in the interests of the United Kingdom itself; for increased production in the Colonial territories of the raw materials and food-stuffs which are so badly needed depends partly on direct investment in that production and on the improvement of basic economic services, such as communications, all of which require capital goods, and partly on an improvement in the physique, morale and willingness to work of Colonial peoples, all of which depend on availability of more consumer goods of the right type.

7. In short, at a time when the fall in the value of money would otherwise have gravely limited the effectiveness of the financial assistance being given by His Majesty's Government towards Colonial development, the relatively high earnings from Colonial products over the last two years have afforded a great opportunity
for making a reality of the policy of Colonial development to which His Majesty's Government is pledged without additional cost to the Exchequer and to the great ultimate benefit not only of the Colonies but also of His Majesty's Government. But, while every effort is made, and will continue to be made, to ensure that Colonial Governments utilise their own available financial resources in prosecuting their own development, it is quite fallacious to argue that they do not need the money which comes to them from outside because they have not got the goods to spend it on. They need both the goods and the money, and failure to provide the one would be no less a reversal of His Majesty's Government's policy than failure to provide the other.

8. The difficulties which have arisen in the field of supplies were foreseen; and, although the Steering Committee did not feel able to approve some of the suggestions put forward at the official level by the Colonial Office last December, some action has already been taken to deal with the situation. Thus, since the liberalisation of trade with Western Europe, the only sources from which Colonial territories are now asked to restrict their imports are the dollar area and Japan. Moreover, although imports from Japan must still be confined to “essentials,” the actual volume of such imports has been allowed gradually to increase. Again, during the course of 1951, Colonial Governments were encouraged to submit modest supplementary dollar import programmes and, after scrutiny of these programmes, the dollar allocations for that year of some Colonial territories were increased. More recently, Colonial Governments have been authorised to admit under World Open General Licence a limited list of goods, mainly raw materials, of particular importance for their development programmes. Unfortunately, however, the effect of these measures will have been offset, and in some cases more than offset, by the increasing difficulty of obtaining supplies from the United Kingdom, and, in particular, by the recent drastic reduction in the allocation of steel for export to the Colonies. Accordingly, it now seems necessary both to increase the flow of supplies to the Colonies from the United Kingdom and also to consider some further relaxation in Colonial import restrictions.

9. It is recommended that consideration should be given to the following measures:—

(i) United Kingdom policies should be based on a recognition of the claim of the Colonies, in present circumstances, to a volume of imports which permits both progress in development to continue and some improvement in standards of living to take place even during the rearmament period. This may mean not only efforts to increase the total volume of United Kingdom exports, but also, in appropriate cases, according to exports to the Colonies a higher priority than they at present enjoy, and, if necessary, a higher place than exports to the rest of the sterling area.

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(iii) The question of the Import policies which Colonial Governments should be asked to follow should be considered between the Treasury and the Colonial Office on the basis that those policies should take account of the special position of the Colonial balance of payments within the sterling area balance of payments, in so far as this is possible without inviting repercussions in the sterling Dominions such as to threaten the unity and stability of the area.

(iv) United Kingdom industry should be encouraged to study more closely, and to endeavour better to meet, the potential and actual demands in the Colonies for consumer goods; and

(v) The position should be kept regularly under review interdepartmentally.

APPENDIX

BALANCE OF PAYMENTS OF COLONIAL TERRITORIES SINCE THE WAR

Colonial balance of payments figures, similar to those set out below for the period since 1950, are not available for the period between the end of the war and the end of 1949. But such information as can be gathered from identified capital
movements shows that there may have been a small current account deficit possibly averaging some £25 million per annum which implies that, although the Colonies' sterling balances increased by about £100 million during that period, capital movements in the other direction may have more than offset this. This would not be surprising since, although new development was only beginning to gather momentum towards the end of the period, it was during this period that much of the rehabilitation expenditure, private and public, took place, particularly in Malaya, while there must have been considerable expenditure on the restocking of consumer goods, particularly in the West Indies.

2. The balance of payments figures for 1950, 1951 (partly forecast) and 1952 (forecast) show surpluses of £131 million to £212 million and £90 million respectively.

<table>
<thead>
<tr>
<th></th>
<th>1950</th>
<th>1st half</th>
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<th>1952 (forecast)</th>
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<tr>
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<td>Colonial territories other than Malaya and Hong Kong</td>
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<tr>
<td>Malaya</td>
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<tr>
<td>Hong Kong</td>
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<tr>
<td>Total</td>
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<td>−574</td>
<td>−577</td>
<td>−1,151</td>
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<td><strong>Receipts from exports (f.o.b.)</strong></td>
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<tr>
<td>Hong Kong</td>
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<td>+161</td>
<td>+103</td>
<td>+264</td>
<td>+213</td>
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<tr>
<td>Total</td>
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</tr>
<tr>
<td><strong>Current account balances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colonial territories other than Malaya and Hong Kong</td>
<td>+58</td>
<td>+73</td>
<td>−18</td>
<td>+55</td>
<td>+15</td>
</tr>
<tr>
<td>Malaya</td>
<td>+60</td>
<td>+93</td>
<td>+44</td>
<td>+137</td>
<td>+75</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>+13</td>
<td>+29</td>
<td>−9</td>
<td>+20</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>+131</td>
<td>+195</td>
<td>+17</td>
<td>+212</td>
<td>+90</td>
</tr>
</tbody>
</table>

3. Hong Kong's situation represents a special case which need not be pursued in this paper, but the figures for the remaining Colonial territories can be analysed further.

**Colonial territories (excluding Hong Kong and Malaya)**

An approximate analysis of the total current account surplus for these territories is:

<table>
<thead>
<tr>
<th></th>
<th>1950</th>
<th>1951 (1st half only)</th>
<th>1952 (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East and Central Africa</td>
<td>+9</td>
<td>+15</td>
<td>+25</td>
</tr>
<tr>
<td>West Africa</td>
<td>+52</td>
<td>+49</td>
<td></td>
</tr>
<tr>
<td>West Indies</td>
<td>+1</td>
<td>+3</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>−4</td>
<td>−4</td>
<td>−10</td>
</tr>
<tr>
<td>Total</td>
<td>+58</td>
<td>+73</td>
<td>+13</td>
</tr>
</tbody>
</table>
The African territories, in particular, had a large surplus in 1950 and the first half of 1951. As there was undoubtedly some inflow of capital both official and private in this period, there must also have been a much larger outflow of capital and this can be found in the sterling assets which the African territories were building up in London. The increase was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Increase in 1950</th>
<th>Increase in the 1st half of 1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency Board holdings</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td>Disposable Government funds</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>Non-disposable Government funds*</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>Commercial Bank funds</td>
<td>23</td>
<td>28</td>
</tr>
<tr>
<td>Official loans to His Majesty's Government</td>
<td>-2</td>
<td>-5</td>
</tr>
<tr>
<td>West African Marketing Board securities</td>
<td>20</td>
<td>23</td>
</tr>
<tr>
<td>Total of above items</td>
<td>85</td>
<td>76</td>
</tr>
</tbody>
</table>

* Sinking funds, &c.

4. Part of these increases represent reactions to higher prices, i.e., more local currency and larger local bank balances are likely to be held and therefore the currency authorities and the commercial banks must hold larger funds in London: buoyant local revenues explain another part; and part, the increase in the Marketing Board securities, arises from the present policy of paying producers less than the world market price in order to build up reserves for disposal in less favourable years. A further part, however, must be attributed to an inability to obtain a sufficient expansion of supplies of imported goods.

5. The implication of the African forecast for 1952 is that not only are there no prospects of past accumulations being reduced by increased purchases from abroad but further accumulations will be made. As some inflow of capital into these territories can be expected in 1952, the addition to their sterling assets is likely to be well in excess of the £25 million shown in the table above.

6. The figures for the West Indies show less startling changes, the main reason being that there has been relatively little increase in the prices of their main exports, notably sugar. Nevertheless, a desirable state of affairs, with capital of all kinds flowing into the West Indies, would be represented by a deficit in the current account and not by a virtual balance. The combined figure for the remaining Colonial territories is a residual; although there are a number of special problems the totals involved are relatively small, and no attempt has been made to calculate detailed figures.

Malaya

7. The high prices of rubber and tin caused export earnings to soar in the latter half of 1950, and current prices (of which the forecasts are based) are still high enough to keep these earnings at a level more than twice as high as in 1948 and 1949. Since Malaya also imports large quantities of rubber and other raw materials there has been some increase of imports attributable to this cause, but, in total, the growth of imports has been much smaller. Even when the invisible payments to London of the trading surpluses of the rubber and tin companies are brought into the account, Malaya had a large current account surplus in 1950 and 1951, and the forecasts for 1952 show essentially the same picture.

8. The capital movements which are the counterpart of this current account surplus are not easy to trace. All that is known with any certainty is that currency, Government and commercial bank funds held in London increased by £57 million in 1950 and a further £62 million in the first half of 1951. As in the case of the African territories, part of this increase would not have occurred had more imported supplies been available.

9. So far, the figures given have referred to the Colonial territories in relation to all countries. Within the total the dollar account, as indicated in the table below, has shown a consistent surplus.
Colonial Current Account: Surplus with Dollar Area

<table>
<thead>
<tr>
<th>Year</th>
<th>First Half</th>
<th>Second Half</th>
<th>Yearly Partly</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(forecast)</td>
<td>(forecast)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>West Africa</td>
<td>130</td>
<td>90</td>
<td>101</td>
<td>100</td>
</tr>
<tr>
<td>West Indies</td>
<td>-60</td>
<td>-10</td>
<td>37</td>
<td>25</td>
</tr>
<tr>
<td>Malaya</td>
<td>170</td>
<td>160</td>
<td>271</td>
<td>185</td>
</tr>
<tr>
<td>Others</td>
<td>-10</td>
<td>-20</td>
<td>31</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>+230</td>
<td>+220</td>
<td>+440</td>
<td>+331</td>
</tr>
</tbody>
</table>

10. The increase in this surplus since 1949 has, of course, been mainly due to the large increase since that time in the prices obtained for raw materials sold to the dollar area. But the following table shows that a considerable element in the particularly favourable showing of the Colonies has been the great degree of restraint exercised by them, as compared with the rest of the sterling area, in their imports from the dollar area:

<table>
<thead>
<tr>
<th>Region</th>
<th>1948</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>1,610</td>
<td>1,192</td>
<td>1,680</td>
<td>2,100</td>
</tr>
<tr>
<td>Independent Sterling Area (excluding South Africa)</td>
<td>845</td>
<td>590</td>
<td>920</td>
<td>1,100*</td>
</tr>
<tr>
<td>Dependent territories</td>
<td>315</td>
<td>125</td>
<td>170</td>
<td>210</td>
</tr>
</tbody>
</table>

* Including, for the time being, almost the whole cost to the Sterling Area (apart from United Kingdom) of replacing Abadan oil.

11. The forecasts contain some elements of doubt (e.g., how soon will the United States resume its buying of tin for stockpiling purposes?) and the exact level of essential dollar requirements in 1952 will not be known until the bulk of import programmes have been received and analysed. Nevertheless, they indicate that the high dollar-earning capacity of the Colonial territories is likely to continue in 1952.
19TH NOVEMBER, 1951

CABINET

HOUSING PROGRAMME

Memorandum by the Minister of Housing and Local Government

In the execution of our housing policy I propose to take the following action:

1. To give to Local Authorities discretion to increase the proportion of houses for which licences may be issued from 1 in 5 to 1 in 2, making administrative arrangements to control the maximum size of houses and their sale or resale, and to ensure that the houses go to persons in need of a home.

   In Scotland, where different arrangements have prevailed, the Secretary of State proposes a broadly corresponding increase in the ratio from 1 in 10 to 1 in 5.

2. To authorise the sale of municipal houses, subject to appropriate safeguards as to resale.

   Subsidy will cease to be payable on houses which are sold.

3. To encourage the building of smaller houses by Local Authorities.

   Plans have been prepared which preserve the established minimum standards for living rooms and bedrooms while effecting a substantial reduction in the overall size of the houses.

   I propose at once to advise Local Authorities of the general standards and to publish a supplementary Manual with appropriate plans as soon as possible. Bedrooms in Scotland have been somewhat larger than in England and Wales and the Secretary of State is encouraging the adoption of English standards.

None of the above measures will increase the total number of houses built during 1952 except so far as the wider facilities for building houses under licence may bring into house building smaller builders now engaged on repairs and maintenance.

The adoption of smaller house plans will not affect house completions in 1952 but should increase the numbers which can be built out of the same amount of resources in 1953 and 1954.

At present there are 226,000 houses under construction in Great Britain and a further 73,882 houses in contracts let or licences issued.

-1-
Our object must be to complete as many of these houses as possible during 1952. To secure this object it is essential that in the months immediately ahead we should get the best results out of the resources which are or can be made available. For this purpose the housing programme cannot be considered in isolation. It is a question of utilising to the best advantage our building resources over the whole field of our operations. I suggest, therefore, that it is important to set up now a small working Committee of Ministers, under the Chairmanship of a Cabinet Minister, which would include as regular members Ministers concerned with the production of our building resources (the Chancellor of the Duchy of Lancaster and Ministers of Labour, Supply and Works), with suitable representation from Scotland, and to which representatives of the using Departments could be invited to attend as may be found necessary from time to time. The duty of the Committee would be to watch over the approved programme and ensure that it was fulfilled economically and effectively in regard to the use of materials and labour resources.

I have discussed this proposal with the Secretary of State for Scotland, the Chancellor of the Duchy of Lancaster and the Minister of Works who agree.

4. I ask for the approval of my colleagues to the above proposals.

H. M.

Ministry of Housing and Local Government, S. W. 1.

19TH NOVEMBER, 1951.
SECRET
C (51) 24
20th November, 1951

CABINET

CONTRACTUAL NEGOTIATIONS WITH GERMANY

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

I circulate herewith for the information of my colleagues the draft of an Agreement on General Relations to be concluded between the United Kingdom, France, the United States and the Federal Republic of Germany. This draft has been negotiated in Germany by the High Commissioners of the three Powers with the German Federal Chancellor, on the basis of the instructions given to the High Commissioners by the three Foreign Ministers after their meeting in Washington last September. With the exception of one provision (Article V, paragraph 6), it is an agreed draft and has now been referred to the four Governments for consideration. It is likely to be discussed at the meeting which the Foreign Ministers of the three Occupying Powers are to have with Dr. Adenauer in Paris on Thursday, 22nd November.

2. I consider the draft generally acceptable and have given my provisional approval to it.

3. On the other hand this General Agreement is only a part of the whole settlement to be concluded with the German Federal Republic. Work is still proceeding on related conventions, which will form an integral part of the whole agreement. These will deal in more detail with important questions such as the status and protection of Allied forces in Germany, the transfer to the German authorities of existing Allied responsibilities, the financial implications of the proposed settlement, including a German defence contribution, and the procedure for the settlement of disputes. Moreover, the proposed contractual agreement is also intimately related to the proposal for German participation in the European Defence Community, on which negotiations are likewise still proceeding in the European Defence Conference in Paris.

4. I consider therefore that His Majesty's Government should not be finally committed to the present draft agreement until the related conventions have been negotiated and it is possible to see the proposed settlement as a whole. I have instructed the United Kingdom High Commissioner in this sense and propose to adopt the same attitude in any discussion I may have on this question with Dr. Adenauer in Paris.

A. E.

Foreign Office, S.W. 1,
20th November, 1951.
ANNEX

DRAFT AGREEMENT ON GENERAL RELATIONS

ARTICLE I

1. The Federal Republic shall have full authority over its domestic and external affairs, except as provided in this Convention.

2. The Three Powers will revoke the Occupation Statute and abolish the Allied High Commission and the Offices of the Land Commissioners, upon the entry into force of this Convention and the Conventions listed in Article VIII (called herein "the related Conventions").

3. The Three Powers will thenceforth conduct their relations with the Federal Republic through Ambassadors who will act jointly in matters the Three Powers consider of common concern under this Convention and the related Conventions.

ARTICLE II

1. In view of the international situation, the Three Powers retain the rights, heretofore exercised or held by them, relating to (a) the stationing of armed forces in Germany, and the protection of their security, (b) Berlin, and (c) Germany as a whole, including the unification of Germany and a peace settlement.

2. The Federal Republic will refrain from any action prejudicial to these rights and will co-operate with the Three Powers to facilitate their exercise.

ARTICLE III

1. The Federal Republic agrees to conduct its policy in accordance with the principles set forth in the Charter of the United Nations and with the aims defined in the Statute of the Council of Europe.

2. The Federal Republic affirms its intention to associate itself fully with the community of free nations through membership in international organizations contributing to the common aims of the free world. The Three Powers will support applications for such membership by the Federal Republic at appropriate times.

3. In their negotiations with States with which the Federal Republic maintains no relations, the Three Powers will consult with the Federal Republic in respect to matters directly involving its political interests.({})

4. At the request of the Government of the Federal Republic, the Governments of the Three Powers will arrange to represent the interests of the Federal Republic in relations with other States and in certain international organizations or conferences, whenever the Federal Republic is not in a position to do so itself.

ARTICLE IV(2)

1. The mission of the armed forces stationed by the Three Powers in the Federal territory will be the defense of the free world, of which the Federal Republic and Berlin form part.

2. The Three Powers will consult with the Federal Republic, in so far as the military situation permits, regarding the stationing of such armed forces in the Federal Republic. The Federal Republic will co-operate fully, in accordance with this Convention and the related Conventions, in facilitating the tasks of such armed forces.

3. Except in case of external attack or imminent threat of such attack, the Three Powers will obtain the consent of the Federal Republic before bringing into

({}) For decision by Governments.
(2) This Article should also, in the Allied view, include a reference to whatever provisions are later agreed upon regarding restrictions on other military activity and regulation of production and research for military purposes.
its territory, as part of their forces, contingents of the armed forces of any nation not now providing such contingents.

4. The Federal Republic will participate in the European Defense Community in order to contribute to the common defense of the free world.

ARTICLE V

1. In the exercise of their right to protect the security of the armed forces stationed in the Federal Republic, the Three Powers will conform to the provisions of the following paragraphs of this Article.

2. The Three Powers may proclaim a state of emergency in the whole or any part of the Federal Republic if [ALLIED: they find that] the security of the forces is endangered—
   - by an attack on the territory of the Federal Republic or Berlin, or
   - by subversion of the liberal-democratic basic order, or
   - by a serious disturbance of public order, or
   - by a grave threat of any of these events,

and [ALLIED: that] the Federal Republic and the European Defense Community are unable to deal with the situation.

3. Upon the proclamation of a state of emergency, the Three Powers may take such measures (including the use of armed force) as are necessary to maintain or restore order and to ensure the security of the forces.

4. The proclamation will specify the area to which it applies. The state of emergency will not be maintained any longer than necessary to deal with the emergency.

5. The Three Powers will consult to the fullest extent possible with the Government of the Federal Republic before proclaiming a state of emergency and while the state of emergency continues. They will utilize to the greatest possible extent the assistance of the Federal Government and the competent German authorities.

6. (German proposal for review procedure: to be discussed).

7. Independently of a state of emergency, any military commander may, if his forces are imminently menaced, take such immediate action appropriate for their protection (including the use of armed force) as is requisite to remove the danger.

8. In all other respects, the protection of the security of these forces is governed by the provisions of the related Convention.

ARTICLE VI

1. The Three Powers will consult with the Federal Republic in regard to the exercise of their rights relating to Berlin. The Federal Republic(*) will cooperate with the Three Powers in order to facilitate the discharge of their responsibilities with regard to Berlin.

(*) United Kingdom Footnote: The United States High Commissioner has proposed to his two colleagues the following text for this Article which he intends to submit to Mr. Acheson, but which has not yet been shown to the German Federal Chancellor:

"6. If, after a state of emergency has been in effect for more than [a] period of thirty days and to the N.A.T.O. Council.

It is understood that Mr. McCloy at present intends to fill the blanks in the above text by referring to a period of thirty days and to the N.A.T.O. Council.

(*) The reference to "Länder" here and elsewhere has been deleted on condition that the Federal Government submits an official legal opinion to the effect that where, in a treaty or agreement executed by it, the Federal Republic assumes an obligation to take specific action, the Länder are also obligated to take the same action, even though not specifically mentioned in the treaty or agreement.
2. The Federal Republic will continue its aid to the political, cultural, economic and financial reconstruction of Berlin, and in particular will grant it such aid as set out in the annexed Declaration of the Federal Republic (Annex of the present Convention).(*)

ARTICLE VII

1. The Three Powers and the Federal Government will co-operate to achieve, by peaceful means, their common aim of a unified Germany enjoying a liberal-democratic constitution, like that of the Federal Republic, and integrated within the Western European Community.(*)

2. The Three Powers and the Federal Republic agree that a unified Germany shall be bound by the obligations of the Federal Republic under this Convention and the related Conventions and the Treaties for the formation of an integrated European Community, as adjusted according to their terms or by agreement of the parties thereto, and shall likewise be entitled to the rights of the Federal Republic under these Conventions and Treaties.

3. The Three Powers and the Federal Republic are agreed that a peace settlement for the whole of Germany freely negotiated between Germany and her former enemies is an essential aim of their common policy.

4. The Three Powers will consult with the Federal Republic on all other matters involving the exercise of their rights relating to Germany as a whole.

ARTICLE VIII

The Three Powers and the Federal Republic have entered into the following related Conventions which will become effective upon the coming into force of this Convention: —

ARTICLE IX

1. There is hereby established an Arbitration Tribunal which shall function in accordance with the provisions of the annexed Charter.

2. The Arbitration Tribunal shall have exclusive jurisdiction over all disputes arising between the Three Powers and the Federal Republic under the provisions of this Convention or any of the related Conventions, which the parties are not able to settle by negotiation, except as otherwise provided by paragraph 3 below or in the related Conventions.(*)

3. Any dispute involving the rights of the Three Powers referred to in Article II, or action taken thereunder, or involving the provisions of Article V, paragraphs 1 to 7 inclusive, shall not be subject to the jurisdiction of the Arbitration Tribunal or of any other tribunal or court.

ARTICLE X

The Three Powers and the Federal Republic will review the terms of this Convention and the related Conventions—

(1) Upon the request of any one of them, in the event of the unification of Germany or the creation of a European federation; or

(*) At or before the effective date of these Conventions, the Three Powers intend, as far as the situation in Berlin permits, to relax the controls in Berlin. If this has not already been accomplished, the Three Powers will, by letter to Berlin and the Federal Republic, state their intention to do so promptly.

(†) The extent of this undertaking was not agreed between the High Commissioner and the Chancellor; this question will be discussed with the foreign Ministers.

(2) The Preamble will contain a statement, that the Three Powers and the Federal Republic recognize the new relationship established by these Conventions and the treaties for the creation of an integrated European Community as essential steps to the achievement of their common aim for a unified Germany integrated within the Western European Community.

(†) The form of this exception may be subject to revision upon completion of the negotiations of the individual Conventions.
(2) Upon the occurrence of any other event which all the signatory States recognize to be of a similarly fundamental character. Thereupon, they will, by mutual agreement, modify this Convention and the related Conventions to the extent made necessary or advisable by the fundamental change in the situation.

ARTICLE XI

1. This Convention and the related Conventions shall be ratified by the signatory States in accordance with their respective constitutional procedures. The instruments of ratification shall be deposited by the signatory States with the Government of the

2. This Convention shall come into force immediately upon—

(a) the deposit by all the signatory States of ratifications of this Convention and of all the Conventions listed in Article VIII; and

(b) the coming into force of the treaty relating to German participation in Western Defense (European Defense Community).

3. This Convention and the related Conventions shall be deposited in the Archives of the Government of the which will furnish each signatory State with certified copies thereof and notify each such State of the date of the coming into force of the Convention and the related Conventions.

IN FAITH WHEREOF the undersigned representatives, duly authorized thereto, have signed this Convention.

Done at this day of , 1951, in the English, French and German languages, all being equally authentic.
CABINET

HONG KONG

Memorandum by the Secretary of State for the Colonies

I understand that Unofficial Members of the Legislative Council of Hong Kong who were here this summer urged that His Majesty's Government should make a further statement of their intention towards Hong Kong and I may well be pressed on the point when I visit the Colony in December.

2. Annexed is a list of statements on this matter which have been made by members of earlier Governments. In framing any further statement, two considerations have to be borne in mind:

(i) the need for supporting the morale of the local population, both European and friendly Chinese; and

3. My colleagues should be aware that in their latest assessment concerning the defence of Hong Kong the Chiefs of Staff concluded that:-

4. In the circumstances disclosed above, I should propose if pressed on this matter while in Hong Kong to confine myself to saying that His Majesty's Government intend to do everything possible to maintain their position in Hong Kong, and will discharge to the utmost of their ability their responsibilities towards the Colony as regards both defence and the welfare of its population. I do not think it would be wise to say more, nor desirable to say less.

5. I trust my colleagues will agree to my making a statement on these lines.

Colonial Office, S.W.1.,
19TH NOVEMBER, 1951.

O.L.
ANNEX

SUMMARY OF ASSURANCES GIVEN BY HIS MAJESTY'S GOVERNMENT SINCE 1942 ABOUT THE FUTURE OF HONG KONG

14TH OCTOBER, 1942

The Parliamentary Under-Secretary of State for Foreign Affairs (Mr. Law) in reply to a Question in the House of Commons asking whether the contemplated renunciation of British rights in China included also the transfer of Hong Kong back to the Chinese nation, said:-

"No, Sir. The proposed agreement with the Chinese Government relates only to the surrender of extra-territorial rights in Chinese territory."

In answer to a further Question whether a good impression would not be created if we renounced our position in Hong Kong, Mr. Law replied:-

"That is another problem which has nothing to do with the declaration made in Washington and London the other day."

JANUARY, 1943

In reply to a further Question whether Hong Kong's status as a Crown Colony had been altered by the agreement between His Majesty's Government and the Republic of China, the Secretary of State for the Colonies replied that it had not.

8TH NOVEMBER, 1944

Mr. Attlee, replying as Lord President of the Council to a Question by Mr. Astor whether Hong Kong or any other part of the Empire was excluded from Mr. Churchill's declaration that it was not proposed to liquidate the British Empire, said:-

"No part of the British Empire or Commonwealth of Nations was excluded from the scope of the declaration referred to."

Mr. Astor went on to ask whether all encouragement would now be given to British firms to prepare plans for re-establishing themselves in Hong Kong and getting on with British export trade in that area.

Mr. Attlee replied:

"That is obviously so."

3RD MAY, 1945

In a letter from the Colonial Office, the terms of which were agreed with the Foreign Office and which was sent in reply to a request from the China Association for a reassurance of His Majesty's Government's intention to retain Hong Kong, it was pointed out that the reply given by the Foreign Secretary in answer to a Question in the House of Commons on 6th March, to the effect that the status of British Colonies would not be altered without consultation with such Colonies and the sanction of the House, included Hong Kong. The letter went on to draw attention to Mr. Attlee's reply to Mr. Astor
on 8th November, 1944 (above), and concluded with a reference to a statement made by Mr. Churchill to the effect that matters affecting British Colonial territory were not to be discussed at the San Francisco Conference or at any other meeting in connection with that Conference.

20TH AUGUST, 1945

Mr. Bevin, in the course of his first speech to the House as Foreign Secretary, after referring to the circumstances in which Hong Kong was lost, said:

"We have now taken steps to receive the surrender of the Japanese forces in Hong Kong. There may still be difficulties, but they will be overcome, and I am sure that in agreement with our Chinese and American Allies our territory will be returned to us."

23RD AUGUST, 1945

Arising out of Mr. Bevin's statement, Mr. Attlee, as Prime Minister, in reply to an arranged Private Notice Question by Mr. Churchill whether His Majesty's Government were taking action to restore British administration in Hong Kong as soon as they received the Japanese surrender in the Colony, said:

"Yes, Sir. As stated by the Foreign Secretary on Monday, arrangements are being made for the Japanese Surrender in Hong Kong to be accepted by a British Force Commander. Plans for re-establishing British administration in the Colony are fully prepared."

Mr. Churchill then went on to ask:

"While expressing gratification at the answer of the Prime Minister, may I presume that my Right Honourable friend recalls that on numerous occasions, and particularly at the Cairo Conference in 1943, His Majesty's Government had made it plain that they do not contemplate any modification in the sovereignty of His Majesty's territories in the Far East?"

The Prime Minister replied:

"Yes, Sir. I have a very full recollection of those statements and I will bear them in mind."

The Secretary of State for the Colonies (Mr. Hall) in reply to a Question by Air Commodore Harvey whether he was in a position to make a statement concerning the future of the New Territories in Hong Kong, replied:

"No, Sir."

19TH NOVEMBER, 1945

The Secretary of State for the Colonies (Mr. Hall), in reply to a Question by Mr. Callaghan as to His Majesty's Government's intention regarding the future administration of Hong Kong, said:

"A Military Administration has been established in Hong Kong under the Commander-in-Chief, Admiral Harcourt, and the Chief Civil Affairs Officer, and many of his staff are experienced officers of the pre-war civil administration. As soon as conditions in the region permit, it is His Majesty's Government's intention to restore full civil government."
7TH JULY, 1948

In reply to Mr. W. Fletcher, who asked if, in view of the change of naval base from Hong Kong to Singapore, an assurance could be given that no change was contemplated in the status of Hong Kong as a Crown Colony, the Parliamentary Under-Secretary of State for the Colonies (Mr. Rees-Williams) said:

"Yes. I would like to add also that there will be no change in the character of Hong Kong as a naval base; as has been recently announced in the Press, Hong Kong will remain the operational and training base of the Fleet in the Far East."

10TH DECEMBER, 1948

Replying to observations by Mr. Churchill, the Parliamentary Under-Secretary of State for Foreign Affairs (Mr. Mayhew) said in the House of Commons:

"The Right Honourable Gentleman this morning raised several questions outside Europe, one of them Hong Kong, in which he asked for a statement of the policy of His Majesty's Government. I think there is no need to make any formal or long statement. I will merely state that it is the intention of His Majesty's Government to maintain their position in Hong Kong. We entirely appreciate the importance of Hong Kong as described by the Right Honourable Gentleman. Indeed, we feel that in this particularly troubled situation the value and importance of Hong Kong as a centre of stability will be greater than ever."

3RD FEBRUARY, 1949

The First Lord of the Admiralty (Lord Hall) reiterated in a debate in the House of Lords the statement made by Mr. Mayhew on 10th December, 1948.

5TH MAY, 1949

In a debate on China in the House of Commons, the Minister of Defence said:

"I come now to a matter of great importance, ... and that is the special problem of Hong Kong. While, as I have made clear, we have scrupulously endeavoured to avoid being involved in the war on the Chinese mainland, we are no less resolute in our attitude as regards territory for which we hold a direct responsibility."

He then went on to announce His Majesty's Government's decision to reinforce the garrison of Hong Kong.

2ND MAY, 1951

At a luncheon in honour of the Hong Kong Delegation to the British Industries Fair, the Secretary of the State for the Colonies said that "despite the unsettled conditions in the Far East, I am glad to note that Hong Kong sets an example of courage and commonsense in a difficult period, and I wish to repeat the assurances that have been made before that His Majesty's Government have every intention of discharging their responsibilities in Hong Kong both as regards defence and the welfare of the population."
CABINET

THE SITUATION IN MALAYA

Memorandum by the Secretary of State for the Colonies

I was invited (C.C. (51) 5th Conclusions, Minute 3) to submit a memorandum on the situation in Malaya. I have recently received an appreciation by the retiring Director of Operations, Lieutenant-General Sir Harold Briggs. This was considered by the British Defence Co-ordination Committee (Far East) and I attach in Annex I a summary of their conclusions.

A note on the present situation prepared in the Colonial Office is in Annex II; and a statement of the forces engaged in Malaya and the cost of their maintenance in Annex III.

While in Malaya I propose to pay particular attention to the following aspects of the situation:

(a) How to reassure the planters and miners of our determination and ability to support them by all means in our power, and to bring the anti-Communist campaign to a successful conclusion.

(b) How to secure the active cooperation of the Chinese, if necessary by a more forceful policy towards those who fail to "come off the fence".

(c) How to settle disagreements between the military and police authorities. This may involve the replacement of the Commissioner of Police.

(d) How to improve the organisation and training of the police force.

(e) Who should succeed Sir Henry Gurney as High Commissioner for the Federation of Malaya and Mr. Malcolm MacDonald as Commissioner-General, South East Asia.

(f) How the division of responsibilities between the various authorities could be improved.

I will, of course, report fully to my colleagues on my return from Malaya.

O.L.

Colonial Office, S.W.1.,

20TH NOVEMBER, 1951.
CONCLUSIONS OF THE BRITISH DEFENCE CO-ORDINATION COMMITTEE (FAR EAST) 

(Telegram dated 15th November, 1951)

1. Our main conclusions are:
   
   (a) Although the Briggs Plan is fundamentally sound and has achieved a certain measure of success, the Communist hold on Malaya is as strong, if not stronger, today than it ever has been. This fact must be faced.
   
   (b) The crux of the problem is the winning of the confidence and loyalty of the bulk of the Chinese population to an extent that they are willing to join with us actively in the fight against Communist terrorism.
   
   (c) Confidence of the Chinese generally will not be gained until they feel safe from internal Communist pressure and external Chinese attack.
   
   (d) Confidence of the Chinese in their safety from internal Communist pressure will only be engendered if police efficiency is improved.
   
   (e) We must take every necessary step to organise and train sufficient Chinese as settlement guards, police, members of jungle squads, etc.

2. The first priority is the reorganisation and build up of the police force. During this time, the ring must be held by the army, for which purpose it is assumed that no reduction in present strength will be made.

3. The action required to be pressed forward in Malaya includes:
   
   (a) The reorganisation of the police.
   
   (b) Expansion of the Chinese resettlement guards and the formation of the Chinese element of the police force.
   
   (c) Completion of the revision of the citizenship constitution.
   
   (d) Action to associate the Chinese with local government.
   
   (e) Improvement of conditions in the settlements.
   
   (f) Expansion of Chinese Affairs Department at the centre and in the field.

4. Action in which we press for the assistance of the United Kingdom.
   
   (a) Selection and provision of the best available technical advice and professional leadership to achieve reorganisation and build up of the police force and its specialist agencies.
(b) The provision of outstanding police lieutenants.

(c) No reduction in the military forces at present in Malaya.

(d) Support for the build up of the Malaya Regiment, in particular, British officers.
ANNEX II

THE SITUATION IN MALAYA

Memorandum by the Colonial Office

The enemy is the Malayan Communist Party, which is almost exclusively Chinese. The "whole-time" enemy force, operating in the jungle and highly elusive, is only a few thousand strong; but there is an insidious and numerous underground operating wherever there is a Chinese element in the general population. This underground powerfully assists the main force and by the intimidation and murder of peaceable labourers and squatters is able to secure the supplies, shelter and information which that force requires. The 500,000 Chinese squatters until recently living in isolated areas, and without any form of police protection or any form of settled Government, have been the main source from which the Communists have been able to derive supplies. Almost equally vulnerable to Communist attacks has been the considerable number of estate labourers living outside any defended perimeter.

2. The intention of the Briggs Plan has been by isolating the regular bandit forces from the Chinese civilian population, to cut the enemy lines of communication, to break up the underground cells, and to force the enemy to fight harder for his very existence on ground of our own choosing. These tasks are primarily the affair of the Government and its police-forces rather than of the military, and the military cannot be used in any decisive way until the enemy has been forced from his jungle fastness by lack of supplies and the police are able to provide the fullest information of enemy movements. Some 350,000 squatters have now been resettled – in itself a considerable administrative achievement – and progress in regrouping estate labour has also been made. The first stage of the Briggs Plan is thus nearing completion. The immediate problem now is to ensure that the new settlements, which had to be put up in the greatest haste are provided as a matter of urgency not only with adequate protection against direct attack and subversive infiltration but with fullest opportunities to become reasonably prosperous and contented communities, convinced of being much better off as the result of resettlement and willing, therefore, to give increasing and positive help to Government. Unless this is done we may have done little more than present to the enemy an easy target for attack, infiltration and propaganda. This is not an enemy to be despised, and he has so far shown himself capable of matching every move of ours by a counter-move which, if unchecked, can vitiate the whole of our operations.

3. Simultaneously with this consolidation of the resettlement operation, must come a new drive to bring more of the Chinese population actively on to our side. After nearly 3½ years of warfare, we are still not within prospect of a definite break in the Communist ranks. Without active co-operation from the Chinese – not only from the leaders but from people of all classes – we shall not be able to secure any rapid conclusion of the conflict. While the Malays, to whom a Communist victory would mean Chinese hegemony in Malaya, have come forward in their tens of thousands to fight the enemy, the Chinese – although they have been the main sufferers at the terrorists' hands, having lost 1,200 civilians out of a total of 1,700 killed – have made no comparable response. The Malayan-Chinese Association has done excellent work, but its leaders are unlikely on present showing to rally the people openly behind
The enemy is the Malayan Communist Party, which is almost exclusively Chinese. The "whole-time" enemy force, operating in the jungle and highly elusive, is only a few thousand strong; but there is an insidious and numerous underground operating wherever there is a Chinese element in the general population. This underground powerfully assists the main force and by the intimidation and murder of peaceable labourers and squatters is able to secure the supplies, shelter and information which that force requires. The 500,000 Chinese squatters until recently living in isolated areas, and without any form of police protection or any form of settled Government, have been the main source from which the Communists have been able to derive supplies. Almost equally vulnerable to Communist attacks has been the considerable number of estate labourers living outside any defended perimeter.

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them. The reasons for Chinese reluctance to show by deeds their abhorrence of the terrorists are not far to seek; they arise not only from Chinese tradition and character, but from events outside as well as inside Malaya. Previous attempts to compel Chinese co-operation have been largely abortive, and it was felt that a policy of sanctions against non-co-operators could not be adopted until we could offer those people a greater protection in their towns and villages. This we should now be able to do in greater measure, and though one may have considerable sympathy with the ordinary Chinese living in daily fear of Communist ruffians and assassins, there well may be scope for a more active policy. Some Chinese leaders do, in fact, now feel that the Government should increasingly issue instructions and enforce compliance instead of relying on voluntary co-operation. Certain Chinese leaders have also set on foot an organisation working within the Chinese community itself, whose object would be to stimulate a more positive reaction against Communism, and which will work in ways best suited to the Chinese mentality. The existence of this organisation is, at least for the present, of the highest secrecy. The Malayan Authorities have already outlined certain methods by which the desired objective may be furthered. It will, however, be necessary that any measures adopted should not be such as to give the appearance of a bias against the Chinese; that the sympathy of the Chinese community should not be alienated by unnecessary harshness; and that the Chinese should be convinced of our intention, and that of the other communities in Malaya, of admitting more freely to the rights of Malayan citizenship those who show their loyalty. The main advantages of increased Chinese co-operation would be an increased supply of information and more recruits to the uniformed police forces. It is difficult to police a country which is nearly half Chinese with a force which is 95% Malay, and which cannot speak the language of the peoples it purports to control.

Annex III shows the cost in man-power and money of the Malayan campaign. Malaya's United States dollar earnings in 1950 were $350,000,000 out of total sterling area earnings of $1,285,000,000, but rubber production has fallen substantially in the past year and some estates are now unworked because of terrorist activity. The vital replanting and maintenance is virtually at a standstill, and prospecting for tin was barely resumed after the re-occupation of the country when it had to be suspended because of the lack of law and order. The present output of tin cannot be maintained, let alone increased unless prospecting is resumed and fresh reserves of ore discovered in the next year or two. There has recently been an intensification of Communist attempts to break the economy of the country by large scale and brutal intimidation of labour.

No one can foresee when the world situation may demand a reduction of the garrison, although in present circumstances such a move would be bound to have a most serious effect. The police force, which has undergone tremendous numerical expansion, is still far from adequate in organisation and training to meet its full responsibilities, and until a great improvement has been effected the maintenance of military forces at their present strength will be necessary. The British Defence Coordination Committee consider that no further reduction in the total number of army units can be made before Spring, 1953, at the earliest. Recently there have been acute differences of opinion in Malaya regarding police policy, and the Director of Operations has now been given direct authority over police administration and training. The Acting High Commissioner, with the agreement of the Commissioner-General, the Director of
Operations and the Army-Commander-in-Chief has also recommended that the Commissioner of Police should be asked to resign. The Inspector General of Colonial Police will visit Malaya with the Secretary of State and remain for some time to advise the local authorities on what measure of police reorganisation may be necessary.

6. Malay exasperation at the apparent inability of the Chinese to help positively in countering the continuing high level of terrorist activity is liable to produce a dangerous state of communal tension. This is another reason why we must strive to make the Chinese take an increasingly active part in fighting Communist terrorism. Their help is essential not only to bring the campaign to a more rapid conclusion but also to avoid serious communal disorders which would place a further and grievous strain on the British forces. Moreover if the emergency were to end without the active co-operation of the Chinese, the hope of building a single Malayan people might never be realised.
**ANNEX III**

**FORCES ENGAGED IN MALAYA**

The fighting forces currently engaged in Malaya (and foreseen reinforcements) are:

1. 7 British infantry battalions  
   8 Gurkha battalions  
   3 Colonial battalions

2. 2 Royal Armoured Corps Regiments

3. 4 battalions Malay Regiment  
   (5th battalion being raised)  
   Malayan Police Forces

4. Malayan Scouts (4 Squadrons)

5. 10 R.A.F. Squadrons (114 aircraft)

6. 2 Royal Australian Air Force Squadrons  
   (14 aircraft)

7. 1 Frigate, 6 Minesweepers and 2 Motor Launches.

Further details are included in the Appendix. Additional forces are being raised by the Malayan Government.

2. The cost of the forces has been calculated on alternative bases:

   (i) The cost of maintaining and operating the forces including base forces and of recurring charges but excluding capital costs.

   (ii) The extra cost involved in having these forces engaged in operations.

3. The estimated expenditure in a full year is:

<table>
<thead>
<tr>
<th>Cost of Maintenance</th>
<th>Extra cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m.</td>
<td>£m.</td>
</tr>
<tr>
<td>Royal Navy</td>
<td>1.7</td>
</tr>
<tr>
<td>Army - United Kingdom forces</td>
<td>21.0</td>
</tr>
<tr>
<td>Other forces</td>
<td>10.0</td>
</tr>
<tr>
<td>R.A.F. and R.A.A.F.</td>
<td>15.8</td>
</tr>
<tr>
<td>(£0.9m. of which is borne by Australia)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>48.5</td>
</tr>
</tbody>
</table>
The forces expected to be engaged in the Malaya emergency operations in 1952/53 are:

**Royal Navy**

- Third R. M. Commando Brigade 
  120 officers 
  2,000 other ranks
- 1 Frigate
- 6 "Algerine" Minesweepers
- 2 Seaward Defence Motor Launches

**Army**

- 12th Lancers
- 13/18th Hussars
- 7 British Infantry battalions
- 8 Gurkha Infantry battalions
- Malaya Scouts
- 2 K.A.R. battalions)
- 1 Fiji battalion ) In relief of Third Commando Brigade which is due to be withdrawn next Spring.

**R.A.F.**

- 2 Day Fighter/Ground attack squadrons 
  32 aircraft
- 2 Light Bomber squadrons 
  20 "
- 3 Transport squadrons 
  24 "
- 1 Flying Boat squadron 
  5 "
- 1 Photographic Reconnaissance squadron 
  8 "
- 1 Air Observation Post squadron 
  20 "

R.A.F. and W.R.A.F. strength 
6,300 Malayan airmen 
1,100

**Australian Air Force**

- 1 Medium Bomber squadron 
  8 aircraft
- 1 Transport squadron 
  6 "

Malayan Forces (forces raised as at 30th September, 1951)

- 4 battalions Malay Regiment.
- 23,000 Regular Police
- 38,000 Special Constables
- 175,000 part-time Auxiliary Police and Home Guard.

It is difficult to estimate next year's expenditure by the Federation of Malaya. In 1951 the extra cost to the Federation Government arising from the emergency and excluding the cost of services of a normal and permanent nature is about £13.8 m. The major part of this is in respect of police forces (£5.6 m.) and resettlement of Chinese squatters (£4.8 m.). The full cost to the Federation of all police, defence and Emergency measures is about £29 m. (out of total Government expenditure of £66 m.).
CABINET

26th November, 1951

PROGRESS OF REARMAMENT PRODUCTION

MEMORANDUM BY THE MINISTER OF SUPPLY

The 3-Year Plan

In January 1951, the late Government announced a 3-year rearmament plan designed to achieve the objects set out in Annex "A."

2. As a result of a preliminary calculation, it was estimated that this programme, at 1950 prices, would cost about £4,700 million. Production and development accounted for some £2,000 million. Of this the Ministry of Supply is responsible for £1,670 million, made up as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (£ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft</td>
<td>570</td>
</tr>
<tr>
<td>Electronic equipment</td>
<td>110</td>
</tr>
<tr>
<td>Munitions (i.e., other military equipment, weapons and vehicles)</td>
<td>420</td>
</tr>
<tr>
<td>General stores (civilian type equipment and clothing)</td>
<td>570</td>
</tr>
<tr>
<td><strong>Total Ministry of Supply programme</strong></td>
<td><strong>£1,670</strong></td>
</tr>
</tbody>
</table>

3. This 3-year plan was formulated on the unrealistic assumption that all necessary labour, materials and machine tools would be available when and where required. However, apart from the introduction last June of the "D.O." preference system for steel and certain non-ferrous metals, armament production has been given no general priority either in regard to materials or labour.

4. By the summer it was clear that, owing mainly to rising prices, the cost of the programme would considerably exceed the estimate of £4,700 million. It was also evident that the assumptions about the availability of labour and materials would not be fulfilled, and that the programme would not be completed in full within the 3-year period.

5. During 1951 the production of weapons, military equipment and vehicles has fallen some way behind the programme. This has been due in the main to shortages of materials and to some extent to difficulties in clearing designs.

6. The shortage of steel has affected output in many directions. Further delays from this cause should be reduced when the system of steel allocations comes into operation in February, provided, of course, that effective priority is given to defence work.

7. Except in the case of ammunition, labour has so far not been a serious problem in munitions production. The reason is that most of the firms concerned already had the necessary labour, which could be progressively diverted to defence orders as these replaced civil work.

41473
8. The output of tanks has been fairly satisfactory, but difficulties are likely to arise owing to the shortage of labour in the Coventry and Preston areas, where the needs of tank production conflict with those of export industries.

9. The item which gives most serious cause for concern is ammunition. Unless the supply of labour in the filling factories can be substantially and rapidly increased, the output of vitally needed ammunition, such as the 20 mm., may not reach half the rate forecast in the 3-year programme. Here again difficulty arises from the fact that the two principal factories, Swynnerton and Chorley, have to compete for labour with important export industries.

General Stores and Clothing

10. Although there are difficulties over certain items, it is probable that the requirements of general stores and clothing will be substantially met over the 3-year period.

Electronic Equipment

11. The production of electronic equipment is not yet properly under way. This is principally due to delays in determining service requirements and to the inclusion in the programme of a large proportion of new types still in the development stage.

12. The total output of the electronic industry is about £90 million a year (at 1950 prices). Defence orders, which are now running at the rate of £20 million, will, by the time the rearmament programme reaches its peak, increase to about £60 million. It is clear, therefore, that, without drastic reductions in civilian work, the capacity of the electronic industry will be insufficient to meet the large requirements of the Services.

13. Whilst a considerable proportion of the labour required can be obtained by turning over from civil work to defence contracts within the industry, an increase in the labour force of some thousands will be needed. Since a high proportion of skilled men will be required, a difficult training problem will arise.

14. The most important project in this field is the modernisation and extension of the air defence control and reporting system ("Operation Rotor"). The electronic equipment required is mostly still in the design or development stage. Nevertheless, it is hoped that, provided materials and skilled personnel are available, deliveries will be completed by the end of 1953.

Aircraft

15. The unsatisfactory progress of aircraft production, particularly of the newest types, gives cause for anxiety.

16. Broadly speaking, the programme is made up of two groups of aircraft:

(a) the older types that were already in production before the start of rearmament, and
(b) the new types of high performance which were then, and in some cases still are, in the development stage.

17. This programme provides for the production of the older types to be stepped up in 1951 and 1952 and to tail off or cease altogether before the end of the 3-year period. The production of the new types is to start at various dates during this period and in most cases is not planned to reach peak levels until 1954 or later.

18. While there are some difficulties over design, materials and machine tools, the main limitation on output is the acute shortage of labour. The programme requires the expansion of the labour force in the aircraft industry from 150,000 to 300,000. By now it should have reached 185,000, whereas in fact it has only risen to about 166,000.

19. Unless there is a striking improvement in the supply of labour, output of all types will fall further and further behind the programme. In order to indicate the seriousness of the outlook, I attach at Annex "B" a table showing the shortfall in deliveries of the new types, which must be expected unless effective measures are taken to expand the labour force.
**Action Recommended**

20. I am, of course, taking such action as is open to me to overcome the effects of the labour shortage. Sub-contracting is being extended as rapidly as possible. Firms are being asked to extend their facilities for training labour. More part-time employment of women is being encouraged. I propose also to ask my Service colleagues to consider a partial moratorium on changes in aircraft designs.

21. These steps will be helpful; but in order to obtain any substantial improvement in the rate of deliveries, action on the following lines is needed:

(a) An appeal to be made by the Prime Minister for maximum effort on defence work.

(b) Effective priority to be given to defence orders in the allocation of labour, scarce materials and factory space.

(c) A selective Control of Engagement Order to be introduced and Training Centres to be expanded, as proposed by the Minister of Labour (C. (51)18).

(d) Measures to be taken to release labour by curtailing the production of goods for home consumption.

(e) Priority to be given, within the house-building programme, to the construction of houses in districts where labour is needed for defence work.

(f) Further approach to be made to the United States Government—

(i) to ensure that the highest priority continues to be given to machine tools ordered for the United Kingdom;

(ii) to secure increased supplies of steel, ore and scrap;

(iii) to secure the widening of "end-item aid" to include accessories and components.

D. S.

Ministry of Supply,
20th November, 1951.

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**ANNEX “A”**

**Objects of the £4,700 Million Programme**

The objects which the £4,700 million programme was designed to achieve were defined as follows:

**Navy**

(a) To take all practicable steps to improve the state of readiness of the Fleet in 1951.

(b) To complete by the end of 1952 as much as possible of the production which, under the previous £3,600 million plan, it was intended to complete by March 1954.

(c) To take further steps towards establishing adequate war reserves and to make some further provision towards the Royal Navy's commitments in war under the North Atlantic Medium-Term Plan and in other areas which that Plan does not cover.

(d) To continue the modernisation of units of the Fleet, and to make a start on the replacement of older units.

**Army**

(a) To meet current maintenance needs, including those of the United Kingdom forces in Korea.

(b) To provide balanced equipment for the Active Army and the first contingent of the Territorial Army, and for Anti-Aircraft Command.

(c) To provide war reserves for the above formations, calculated at 25 per cent. of unit entitlement, for new major equipments and maintenance for other equipments calculated on three months' contact and nine months' quiet wastage rates.
(d) To provide, to the extent of available capacity, equipment for further commitments including:

(i) Royal Marine Commando Brigades.
(ii) Second Contingent Territorial Army.
(iii) Commonwealth and N.A.T.O. Forces.
(iv) Colonial Forces.
(v) Other Forces (such as the Arab Legion) which will be operating with the United Kingdom Forces in War, so as to increase the rate at which these forces can be mobilised.

Air

(a) To increase the front-line strength of the Royal Air Force from 1,482 to 3,058* by March 1954.
(b) To provide the aircraft, equipment and stores to support the front line, its training organisation and its ancillary services.
(c) To provide the equipment and stores required by the R.A.F. to bring units up to war establishments on mobilisation.
(d) To provide reserves of aircraft, equipment and stores limited to three months' wastage at war rates.

ANNEX "B"

AIRCRAFT PRODUCTION—NEW TYPES

Forecasts of deliveries of new types of aircraft up to March 1954 based on the assumption that the rate of expansion of the labour force does not improve.

<table>
<thead>
<tr>
<th>Aircraft Type</th>
<th>3-Year Programme</th>
<th>Forecast of Deliveries by March 1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bombers—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canberra (all Marks)</td>
<td>1,286</td>
<td>670</td>
</tr>
<tr>
<td>Valiant</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Fighters—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F. 3/48</td>
<td>417</td>
<td>77</td>
</tr>
<tr>
<td>Swift</td>
<td>146</td>
<td>109</td>
</tr>
<tr>
<td>Venom (FB 1 and NF 2)</td>
<td>1,531</td>
<td>1,007</td>
</tr>
<tr>
<td>Trainers—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balliol</td>
<td>502</td>
<td>322</td>
</tr>
<tr>
<td>Provost</td>
<td>255</td>
<td>193</td>
</tr>
<tr>
<td>Communication—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pembroke</td>
<td>54</td>
<td>40</td>
</tr>
<tr>
<td>Naval—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firefly AS 7</td>
<td>354</td>
<td>331</td>
</tr>
<tr>
<td>Gannet</td>
<td>125</td>
<td>31</td>
</tr>
<tr>
<td>Sea Hawk</td>
<td>337</td>
<td>268</td>
</tr>
<tr>
<td>Sea Venom</td>
<td>156</td>
<td>90</td>
</tr>
<tr>
<td>Total</td>
<td>5,174</td>
<td>3,149</td>
</tr>
</tbody>
</table>

* Assumes the receipt of some aircraft from the United States.
CABINET

PRODUCTION OF AIRCRAFT FOR THE ROYAL AIR FORCE

Memorandum by the Secretary of State for Air

In C. (51) 27 the Minister of Supply refers to the aircraft supply programme.

2. I emphasise the seriousness of the present position of supplies for the Royal Air Force.

3. The Royal Air Force is small. Its front line numbers only 1,600 aircraft. (The comparable size of the R.A.F. in 1939 was 3,250, and that of the Soviet Air Force today is thought to be in the region of 20,000). It is therefore essential that its quality should be high.

4. We have today no fighter in service to match the MIG,15, which was introduced in 1949 and of which the Soviet Air Force now has very large quantities. On the Minister of Supply's forecasts, we shall not have a single squadron of British fighters superior to the MIG,15 until late in 1953.

5. We have today only one squadron of Canberra light bombers (the replacement for the Mosquito). By March, 1953, we shall have only five squadrons (50 aircraft).

6. Of the Valiant medium bomber (the replacement for the Lincoln) we shall not have a single squadron till well on in 1954.

7. Production of the Venom fighter bomber, which is inferior in speed to the MIG,15, will not reach its peak until 1954. Meanwhile much of our expansion for our contribution to General Eisenhower's force and to strengthen the defence of the Middle East will have to be done with obsolescent Vampires.

8. We have no war reserve of jet fighters or jet bombers. We shall not have any war reserves of modern interceptor fighters or of Canberras before 1955.

9. We have no ammunition for our fighters, except some war-time stocks which have deteriorated and become unsafe. We are producing in one month enough ammunition for one sortie by two squadrons. When the new fighters (the F,3 and the Swift) are delivered, there is every prospect that we shall be short of the guns, ammunition and rockets they need to fight with.
10. The position about electronic equipment is also very bad. The Canberra has not got, and will not have before 1954 at the earliest, the gear for which it was designed. The navigation and bombing gear for the Valiant looks like falling behind the aircraft. Even the navigational equipment for the Lincoln is unsatisfactory and unreliable. The United Kingdom radar chain covers only part of the country and can easily be flown round, and its equipment is out of date. Adequate radar cover for the most vital areas of the United Kingdom cannot be completed before the end of 1953.

11. I cannot believe that a major improvement is impossible. There is no lack of skill in design. If in production the country is trying to do too much, then at least let us ensure, whatever else we do, that we have the air power without which we cannot defend these islands and without which we should be at an overwhelming disadvantage on land and at sea. Our whole rearmament programme is threatened by the deplorable weakness of the preparations made to supply the Royal Air Force.

12. We have no justification for hoping that American production will come to our rescue. We are already counting on a great deal—probably more than they can spare—to fill the gaps in our own programme.

Conclusion

13. I urge that the Government should examine every possibility of improving air supplies. The measures proposed by the Minister of Supply would be an immediate step forward, but a great deal more is needed if we are to make up the ground that has been lost.

De L'I, and D.

Air Ministry, S.W.1,

20TH NOVEMBER, 1951.
CABINET

FOOD SUBSIDIES AND RETAIL PRICES

MEMORANDUM BY THE MINISTER OF FOOD

1. The latest review of the Ministry’s trading position as at 31st October has disclosed an estimated “excess” in the financial year 1951-52 of £22.5 million over the subsidy ceiling of £410 million, laid down by the previous Government. This estimated “excess” includes a provision of £7.8 million to meet the extra cost of food in this financial year due to the Special Farm Prices Review in which we are now involved.

2. On the assumption that for the time being we have to keep within a subsidy ceiling of £410 million, I must now ask my colleagues to consider how best to make the necessary subsidy saving of about £20 million by increased food prices.

3. There is not much of the financial year left in which to make this saving. As it is difficult to increase the retail price of certain foods quickly, our choice is restricted. Whatever price increases we decide on should be introduced quickly.

4. After consultation with the Lord President, I recommend the following price increases:

<table>
<thead>
<tr>
<th>Estimated Saving (in the remainder of the Financial Year 1951-52)</th>
<th>Increase in All-Items Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) 10d. a lb. on bacon from 30th December</td>
<td>8.75</td>
</tr>
<tr>
<td>(ii) 10d. a lb. on rationed cheese from 30th December</td>
<td>4.85</td>
</tr>
<tr>
<td>(iii) 1d. a quart on milk from 1st December for four months</td>
<td>6.00</td>
</tr>
<tr>
<td></td>
<td>19.60</td>
</tr>
</tbody>
</table>

5. The dates shown above for bacon and cheese are the earliest dates from which the increases in price can be made effective. I must also warn my colleagues that the increases proposed for bacon and cheese are steeper than individual price increases which have been made in the past to adjust prices to the subsidy ceiling.

6. I attach as Appendix 1 notes on the various commodities showing why I have selected bacon, cheese and milk for price increases, and I attach as Appendix 2 a summary of the present distribution of food subsidies on different commodities.

G. LL-G.

Ministry of Food, S.W. 1,
22nd November, 1951.

41483
APPENDIX 1

It is generally preferable to introduce new prices for rationed foods at the beginning of a new rationing period, after adequate notice to the trade. A rationing period begins on 30th December and I propose that the bulk of the saving should be made from that date. New prices for the main unrationed but subsidised foods—bread, flour and milk—can be introduced at about a fortnight's notice.

My conclusion is that for the immediate necessities of the situation we should concentrate price increases on three commodities, bacon, cheese and milk (a seasonal increase). But my colleagues will wish to know why I have chosen these and rejected others.

A.—COMMODITIES RECOMMENDED TO BEAR INCREASES—

(i) Bacon.—Although bacon is popular it is not easy, on nutritional grounds, to defend the present disproportionately high subsidy on it. This is now about £52 million a year, representing about 1s. 3d. a lb. as compared with a subsidy of 3d. a lb. on meat. The cost of bacon to the Ministry is likely to go on increasing and an increase in the retail price of bacon is overdue.

(ii) Cheese.—The subsidy on rationed cheese is about £24 million or 1s. 1½d. a lb. At the current retail price of 1s. 2d. per lb. cheese is cheap in comparison with meat and other protein foods. Apart from agricultural workers, who enjoy a special ration of 12 ounces a week, consumption per head is small at 1½ ounces a week. As in the case of bacon, a substantial increase in the retail price of cheese would do no more than restore its relationship with the prices of other subsidised foods.

(iii) Milk.—The price of liquid milk for domestic consumption was increased by 1d. a quart in July without any marked effect on consumer demand. If consumer demand is maintained at its present level throughout the winter, there is some danger that supplies may prove inadequate. Although, therefore, a further price increase might lead to some fall in sales, a small decrease of consumption during the winter months would not be unwelcome. The subsidy on domestic milk costs about £59.5 million, or 2½d. a quart, excluding any part of the cost of the Attested Herds Scheme (£7.8 million). While recognising its great nutritional importance, I am in favour of a seasonal increase of 1d. per quart in the price of milk, to run from 1st December to the end of March, giving a saving of about £6 million. The reintroduction of a seasonal variation into the price of milk seems to offer the only prospect of reducing the subsidy. The increase which I now propose would provide a valuable test of consumer reaction to higher winter prices. Moreover, a seasonal increase in the price of a food, the supply of which fluctuates according to the season is likely to attract less notice than a permanent increase in the price of a food, the supply of which does not fluctuate seasonally. The price of welfare and cheap milk for infants and nursing mothers would not be affected.

B.—COMMODITIES CONSIDERED FOR PRICE INCREASES BUT REJECTED

(i) Bread and Flour.—The combined subsidies on bread and flour now exceed £90 million a year. Much of the wheat from which flour is made is imported from dollar countries. On this ground and because of the relative cheapness of bread there is a good case for reducing the subsidy. I have, however, rejected it for the moment partly on general grounds of public policy and partly because of the complicated adjustments necessary in the price structure of the products of flour for which there is not enough time at the moment. It will, however, be necessary to consider an increase in bread and flour prices next year.

(ii) Butter and Fats.—The subsidy on butter is about £26 million a year, or 9½d. a lb., but here again for technical reasons we could not bring into force a price increase in the time available sufficient to yield a worthwhile saving in the remainder of the financial year.

* An increase from 1st December would be practicable if a decision could be reached by 27th November. Otherwise an increase cannot be effective before 1st January, 1952.
Tea.—The tea subsidy is estimated at about £15 million a year, representing 8%d. a lb., but in order to eliminate the subsidy it would be necessary, for technical reasons, to raise the price by 10d. a lb. I am in favour of the early removal of the tea subsidy as a first step towards the possible decontrol of tea prices. It is, however, necessary to give the trade long notice of any variation in the subsidy and again time is too short in include tea in this operation.

(iv) I have also considered and rejected eggs and meat which have borne substantial price increases very recently.

APPENDIX 2

MINISTRY OF FOOD

SUMMARY OF ESTIMATED FOOD SUBSIDIES FOR THE YEAR ENDING 31ST MARCH, 1952

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Unit</th>
<th>Current average retail price</th>
<th>Unit subsidy (to nearest farthing)</th>
<th>Total subsidy</th>
<th>Approx. saving in a full year from change of 1d. in retail price</th>
<th>Approx. effect on the Interim Index of retail prices</th>
<th>All items index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bacon</td>
<td>1 lb.</td>
<td>2 7</td>
<td>s. d. 1 3</td>
<td>£52.0</td>
<td>3 4</td>
<td>0.09</td>
<td></td>
</tr>
<tr>
<td>Bread</td>
<td>3½ lb.</td>
<td>1 0</td>
<td>s. d. 0 6</td>
<td>£64.4</td>
<td>9 9</td>
<td>0.25</td>
<td></td>
</tr>
<tr>
<td>Flour</td>
<td>7 lbs.</td>
<td>2 2½</td>
<td>s. d. 1 3</td>
<td>£28.8</td>
<td>1 9</td>
<td>0.03</td>
<td></td>
</tr>
<tr>
<td>Shell eggs</td>
<td>1 doz.</td>
<td>3 10½</td>
<td>s. d. 11</td>
<td>£25.1</td>
<td>2 3</td>
<td>0.05</td>
<td></td>
</tr>
<tr>
<td>Butter</td>
<td>1 lb.</td>
<td>1 8</td>
<td>s. d. 3 6</td>
<td>£25.7</td>
<td>2 8</td>
<td>0.12</td>
<td></td>
</tr>
<tr>
<td>Meat (carrcase)</td>
<td>1 lb.</td>
<td>1 8</td>
<td>s. d. 3 6</td>
<td>£45.2</td>
<td>12 9</td>
<td>0.36</td>
<td></td>
</tr>
<tr>
<td>Milk (liquid)</td>
<td>1 quart</td>
<td>1 1½</td>
<td>s. d. 2 2½</td>
<td>£59.5</td>
<td>(6)</td>
<td>0.35</td>
<td></td>
</tr>
<tr>
<td>Cheese</td>
<td>1 lb.</td>
<td>2 1½</td>
<td>s. d. 1 3</td>
<td>£23.7</td>
<td>1 8</td>
<td>0.05</td>
<td></td>
</tr>
<tr>
<td>Margarine (domestic)</td>
<td>1 lb.</td>
<td>2 3½</td>
<td>s. d. 1 3</td>
<td>£12.2</td>
<td>3 3</td>
<td>0.07</td>
<td></td>
</tr>
<tr>
<td>Cooking fat (domestic)</td>
<td>1 lb.</td>
<td>1 4</td>
<td>s. d. 3 6</td>
<td>£2.2</td>
<td>0.6</td>
<td>0.05</td>
<td></td>
</tr>
<tr>
<td>Lard</td>
<td>1 lb.</td>
<td>1 4</td>
<td>s. d. 3 6</td>
<td>£3.5</td>
<td>0.9</td>
<td>(c)</td>
<td></td>
</tr>
<tr>
<td>Potatoes (domestic)</td>
<td>7 lbs.</td>
<td>—</td>
<td>s. d. —</td>
<td>£0.7</td>
<td>7 0</td>
<td>0.13</td>
<td></td>
</tr>
<tr>
<td>Sugar (domestic)</td>
<td>1 lb.</td>
<td>1 6</td>
<td>s. d. 1 3</td>
<td>£9.7</td>
<td>9 7</td>
<td>0.31</td>
<td></td>
</tr>
<tr>
<td>Tea</td>
<td>1 lb.</td>
<td>3 8</td>
<td>s. d. 8½</td>
<td>£15.3</td>
<td>1 8</td>
<td>0.04</td>
<td></td>
</tr>
<tr>
<td>Sundries</td>
<td></td>
<td></td>
<td>s. d.</td>
<td>£368.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Welfare schemes</td>
<td></td>
<td></td>
<td>s. d.</td>
<td>£38.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Animal feeding stuffs</td>
<td></td>
<td></td>
<td>s. d.</td>
<td>£26.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for special agricultural review now under consideration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidies borne on Votes of other Departments but falling within subsidy ceiling of £410 million</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attested Herds Scheme</td>
<td></td>
<td></td>
<td>s. d.</td>
<td>£7.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>White Fish Subsidy</td>
<td></td>
<td></td>
<td>s. d.</td>
<td>£1.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fertilisers</td>
<td></td>
<td></td>
<td>s. d.</td>
<td>£2.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£432.5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes.—(a) In some cases owing to ration levels and the limitation of coinage it would not be possible to increase retail prices by 1d.

(b) The subsidy on liquid milk includes the loss on milk sold for manufacturing. The effect of an increase of 1d. in the retail price varies according to the season and the quantity of milk for manufacturing purposes.

(c) Lard is not included in the Interim Index of Retail Prices.
AGRICULTURAL PRICES

MEMORANDUM BY THE MINISTER OF AGRICULTURE AND FISHERIES, THE SECRETARY OF STATE FOR THE HOME DEPARTMENT AND THE SECRETARY OF STATE FOR SCOTLAND

Immediate action is required if serious developments in the agricultural industry are to be avoided. In the accompanying memorandum we have described the present state of the industry and the action we think should now be taken. The main points in our memorandum may be summarised as follows:

1. A definite and significant slackening in home food production is taking place.
2. Since prices were last fixed, there has been a steep rise in costs amounting in all to well over £40 million per annum. This includes, in particular, wage increases awarded by independent Wages Boards which will cost farmers an additional £16 million per annum for the main farm products.
3. It is recommended that under the Special Review procedure these increases in labour costs should be offset by increases in the prices of these products.
4. Fertiliser costs have increased by £9 million more than was expected when prices were fixed. Medium and smaller farmers will "economise" on fertilisers, to the serious detriment of soil fertility and future yields of crops and grass.
5. A subsidy of not more than £10 million on phosphates for the current fertiliser year is recommended.
6. A carefully-worded statement about our future intentions with regard to agriculture is considered necessary to maintain the confidence of farmers, who are now making plans and taking decisions which will affect future supplies of meat and milk. A draft is attached.
7. The Lord President and the Minister of Food support these recommendations.

(Initialled)  T. L. D.
              D. M. F.
              J. G. S.

23rd November, 1951.
AGRICULTURAL PRICES

1. We must bring to our colleagues' attention the need for immediate holding action if we are to avoid the development of a serious position in the agricultural industry. From our personal observation, as well as from official statistics and reports and from our discussions with farmers' leaders, we have come to the conclusion that over the last few months there has been a loss of confidence among farmers and a definite and significant slackening in production. This has come when the industry has made good progress towards completing its present task of securing an approximate increase of 50 per cent. over pre-war; last year, output in 1951-52 was expected to be about 146 per cent. of pre-war, but it is not now likely to exceed 143 per cent. Unless this decline is quickly arrested and reversed, the industry's contribution to our balance of payments problem, so far from being increased as is technically possible, will be endangered.

2. The reasons are complex but the following may be briefly stated. The bad weather of the autumn and winter of 1950-51 was partly responsible for the decline in the acreage of the 1951 harvest and also caused a poor fall of lambs last spring. But there are more serious factors. The prices fixed last February were regarded by farmers as a harsh settlement. Farmers have further been increasingly worried by a very steep rise in costs outside their own control. This means that overdrafts must be increased if the intensity of production is to be maintained, and overdrafts are expensive and distasteful to farmers even when their credit is good enough to secure them. The alternative of decreasing the intensity of production consequently becomes more attractive.

3. The difficulties were brought to a head by the award of the Agricultural Wages Board for England and Wales, confirmed on 10th October last, of an increase of 8s. in the standard minimum wage and an addition of 5 days to the previous statutory 7 days' paid holidays. Under authority of the late Government, and in accordance with Section 2 of the Agriculture Act, 1947, officials have carried out, in consultation with the National Farmers' Union, a Special Review of the economic condition and prospects of the industry as affected by this award. This has been a fact-finding enquiry which leaves the Government quite free to take what action it considers expedient or indeed to take no action at all. It is accepted that the result of the English Board's award, together with wage increases (without extra holidays) awarded in Scotland and Northern Ireland, is to increase farmers' costs in respect of the main farm products for which prices are guaranteed under statute by amounts representing an annual rate for the United Kingdom of approximately £16 million.

4. There are strong reasons for adjustment of guaranteed prices to restore this sum to the farmers:

(a) In November 1946 the late Government exchanged letters with the National Farmers' Unions undertaking in effect to give 100 per cent. recoupment of "sudden and substantial" changes in costs occurring between Annual Reviews. This undertaking was confirmed during the passage of the Agriculture Bill through the House of Commons in 1947, and has been accepted as an important part of the system of assured markets and guaranteed prices on which the industry now rests.

(b) In the past, Special Reviews have taken place and full recoupment has been awarded in respect of increases in costs (all for labour) of £20 million in July 1946, £25 million in August 1947, £14½ million in March 1949 and £13½ million in November 1950.

(c) Apart from these formal, though very strong, considerations it is clear from the circumstances briefly mentioned above that recoupment of this order is necessary, though not sufficient, to maintain production and the basis for further expansion, if needed, later on.

5. In the course of the Special Review of the condition of the industry as affected by the wages increase officials have established as background the following figures for increases in other costs in respect of all products (i.e., "non-review" products such as fruit and vegetables as well as the main products for which prices and markets are guaranteed):

<table>
<thead>
<tr>
<th>Item</th>
<th>£ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertilisers</td>
<td>9.1</td>
</tr>
<tr>
<td>Other items</td>
<td>12</td>
</tr>
</tbody>
</table>
6. This last figure represents an aggregation of relatively minor increases in the cost of oil, transport, sacks and so on, and we think it would be proper as well as in accordance with precedent to require farmers to bear these increases without any adjustment of prices pending the next Annual Review (next February) of the economic condition of the industry.

7. There are special reasons, however, for action in respect of fertilisers.

(a) The increase is the consequence of the final abandonment last July by the late Government of the policy of keeping fertiliser prices stable by means of a Government subsidy. It was always recognised that this would result in an increase in farmers' costs, and the prices fixed last February purported to take full account of the prospective increase. In fact, however, the estimated increase taken into account represented only about half the increase that has occurred, the figure of £9·1 million quoted above being the excess increase.

(b) Supplies of fertilisers are likely to be at least 10 per cent. less in the current year than last year but evidence is building up that if things were allowed to take their course even the reduced amounts would be far from fully taken up. The effects on yields of grass and other crops would be serious and apart from other considerations it would be good business on our part to counteract this excess increase of £9·1 million.

8. The problem over fertilisers is in large part that of the medium and smaller farmers who will be more tempted to be "penny wise." The remedy is likely to be much more effective if it is applied to fertiliser prices than by way of addition to prices of farm products. We recommend that the Minister of Agriculture should be authorised to add phosphatic fertilisers to the arrangements under which he pays a contribution to the cost of applying lime to agricultural land. The administrative machine is available and could readily apply the subsidy retrospectively from the beginning of the current fertiliser year, i.e., from 1st July, 1951, the date on which the increased prices took effect. A payment representing 30 per cent. of the cost of phosphates would, it is estimated, amount at present prices to £9½ million over a full year. The increase in prices of phosphates has been relatively much heavier than that of other fertilisers and an arrangement of this kind would keep prices of the main fertilisers pretty well in line. We recommend that the Government commitment should be limited at this stage to an expenditure of say £10 million in respect of phosphates bought during the current fertiliser year. If it were decided later on to continue a subsidy the rate of contribution could, if necessary, be varied from year to year.

9. One consequence of taking this action on fertilisers would be to give some assistance to the horticultural industry which is outside the system of assured markets and guaranteed prices and which has been facing increasing difficulties due to rising costs. This is reflected in the decline in acreage of bush fruit and vegetables. At 4th June, 1951, there had been a decline of 14 per cent. in the United Kingdom compared with the year earlier, and the September returns indicate that a further fall has taken place.

10. To sum up at this point, we recommend as immediate action—

(a) that prices fixed for livestock products up to 31st March next and for crops of the 1952 harvest should be increased to recoup the increases in labour costs amounting in total to £16 million for the United Kingdom on an annual basis;

(b) that the Minister of Agriculture should be authorised to extend for the current fertiliser year the existing scheme for contributions to the cost of liming agricultural land to cover the application of phosphatic fertilisers at a rate equivalent to about 30 per cent. of their present cost.

11. Proposal (a) in paragraph 10 will lead to an increase in food prices of £5 to £6 million if the food subsidies are not to exceed £410 million; this will come on top of increases for other reasons of £12 million. The proposal at (b) will lead to expenditure of £2 to £3 million on the Ministry of Agriculture and Fisheries Vote in the current year and will require a Supplementary Estimate. It is assumed that this subsidy would be included in the total of the food subsidies, as the old fertiliser subsidy was, especially as it is being granted in lieu of an increase in prices. If it was so included, the increase in retail prices necessary to keep the food subsidies down to £410 million would be £2 to £3 million higher. Some additional clerical staff will be required to administer the arrangements for the fertiliser subsidy.
12. We consider these measures to be essential and urgent, but we are bound to advise our colleagues that they will be regarded by the industry as no more than scant justice, conveying no assurance in themselves that the Government intend to create conditions which will inspire and enable agriculture to maintain and, if desired, raise the level of home food production. How much more we shall need from home agriculture and how much we can afford to pay for it, are questions to which it would be imprudent to attempt to give an immediate answer. They will require the most careful study in relation to the other grave economic problems with which we are faced. We are undertaking that study in consultation with the Chancellor and the Minister of Food and we hope to be able to put our conclusions and recommendations before our colleagues in good time before we have to start the Annual Review of the condition and prospects of the industry next February. In the meantime, farmers are making their production plans and taking decisions which will affect in particular the amount of meat and milk we are to get from home resources in two or three years' time. It is of the greatest importance in our view therefore that an announcement of the decision we seek above should be accompanied by a statement which, although not committing us to any specific measures, is of a generally reassuring nature. This is obviously not easy to do, but we attach to this memorandum a draft of the kind of statement we consider necessary.

13. The Minister of Food concurs in the views and recommendations put forward in this memorandum.

(Intlld.) T. L. D.  
D. M. F.  
J. G. S.

23rd November, 1951.

ANNEX

AGRICULTURAL COSTS AND PRICES

DRAFT STATEMENT IN HOUSE OF COMMONS

Question: To ask the Minister of Agriculture whether he is yet in a position to announce the Government's decision as a result of the recent special review of agricultural prices.

Answer: Yes Sir. I should first explain that the Special Review which took place recently under the authority of the previous Government was a Review under Section 2 of the Agriculture Act, 1947, not of prices but of the economic condition and prospects of the agricultural industry, as affected by the awards of the three Agricultural Wages Boards for the United Kingdom of an increase in the minimum wage, and—for England and Wales only—five additional days holiday with pay. The Government have now considered the effect of these awards on the economic condition and prospects of the industry, and have also taken note of other increases in costs that have taken place since the Annual Review of last February.

The Government have decided that a case exists for adjusting those farm prices which were fixed after last February's Annual Review, so as to take account of the sudden and substantial change in labour costs resulting from the awards of the Agricultural Wages Boards. I will circulate in the Official Report a statement giving the price increases and the dates from which they will operate. It will be possible in the case of milk and wool, but not for other commodities, to make the new price retrospective to the dates on which the increased wages became payable in England and Wales, Scotland and Northern Ireland respectively.

I have said that other increases in costs have also been examined. Of these the most notable single item both in magnitude and in regard to its potential effect on production, has been the steep rise in fertiliser prices. The excess increase over the estimate used for the purpose of last February's Annual Review is equivalent to an annual rate of just over £9 million. We have decided that this is a matter which should be dealt with separately by means which will most effectively encourage the proper use of fertilisers on crops and grass. Arrangements are being made...
accordingly for the payment of a contribution towards the cost of acquiring phosphatic fertilisers in the United Kingdom. The contributions will be at a rate equivalent to about 30 per cent. of the present cost to farmers and will apply to all phosphatic fertilisers bought between 1st July last and 30th June, 1952.

The Government recognise that the rapid and substantial increases in costs which have taken place this year have created severe difficulties for agriculture, as for other industries. The decisions I have announced will mitigate this severity but the Government are fully conscious that the formidable problems of the industry require further intensive study. Necessarily these problems must be considered in relation to the general economic condition of the country and defence requirements. The whole economy is seriously overloaded; there are grave external financial difficulties; and we have heavy defence commitments. One of the most important contributions that can be rendered to agriculture is for the Government to press on with the attempt to get control of inflationary tendencies. Farmers will be among the chief beneficiaries of successful policies in this regard.

It will require more time than has so far been available to the present Government to balance, on the one hand, the nation's food production requirements and appropriate ways and means of enabling the agricultural industry to meet them, and, on the other, the national economic and material resources which are likely to be available for that purpose. We are applying ourselves to that task with energy and determination; we have made these present awards; and we intend to do all that is possible to ensure that agriculture can make a full contribution both to the nation's food requirements and towards the solution of its economic problems.
CONTROL OF IMPORTED CIVILIAN LABOUR IN EGYPT

Memorandum by the Secretary of State for War

A question of great urgency has arisen in the Canal Zone regarding the control of civilian labour, which is being imported in large numbers, mainly from Cyprus and Malta, but to some extent from other countries such as Jordan, Cyrenaica and Greece, owing to the loss of some 80 per cent of the Egyptian labour in the Zone through the actions of the Egyptian Government.

2. This labour is, of course, subject to Egyptian law except in so far as we claim immunity for it under the Immunities Convention, but for obvious reasons we cannot now contemplate handing over for trial by Egyptian Courts persons so imported who commit offences. If, however, we are to keep discipline among them and have an answer to inevitable complaints by the Egyptian Government we must try offenders among them ourselves. Since the abolition of the Consular Courts there are no Courts we can use except Courts-Martial.

3. When troops are on active service, civilians employed by or accompanying them are subject to military law and can be tried by Court-Martial under the Army Act for criminal offences committed by them which would normally be tried in a civil Court if available, and if the troops in the Suez Canal Zone were now actually on active service the Commander-in-Chief would have all the powers he needs. They are, however, at present not de facto on active service under Section 189(1), Army Act, but deemed to be on active service by virtue of a declaration made in March, 1948, and renewed every three months by the Commander-in-Chief with the consent of my predecessors under Section 189(2), and the Law Officers have advised that it would not be safe to interpret the relevant sections of the Army Act as making these civilians subject to military law as if the troops were actually on active service. It has therefore been proposed that a short Bill, for the removal of doubt, should be introduced immediately and passed through all its stages before the Christmas Recess. A copy of the draft Bill is annexed.

4. Unless we can get this Bill through before the House rises the Commander-in-Chief will shortly have on his hands 10,000 or more Cypriots etc., among whom there are almost certain to be crimes of violence, with no powers of arrest or punishment, and no means of getting the legislation for another ten weeks at least. This is a most serious prospect, and the Commander-in-Chief is naturally very anxious about it.

5. In view of the urgency, I brought the draft Bill up before the Legislation Committee yesterday, but the Committee, while fully realising the urgency and seriousness of the situation, felt that it was a matter which the Cabinet must consider, having regard to the issues involved, particularly the fact that not only Cypriots and Maltese, but
foreigners of various nationalities including Egyptians in our employ would be held subject to military law and liable to trial by Court-Martial, as well as (possibly) United Kingdom-based civil servants, wives and families of troops and civilians and such people as Press correspondents with the Forces.

6. Since the meeting of the Legislation Committee, the question has been further discussed with the Foreign Office who support the proposal for immediate legislation. As matters stand in Egypt, it is more than likely that before long it will be necessary for the General Officer Commanding-in-Chief, in the interests of the security of his Forces, to take power by proclamation to arrest, search and try Egyptians who commit outrages and crimes against British Forces and civilians, and in fact to introduce some very limited form of martial law. The General Officer Commanding-in-Chief will not of course make any such proclamation until the matter has been brought before Ministers and Ministers have approved. It is felt that in these circumstances we need not feel debarred from taking powers, by a clarifying amendment, which would incidentally include some Egyptians in their scope, especially as there would be no need to try Egyptians if we did not wish to, though they would no doubt be more likely to get justice from a Court-Martial of ours than from an Egyptian Court. The same thing applies to British civil servants, families and others; we need not use the powers, although they were available. Nevertheless, if any such person commits a serious offence, it is generally out of the question to try him in this country, either because the offence is not one which can be tried here, if committed abroad, or because of the difficulty of bringing witnesses from Egypt, and it is difficult to see any alternative to trial by Court-Martial unless he is to escape any consequences of his action.

7. I suggest, however, that we can safeguard the position of any people of this sort and of Egyptian and other foreign employees of ours by giving instructions to the Commander-in-Chief that they are not to be subjected to trial by Court-Martial without the concurrence of the Ambassador, or of the Foreign Secretary, if that is thought necessary. When the terms of the instructions to be given to the Commander-in-Chief have been settled, the Minister introducing the Bill, if it is approved and if the instructions are settled in time, will be able to indicate on Second Reading in what manner it is proposed to proceed, so far as Egyptian nationals are concerned.

8. I should add that I have been asked by the Commander-in-Chief to approve the renewal of the declaration under Section 189(2) of the Army Act that by reason of the recent existence of active service, it is necessary for the public service that the Forces under his command should be temporarily subject to the Army Act, as if they were on active service, for three months from 15th December, when the last renewal, approved by my predecessor, expires. I understand that the Commander-in-Chief has recommended these successive renewals from March, 1948, to date, because it has been felt that conditions in the Middle East have remained disturbed ever since de facto active service ceased with the making of the Italian peace treaty and the winding up of our Palestine commitments. I have felt doubt about the validity of authorising further declarations based on the recent existence of active service, and was considering a proposal to inform the Commander-in-Chief that he should make a new declaration, referring to the imminence of active service, but the Foreign Office see the strongest objection to this at the present moment, on political grounds. They take the view that if we are to rely on a declaration for the purpose of the Bill, it can only be on the basis of a further continuance of the status quo, resting on a renewal of the
old declaration. If this cannot be accepted, the Bill will not provide a solution for the difficulty in Egypt, and the only possible basis would appear to be the existence of de facto active service conditions, which would render the civilians liable to military law under the Army Act as it stands, without the Bill. It is, of course, possible that such conditions may exist before long in Egypt. They arise when a force is engaged in operations against the enemy (which includes armed rioters) or is engaged in military operations in a country or place wholly or partly occupied by an enemy, or is in military occupation of a foreign country. While the troops fighting terrorists in particular localities might be on active service under this definition, I am advised that this would not be sufficient to place all the troops in the Canal Zone on active service, or enable us to treat the labour force as subject to military law. If, however, proclamations were placed before the Cabinet, after consideration by the Law Officers, and approved by them, having the effect of introducing some limited form of martial law in Egypt, I am advised that this might have the effect of producing de facto a condition of active service, and so at the same time solve the civilian difficulty. Even such a limited measure of martial law would, however, be most distasteful to the Foreign Office, who consider that such a move might well lead to the withdrawal of all Egyptian officials, police etc. from the Zone with a consequent extremely unwelcome necessity of establishing military government for the whole area, an outcome which the Foreign Office are most reluctant to contemplate. I understand, however, that the Foreign Secretary would be prepared to support it if he was satisfied that no other course was open.

9. I feel it my duty to bring this very difficult problem to the knowledge of the Cabinet, and in the circumstances I ask for authority to introduce this short Bill immediately, and for facilities to get it through all stages before the Recess.

A.H.

War Office, S.W.1,

28TH NOVEMBER, 1951.
Remove doubts as to the operation of section one hundred and eighty-nine of the Army Act and section one hundred and eighty-nine of the Air Force Act.

Be it enacted, etc.

1. - (1) For the removal of doubts it is hereby declared that where during any period any forces are to be deemed to be on active service by virtue of a declaration under section one hundred and eighty-nine of the Army Act, then during that period they shall be deemed to be, and to be employed, on active service for the purposes of paragraphs (7) and (8) of section one hundred and seventy-five, and paragraphs (9) and (10) of section one hundred and seventy-six, of that Act (which relate to certain persons accompanying, employed by, in the service of or following a body of His Majesty's military forces which is, or is employed, on active service) as well as for the purposes of any other provision of that Act.

(2) The foregoing subsection shall have effect in relation to the Air Force Act with the substitution of the words "any force" for the words "any forces", and the substitution of the words "air force" for the words "military forces".

(3) In accordance with the foregoing provisions of this section the Army Act and the Air Force Act shall be amended in the manner set out in the Schedule to this Act.

2. This Act may be cited as the Army and Air Force Acts (Amendment) Act, 1951.
SCHEDULE

AMENDMENTS OF ARMY ACT AND AIR FORCE ACT

1. At the end of section one hundred and eighty-nine of the Army Act there shall be added the following subsection:

"(7) For the removal of doubts it is hereby declared that where during any period any forces are to be deemed to be on active service by virtue of a declaration under section one hundred and eighty-nine of this Act, then during that period they shall be deemed to be, and to be employed, on active service for the purposes of paragraphs (7) and (8) of section one hundred and seventy-five, and paragraphs (9) and (10) of section one hundred and seventy-six, of this Act as well as for the purposes of any other provision of this Act."

2. The Air Force Act shall be amended in like manner, except that in the subsection (7) to be inserted as aforesaid for the words "forces are" there shall be substituted the words "force is", and for the word "they" there shall be substituted the words "the said force".
NOTE BY THE PRIME MINISTER AND MINISTER OF DEFENCE

It may simplify discussion if I set forth briefly my own view and the line I have followed so far.

1. At Zürich in 1946 I appealed to France to take the lead in Europe by making friends with the Germans, "burying the thousand-year quarrel," &c. This caused a shock at the time but progress has been continual. I always recognised that, as Germany is potentially so much stronger than France, militarily and economically, Britain and if possible the United States should be associated with United Europe, to make an even balance and to promote the United Europe Movement.

2. As year by year the project advanced, the Federal Movement in many European countries who participated became prominent. It has in the last two years lost much of its original force. The American mind jumps much too lightly over its many difficulties. I am not opposed to a European Federation including (eventually) the countries behind the Iron Curtain, provided that this comes about naturally and gradually. But I never thought that Britain or the British Common-wealths should, either individually or collectively, become an integral part of a European Federation, and have never given the slightest support to the idea. We should not, however, obstruct but rather favour the movement to closer European unity and try to get the United States' support in this work.

3. There can be no effective defence of Western Europe without the Germans. As things developed my idea has always been as follows: There is the N.A.T.O. Army. Inside the N.A.T.O. Army there is the European Army, and inside the European Army there is the German Army. The European Army should be formed by all the European parties to N.A.T.O. plus Germany, "dedicating" from their own national armies their quota of divisions to the Army now under General Eisenhower's command. Originally at Strasbourg in 1950 the Germans did not press for a national army. On the contrary they declared themselves ready to
join a European Army without having a national army. The opportunity was lost
and there seems very little doubt that Germany will have to have a certain limited
national army from which to "dedicate." The size and strength of this army, and
its manufacture of weapons, would have to be agreed with the victorious Powers
of the late war. In any case the recruiting arrangements for covering the German
quota would have involved a considerable machinery.

4. In the European Army all dedicated quotas of participating nations would
be treated with strict honourable military equality. The national characteristics
should be preserved up to the divisional level, special arrangements being made
about the "tail," heavy weapons, &c. I should doubt very much the military spirit
of a "sludgy amalgam" of volunteers or conscripts to defend the E.D.C. or other
similar organisations. The national spirit must animate all troops up to and
including the divisional level. On this basis and within these limits national pride
may be made to promote and serve international strength.

5. France does not seem to be playing her proper part in these arrangements.
France is not France without "L'Armée Française." I warned MM. Pleven and
Monnet several times that "a Pleven Army" would not go down in France. The
French seem to be trying to get France defended by Europe. Their proposed con­
tribution for 1952 of five, rising to ten, divisions is pitiful, even making allowances
for the fact that they are still trying to hold their Oriental Empire. They have no
grounds of complaint against us who have already dedicated four divisions to
General Eisenhower's Command. We must not lose all consciousness of our
insular position. I noticed some time ago the faulty structure of the present French
arrangements, and in particular how the few combatant divisional formations they
have will be deprived of all training efficiency by the vast mass of recruits annually
flowing in upon them.

6. On the economic side, I welcome the Schuman Coal and Steel Plan as a
step in the reconciliation of France and Germany, and as probably rendering
another Franco-German war physically impossible. I never contemplated Britain
joining in this plan on the same terms as Continental partners. We should, however,
have joined in all the discussions, and had we done so not only a better plan would
probably have emerged, but our own interests would have been watched at every
stage. Our attitude towards further economic developments on the Schuman lines
resembles that which we adopt about the European Army. We help, we dedicate,
we play a part, but we are not merged and do not forfeit our insular or Common­
wealth-wide character. I should resist any American pressure to treat Britain as on
the same footing as the European States, none of whom have the advantages of the
Channel and who were consequently conquered.

7. Our first object is the unity and the consolidation of the British Common­
wealths and what is left of the former British Empire. Our second, the "fraternal
association" of the English-speaking world; and third, United Europe, to which we
are a separate closely- and specially-related ally and friend.

10 Downing Street, S.W. 1,
29th November, 1951.

W. S. C.
We wish to raise the question of the future of State Management in the new towns.

2. The Licensing Act, 1949, provides "for extending to all new towns the State management of the liquor trade in operation in the Carlisle, Cromarty Firth and Gretna districts". The steps hitherto taken to implement the Act have been preparatory only, and at this stage a reversal of policy would present no great administrative difficulty.

3. State Management was applied to the new towns as a means of securing the provision of public houses of a high standard according to a proper plan. To a great extent this can be secured by the exercise of the Development Corporations' general powers; but if the ordinary Licensing law were left to operate, there would always be the risk that the Corporations' plans might be frustrated by the licensing authorities refusing to grant some of the necessary licences. Some machinery for avoiding conflicts between the Development Corporations and the licensing authorities therefore seems necessary, and we propose a statutory Committee on which both the Development Corporation and the licensing authorities would be represented, and which should have the duty of deciding the number, nature and location of the facilities to be provided for the sale of intoxicating liquor.

A Committee's proposals should be subject to confirmation after consideration of any objections; thereafter licensing authorities should be required to grant any licence applied for in accordance with the proposals provided they were satisfied as to the suitability of the applicant and of the proposed premises.

4. We recommend that authority should be given for the preparation of legislation to repeal the provisions of the Licensing Act, 1949, relating to new towns, and to substitute provisions on the lines suggested above. The Minister of Housing and Local Government agrees. We think the legislation should be introduced this Session, and that an announcement of the Government's intentions should be made at once, in response to enquiries which are already being received from Development Corporations, Local Advisory Committees, the trade and interested local bodies, and by way of Parliamentary Questions.

D.M.F.
J.S.

30TH NOVEMBER, 1951.
RAILWAY FREIGHT, DOCK AND CANAL CHARGES

Memorandum by the Minister of Transport

Under the Transport Act the Commission's charges will in due course be determined by charges schemes settled by the Transport Tribunal after Public Inquiry. The preparation of draft schemes by the Commission and their settlement by the Tribunal will take a long time. The Tribunal are just finishing their inquiry into a draft Passenger Charges Scheme submitted early this year. It will, however, be a considerable time before a draft Freight Charges Scheme can be submitted to and confirmed by the Tribunal. To meet the position existing in the interval before all the schemes are in operation, Section 82 of the Act enables me to make Regulations authorising the Commission to increase their charges, where in my opinion this is expedient with a view to ensuring a sufficient revenue to meet their obligations under the Act.

2. In the recent proceedings before the Tribunal upon the draft Passenger Charges Scheme, the Commission submitted evidence that:

(a) with railway passenger and freight, and dock and canal, charges at their present level, but allowing for increased revenue from other charges not subject to the present control of the Tribunal or the Minister, the Commission would, in 1952, incur a deficit of about £39.5 millions;

(b) this position is due to actual and prospective increases in wage rates and the rising trend of prices;

(c) the proposals as to passenger charges contained in the draft scheme would, if confirmed, produce in a full year additional revenue of about £22.8 millions still leaving a deficit of about £16.5 millions.

3. In these circumstances the Commission have applied to me under the Section for authority to increase, as soon as possible, existing railway freight, dock and canal, charges by 10 per cent subject, generally, to a maximum increase of 10/- per ton in the case of railway freight charges and subject to special increases of about 20 per cent in the charges for small parcels by goods train and 50 per cent in the charges for the carriage of returned empties. These increases would produce about £22 millions in a future year.

4. As required by the Act, I referred the application for the advice of the Permanent Members of the Transport Tribunal, acting as a consultative Committee, and asked that such advice should be tendered as soon as possible. A copy of the Committee's Report is annexed.
5. The Committee felt some difficulty in tendering their advice before reaching conclusions on the evidence submitted in connection with the Passenger Charges Scheme, but in view of the urgency of the matter they decided to do so without public inquiry. They recommend that I should authorise as soon as possible the increases applied for except that the increase in the charges for smalls and returned empties should, like the increase in other charges, be 10 per cent. This modification would reduce the estimated yield from £22 millions to £21 millions.

6. It is clear that the increases, together with such increases in passenger charges as may be authorised under the scheme settled by the Tribunal, will do little, if anything, more than balance the Commission's account in a full year. As the passenger fare increases cannot operate fully before the end of April next, this balance is unlikely to be achieved in 1952. Moreover no provision has been made for wiping off the accumulated deficit, which was about £40 millions at the end of 1950 and may well be £5 millions more at the end of 1951, or for establishing a general reserve as required by the Transport Act.

7. To meet the present position, therefore, I am satisfied that the Committee's recommendations should be accepted and I propose to make regulations accordingly to take effect as from 31st December. I seek authority to announce this in the House this Thursday and to circulate at the same time in the Official Report the terms of the Committee's advice.

8. I have discussed this matter with the Secretary of State for Co-ordination of Transport, Fuel and Power, who agrees with my proposal.

J.S.M.

Ministry of Transport, W. 1.,
3RD DECEMBER, 1951.
ANNEX

Memorandum for the Minister of Transport by the Permanent Members of the Transport Tribunal Acting as a Consultative Committee

1. By a letter dated the 23rd November you requested our advice on a proposal made by the British Transport Commission that they should be authorised under section 82 of the Transport Act, 1947 -

(a) to make the increases in railway freight rates and charges described in the Commission's memorandum in the manner following

"PROPOSALS" -

(1) A general increase of 10 per cent (except as hereunder provided) on existing rates and charges, including miscellaneous charges, in respect to merchandise traffic by goods and passenger trains, subject to a maximum increase of 10/- per ton in the case of merchandise by goods train and perishable traffic by passenger train.

(2) An increase of 50 per cent in the existing scale of additional charges in respect to small parcels (other than returned empties) by goods train ("smalls" bonus). This is estimated to be equivalent to an increase of approximately 20 per cent on this class of traffic.

(3) An increase of 50 per cent in the existing charges for the carriage of returned empties."

(b) to increase by 10 per cent all the harbour, docks, piers, canals and inland waterways charges now in operation which are regulated by statutory provisions.

2. In your letter you informed us that you were impressed with the importance of taking the earliest practicable steps to prevent the financial position of the Commission from becoming unmanageable and asked that our advice should be tendered as soon as possible.

3. If we may be permitted to say so, the request for our advice as a matter of urgency has placed us in some difficulty.

4. We are on the point of concluding a public hearing into a Passenger Charges Scheme submitted by the Commission. We shall therefore in the reasonably near future have in effect to decide what if any additional contribution can be expected of passengers in relief of the evident financial necessities of the Commission. In these circumstances we do not think it would be right for us to enter upon any detailed discussion in this memorandum of the extent of those necessities.

5. All that we think it proper to say at this juncture is that as a result of the examination of the financial position and prospects of the Commission which the public inquiry has involved and of the additional information in the Commission's memorandum we are satisfied -

(a) that the general considerations advanced by the Commission are in substance well founded.
(b) that upon such an estimate as is possible in the circumstances of the moment the annual deficit of the Commission at the existing levels of freight and passenger charges would prove to be not less than £35 millions and might well be £60 millions:

(c) that whatever additional revenue it may be equitable and practicable to obtain from the passenger services can do no more than alleviate the financial position of the Commission:

(d) that there is at present no prudent alternative to an increase in freight charges aimed at providing in a full year additional revenue of the order of £20 millions:

(e) that a general increase of 10 per cent on existing rates and charges is the best available means of meeting the Commission's necessities.

6. We are not satisfied that there is any sufficient justification for imposing what is in effect a special surcharge on the small parcels and returned empties traffic.

7. We recommend accordingly that regulations be made as soon as possible authorising the Commission to make -

(a) the additional charges described under head (1) of the "Proposals" set out in paragraph 1(a) of this memorandum, subject to the deletion in head (1) of the words "(except as hereunder provided)"; and,

(b) the additional charges specified in paragraph 1(b) of this memorandum.

(Signed) HUBERT HULL
A.E. SEWELL
J.C. POOLE

3rd December, 1951.
NOTE BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

I circulate herewith, for the information of my colleagues, a memorandum on Egypt which has been prepared by an interdepartmental working party.

2. This memorandum will be referred to in a Cabinet Paper on policy towards Egypt which I shall shortly circulate.

A. E.

Foreign Office, S.W. 1,
3rd December, 1951.

ANNEX

EGYPT

CONCLUSION AND RECOMMENDATIONS OF THE OFFICIAL WORKING PARTY

1. An official Working Party has considered the implications of economic sanctions by the United Kingdom against Egypt and vice versa. Its conclusions and recommendations are as follows:

Conclusions

ADVANTAGES OF ANGLO-EGYPTIAN TRADE

2. The economies of the United Kingdom and Egypt are largely complementary. The maintenance of good relations is therefore of great mutual advantage and the results of a breach could be extremely grave for both sides. At present, the United Kingdom secures—

(a) supplies of sterling cotton essential for the export trade, particularly dollar markets, and for the maintenance of employment. The type of cotton produced in Egypt is unobtainable elsewhere, except in the Sudan, where the size of the crop cannot be relied on (* paragraphs 11 and 12);

(b) a ready market both in the short and long terms for a wide range of exports, including a fair proportion of consumer goods, which it is important to preserve from German and Japanese competition (* paragraphs 9 and 10);

(c) the advantages resulting from Egypt’s wide use of sterling (* paragraph 29).

* Paragraph references are to the Working Party’s memorandum printed below.
Egypt secures—
(a) the right, which is of immense value to her, to use sterling freely in her trade with most other countries (* paragraph 28);
(b) the right to pay sterling for a quantity of dollar oil (* paragraph 8 (iii) (b));
(c) an assured market for about a quarter of her cotton exports, which she would find it difficult, though perhaps not impossible, to place elsewhere (* paragraph 26 (i));
(d) assurance of the regular release of the sterling balances she acquired during the war (* paragraph 8 (iii) (a)).

PRINCIPAL SANCTIONS ON EITHER SIDE

3. The crucial economic sanctions which might be imposed are (a) on the Egyptian side, the denial of cotton to the United Kingdom, and (b) on the United Kingdom side, the denial of oil (which is the quickest operating and most widely felt of the sanctions at our disposal) and severe restrictions on Egypt's use of sterling. Neither side can therefore expect with impunity to introduce extreme measures.

4. The Egyptians could at present take serious action against the Sudan in the financial field, but the risks which they themselves would run of losing influence in the Sudan and of retaliation by His Majesty's Government in consequence would probably be sufficient to deter them from doing so (* paragraphs 15-18).

5. It is unlikely that the Egyptians will use overt interference in the administration of the Suez Canal Company as a weapon against His Majesty's Government. Non-co-operation is already causing interruption to traffic which could lead to serious economic difficulties both for the United Kingdom and other countries (* paragraphs 19-25).

EFFECTS OF SANCTIONS

6. The loss of cotton from, and exports to, Egypt would cause considerable damage to the United Kingdom's economy. As for the Egyptian economy, it would be thrown into hopeless confusion if extreme economic sanctions were imposed for more than a short period. It is not, therefore, in our interest to impose such sanctions unless we can rely upon them to produce quick and satisfactory political results. Injudiciously applied, they may only serve to strengthen the position of the present Egyptian Government (* paragraph 3) and so have precisely the opposite effect.

7. Imposition of the sanctions would also entail wider consequences, mainly of long-term significance:
(a) While His Majesty's Government have previously found it necessary to employ economic measures for defensive purposes only, as in the case of Persia, they have not yet used this weapon for punitive purposes. To do so would represent an important departure in policy.
(b) The efficacy of our financial sanctions against Egypt would be much increased if they included measures which interfered with Indian trade with Egypt. But such action would undoubtedly have an adverse effect on Anglo-Indian relations of considerable long-term significance. This consideration also applies, though in a smaller degree, to Egyptian trade with other countries.

Recommendations

8. It is therefore recommended—
(a) that, before any economic sanctions are applied to Egypt, the decision to do so should be reviewed by His Majesty's Government in the light of the above facts;
(b) that, until then, we should avoid any action, whether in the Canal Zone, the remainder of Egypt, or the Sudan, which might be sufficient to provoke the Egyptians on their side to begin economic sanctions. Such action includes the imposition of oil sanctions, on which Ministers may wish to discuss existing instructions (* paragraph 27 (a)) with the Chiefs of Staff in the light of this report.

* Paragraph references are to the Working Party's memorandum printed below.
MEMORANDUM BY THE OFFICIAL WORKING PARTY

I.—Purpose of the Paper
1. To consider the implications of economic sanctions by the United Kingdom against Egypt and vice versa.

II.—Present Political Situation and His Majesty's Government's Attitude towards: (A) Egypt and the Canal; (B) The Sudan

(A) EGYPT AND THE CANAL
2. His Majesty's Government's ultimate policy in Egypt is to reach an agreement with an Egyptian Government which will enable us to keep in Egypt an operative base to serve the Middle East Command. It seems unlikely that the present Government can ever retrace its steps so far as to be in a position to reach a reasonable settlement with us. The aim is, therefore, to work for a change of Government, or at least for changes in the present Government.

3. Meanwhile, the initiative must not be lost to the Egyptians. This means that we must firmly maintain the position of our forces in the Canal Zone, and leave the Egyptians in no doubt of our determination to do so. At the present time, however, drastic action against the Egyptians which goes beyond this purpose may only serve to defeat it, by consolidating Egyptian opinion behind the Government and by alienating friendly countries, especially the United States.

4. For these reasons, apart from economic or financial considerations, it is the present intention to avoid any action which might lead to widespread disturbances in the Delta towns and eventually force us to reoccupy the Delta. It is necessary, however, to be prepared from time to time to take such measures as may (a) cause the Egyptians to refrain from giving us trouble (by making them acutely aware of what we could do if were were so minded), and (b) discredit the Egyptian Government in the eyes of the people. Moreover, it may even be necessary to consider the use of sanctions at the right moment, to push over the Egyptian Government. We should avoid any action likely to alienate either the King, on whom we must count to use his influence to bring about a Government disposed to seek a settlement with us, or the Egyptian armed forces.

(B) THE SUDAN
3. His Majesty's Government's basic policy in the Sudan is to build up a strong and stable system of government, and ultimately to transfer power to a Government friendly to this country. Until this can be done His Majesty's Government must maintain their controlling interest in the Sudan, which is derived from the Condominium Agreement of 1899. Since we must retain Sudanese goodwill, and since this will only be possible if the programme of self-government is considerably accelerated, it seems likely that it will be necessary to bring into force, before the end of 1952, a Constitution according a very large measure of self-government to the country. Arrangements for working out this Constitution are in hand.

6. Once the Sudan has achieved full self-government, it is the policy of His Majesty's Government that they should be free to decide their future status, i.e., whether or not they should be associated in some way with Egypt or the British Commonwealth.

7. In pursuance of this policy the Governor-General has declared his intention to accelerate the advance of the Sudan towards self-government, and reaffirmed the right of the Sudanese people ultimately to determine their future status. His Majesty's Government have in recent statements indicated their support for the Governor-General's declaration.

III.—Existing Financial and Trade Arrangements
8. Financial.—Our existing financial arrangements with Egypt are:
(i) A Sterling Payments Agreement expiring on 31st December, 1951, and subject to renewal by agreement, providing that trade between Egypt and the sterling area shall be carried on in sterling.
(ii) An arrangement under which Egypt became a member of the Transferable Account Area, i.e., one of the countries who with our agreement and subject to certain obligations conduct trade in sterling. Under an Exchange of Letters attached to the Sterling Payments Agreement Egypt...
has been given assurances that we will facilitate the widest possible use of her sterling. The value to her of membership of the Transferable Account Area is shown by the volume of her transactions in the area which amount to at least £100 million a year.

(iii) A Sterling Releases Agreement, which was signed on 1st July, 1951, in accordance with the general policy of making arrangements for the controlled release, over a period of years, of the sterling balances which had been blocked after the war. The main provisions of the Agreement were:

(a) the release in 1951 of the sum of £25 million against which the United Kingdom made available £14 million worth of United States dollars, followed by the release of £10–15 million in each of the 9 years 1952 to 1960.

(b) An arrangement under which Egypt pays in sterling for supplies of petroleum products up to a total of £11 million a year, whether from British or American Companies, in each of the 10 years 1951 to 1960. This is a purely financial arrangement and does not guarantee to Egypt any physical supplies of oil.

9. Trade.—United Kingdom trade with Egypt is based on mutual requirements, the United Kingdom purchasing large quantities of Egyptian cotton from each crop and Egypt purchasing annually capital and consumer goods of United Kingdom manufacture for the needs of her expanding economy. We have no trade agreement with Egypt and no import licensing restrictions are placed by Egypt on the entry of goods from the sterling and transferable account areas. We buy Egyptian cotton in the open market in competition with other consumers: but apart from cotton we purchase very little except onions.

10. In the export field the United Kingdom has long-established trade connections with the Egyptian market, but since the war the ultra-nationalistic character of successive Egyptian Governments has made the position of British firms established in Egypt very difficult. The pattern of our export trade with Egypt (other than oil) is fairly evenly distributed over the whole range of British manufactures, machinery, vehicles and woollen goods being the largest items. United Kingdom exporters have close links with Egypt since they supply about 20 per cent. of Egypt's total imports. Payments so far have presented little difficulty and shipping facilities are reasonably good. United Kingdom exports to Egypt have steadily expanded since the war from £22 million in 1947 to £42-5 million in 1950. It should be noted that under present circumstances some tightening of the Export Credit Guarantee Department's terms for cover for Egypt may be necessary in the near future. Although any decision made by the advisory council of the Department to refuse or curtail credit for Egypt would stem from commercial considerations, the impression might be gained in Egypt that such restrictions were a form of sanctions. This, however, seems unavoidable.

IV.—Importance to United Kingdom of Egyptian Cotton

11. The United Kingdom is Egypt's best customer for cotton, buying about 25 per cent. of each year's exports. Since payments are made in sterling, and Egyptian cotton is of high quality (the only other source of supply of comparable grades being the Sudan) the volume of our purchases has been maintained in spite of the high prices which have ruled in Egypt's cotton market since 1948. About one-third (i.e., some 140,000 tons) of the United Kingdom's total import programme (480,000 tons) of raw cotton comes from Egypt and the Sudan. There is very little scope for the replacement of these cottons which are medium and long staple growths used for the fine cloths which form the bulk of our exports to the United States. If, indeed, supplies from both Egypt and the Sudan were to be cut off completely there would, after a period, be unemployment in Lancashire, particularly in the Bolton area. The Egyptian cottons which make up nearly two-thirds of Lancashire's normal consumption of "Egyptian" types are just beginning to come on to the market, and the Raw Cotton Commission's stocks of Egyptian cotton are therefore at their lowest point for the year (although in fact they are rather above the normal level for this point in the season). On the other hand, the Sudanese crop for 1951, which was an abnormally good one, has just finished moving and the Raw Cotton Commission is therefore holding relatively heavy stocks of Sudanese growths.
12. If the import of Egyptian cotton were suddenly to cease the Raw Cotton Commission's stocks, except of certain types needed by the hosiery industry, would probably suffice to meet the industry's requirements until the end of the year (1951). Provided supplies were still forthcoming from the 1952 Sudan crop it should be possible to keep the industry running without further purchases of Egyptian cotton for a further three to six months, i.e., till the middle of 1952. Towards the end of this period (i.e., in the second quarter of 1952) there would certainly be loss of quality and to some extent of quantity of output. Thereafter unemployment would be unavoidable, its extent depending on the size of the next Sudanese crop (at present expected to be low) and the proportion of it which the Raw Cotton Commission were able to secure.

13. The sterling area requirements of Egyptian cotton are small, with, however, the significant exception of India, which takes about 16 per cent. of the crop.

V.-Forecast of Sterling Area Balance of Payments with Egypt, 1951-52

14. An attempt has been made in the Appendix to forecast the balance of payments of the sterling area with Egypt in the period July 1951 to June 1952 on the assumption that trade proceeds normally. On the more dubious items the balance has perhaps been tipped in our favour. This would suggest a small identified sterling area deficit (about £1 million) with Egypt in the second half of 1951, followed by small surplus (about £3-£4 million) in the first half of 1952. Taking account of advance payments, it is expected that about £21 million United Kingdom payments for cotton will have been made by the end of December, leaving £14 million in the first half of next year. Total Egyptian sterling balances at 30th June, 1951, were £287 million (£242 million at 30th September) and are expected to be about £250 million at the end of this year and to fall to some £230 million by 30th June, 1952. The principal factors expected to cause this large fall notwithstanding the small identified sterling area surplus on current account for 1951-52 are the sale of some £17 million of dollars to Egypt in the second half of this year for sterling and net Egyptian transfers to third countries forecast in 1951-52 at £40 million.

VI.—Sudanese-Egyptian Financial Problems

15. There are certain financial problems affecting the Sudan which may well have an important influence on the relations of the Sudan and of His Majesty's Government with Egypt.

16. The two most important points are:—

(a) The Sudan uses Egyptian currency, of which some £E. 16 million is believed to be in circulation at the present time.

(b) The Sudanese sterling balances are held in a London Account of the National Bank of Egypt which appears at the moment to be in a position to transfer to Egyptian Account some £29 million of the Sudanese total sterling holdings (most of the remainder being in the form of securities), without the prior knowledge of the Bank of England, or, indeed, the Sudan Government. So unwarranted and fraudulent a step would normally be unthinkable. It is just conceivable, however, that the National Bank of Egypt which, having recently been nationalised, is now subject to overriding political control, might be compelled to effect the transfer. The position would then be that the Sudan would be entitled to hold about £E. 29 million in Egyptian currency instead of the equivalent amount of transferable sterling in London.

17. Ways and means of frustrating any Egyptian intentions in this field are already under urgent consideration with the Sudan Government. The Sudan would prefer to do no more than arrange, as a precautionary measure, for a gradual changeover of their balances from the National Bank of Egypt to a British Bank; but as a reply to drastic action by Egypt there are further measures which could be taken—e.g., the temporary exclusion of the Sudan from the transferable account area. It seems unlikely, however, that the Egyptian Government would wish to interfere with the Sudanese sterling balances at the present time since such a step—

(i) might well provoke retaliatory financial measures by His Majesty's Government;
(ii) would lead to Sudanese loss of confidence in Egypt as the custodian of
their resources and might even lead to the introduction of a new,
non-Egyptian currency in the Sudan;
(iii) might provoke the Sudan Government to interfere with Egypt’s supply
of Nile water.

18. From the Sudan’s point of view a change of currency has for some time
been desirable on the general ground that they should not remain dependent on a
currency over the management of which they have no control. The replacement
of Egyptian currency would, however, be so important a move that it is unlikely
to be taken except on political grounds. In considering such a measure the United
Kingdom and Sudan Governments will need to bear in mind:

(a) The possible refusal of the Egyptians to redeem the disused currency and
the consequent need to provide cover for the new currency.
(b) The dangers of taking any such step before it has ensured the safety of its
sterling resources.
(c) The improbability that the Egyptians would wish, for political reasons, to
restrict the supplies of Egyptian currency to the Sudan.
(d) The impossibility of introducing a new currency, even in the form of a note
issue only, for nine months at least.

Having regard to all the circumstances, it would seem unlikely that either
the Sudan or Egypt would wish to make any move in the near future which would
provoke major action by the other side or by His Majesty’s Government in the
financial sphere.

VII.—Suez Canal Company and Shipping in the Canal

19. The Suez Canal Company, although administered from Paris, is registered
in Egypt. As the chief users of the Canal we are vitally concerned with its adminis-
tration and therefore with the future of the present company and the problem of a
successor organisation. Nationalisation of the company would be intolerable as
it would mean submitting the administration of the Canal to Egyptian politics.
There is not at the moment, however, any indication that the Egyptian Government
have in mind to take any action aimed at the status of the company: they do not
appear to have any idea of denying that the Canal is an international waterway
and that the first duty of the Canal Company is to keep it open.

20. They have, so far, made no attempt to issue direct instructions to the
company. They might eventually instruct the company to withhold all assistance
from British shipping attempting to pass through the Canal—customs facilities have
already been withheld from ships carrying War Department cargo. It is true that
if the company ignored any such instructions this might prejudice their position
in Egypt in the future; but up to the present the company have taken the line that
it is their function to keep traffic moving without discrimination as to flag. In any
case, in the unlikely event of the company feeling bound to accede, at least
temporarily, to the Egyptian demands, the Royal Navy could handle the British
ships.

21. It is not considered likely that Egyptians will endeavour to embarrass
the United Kingdom by insisting on special arrangements for payments of Canal
dues by United Kingdom shipping. To dollar-invoice the United Kingdom alone
would be discriminatory and contrary to the terms of the Concession: and the
Egyptians are no more likely to try to compel a policy of universal dollar-invoicing
than to close the Canal, since the interests of so many nations would be involved.

22. But the Egyptian Government can exercise and are exercising a far more
effective sanction than any direct instructions to the company, by encouraging the
withdrawal of Egyptian labour working for the British in any way, including the
servicing of British ships. Intimidation has been used to stimulate the patriotism
of the Egyptian worker and the Egyptian Government have also made it clear
that if the company appealed for help in the event of insufficient labour to run the
Canal they would get no response. In fact, the running of the Canal has already
been seriously disorganised by strikes and withdrawal of intimidated labour. The
Royal Navy have been forced to assist in the berthing of ships, of all nationalities,
and to organise transit of the Canal by convoys, one each way on alternate days.
The lines have been obliged to cease accepting cargo for discharge at Canal ports as there is so little surety of labour to handle it and all War Department cargo has to be handled by the Services. For the same reasons ships can no longer be sure of getting stores, water or bunkers.

23. So far the resultant shipping delays have not been too serious, being, on the whole, not more than 24 hours; but increasing labour troubles could easily lead to delays of the utmost seriousness.

24. They would be particularly grave in the case of tankers. Nearly three-quarters of the north bound cargo in the Suez Canal is petroleum and most of it is crude oil for European refineries. These refineries now supply the bulk, of Western Europe's requirements for inland consumption, and are dependent as to some eighty per cent. of their capacity on crude oil from the Middle East. They are, moreover, at present being stretched beyond their rated capacity to fill the gap created by the loss of Abadan. If tanker traffic in the Canal were seriously slowed down, not only would supplies of petroleum products to European markets be disorganised, but the balance of payments might also be affected. While present delays in clearing the Canal are not yet causing dislocation at refineries, they may well do so if they become worse. If the present tanker traffic had to be diverted for any extended period, an additional 240 15,000-ton tankers, equivalent to 15-20 per cent. of the world tanker fleet, would be required. Under present conditions when world tanker tonnage is fully employed there is no possibility of obtaining the bulk of the 240 tankers required and such small proportion as could be chartered could only be obtained at very high dollar rates.

25. In adopting the policy they have done over Egyptian labour in the Canal Zone the Egyptian Government have in fact put into operation an economic sanction. The exertions of the Services, and a certain influx of labour from Cyprus, for the moment are keeping shipping moving. But there is a very real possibility that continuing withdrawal of Egyptian labour, combined with terrorist activities against shipping companies' staffs and their families or the withdrawal of residents' permits from European employees, may make it necessary, if shipping is not to be brought to a standstill, to take over the whole administration of the Canal as a military operation, and to set up an emergency organisation to assist the Navy in handling the transitting of ships of all flags.

VIII.—Action Open to Egypt

26. So far the Egyptians have confined themselves mainly to measures (e.g., non-co-operation) directed against His Majesty's Armed Forces in Egypt. But there have lately been threats of official measures in a wider field (e.g., the dismissal of British technicians) and of "spontaneous" unofficial moves, which might well be just as important (e.g., the public boycotting of British goods). Should the position deteriorate further the following measures would be open to the Egyptian Government as overt means of bringing pressure to bear on the United Kingdom:

(i) Egypt might refuse to allow the export of cotton to the United Kingdom (see paragraph IV above), or refuse to allow its sale to us except for United States dollars. Such a measure would have repercussions for Egypt herself, i.e., in falling cotton prices and consequent public discontent and, perhaps, in adding to the existing strain on the Egyptian Treasury, which might be called upon to buy up the crop. The problem facing Egypt of finding other markets for about one-quarter of her cotton exports would however probably not be insurmountable, as it is likely that there would be a sufficient demand from Europe and India. Prices would however fall and there would be a considerable loss to the Egyptian balance of payments. If the United Kingdom retaliated by imposing financial restrictions and thereby prevented Egypt from receiving sterling in payment for her exports Egypt would be driven to dispose of her cotton as best she could, perhaps on a barter basis. In view of the demand for non-dollar cotton she would probably be successful in the long run, but she would certainly encounter great difficulties in effecting a complete change-over from sterling to barter. Particular difficulty would for instance arise in the case of India, which takes about £20 million worth of cotton and exports only some £6 million
of goods. An important long-term effect of an interruption in Egypt’s cotton trade is that she might increase cereal production in order to make herself self-sufficient in food supply at the expense of her cotton acreage.

(ii) Egypt might institute a boycott on United Kingdom goods. We allocated some 2,500 tons of tinplate and 37,000 tons of coal to Egypt in 1951, but apart from these Egypt receives no special consideration as a market for United Kingdom goods, but the market is favoured by exporters and the loss of it would be a serious blow to our export drive. Any interference with normal trade would allow continental and Japanese competition full play and make it difficult for us to recover our predominant place in the market. It would in addition produce a serious imbalance in our balance of payments with Egypt.

(iii) Egypt might cancel residence visas for United Kingdom commercial personnel. There is a fairly large British commercial community in the country and its disappearance would be serious for our established trade. In particular British shipping organisations in the Canal ports would be paralysed if residence visas were withdrawn, forcing shipping companies’ European staffs to leave the country.

(iv) The Egyptians might take discriminatory action against United Kingdom interests in Egypt (e.g., Anglo-Egyptian Oilfields Ltd., and British financial institutions and commercial houses). Such action might take a number of forms, and in view of the extent of British investment in Egypt might be most serious in both the short and longer terms.

IX.—Action Open to the United Kingdom

Oil and Trade

27.—(a) The military authorities have already for a period partially enforced the physical sanction of the denial of oil, but this sanction has been lifted since 6th November when their authority to apply it was temporarily rescinded. This particular sanction would fall on all sections of the population and particularly on the poorer classes who would thus be deprived of Kerosene, their essential fuel. If the sanction included aviation spirit, the effect would also fall on international air services staging through Cairo, unless means could be found of maintaining exceptionally the supply of aviation spirit to the air ports. Twenty-three foreign air lines would be affected and revenues of the order of £2 million per annum would be lost to British aviation.

(b) We could refuse to allow British companies to sell oil to Egypt. This would deprive the Egyptians of possibly two-thirds of their requirements of oil, and even if they were prepared to spend dollars to fill the gap, it is not certain that American companies would have sufficient oil available. It must, however, be borne in mind in this connexion that the Egyptians might make the position of the Anglo-Egyptian Oilfields Ltd. (the Shell subsidiary, which is already experiencing great difficulties at the hands of the Egyptian Government) quite intolerable if we were to interfere with oil supplies. The British investment in the Egyptian oil industry amounts to some £35–40 million. There is a danger that oil sanctions may provoke Egypt to nationalise those valuable assets.

(c) We could prevent the export to Egypt of scarce goods (e.g., steel, tinplate and coal), or even place a general embargo on exports: but the first course would damage the Egyptian economy only slightly, and the second would probably cause more harm to us than to Egypt.

Financial

28. Apart from the withholding of oil supplies His Majesty’s Government’s biggest weapons are financial. We might take any of, or a combination of, the following steps:—

(a) The suspension of the Sterling Releases Agreement, which the Egyptians value highly, both because of the releases themselves and the petroleum products article.

(b) The removal of Egypt from the Transferable Account Area, which would involve a breach of the undertakings attached to the Sterling Payments
Agreement. These undertakings, however, will expire on 31st December, 1951, unless renewed by agreement between ourselves and the Egyptians. This would leave her free to trade in sterling with the sterling area, but would mean that sterling transfers to and from other countries would become subject to the permission of the Bank of England.

(c) If we then refused to allow Egypt to use sterling in making payments either to or from third countries it would create grave difficulties for her. She would have to fall back on barter, or renegotiate all her Payments Agreements in order to find an acceptable means of settlement other than sterling. The measure of the difficulties in which Egypt would find herself is shown by the fact that in 1950 inward transfers amounted to £38 million and outward transfers to £67 million. In 1951 the difference may reach £40 million.

(d) We might make a Statutory Order, the effect of which would be to subject all Egyptian payments, including payments to and from the sterling area, to Bank of England permission. By withholding permission for certain payments, to or from the sterling area, we could intensify the difficulties for Egypt outlined above.

(e) We might take the extreme step of blocking Egypt's No. 1 Accounts (her "free" sterling), which would prevent Egypt from making or receiving any payments in sterling whatsoever.

29. The imposition of any of these sanctions would provoke counter measures on the Egyptian side. It must be borne in mind that these measures could have harmful effects on ourselves and other purchasers of Egyptian cotton, and in particular might have a deleterious effect (a) on our relation with India, (b) on the standing of sterling as an international currency. Moreover, once we had taken these steps Egypt might never again be a willing holder or user of sterling, and difficulties over our purchases of cotton might well be perpetuated. Finally, a ban on transfers of sterling from third countries to Egypt might have a serious direct effect on the United Kingdom balance of payments with E.P.U., while a ban on transfers from Egypt could affect all United Kingdom exports by, for example, depriving Chile of an important proportion of her sterling earnings.

X.—Political Effects in Egypt

30. The impact of such financial and economic measures as His Majesty's Government may take against Egypt will, with the important exception of oil sanctions, at first fall mainly upon the upper and middle classes. These people are for the most part more concerned with their own pockets than with feelings of patriotism; and would probably exert considerable political pressure in favour of a settlement with His Majesty's Government if they thought that sanctions of this kind would otherwise be imposed. Once they had been imposed, however, it would not be long before the country was thrown into a state of considerable economic disorganisation, which would cause appreciable unemployment, and so affect the poor more directly. The Egyptian Government would cash in on the resulting discontent and would probably on balance be strengthened in power. The imposition of oil sanctions, which have a direct effect upon all sections of the population, would produce a similar result in a very short time. Only complete economic disintegration of the country would then be likely to bring about the downfall of the Government.
CABINET

WAR CRIMINALS

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

It is my responsibility as Foreign Secretary to advise The King on recommendations for clemency for German war criminals held in British custody in Germany. These number 389 in all. Such recommendations arise in the first instance out of a review now being undertaken by the United Kingdom High Commissioner of all cases falling under his responsibility. This review does not, of course, cover the cases of the major war criminals sentenced by the International Tribunal at Nuremberg, who are held under the responsibility of the four Powers.

2. The present review has hitherto been governed by the following considerations:

(a) When the question was last considered by the previous Cabinet in May the view was expressed that “it should be made clear that the prerogative of mercy would be exercised only in a few exceptional cases and that in the ordinary way the sentences imposed on war criminals would be allowed to run their course.”

(b) There has been some uncertainty about what pleas should be admitted when making recommendations for clemency; it was difficult to clear up this uncertainty because of the practical bearing of any decision on the Cabinet's view expressed at (a) above.

3. The pleas which have hitherto been regarded as inadmissible have included pleas based upon the period of custody which war criminals underwent before they were brought to trial, amounting in some cases to several years. The question I wish my colleagues to consider is whether such pre-trial custody periods should be taken into account.

Recommendation

4. I recommend that, in regard to war criminals under British control in Germany, the period of pre-trial custody should now be reckoned as counting towards the sentence imposed in each case at the trial.

Argument

5. If a decision were taken in this sense, some 30 of our 250 war criminals would qualify for immediate release, while advantage would accrue to all the rest. The present clemency review would not be directly affected, since the prisoners released would be let out not by an exercise of clemency, but rather by an automatic revision of their sentences. But the clemency review would be indirectly affected in so far as a number of the prisoners under review would be released, while others would become eligible for release earlier than would otherwise have been the case.

6. A decision in the sense suggested would bring us into line with the practice of the other Occupying Powers. American and French practice is to take pre-trial...
custody into account. It would also be in general accord with practice in the United Kingdom. Judges are aware of the length of the period of pre-trial custody, and may take it into account in passing sentence. But, in the sentences imposed on the war criminals for whom we are responsible, pre-trial custody was not as a rule so taken into account. The decision I recommend therefore seems to me right on its own merits.

7. It also has the following advantage. The contractual settlement which we are now negotiating with the German Federal Republic must include an agreement about war criminals. The question has been discussed by the Allied High Commission and I hope shortly to submit recommendations to my colleagues. Whatever solution is reached we shall wish to be able to say, when the time comes to put it into force, that we have discharged our responsibilities justly. To this end the present clemency review should be continued.

8. A decision to count pre-trial custody towards sentence would both simplify the task of review, by automatically reducing the number of cases to be considered, and assist an eventual settlement of the whole difficult problem, by forestalling possible reproaches that we had kept prisoners in custody longer than was just.

A. E.

Foreign Office, S.W. 1,
3rd December, 1951.
CABINET

THE UNITED STATES LOAN AND THE "WAIVER"

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

The first payments of interest and amortisation on the United States and Canadian Credits of 1946 are due on 31st December, 1951. The amounts involved are:

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<tr>
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<th>Interest £ million</th>
<th>Amortisation £ million</th>
<th>Total £ million</th>
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<tbody>
<tr>
<td>United States Credit</td>
<td>26.8</td>
<td>15.8</td>
<td>42.6</td>
</tr>
<tr>
<td>Lend-Lease Settlement</td>
<td>4.3</td>
<td>2.5</td>
<td>6.8</td>
</tr>
<tr>
<td>Canadian Credit</td>
<td>8.0</td>
<td>4.8</td>
<td>12.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39.1</strong></td>
<td><strong>23.1</strong></td>
<td><strong>62.2</strong></td>
</tr>
</tbody>
</table>

2. The amortisation is payable in any circumstances but, under the Loan Agreements, we have a right to the waiver of the interest payments on three conditions, which are the same for both the United States and the Canadian Loans. The conditions necessary to secure the waiver in respect of the 1951 payments are:

(a) His Majesty’s Government has to state unilaterally that “a waiver is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves” (Section 5 (a));

(b) the International Monetary Fund has to certify that our earnings in 1950 were insufficient to purchase the pre-war volume of imports (Section 5 (b)); and

(c) a complicated and obscure provision designed to secure that the total releases in 1951 of the sterling balances accumulated during the war are reduced to a certain proportion of the releases in 1950 (Section 6 (iii)).

3. We could certainly fulfil the first condition, (a) above. We think we can satisfy the second condition, (b), although there might be some arguments on the statistics. On the third condition, about the sterling balances, it is difficult to know where we stand among various possible interpretations; but it seems likely that any interpretation which the Americans would accept would be so restrictive as to embarrass us in future years with those holders of balances with whom we have long-term agreements. Thus, our technical right to claim the waiver is not completely sound. Moreover we are—admittedly with the tacit consent of the Americans—in breach of some of our other obligations under the Agreement, namely, those relating to convertibility and non-discrimination. It is clear therefore that we could not confidently claim the waiver as of right if American opinion were hostile on any of these various points. Mr. Snyder confirmed that we should have difficulty in establishing our technical case.

We must decide before the end of December whether to claim the waiver of this year’s interest payments or not.
4. The considerations which would justify our claiming the waiver are:
   (a) the very serious worsening of our balance of payments position and the pressing need to husband our rapidly dwindling reserves; and
   (b) the incongruity of meeting these payments at the same time as we are asking much larger sums-in-aid from the United States.

5. On the other hand, the arguments against claiming the waiver are:
   (a) non-payment of the interest would have an adverse effect on Congressional and public opinion in the United States where comparisons would be suggested with the fate of the 1914-18 War Loans;
   (b) having definitely asked for United States aid, we must do all we can to secure the maximum amount and most effective method for such aid, both of which objectives require the utmost possible goodwill and active help from the United States Administration;
   (c) payment would make for confidence abroad in our determination to see ourselves through our present difficulties, and would be a suitable prelude to the Prime Minister's visit to Washington.

6. My recent discussions with Mr. Snyder in Rome made it clear that while he did not wish to be put in the position of advising us not to claim the waiver, he hoped that we would pay this next instalment, because he felt, to use his own words, that opinion in his country "would like to see us pay our debt before asking for further credit." Mr. Abbott also told me that the Canadian Government would prefer to see us pay the interest on the Canadian credit this year, whatever we decided about the United States credit.

7. I recommend therefore that we should not claim the waiver on either the United States or the Canadian credits, but should pay the interest and the amortisation due by 31st December of this year. (This need not affect our freedom of action in future.) If my colleagues agree with this recommendation, I will consult with the Foreign Secretary, and any others concerned, how and when the decision can best be announced.

(Signed) R. A. B.

Treasury Chambers, S.W. 1,
5th December, 1951.
CABINET

COUNSELLORS OF STATE

NOTE BY—THE LORD CHANCELLOR

The King has informed the Prime Minister that he hopes to go abroad for about eight weeks next Spring. If he does so, it will be necessary to appoint Counsellors of State to act in his absence. The only persons qualified by the Regency Act, 1937, to be appointed Counsellors of State are The Queen, Princess Elizabeth, Princess Margaret, the Duke of Gloucester and the Princess Royal. At the time of The King’s proposed absence Princess Elizabeth will be on her Commonwealth tour, and The King will naturally wish The Queen and Princess Margaret to accompany him. It follows that of those qualified to be appointed Counsellors of State only the Duke of Gloucester and the Princess Royal will be in the United Kingdom. There is some doubt whether the functions delegated under the Regency Act can be exercised by one only of the persons appointed to be Counsellors of State, and I have reached the conclusion that, unless the doubt were removed by legislation, it would be unsafe to assume that they can. If only two Counsellors of State were appointed, there would therefore be a risk that by the incapacity of one of them the conduct of business would be impeded.

I have discussed this matter with the Lord Privy Seal, the Home Secretary, the Commonwealth Secretary and the Secretary of State for Scotland. It may be suggested that the difficulties I have outlined could be met by reconstituting the Council of State in its old form, under which the Great Officers of State, such as the Archbishop of Canterbury, could be appointed Counsellors. But the Commonwealth Secretary is sure that the other Commonwealth countries would take the strongest exception to the transaction of their affairs by anyone other than a Royal Counsellor, and in our view this objection is conclusive.

We do not think it desirable to provide by amending legislation for the exercise of delegated functions by one Counsellor only. The difficulty can therefore be met only by legislation directed to increasing the number of persons qualified to act as Counsellors. This would be short and of a non-controversial kind. An Act qualifying Queen Mary for the period The King is away would meet both these requirements: moreover, we can think of no other course likely to give such lively satisfaction to His Majesty’s subjects both here and overseas. It should be possible to pass an Act of this sort through both Houses of Parliament within one day. The Commonwealth Secretary would inform the other Commonwealth Governments by telegram at the time the legislation was introduced: he considers that it would not be necessary to consult them beforehand. It follows that a final decision about introducing amending legislation need not be taken until a week or so before the Easter Recess. We consider that there would be advantage in deferring the decision until then, since in view of Queen Mary’s age we cannot be certain that she will continue in good enough health to act as a Counsellor of State. If we find that she is unable to do so we shall have to reconsider the whole matter. There will still be time to introduce some other form of amending legislation if that course is thought best.

I invite the Cabinet to endorse our view that the position should be reviewed shortly before the Easter Recess, and that until then no action need be taken.

S.

Lord Chancellor’s Office, S.W. 1,
6th December, 1951.

41543
CABINET

ERECTION OF A MEMORIAL AT DUNKIRK

MEMORANDUM BY THE SECRETARY OF STATE FOR WAR

The Imperial War Graves Commission, of which I am now Chairman, are making arrangements, in accordance with their Charter, for the erection of memorials to those who fell in 1939-45 in North-Western Europe and who have no known graves.

2. The names of the sailors will be inscribed on memorials at the three manning ports in England and the names of the airmen on a memorial at Coopers Hill, Runnymede.

3. For the soldiers who fell in the 1944-45 campaigns there will be memorials at Bayeux (Normandy) and Nijmegen (advance to the Rhine and into Germany).

4. For the soldiers who fell in 1939-40 the Commission propose to erect, on a site adjacent to the British war graves in Dunkirk Cemetery, a memorial on which about 4,600 names would be inscribed. For this purpose the Commission have about £23,000 available.

Before they proceeded with this, the Commission felt that the Government might wish to consider whether a more noteworthy memorial should be erected which, besides recording the names of the missing soldiers, would stand as a national memorial of the Dunkirk operation. For such the Commission estimate they would require a special grant of from £60,000 to £100,000, according to the site selected and the character of the memorial.

5. I invite my colleagues to decide whether the Commission should proceed with the more modest memorial, or whether a grant should be made to provide a national memorial.

A. H.
An urgent decision is required in connection with Egypt. I do not want to burden my colleagues unnecessarily with a recital of the events which have led up to this but I attach a brief summary for reference as an Annex to this paper.

POSSIBILITIES OPEN TO US

2. I would list these possibilities briefly as follows:

(a) Economic sanctions.

(i) Trade. Egypt requires sterling from us and we import cotton from Egypt. A recent interdepartmental paper (now circulated to the Cabinet as C. (51) 35) concludes that the loss of cotton from and exports to Egypt would cause considerable damage to the United Kingdom's economy. As for the Egyptian economy, it would be thrown into hopeless confusion if extreme economic sanctions were imposed for more than a short period.

(ii) Restrictions on oil traffic from Suez to Cairo. We can block both road and rail transport of fuel oil from the refinery at Suez to the Delta towns. This would bring bakeries, sewage plants and other machinery to a standstill. We can also cut off the flow of kerosene, on which the population of the Delta depends for cooking, through the pipeline from Suez to Cairo. If we blocked the flow of fuel oil or kerosene or both to the Delta, there is no doubt that we should cause a rapid and complete dislocation of the Egyptian economy.

(b) Separation of the Canal Zone from the rest of Egypt. We could either gradually or immediately take steps which would result in our taking over responsibility for the administration of the Canal Zone including the towns of Port Said, Ismailia and Suez.

(c) Cutting of communications to the Egyptian forces in the Gaza area. We could stop all supplies passing through the Canal Zone to the Egyptian forces in Gaza, thus making their position untenable.
3. Despite their obvious disadvantages, we might in certain circumstances have to adopt one of these courses, or a combination of some of them, in order to bring pressure to bear upon the Egyptian Government, or to secure our own position. In the last resort, also, we might be obliged to despatch forces to Cairo and Alexandria in order to dominate those towns. We should only do this if it were necessary to protect British lives there. In addition to the fact that each of these measures may involve us in a physical commitment of unforeseeable size, they would all have to be justified in relation to the circumstances existing at the time in Egypt, if we are to retain the support of world opinion.

VIEWS OF H.M. AMBASSADOR AT CAIRO AND COMMANDERS-IN-CHIEF MIDDLE EAST

4. We have recently called for joint recommendations from the Ambassador at Cairo and the Commanders-in-Chief Middle East. These are contained in telegrams Nos. 572/CCL and 573/CCL. Cairo telegram No. 1084 is also relevant. The recommendations in short are that, if the situation in the Canal Zone has not improved within ten days, we should (a) tighten our military control in the Canal Zone and (b) apply economic sanctions if other measures fail. Since then we have received from the Commanders-in-Chief their telegram No. 578/CCL, which points out that, owing to the deterioration in the situation in the Canal Zone, the Commanders-in-Chief might have to ask for immediate approval of the additional powers for tightening up our military control in the Canal area. These powers in effect amount to powers to detain indefinitely, try, punish (and if necessary execute) Egyptian terrorists in the Canal area.

THE PROBLEM

5. The question is whether we should authorise the Commanders-in-Chief to assume these powers, bearing in mind the fact that to do so will almost certainly lead eventually to the establishment by us of full Military Government over the Canal Zone area.

6. The Chiefs of Staff have pointed out in a recent paper (C.O.S.(51) 681) that the administrative implications of imposing Military Government on the area would be "almost intolerable". These implications may be summarised as follows:-

(a) We might have to provide food for the greater part of the population in the Canal Zone, about 400,000 in number.

(b) It would take six weeks to stockpile and ship this food to Egypt.

(c) We should have to find a number of British specialist personnel, e.g. police and technicians for public utilities (I am advised that legislation would be needed for the partial mobilisation necessary to provide them).

(d) We might have to occupy a point or points on the Sweet Water Canal on the edge of the Delta.

7. It is fair to say that the Ambassador has expressed doubt whether the Egyptian Government would in fact cut off food supplies from the Canal area, but he does recommend stockpiling in this country against the possibility that we might have to feed the inhabitants of the Canal Zone. The Commanders-in-Chief have also recommended that we should make it clear to the Egyptian Government in advance that we should cut their
communications with their armed forces at Gaza if they failed to provide food for the population. Nevertheless we cannot be certain that this threat would be effective. If we now embark upon a course of action which may lead to Military Government in the Zone, we must plan upon the assumption that we may be compelled to take the steps set out in paragraph 6 above.

8. As regards the economic sanctions which the Ambassador and Commanders-in-Chief have recommended, my colleagues will have noted from the paper on economic sanctions already referred to (C, (51) 35), that it is stated therein that "it is not in our interest to impose such sanctions unless we can rely upon them to produce quick and satisfactory political results". A substantial interference with the flow of oil would be likely to produce such serious disturbances in the Delta that we should be obliged to intervene for the protection of British lives and to send forces to Cairo and Alexandria. Other economic sanctions however are not so likely to be rapid in their effect, and should not be employed for the reasons given in the paper referred to.

CONCLUSION

9. In my judgment the situation is not yet ripe for forcing the fall of the Egyptian Government. I consider it unlikely, on the information available to me, that King Farouk would at present be prepared to intervene on our behalf to the extent of changing his Government. This estimate is reinforced by the virtual impossibility of our making any concession to him over the Sudan. Moreover, there do not at present appear to be any alternatives to the existing Government. We should thus be faced with a political impasse.

10. Furthermore, I think it would be premature now to commit ourselves to a policy which might entail the sealing off of the Canal Zone for an indefinite period. While, therefore, I would be prepared to authorise the Commanders-in-Chief to detain Egyptian terrorists for an indefinite period if necessary (despite the dubious legality of such action), I do not consider that the situation warrants our authorising them to set up courts for the trial and punishment of such terrorists. I feel that we must do our utmost to avoid a situation which obliges us to establish Military Government in the Canal Zone.

RECOMMENDATIONS

10. I recommend that -

(a) We should authorise the Commanders-in-Chief to keep Egyptian terrorists in detention for an indefinite period, if in their judgment the situation in the Canal Zone demands this.

(b) In view of the probable implications of the assumption by Proclamation of powers to try and punish terrorists, the Commanders-in-Chief should be informed that we cannot at present authorise them to assume such powers.

(c) Since we may nevertheless find ourselves obliged, contrary to our present policy, to take steps in the comparatively near future which may lead to the establishment of Military Government, my colleagues should consider whether we
should not urgently put in hand preparations to enable the necessary administrative measures to be taken in case Military Government has to be set up.

(d) As soon as these preparations are well in hand, and on the assumption that the situation in the Canal Zone has not improved, I should instruct H.M. Ambassador at Cairo to convey a stern warning to the King and a threat that we may feel obliged in the near future to take much more drastic measures than we have done hitherto.

(e) We should instruct the Ambassador and Commanders-in-Chief that we are not prepared at present to authorise the imposition of economic sanctions. In particular we should not increase the present restrictions on oil movement from Suez to Cairo.

(f) We must do our utmost to secure continued support for our policy from our friends, especially the Americans, and understanding of any measures we may have to take for the protection of our forces in the Canal Zone.

(g) We should maintain so far as possible our good relations with the Egyptian armed forces and with King Farouk himself.

(h) We should keep the situation constantly under review.

A.E.

Foreign Office, S.W.1,

6TH DECEMBER, 1951.
On 15th October last the Egyptian Parliament voted legislation purporting to abrogate the 1936 Treaty of Alliance with Egypt, and the Condominium Agreements relating to the Sudan. They also rejected the Four-Power proposal for setting up a Middle East Command which had been presented to them by ourselves, the United States, France and Turkey. On 6th November we informed the Egyptian Government that we did not recognise the abrogation of the Treaty or Agreements and that we intended fully to maintain our rights under those instruments. In addition we stated that we held the Egyptian Government responsible for any breach of the peace and any damage to life or property which might result from their purported abrogation of these instruments. We have therefore maintained our position in the Canal Zone, and have reinforced our troops there by the equivalent of four Brigade Groups. We could if necessary move in a further Brigade from Tripoli and one Brigade from Cyprus.

2. These reinforcements have been made necessary by the deterioration in the situation in the Canal Zone which has taken place since the Egyptian abrogation of the Treaty. The first thing that happened was an outbreak of rioting in Ismailia on 15th and 16th October directed against us, which required the intervention of British troops owing to the failure of the Egyptian police to act. This was followed by a series of incidents. The second thing was the withdrawal of the Egyptian labour force employed by us in the Canal Zone. This was effected by intimidation, in which the Egyptian police not only connived but took an active part. As a result about 90 per cent of the previous labour force of approximately 60,000 has ceased to work for us. Thirdly, there has been outbreak of terrorist activities throughout the Canal Zone directed against the British forces and involving sabotage and the murder of British troops. This is not at present upon such a scale as to cause serious dislocation of our activities, but is growing and is likely to have an increasingly adverse effect upon the morale of the troops. The Egyptian police have not only failed entirely to suppress it but have connived at it, and on 17th and 18th November they provoked a series of incidents in Ismailia of such gravity that the G.O.C. British Troops was obliged to arrange for the Egyptian police to be disarmed and confined to barracks while the responsibility for the maintenance of order was temporarily taken over by British troops in that town. Since then British families have had to be evacuated. Further serious incidents have recently taken place at Suez. Meanwhile the working of the Suez Canal itself has been impeded by the withholding of facilities by the Egyptians, the withdrawal of labour, and strikes of Egyptian technicians. Although the Suez Canal Company's services are still operating, British forces have had to take over to a considerable extent the operation of the facilities necessary for the passage of ships of all nations through the Canal. Throughout this period the Egyptian Government, under cover of the imposition of strict censorship, have conducted a campaign of the grossest mis-representation of the facts and accusations against the conduct of our forces in the Canal Zone. On 22nd October we were compelled to impose restrictions on the movement of oil between Suez and Cairo. Although these restrictions were removed because of the risk of chaos in the Delta, we have recently authorised their partial resumption as an intermittent measure.
3. While our relations with the Egyptian Government are therefore extremely bad, we know that King Farouk is uneasy about the deadlock which has been created and dissatisfied with his Government. Indeed, we had a message from the Egyptian Prime Minister which indicated that he himself was not confident about the position of the Government and was uncertain about the eventual outcome of the situation which he himself has so recklessly provoked. Moreover, our relations with the Egyptian armed forces remain correct, and they have at no time intervened in the dispute. No doubt they are fully aware of their precarious situation, since we can at any time cut the lines of communication to the main part of the Egyptian Army in the Gaza area. Meanwhile there have been many indications that the other Arab states are annoyed at the Egyptian rejection of the Four-Power proposals without consulting them, and reluctant to follow the Egyptian lead in this matter. This rift in the Arab League must of course be causing the Egyptian Government considerable anxiety.

4. The economic position of Egypt is deteriorating, since her ports, with the exception of Alexandria, are now virtually closed and many cargoes are being diverted elsewhere. This means a serious loss in Customs revenue, on which the Egyptian Government largely depend. The Embassy in Cairo have recently estimated that this loss may already amount to as much as 15 - 20 per cent of the total revenue of the Egyptian Government. Meanwhile, there has been no general boycott of British goods in Egypt and trade relations between the two countries continue on something like a normal basis. We have however ceased the export of arms to Egypt.

5. In order to complete this brief review the question of the Sudan should be mentioned. King Farouk has been proclaimed King of the Sudan as well as of Egypt and the Egyptian Parliament has laid down the outlines of a future Constitution for the Sudan, which gives control of foreign affairs, defence and finance to the Egyptian Government and makes the future Sudanese Ministers responsible to the King of Egypt. The Egyptians have always insisted upon linking the solution of the future of the Sudan to the problem of British forces in the Canal Zone, and the King himself takes a personal interest in this question since his prestige as "King of the Sudan" is involved. We for our part have always insisted that the Sudanese must be free in due course to determine their future status for themselves.
LEGISLATIVE PROGRAMME: 1951–52 SESSION

MEMORANDUM BY THE MINISTER OF HEALTH

I attach a draft legislative programme for the present Session prepared by the Legislation Committee.

The probable number of days available for legislative business in the House of Commons is as follows:

(i) From January to Easter—20 days.
(ii) From Easter to Whitsun—9 days.
(iii) From Whitsun to the summer recess—4 days.

This excludes the time likely to be required for the Finance Bill, which may be a substantial one.

Besides the Bills in this programme, time may have to be found for essential legislation arising out of the current review of the economic situation. Other measures may be required to replace emergency legislation. It must be borne in mind that the Committee stage of practically every Bill will have to be taken in Committee of the whole House, owing to the small majority that the Government have in Standing Committees.

None of the important Bills (save possibly those relating to the review of expenditure) will be ready for introduction at the end of the Recess. The Legislation Committee have, therefore, left in the programme a number of relatively unimportant Bills which will be required in the first two or three weeks after the Recess. They have excluded almost everything else which is not of the first importance and which cannot be ready for introduction in that period. This will go some way to ensure that the passage of the important Bills is not impeded by other legislation. But I must warn my colleagues that there will not be time even for important Bills which are not ready very soon after Parliament reassembles. If they cannot be ready then, we shall have to defer them until we meet after the Summer Recess or until the Session of 1952–53.

I ask the Cabinet—

(1) To approve the draft legislative programme annexed;
(2) To authorise the Legislation Committee to add to the programme later in the Session any Bills which are urgently required; and to delete any Bills the preparation of which is unduly delayed.

Ministry of Health, S.W. 1,
6th December, 1951.
### ANNEX

#### LEGISLATIVE PROGRAMME: 1951-52 SESSION

| Group I.—Bills already Introduced or about to be Introduced |
|-----------------------------|-------------------------------------------------|
| Commonwealth Relations Office | Diplomatic Immunities (Commonwealth Countries and Republic of Ireland). |
| Ministry of Fuel and Power | Electricity Supply (Meters). |
| Ministry of Fuel and Power | Miners’ Welfare. |
| Ministry of Health and Scottish Office | Dentists. |
| Home Office | Metropolitan Police (Borrowing Powers). |
| Home Office | Ministers of the Crown (Parliamentary Under-Secretaries). |
| Home Office | Northern Ireland (Foyle Fisheries). |
| Ministry of Housing and Local Government and Scottish Office | Border Rivers. |
| Lord Chancellor’s Department | Judicial Offices (Salaries). |
| Ministry of National Insurance | Pneumoconiosis and Byssinosis Benefit. |
| Scottish Office | Hydro-Electric Development (Scotland). |
| Ministry of Transport | Merchant Shipping. |
| Treasury | Expiring Laws Continuance. |
| Treasury | British Museum. |
| Treasury | Mr. Speaker Clifton Brown’s Retirement. |
| Treasury | Public Works Loans. |
| Treasury | Industrial and Provident Societies. |
| War Office | Home Guard. |
| Ministry of Works | Festival Pleasure Gardens. |

| Group II.—Essential Bills |
|-----------------------------|-------------------------------------------------|
| Post Office | Post Office and Telegraph (Money). |
| Treasury | Finance. |
| Treasury | Isle of Man Customs. |
| War Office and Air Ministry | Army and Air Force (Annual). |
### Group III.—Bills to be introduced immediately after Recess

<table>
<thead>
<tr>
<th>Department</th>
<th>Subject</th>
<th>No. of clauses</th>
<th>Remarks</th>
<th>State of Preparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth Relations Office</td>
<td>Irish Sailors and Soldiers Land Trust</td>
<td>2</td>
<td>Depends on corresponding legislation in the Irish Republic</td>
<td>Home Affairs Committee will consider policy on 7th December. Bill is drafted.</td>
</tr>
<tr>
<td>Ministry of Education and Scottish Office</td>
<td>Milk in Schools</td>
<td>2</td>
<td>To enable the Minister to arrange and pay for school milk supplies. Payment now falls on Ministry of Food Vote</td>
<td>Policy submissions to be made at once to Home Affairs Committee. Bill is drafted.</td>
</tr>
<tr>
<td>Ministry of Food</td>
<td>Food and Drugs</td>
<td>20</td>
<td>To make permanent the Defence (Sale of Food) Regulations; to extend registration of food trade premises; and to improve food hygiene</td>
<td>Policy approved by Home Affairs Committee on 23rd November. Bill is in draft.</td>
</tr>
<tr>
<td>Home Office and Scottish Office</td>
<td>Cinematograph</td>
<td>10</td>
<td>To bring commercial exhibitions of slow-burning films under the 1909 Act, and to provide for children's welfare at such exhibitions</td>
<td>Policy to be considered by Home Affairs Committee on 7th or 14th December. Bill is in draft.</td>
</tr>
<tr>
<td>Ministry of Housing and Local Government</td>
<td>Town Development</td>
<td>15</td>
<td>To facilitate provision of homes by local authorities outside their own areas</td>
<td>Policy approved by Home Affairs Committee on 23rd November. Drafting is proceeding.</td>
</tr>
<tr>
<td>Scottish Office</td>
<td>Food and Drugs (Scotland)</td>
<td>70</td>
<td>An amending and consolidation measure</td>
<td>To follow the English Bill.</td>
</tr>
<tr>
<td>Scottish Office</td>
<td>Law of Succession (Scotland)</td>
<td>25-30</td>
<td>Based on report of Mackintosh Committee. Promised during debates on English Adoption of Children Bill, 1949</td>
<td>To be considered by Home Affairs Committee on 7th December. Could start in House of Lords.</td>
</tr>
<tr>
<td>Ministry of Transport</td>
<td>War Risks Insurance</td>
<td></td>
<td></td>
<td>Policy approved by Home Affairs Committee on 23rd November. Drafting is proceeding.</td>
</tr>
<tr>
<td>Ministry of Transport</td>
<td>Motor Vehicles (International Circulation) Bill</td>
<td></td>
<td></td>
<td>Policy approved by Home Affairs Committee on 30th November. Drafting proceeding.</td>
</tr>
<tr>
<td>Treasury</td>
<td>Currency and Banknotes</td>
<td>6</td>
<td>To fix the amount of the fiduciary note issue and put on a permanent basis powers exercised under Defence (Finance) Regulations</td>
<td>To come before Home Affairs Committee on 14th December.</td>
</tr>
</tbody>
</table>

### Group IV.—Bills to be introduced before the end of February

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Subject</th>
<th>No. of clauses</th>
<th>Remarks</th>
<th>State of Preparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admiralty</td>
<td>Naval Discipline</td>
<td>32</td>
<td>To implement the Pilcher Committee recommendations. Technical difficulties will arise for the Royal Navy under the new Appeal Court procedure if the Naval Discipline Act is not amended</td>
<td>Policy to be considered further by Home Affairs Committee. Bill is in draft.</td>
</tr>
</tbody>
</table>
### Group IV.—Bills to be introduced before the end of February (continued)

<table>
<thead>
<tr>
<th>Department</th>
<th>Subject</th>
<th>No. of clauses</th>
<th>Remarks</th>
<th>State of preparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Agriculture and Fisheries and Scottish Office</td>
<td>Agricultural Safety</td>
<td>20</td>
<td>To implement certain recommendations of the Committee on Safety, Health and Welfare in Non-Industrial Employment</td>
<td>To be considered by Home Affairs Committee on 7th December. Could start in House of Lords.</td>
</tr>
<tr>
<td>Home Office and Scottish Office</td>
<td>Civil Defence</td>
<td>10</td>
<td>To amend provisions of 1948 Act in regard to grants to local authorities and to deal with the incorporation of shelter in new buildings</td>
<td>Policy to be considered by Home Affairs Committee early in January.</td>
</tr>
<tr>
<td>Home Office and Scottish Office</td>
<td>Foreign Visiting Forces</td>
<td>15</td>
<td>Needed to implement United Kingdom undertakings under the North Atlantic Treaty. Likely to supersede all existing legislation relating to jurisdiction over visiting forces, entry facilities, aliens restrictions and taxation privileges</td>
<td>Policy to be considered by Home Affairs Committee on 7th or 14th December.</td>
</tr>
<tr>
<td>Ministry of Housing and Local Government and Scottish Office</td>
<td>Housing</td>
<td>8</td>
<td>To fulfil a pledge given in the Debate on the Address that local authorities’ housing subsidies would be reviewed</td>
<td>Awaiting review of the position of pensioners by Sub-Committee of Home Affairs Committee.</td>
</tr>
<tr>
<td>Ministry of National Insurance</td>
<td>Industrial Injuries</td>
<td>8</td>
<td></td>
<td>To follow English Bill.</td>
</tr>
<tr>
<td>Scottish Office</td>
<td>Housing</td>
<td></td>
<td></td>
<td>Policy approved and Bill drafted subject to further negotiations with interested parties.</td>
</tr>
<tr>
<td>Scottish Office</td>
<td>Lands Valuation (Scotland)</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Supply</td>
<td>Iron and Steel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Trade</td>
<td>Monopolies and Restrictive Practices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Transport</td>
<td>Road Haulage</td>
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<td></td>
<td></td>
</tr>
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</table>

### Group V.—Bills for which no date can yet be given

<table>
<thead>
<tr>
<th>Department</th>
<th>Subject</th>
<th>Remarks</th>
<th>State of preparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Defence</td>
<td>Reserve Forces</td>
<td>To remove doubts as to the validity of certain powers under the 1939 emergency legislation</td>
<td>Policy approved by Cabinet on 4th December.</td>
</tr>
<tr>
<td>Home Office and Scottish Office</td>
<td>Licensing</td>
<td>To deal with the ownership of licences of public houses in new towns</td>
<td>Awaiting decision of possible extension of legal aid to County Courts.</td>
</tr>
<tr>
<td>Lord Chancellor’s Office</td>
<td>Administration of Justice</td>
<td>To increase the jurisdiction of the County Courts</td>
<td></td>
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</tbody>
</table>
### Group V.—Bills for which no date can yet be given (continued)

<table>
<thead>
<tr>
<th>Department</th>
<th>Subject</th>
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<th>State of preparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Master-General's Department</td>
<td>Atomic Energy</td>
<td></td>
<td>To amend the Atomic Energy Act</td>
<td></td>
</tr>
<tr>
<td>Justice Office</td>
<td>Deer Poaching</td>
<td>12</td>
<td>To increase penalties for deer poaching</td>
<td>Possibly a House of Lords Bill. Policy before Home Affairs Committee on 7th December</td>
</tr>
<tr>
<td>Justice Office</td>
<td>Herring Industry</td>
<td>6</td>
<td>To extend the period during which advances may be made to the Herring Industry Board</td>
<td></td>
</tr>
<tr>
<td>Board of Trade</td>
<td>Exports Credits</td>
<td></td>
<td>To raise the present limits of liability</td>
<td></td>
</tr>
<tr>
<td>Board of Trade</td>
<td>Cinematograph Film Production (Special Loans)</td>
<td></td>
<td>To permit further loans to be made to British Film Corporation</td>
<td></td>
</tr>
</tbody>
</table>

### Group VI.—Bills which may be included if time permits

| Ministry of Education and Scottish Office | Teachers' Superannuation | 12 | To enable contributions to be increased. A separate Scottish Bill may be needed | |
| knit Office | Geneva Conventions | 25 | To enable four Conventions regarding Armed Forces and civil victims of war to be ratified | |
| knit Office | Royal Irish Constabulary Widows' Pensions | | To enable pensions to be paid to widows of members of the R.I.C. who died before 1922 and to enable pensions of widows of men who transferred to the R.U.C. in 1922 to be supplemented | |
| Board of Trade | Insurance | | Required to prevent difficulties in English Courts following agreements made under Peace Treaties | |
TIN AND STEEL NEGOTIATIONS WITH THE U.S.A.

Memorandum by the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster and the Minister of Supply

Since March last the United States, in an effort to break the price, have refrained from buying tin from the sterling area. As well as losing us dollars, this has been the cause of a good deal of ill-feeling which may increase in the very near future if, as is likely, the United States is soon forced to resume tin purchases through exhaustion of commercial stocks. In this memorandum, we examine this problem, and put forward suggestions for resolving the deadlock in a way acceptable to the Americans, as part of an arrangement under which we could secure from the United States in 1952 one million tons of steel.

Nature and history of the problem

2. The price of tin rose steeply from the outbreak of hostilities in Korea until February, 1951, when it reached £1,600 a ton. The Reconstruction Finance Corporation, who were buying tin metal for the United States strategic stockpile, considered that this price was unreasonably high and in March last announced that they were withdrawing from the market indefinitely. This was followed shortly afterwards by a further announcement that they had taken over the purchase of all tin for the U.S.A. The price has now come down to around £900 a ton. The position in the U.S.A. is fast becoming critical as ordinary stocks (i.e. excluding the strategic stockpile estimated at around 150,000 tons) are very low and the U.S. Government is faced with two alternatives:

(a) To re-enter the market, which would send prices up again and result in further accusations that the producers were "gouging" the American taxpayers.

(b) To release tin from their strategic stockpile, which, besides causing political difficulties in the U.S.A., would be a dangerous precedent as it would amount to using their stockpile as an economic weapon to influence prices; it would also provoke violent reactions in Malaya and other tin-producing countries.

3. The U.S.A. could not accept alternative (a) without considerable loss of face and an aggravation of the ill-feeling which has already been generated. We therefore consider that the best interests of both sides would be served by assisting the Americans to get supplies of tin and using the goodwill so acquired as a means of obtaining steel from the U.S.A. This would be in line with recent American suggestions for reciprocal aid in the field of raw materials. We have gained much goodwill and some advantage from our recent loan of 10,000 tons of aluminium to the United States.
4. It is believed that the best method of approach would be to link the two commodities on a partial barter basis. Our requirements of steel in 1952 are 1½ million tons above what is so far in sight. While all of this could not come from the United States we need a minimum of 1 million tons of American steel. In making any offer of tin for steel we must, however, make sure that the steel so obtained is over and above the quantity which we might expect to obtain on the basis of the U.S. allocation for the first quarter. This is about 500,000 tons.

5. We propose, therefore, that discussions should at once be started in Washington looking towards an agreement between the President and the Prime Minister on the following lines:

(a) The U.S. undertake to make available to the United Kingdom in 1952 500,000 tons of steel of types and specifications to be agreed between officials, deliveries to be made evenly throughout the year;

(b) In addition to the steel to be made available under (a), the U.S. undertake to make available in 1952 a further 500,000 tons of steel of types and specifications to be set out in the agreement, deliveries to be made evenly throughout the year. This further 500,000 tons to be paid for by 20,000 tons of tin to be made available by the United Kingdom to the United States, deliveries to be made evenly throughout the year, pari passu with steel deliveries from the United States;

(c) The United States undertake to make available to the United Kingdom not less than 500,000 tons of steel under (a) and (b) together in the first half of 1952.

6. The tin for the transaction would be bought on the market. This might involve the United Kingdom in paying prices for tin higher than those on which the steel/tin ratio was calculated: the result of such an increase of expenditure by the United Kingdom would, in effect, be payment of a higher price for the 500,000 tons of barter steel than for the other 500,000 tons. The proposal is that any increased cost arising from this course should be spread over consumers of United Kingdom steel generally. (The Minister of Supply dissents from this proposal.) In this way the barter deal could be carried through without loss to the Exchequer.

7. The quantity of tin mentioned (20,000 tons) would not of itself solve the American difficulties, but it would come very close to doing so if the U.S.A. set itself out to come to an agreement with its other suppliers, Bolivia, Indonesia and the Belgian Congo, with all of whom she is in dispute about price.

8. The scheme will not be easy to negotiate in detail or to administer in practice; but the countervailing advantages are in our opinion well worth while. This U.S./U.K. co-operation in the raw material field would show how the resources of the two countries can be used to the advantage of the joint defence effort. It would break the tin deadlock, which is the worst difficulty between ourselves and the U.S. in the raw materials field. It would provide us with steel, which is our main raw material need from them.
Recommendation

9. We therefore recommend that an immediate approach should be made in Washington to the U.S. Government along the lines indicated in paragraphs 4 to 6 and that, if the reception is favourable, the detailed negotiations should start with a view to the completion of the agreement during the Prime Minister's visit.

R. A. B.
SWINTON
D. S.

11th December, 1951.
THE BUILDING INDUSTRY AND THE HOUSING PROGRAMME

MEMORANDUM BY THE MINISTER OF HOUSING AND LOCAL GOVERNMENT

The double effect of financial economies and shortage of steel is likely to have a marked effect upon the building industry.

2. This at once presents a danger and offers an opportunity. The postponement of starting dates and the widespread talk of a serious restriction of the building industry will make contractors and workmen uneasy. It would be fatal if fear of unemployment caused a slowing up of work or an unwillingness to recruit apprentices. On the other hand, we have a great chance of pressing forward with those forms of building which do not require any large quantity of steel, and thus are not in competition with defence and other vital requirements.

These are house-building, conversions of houses into flats, house-repairing and general repairing. It is vital to make full use of the craftsmen who may become available.

3. After discussion with the Cabinet Building Committee, the Minister of Works and I put forward these proposals:—

4. I ask authority to build new houses, with the necessary housing services, at the rate of 300,000 houses a year (Great Britain figures). I should hope to reach this result by stages, viz.:—

<table>
<thead>
<tr>
<th>Year</th>
<th>Houses</th>
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<tbody>
<tr>
<td>1952</td>
<td>230,000</td>
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<tr>
<td>1953</td>
<td>260,000</td>
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<tr>
<td>1954</td>
<td>300,000</td>
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</table>

If I can do better, I will.

5. This would make 800,000 in the first three years of the Government's life. I have already put these proposals to the Investment Programmes Committee.

If this 3-year plan is approved, the Minister of Works can begin to plan necessary materials and fittings on a steadily expanding basis.

6. The shortage of steel for building work has caused us to review the arrangements for house conversion and building maintenance.

The Minister of Works finds that the licensing system in force is inflexible.

The value of the work which he may license is now restricted to 80 per cent. of the amount authorised in 1949. Since then costs have risen, and there are serious arrears. Thus the amount is insufficient to provide conversion into flats and reconditioning of houses to the extent that is desirable.

7. He therefore asks for a restoration of the 20 per cent. cut on the 1949 figure. This would form a reserve against which licences would only be given where there is a surplus of building resources and after consultation with the Departments concerned so as not to impinge upon approved building programmes, including new houses.

8. I have consulted the Secretary of State for Scotland, who agrees with these proposals.

H. M.
Houses for Needs of Other Government Departments

Memorandum by the Minister of Housing and Local Government

If the proposals for the expansion of the housing programme described in C. (51) 43 are approved by the Cabinet I wish to meet the urgent housing needs of other Government Departments. The Ministry of Supply and the Service Departments have asked us to provide 18,000 houses. The Board of Trade and the Ministry of Labour have also asked for additional houses to house labour for defence or export. More houses are also needed for miners.

I make these suggestions -

1. The Local Authorities should make this provision. No new organisation should be necessary.

2. They will be given additional allocations on the assurance that they will let houses to meet these special needs.

3. We should, where necessary, grant additional Exchequer assistance to them for this purpose. *(see footnote)*

4. We will agree on the number of houses and the programme.

5. Individual proposals will be handled by consultation between officers of the Treasury, our Departments and the sponsoring Department interested.

These houses will be included within whatever figure is approved for the housing programme.

I have discussed these suggestions with the Secretary of State for Scotland who agrees.

H. M.

Ministry of Housing and Local Government, S. W. 1.

15th December, 1951.

*Note: This will be necessary, for example, where the cost of building these houses is increased by the necessity for importing building labour or where the number of houses to be built would otherwise impose an unreasonable burden on the rates.*
CABINET

CIVIL INVESTMENT IN 1952

NOTE BY THE CHANCELLOR OF THE EXCHEQUER

I attach for consideration a report on the investment programme which has been prepared by officials at the request of the Sub-Committee of the Economic Policy Committee. I shall be circulating my own comments on this report in a separate paper.

R. A. B.

Treasury Chambers, S.W. 1,
17th December, 1951.
CIVIL INVESTMENT IN 1952 AND 1953

REPORT BY THE INVESTMENT PROGRAMMES COMMITTEE

We have been instructed to report urgently on the investment programme for 1952 on the following provisional assumptions:

(a) That the civil building programme should be reduced sufficiently to enable £90 million of defence building work other than maintenance to be done at 1950 prices without overloading the building industry. This is equivalent to £105 million at 1951 prices.
(b) That investment in engineering products should be reduced by £100 million per annum at factory prices below the estimated level in 1951. This means a reduction of £140 million in the plant, machinery and vehicles element in the present 1952 approved investment programme.

We shall report further on the investment programme for 1953.

2. For the purpose of this Report we have ourselves made two further assumptions:

(i) That if the level of steel supplies in 1952 should exceed present estimates, the increase will have to go first and foremost to exports. There is thus little prospect of relief for home investment whether in plant or in building.
(ii) That it is desired to increase the housing programme.

3. The present investment programme for 1952, in terms of end-1951 prices, is given in the following Table, together with, for comparison, estimates of the outturn of investment in 1950 and 1951. We have made an overall increase of about 15 per cent. in respect of the increase in prices since the compilation of the previous programme:

<table>
<thead>
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<th>TABLE 1</th>
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<tbody>
<tr>
<td><strong>GROSS FIXED INVESTMENT</strong></td>
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<tr>
<td><strong>£ million at end-1951 prices</strong></td>
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<td></td>
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</tr>
<tr>
<td>Civil—</td>
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<tr>
<td>New building</td>
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<tr>
<td>Plant, machinery and vehicles</td>
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<tr>
<td>Building repairs</td>
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<tr>
<td>Total, civil</td>
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<tr>
<td>Defence—</td>
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<tr>
<td>New building</td>
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<td>Plant and machinery</td>
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<td>Building repairs</td>
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<td>Total, defence</td>
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<tr>
<td>Building repairs</td>
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<td>Total, civil and defence</td>
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41583
The building part of the programme for 1952 is much in excess of the resources available and, even so, does not provide for an increase in housing or for certain other increased demands of high essentiality. On the plant and machinery side it is far more than can be done without a fall in exports if the defence programme is achieved.

The Building Programme

4. The output of the building industry increased by 5–6 per cent. per annum in 1949 and 1950 with a constant labour force. It is still far below the pre-war level. The programme for 1951–53 assumes an increase of 5 per cent. per annum, but the achievement in 1951 is estimated to be rather less than in 1950. As a result there is a general state of overload. Far more work has been approved than can be undertaken with the materials and labour available. This is due to a combination of the following factors:

(a) The addition at the end of 1950 of some £80 million of defence work to the 1951 programme. The volume of other work being attempted was not reduced either sufficiently, or soon enough, to balance this addition, which was forced into the programme with priority starting dates.

(b) Adverse weather last winter and spring.

(c) Shortage of building steel, and to some extent of bricks, during 1951.

The present position is that, except in certain outlying areas (e.g. Wales, West Country and the north of Scotland) the building industry is generally overloaded, and starting dates (except for defence projects) are being deferred from three to nine months. (Housing does not come under the starting date procedure.)

5. Optimum building output is obtained by attempting a programme rather less than the best that could in theory be achieved, because this ensures a ready flow of materials to work in hand. The benefit comes in quicker completions.

6. The remedy for the present situation is therefore to defer new starts and cut down the building programme to a size which will accord reasonably with the labour and materials available. Unless this is done there will be general delay due to shortages.

7. After discussions with those concerned we have reached the following conclusions about building materials and labour:

(a) Bricks.—A 10 per cent. increase of output over 1951 would be feasible in favourable conditions, but the labour supply in the brickyards is very uncertain. This would give 600 million more bricks in 1952. In 1953 a further increase of 400 million might be achieved.

(b) Cement.—There should be enough for home requirements and exports at present levels.

(c) Building steel.—It will not be possible in 1952 as a whole to increase materially the rate of allocation approved for the first quarter of 1952 (i.e. 231,000 tons) which is believed to be less than was actually used in 1950. We understand that the general steel position is so acute that no more steel can be diverted to building without serious effects on other work.

(d) Labour.—No increase in the number of craftsmen is feasible. They may even decline in number through failure to replace losses. Adult training is very desirable but attempts to arrange this have failed hitherto. In any case it could not now alleviate the position in 1952.

These factors affect different parts of the building programme differently. Annex I shows the component elements classified by consumption of building steel per £1 million of new building work. The top groups in this classification use about twenty-five times as much steel as the bottom groups, and unfortunately include the investment which is most essential for raising the level of industrial production. Very large reductions in the lower groups would be required to alleviate to an appreciable extent the severe shortage of steel which is affecting the middle and higher groups. On the other hand, brick requirements for industrial building, though substantial are not relatively so high as for those categories of work which use little steel, e.g. housing, health services.
8. Our general conclusion is that output of building work in the heavy steel-using groups in 1952 cannot exceed and may fall short of 1950, on the assumption that no more steel can be made available. Therefore we have endeavoured to impose the largest cuts on those heavy steel-using programmes which, although important, must give way to other more basic investment needs which must be protected as far as possible. On the assumption that the building steel allocation remains at or about the present level serious consequences cannot be avoided, particularly on the programmes for manufacturing industry, and water and sewerage, in which much work already licensed and some in progress will have to come to a stop.

The Housing Programme

9. The Ministry of Housing and the Department of Health for Scotland have proposed to us that the combined housing programme for England and Wales and Scotland should be:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Houses</th>
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<tbody>
<tr>
<td>1952</td>
<td>230,000</td>
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<tr>
<td>1953</td>
<td>260,000</td>
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<tr>
<td>1954</td>
<td>300,000</td>
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</table>

compared with 200,000 houses in the previous programme. They put the cost of this programme as £371 million in 1952, an addition of £30 million (at 1951 prices) to the approved programme. The Ministry of Housing estimate that in 1953 25 per cent. of the houses completed might be of the new type. 25 per cent. might also be built under private licence. These would, we understand, tend to be larger than the type of house hitherto built by the local authorities, and so offset some savings from the adoption of the new standards. By 1954 the new types may fill half the whole programme.

10. The 1952 housing programme is already largely planned and there will be virtually no savings in labour and materials in that year from the new types of houses. The programme proposed by the Departments will, therefore, require about 15 per cent more bricks and labour than in 1951. The additional brick requirement is about 600 million more than in 1951. This is equivalent to the whole of the probable increase in output. The additional labour will have to come either from an increase in productivity by the existing labour force engaged on housing, or from labour drawn away from other work. Even if there were in 1952 an increase of 6 per cent. in productivity by labour now working on housing, this would provide only about 12,000 additional houses, leaving 18,000 to be provided for at the expense of other work.

11. In 1953 it is expected that the requirements of labour and materials for additional houses will be found only to a small extent from savings from the inclusion of the new types of houses in the programme. Even if productivity on housing and on other building work which uses little steel rises by 8 per cent. between 1950 and 1953 additional labour and resources would have to be found from other forms of building work for another 30,000 houses in 1953. Another 500 million bricks would be needed, which is the whole of the further increase of brick production which might be obtained in 1953.

12. The proposed housing programme will require approximately an additional 45,000 standards of softwood in 1952, and an additional 90,000 standards in 1953. This can only be found in 1952 by increasing imports from non-sterling sources or by raiding the strategic stockpile.

Investment Linked with Housing

13. The housing programme gives rise directly to a substantial volume of investment in other programmes—for example, water and sewerage, electricity, gas, schools, roads, railway facilities, and postal and telephone work. More churches, shops, public houses, health service buildings, and, in the case of New Towns, factories, offices, entertainments and municipal buildings have to be provided. On a broad estimate this investment might be put at about £50 million a year for a housing programme of 200,000 houses. An increase in the housing programme entails an increase in this ancillary investment.
Recommendations

14. Our recommendations are based on discussions, necessarily brief, with the Departments who control large programmes, but rest solely on our own judgment. Since the function of the Investment Programmes Committee is arbitral the proposals do not carry the agreement of the Departments concerned. We must make it clear that nearly all the proposals for reductions are regarded by the officials concerned with the particular programmes as seriously damaging. In the case of some nationalised industries, it has not in all cases been possible in the time available to get the views of nationalised Boards.

15. The main principles of our proposals are:

(1) That the revised programme in money terms should be somewhat above what can be achieved with the probable availability of building steel. This allows for greater emphasis in departmental programmes in projects which require little steel. Under our proposals building steel requirements will be 10-15 per cent. above current availability on the assumption that the steel requirements are reduced in proportion to expenditure on new work.

(2) That the total building programme, including housing, should not exceed 1950 levels except in so far as an increase in productivity can be expected on housing work, and some allowance can be made for transfer of labour now on maintenance work.

(3) That plant and machinery and vehicles should be reduced where the least economic damage is likely to result, and so far as possible in harmony with the reductions in building.

Table II summarises our proposals:

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<th>TABLE II</th>
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<tbody>
<tr>
<td>GROSS FIXED INVESTMENT</td>
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<tr>
<td>£ million at end-1951 prices</td>
</tr>
<tr>
<td>1950</td>
</tr>
<tr>
<td>New building</td>
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<td>---</td>
</tr>
<tr>
<td>Civil investment—Fuel and power</td>
</tr>
<tr>
<td>Transport and communications</td>
</tr>
<tr>
<td>Ships</td>
</tr>
<tr>
<td>Iron and steel</td>
</tr>
<tr>
<td>Manufacturing industry</td>
</tr>
<tr>
<td>Agriculture, forestry and fisheries</td>
</tr>
<tr>
<td>New houses</td>
</tr>
<tr>
<td>Social services and administration</td>
</tr>
<tr>
<td>Total, principal sectors</td>
</tr>
<tr>
<td>Northern Ireland</td>
</tr>
<tr>
<td>Miscellaneous</td>
</tr>
<tr>
<td>Total, civil investment</td>
</tr>
<tr>
<td>Defence investment</td>
</tr>
<tr>
<td>Total, civil and defence investment</td>
</tr>
</tbody>
</table>

(*) See Annex II, Note (a).

16. These proposals are set out in more detail in Annex II, and it is the programmes there given which are now put forward for Ministerial consideration.
Annex III summarises the effects on individual programmes. The main consequences and decisions involved are as follows:

**Fuel and Power**

Coal, coke ovens and petroleum receive the programmes asked for. The petroleum programme is, we are informed, above the level which can be achieved with the current steel allocation, but it is all directly contributing to dollar saving and gives a high return on the steel used. We have, therefore, not proposed any reduction in it.

**Electricity**

A reduction of £8 million is proposed. A restriction of this programme in 1952 will also produce a saving in total investment expenditure in 1953, when the electricity programme proposed by the Ministry of Fuel and Power will otherwise increase by another £20 million. We have emphasised before the need for measures to restrict domestic peak demand for electricity as an alternative to the rapid increase in investment in new capacity. If the reduction we propose is made, this will be all the more necessary. The programme put forward by the British Electricity Authority proposes for an increase in the volume of work on distribution of £4 million in 1952 over 1951, and we think that considerable savings might be made in this field. We are advised that about £2 million could be saved in 1952 by an immediate decision to discontinue rural electrification, which is a most costly form of investment. In so far as the savings proposed cannot be made on distribution, they will entail some slowing down of the construction of power stations and the installation of new generating plant. In view of the prospective difficulties in meeting the demand for electricity at peak hours, this is a serious matter. On present estimates of demand, it would prolong beyond 1956 the period during which there will still be a considerable shortage at peak hours in cold weather in a normal winter, and therefore a continued need for organised load spreading. The implications of this are such that the matter might have to be made the subject of a public statement. In view, however, of the extreme difficulties which will result from the shortage of steel for manufacturing industry and other important programmes and the necessity of finding more steel for investment in petroleum, we think that the proposed reduction should nevertheless be made.

**Gas**

A reduction of £4 million on the approved programme. A much larger programme is desired and would be feasible if there were steel available.

**Transport and Communications**

**Railways.** — Our recommendation is probably rather above what the steel allocation, continued at the present levels, will allow to be done. Even so, there will have to be a considerable reduction in the production of rolling-stock, though we hope that the wagon programme will be protected as far as possible. Provided that steel can be made available it should be possible to achieve the desired level of track maintenance. We have received representations, signed personally by the Chairmen of the Railway Executive and the Transport Commission, asking for a substantial increase in the Railway Executive programme for 1952 and a further increase in 1953. Though we recognise the high importance of railway investment, we cannot feel that these proposals are practicable in present circumstances, having regard to the shortage of steel.

**Ships.** — Our proposal is in line with the steel allocation. The output of new ships will be reduced to 10 per cent. below current levels at a time when order books are fuller than ever before. Shipbuilding is a large contributor to exports, both visible and invisible, and also to defence needs. The Admiralty expect that labour will be lost to the industry if this reduction takes place and urge the seriousness of this for the future, both in peace and war. We understand that it is not possible to allocate steel to the shipbuilding industry in such a way as to favour production of ships for United Kingdom owners as distinct from foreign owners, and that there is no other way of securing this result.

**Motor Vehicles.** — Supplies for home use would be reduced to 60,000 commercial vehicles and 60,000 passenger cars. This is 25 per cent. below the reduced quotas already envisaged for next year and a much larger reduction on the
supplies made available in 1951. It is uncertain whether more vehicles can be sold abroad as 60 per cent. to 70 per cent. of the output is already exported. The result of the proposal may therefore be to reduce the total output and divert steel to other purposes. The Ministry of Supply have pointed out that in a mass production of this kind reduction of total output raises costs and reduces competitive power in foreign markets. This will be to some extent offset by the defence orders placed on motor industry firms.

Agriculture

A reduction of 30 per cent. in agricultural machinery for home use is proposed, and a cut of £3.5 million, or about 15 per cent. on building including farm building and arterial water courses.

Social Services

Housing.—We propose that the increase in the housing programme should be 15,000 houses as compared with the 30,000 houses proposed by the Housing Departments. Our reasons for making this proposal are more fully set out in paragraph 18 below.

Water and Sewerage.—The major part of this programme, other than work linked with housing, will, we are informed, have to stop in mid-progress, though some of it is essential for important industrial development work planned or in prospect.

Education.—In the general circumstances set out in this Report we have felt it to be necessary to propose a substantial cut in the educational building programme of £7.4 million for England and Wales and £1 million for Scotland. This will not be achieved unless the rate of new starts in 1952 is closely restricted. We think that if approval is given to the limited programme that we propose, it should be made clear that it may not be possible to provide the steel required to achieve all the steel-using work which the Ministry would like to undertake within this total.

Health Services.—No new work using much steel could be begun and some may have to stop. There is urgent need for the construction of new hospitals, both general and mental. Improvements are required at many hospitals to raise the administrative efficiency, and new increased provision for old people’s homes. On the proposed level of investment the standard of the service will, we are advised, deteriorate.

Manufacturing Industry

Over the whole field a reduction of about 25 per cent. in new building work is proposed. This means that very few new projects can be licensed in 1952 except at the cost of stopping work already licensed. Since some projects must be allowed to start a considerable amount of building work already licensed and some now in progress will have to be stopped. Our proposal is rather less severe than the current level of building steel allocation, but there must be some scope for allowing buildings in this field to proceed when they use less steel and more bricks than the average. So far as this can be done it is, in our view, highly desirable that it should be done. The purchase of plant and machinery by manufacturing industry are estimated at about £310 million in 1950. To some extent not precisely determinable and varying in different fields, this investment is linked with new building work. But the reductions in new building work, if approved, not affect the demand for plant and machinery very much in 1952. There is no form of control over investment in plant and machinery for replacement purposes. In order to obtain the full reduction required, £140 million in the 1952 programme, it will be necessary to reduce this total of £310 million by about 15 per cent. A corresponding reduction is required in investment in miscellaneous plant and machinery, which amounted to about £70 million in 1950.

Control of Plant and Machinery Investment

17. It is not possible to control home investment of this type satisfactorily through steel alone because, if output is restricted, home demand may, and often does, displace exports. Since the objective is to raise exports of this machinery quickly special measures will have to be taken. The same problem in effect arises on
investment in vehicles and agricultural machinery. The methods of controlling investment in this field on which we have hitherto relied are:

(a) restriction of building licensing;
(b) exhortation by the Ministry of Supply to the engineering industry to export up to fixed proportions of their product, or—as with the motor industry—to observe voluntarily a home market quota. Backed by the control of steel distribution, this will become more effective.
(c) fiscal measures—for example, purchase tax on cars and commercial vehicles, and the withdrawal of initial taxation allowances which was announced last April and will take effect in April next.

To achieve a reduction of the size now needed these three methods are probably inadequate. (a) is slow and only partial in its effects, (b) operated adequately so long as total supplies for home and export were increasing, but will be much less effective for reducing an existing level of home supply in the face of rising home demand and (c) is designed to lower the general level of demand but has not yet had any noticeable effect on the problem. We have not been able in the time available to measure this problem in detail but we have discussed it with the Ministry of Supply. In our view the field of possible new measures is:

(i) a compulsory system of licences to acquire plant and machinery above certain value levels;
(ii) a compulsory system of limitation of sales to the home market applied at the manufacturing end. This would make it an offence for a firm to sell in the home market more than X per cent of what it sold in a base period;
(iii) further fiscal or credit measures.

A system of limitation of supplies ((ii) above) is a statutory form of what is now done by the exhortation by the Ministry of Supply to export. In our view this is the most hopeful line and likely to produce less formidable administrative difficulties than license to acquire. License to acquire makes possible discrimination between firms, but if adopted on a large scale necessitates the employment of a large force of technicians to advise on the respective merits of applications for licences. It may be, therefore, that to achieve the result needed, a blend of all three types of measures is required. We recommend that a closer examination of these possibilities be made by officials as soon as possible. It would, no doubt, be desirable thereafter for the whole matter to be discussed with leaders of industry at a high level.

The Effects of a Further Increase in the Housing Programme

18. In spite of the severity of the cuts imposed and the adverse consequences which will follow, the total of new building work other than housing to be done in 1952 under the reduced programme will be approximately the same as in 1950. The question is, therefore, how far the housing programme can be increased without overloading the building industry if no further cuts are made in other building programmes. In paragraph 10 above we have shown that labour for 12,000 additional houses might be found in 1952 if there were a 6 per cent. increase in productivity by the existing housing labour force. This is a higher increase than we believe to be probable. The Ministry think that labour can be drawn away from minor maintenance work. A total of the order of £740 million* maintenance and repair work is done each year. Over half of this is minor maintenance work, below the licensing limits, to houses and business premises. Large maintenance jobs are licensed and have been closely restricted for two years. In our view it is neither desirable that much labour should be drawn away from necessary large maintenance work nor probable that any considerable balanced labour force for housing can be found in this way. We, therefore, conclude that if a programme of 230,000 houses in 1952 were adopted, this would mean that the labour for at least 18,000 houses would have to come from other work, and that most of this would have to be drawn away from other new building work. If this is a correct assessment it follows in our judgment that, if a continuing state of overload is to be avoided, and if the full housing programme is to be undertaken the right course would be to restrict new building work other than housing below 1950 levels during 1952.

* This estimate is based not on the number of men employed but on the returns made by firms to the Ministry of Works of the value of work done from the total of which is deducted the total of work licensed.
This would mean increasing the cuts now proposed at the expense of building work in progress, and, in particular, would mean a further restriction of building for industrial purposes. For this reason we recommend that the increase in the housing programme in 1952 should not exceed 15,000 houses. This number might, on an optimistic view, be manned by increased output of the existing labour force and some withdrawal of labour from minor maintenance, and would absorb half of the additional brick supplies which seem probable in 1952, leaving some margin to take care of local shortages and to allow for increased use of bricks for industrial building in lieu of steel.

If, in spite of these considerations, it is decided to aim at a target of 30,000 more houses in 1952, then we think that this can only be done without overloading the building industry and prejudicing the accomplishment of other building programmes at the reduced levels now recommended if housing is brought within the starting-date procedure. It is through this procedure that flexibility according to local conditions and the progress of productivity in the building industry can best be achieved. The Housing Departments are, however, opposed to this proposal.

Flexibility in the Programme

19. The starting-date system provides a degree of flexibility but it does not at present apply to housing or to work done by local authorities and others with their own direct labour, which are a large part of the whole. Flexibility is also provided by the fact that Departments have general discretion within their programmes as to what work they do and where they do it. There is nothing to stop houses or schools being built first where early starting dates can be given, provided the total programme in money terms is not exceeded, though, of course, the greatest needs may be elsewhere. It has often been proposed that there should be discretion to license maintenance work more freely in the lightly loaded areas whenever building labour is in danger of under-employment. This has much to commend it, but it seems to us inconsistent with the objective of drawing labour away from maintenance and repair work to the housing programme, defence work and other essential building. It will be possible to adjust regional ceilings for maintenance work relatively to one another when the 15 per cent. increase for prices is distributed to the regions, and the underloaded regions could then be favoured. On the whole, we do not favour this proposal, but if it is decided to have a system of this kind we think it should be confined to licensed maintenance work and to conversion and improvement work on housing. Apart from this, the development of any real slack in the system should be the occasion of a special review of the programme.

Halting Work in Progress

20. We are advised that work in progress can be stopped by the cancellation of licences without incurring legal penalties. This was done in 1947, when 269 licences were in fact revoked. Cancellations should, so far as possible, only be made in the early stages of building work and before steel erection has begun. Where a building has to be slowed down or stopped at a later stage it may be more appropriate to achieve this by restricting the steel allocation, but in all cases where work has not begun it is clearly desirable to inform the promoter definitely if the prospect is that the project cannot proceed.

Relation of the Investment Programme to the Steel Allocations

21. It should be made clear that it is not possible to draw up programmes in terms of money which accord accurately with any given level of steel supply. The programme we now put forward allows a considerable margin to enable Departments to switch to work which uses little steel. To the extent that they can do this they will be able to spend up to the limit of the programme. It follows that approval of the investment programme at any given level must not be taken to imply that the full steel requirements for the programme can necessarily be met in the steel allocations.

Announcement

22. If proposals on these lines are approved it will be necessary for an early public statement to be made on the circumstances which give rise to them. The cuts on manufacturing industry, for example, can clearly not be imposed without on authoritative Ministerial statement.
Northern Ireland

23. We have made no reduction in this, but, since Northern Ireland may not get the steel required, there may be a shortfall in the programme.

Conclusions

The approval of Ministers is sought for—

(a) the programme for 1952 revised as proposed in the last column of the Table in Annex II, subject to their decision on the size of the housing programme in 1952;
(b) in particular, to the reductions proposed in the Electricity programme in paragraph 16, involving suspension of the rural electrification development;
(c) further examination by officials of the methods of controlling plant, machinery and vehicle investment discussed in paragraph 17;
(d) acceptance of the principle that building work in progress must be stopped where necessary to implement the programme;
(e) the preparation by the Investment Programmes Committee of more detailed proposals for 1953 for consideration by Ministers.
### ANNEX I

**CIVIL INVESTMENT, 1952**

Steel required for building and civil engineering other than maintenance

#### TABLE A

**PROGRAMMES USING MORE THAN 1,000 TONS OF STEEL PER £1 MILLION OF WORK DONE**

<table>
<thead>
<tr>
<th>Investment programme</th>
<th>Departmental proposals £ million</th>
<th>Estimated steel requirements 000 tons</th>
<th>Steel required per £1 million work proposed 000 tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron and steel</td>
<td>14.5</td>
<td>140</td>
<td>6</td>
</tr>
<tr>
<td>Railway Executive</td>
<td>8</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>Electricity, B.E.A.</td>
<td>33.8</td>
<td>180.5</td>
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<tr>
<td>Petroleum</td>
<td>14.1</td>
<td>75.6</td>
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</tr>
<tr>
<td>Manufacturing industry—Admiralty</td>
<td>2.2</td>
<td>10.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>50.1</td>
<td>266.4</td>
</tr>
<tr>
<td>Manufacturing industry—Ministry of Health</td>
<td>2</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Ministry of Supply</td>
<td>18</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>Ministry of Food</td>
<td>8.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous investment—Ministry of Food</td>
<td>3.1</td>
<td></td>
<td>3.4</td>
</tr>
<tr>
<td>Ports and inland waterways</td>
<td>7.3</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>London Transport railways</td>
<td>0.9</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Manufacturing industry—Ministry of Works</td>
<td>5.1</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>45.2</td>
<td>163</td>
</tr>
<tr>
<td>Universities</td>
<td>3.5</td>
<td>10.3</td>
<td></td>
</tr>
<tr>
<td>Manufacturing industry—Board of Trade</td>
<td>32.3</td>
<td>93.6</td>
<td></td>
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<tr>
<td>Ministry of Materials</td>
<td>7.5</td>
<td>20</td>
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</tr>
<tr>
<td>Gas</td>
<td>17.2</td>
<td>(45)</td>
<td></td>
</tr>
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<td>Electricity, N.S.H.E.B.</td>
<td>9</td>
<td>19.5</td>
<td></td>
</tr>
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<td>Post Office</td>
<td>3.9</td>
<td>8</td>
<td></td>
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<tr>
<td>Civil aviation</td>
<td>4.6</td>
<td>10</td>
<td></td>
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<tr>
<td>Water and sewerage—England and Wales</td>
<td>34.5</td>
<td>73</td>
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</tr>
<tr>
<td>Scotland</td>
<td>4.1</td>
<td>9.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>116.6</td>
<td>288.9</td>
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<td>Government building</td>
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<td>9.7</td>
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</tr>
<tr>
<td>Arterial drainage</td>
<td>3.6</td>
<td>(6)</td>
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<tr>
<td>Fisheries</td>
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<td>0.9</td>
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<tr>
<td>Education—England and Wales</td>
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</tr>
<tr>
<td>Scotland</td>
<td>5.4</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Coal, deep-mined</td>
<td>11.1</td>
<td>14.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>80.2</td>
<td>112.4</td>
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<tr>
<td>Total, Table A</td>
<td>314.6</td>
<td>1,018.7</td>
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</table>
### TABLE B

**Programmes using 1,000 tons of steel or less per £1 million of work done**

<table>
<thead>
<tr>
<th>Investment programme</th>
<th>£ million</th>
<th>Estimated steel requirements (000 tons)</th>
<th>Steel required per £1 million work proposed (000 tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, excluding arterial drainage</td>
<td>20.3</td>
<td>(22.2)</td>
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<td>Miscellaneous local government services</td>
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<td>5.7</td>
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<tr>
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<td>Scottish Home Department</td>
<td>0.7</td>
<td>0.8</td>
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</tr>
<tr>
<td>B.B.C.</td>
<td>1.0</td>
<td>1.0</td>
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</tr>
<tr>
<td>Northern Ireland</td>
<td>27.9</td>
<td>28.6</td>
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<tr>
<td>Miscellaneous investment—Board of Trade</td>
<td>4.6</td>
<td>5.0</td>
<td></td>
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<tr>
<td>Roads</td>
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<td>5.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>70</td>
<td>71.8</td>
<td></td>
</tr>
<tr>
<td>Health services—Scotland</td>
<td>1.5</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>England and Wales</td>
<td>11.0</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>Forestry</td>
<td>0.6</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>13.1</td>
<td>5.2</td>
<td></td>
</tr>
<tr>
<td>New houses—England and Wales</td>
<td>330</td>
<td>90</td>
<td></td>
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<tr>
<td>Scotland</td>
<td>41.5</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>371.5</td>
<td>98</td>
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<tr>
<td>Total, Table B</td>
<td>454.6</td>
<td>175</td>
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### ANNEX II

#### GROSS FIXED INVESTMENT

£ million at end-1951 prices (see Note (d)).

<table>
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<tr>
<th></th>
<th>1950</th>
<th>1951 Estimate</th>
<th>1952 Approved</th>
<th>1952 Departmental proposal</th>
<th>1952 Recommendation (see Note (d))</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Total</td>
<td>Total</td>
<td>New building</td>
<td>Plant</td>
</tr>
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<td>Civil investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal, deep-mined</td>
<td>30-7</td>
<td>29-9</td>
<td>50-8</td>
<td>11-1</td>
<td>21-1</td>
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<tr>
<td>Hard coke</td>
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<td>9-3</td>
<td>14-4</td>
<td>1-5</td>
<td>7-0</td>
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<td></td>
<td></td>
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<td>B.E.A.</td>
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<td>122-2</td>
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<td>N.S.H.E.B.</td>
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<td>13-0</td>
<td>16-4</td>
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<td>5-0</td>
</tr>
<tr>
<td>Gas</td>
<td>44-3</td>
<td>48-9</td>
<td>51-9</td>
<td>17-2</td>
<td>35-0</td>
</tr>
<tr>
<td>Petroleum</td>
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<td>42-2</td>
<td>49-1</td>
<td>14-1</td>
<td>39-6</td>
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<tr>
<td>Total, fuel and power</td>
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<td>288-5</td>
<td>338-0</td>
<td>86-7</td>
<td>229-9</td>
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<td>71-5</td>
<td>87-4</td>
<td>8-0</td>
<td>43-4</td>
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<td>61-9</td>
<td>68-3</td>
<td>6-4</td>
<td>5-0</td>
</tr>
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<td>5-4</td>
<td>4-3</td>
<td></td>
<td>0-9</td>
<td>2-5</td>
</tr>
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<td>London Transport road services</td>
<td>1-5</td>
<td>2-1</td>
<td>9-7</td>
<td>3-3</td>
<td>0-1</td>
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<td>Great Britain:</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public service vehicles</td>
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<td>30-0</td>
<td>38-0</td>
<td>9-7</td>
<td>28-0</td>
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<td>Commerical goods vehicles</td>
<td>88-0</td>
<td>80-0</td>
<td>78-0</td>
<td>75-1</td>
<td>75-1</td>
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<td>61-9</td>
<td>68-3</td>
<td>6-4</td>
<td>5-0</td>
</tr>
<tr>
<td>Ports</td>
<td>15-3</td>
<td>14-1</td>
<td>17-1</td>
<td>7-1</td>
<td>2-4</td>
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<td>Inland waterways</td>
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<td>1-8</td>
<td>2-0</td>
<td>0-2</td>
<td>0-3</td>
</tr>
<tr>
<td>Civil aviation</td>
<td>19-7</td>
<td>15-3</td>
<td>18-2</td>
<td>4-6</td>
<td>12-0</td>
</tr>
<tr>
<td>Post Office</td>
<td>48-9</td>
<td>42-6</td>
<td>53-1</td>
<td>5-9</td>
<td>36-2</td>
</tr>
<tr>
<td>Total, transport and communications</td>
<td>365-4</td>
<td>323-6</td>
<td>371-8</td>
<td>34-4</td>
<td>200-0</td>
</tr>
<tr>
<td>Ships</td>
<td>95-6</td>
<td>93-8</td>
<td>98-6</td>
<td>96-4</td>
<td>96-4</td>
</tr>
<tr>
<td>Iron and steel</td>
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<td>59-4</td>
<td>57-7</td>
<td>54-2</td>
<td>7-2</td>
</tr>
<tr>
<td>Manufacturing industry:</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New building work:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Board of Trade</td>
<td>44-6</td>
<td>38-3</td>
<td>42-8</td>
<td>32-3</td>
<td>32-3</td>
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<tr>
<td>Ministry of Supply</td>
<td>23-9</td>
<td>17-4</td>
<td>17-8</td>
<td>18-0</td>
<td>18-0</td>
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<tr>
<td>Ministry of Materials</td>
<td>(b)</td>
<td>(b)</td>
<td>(b)</td>
<td>7-5</td>
<td>7-5</td>
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<td>Ministry of Food</td>
<td>10-8</td>
<td>9-3</td>
<td>9-3</td>
<td>8-8</td>
<td>8-8</td>
</tr>
<tr>
<td>Admiralty</td>
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<td>2-0</td>
<td>2-8</td>
<td>2-2</td>
<td>2-2</td>
</tr>
<tr>
<td>Ministry of Works</td>
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<td>4-6</td>
<td>4-6</td>
<td>5-1</td>
<td>5-1</td>
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<tr>
<td>Ministry of Health</td>
<td>1-5</td>
<td>1-6</td>
<td>3-1</td>
<td>2-0</td>
<td>2-0</td>
</tr>
<tr>
<td>Ministry of Housing and Local Government (new towns)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other new work, including new work costing less than £1,000</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total new building for manufacturing industry</td>
<td>110-6</td>
<td>92-5</td>
<td>100-9</td>
<td>95-6</td>
<td>95-6</td>
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<tr>
<td>Plant and machinery for manufacturing industry</td>
<td>310-0</td>
<td>(301-0)</td>
<td>(256-0)</td>
<td>(310-0)</td>
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</table>
### GROSS FIXED INVESTMENT (continued)

£ million at end-1951 prices (see Note (d)).

<table>
<thead>
<tr>
<th>1950 Estimate</th>
<th>1951 Approved</th>
<th>1952 Departmental proposal</th>
<th>1952 Recommendation (see Note (a))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Total</td>
<td>New building</td>
<td>Plant</td>
</tr>
<tr>
<td>Agriculture, Scotland, England and Wales, and private sector, Great Britain:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural drainage:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>gross:</td>
<td>87-8</td>
<td>81-8</td>
<td>89-5</td>
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<tr>
<td>net:</td>
<td>6-1</td>
<td>5-7</td>
<td>1-0</td>
</tr>
<tr>
<td>Total:</td>
<td>94-9</td>
<td>87-5</td>
<td>90-5</td>
</tr>
<tr>
<td>Total, agriculture, forestry and fisheries:</td>
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<td></td>
<td></td>
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<tr>
<td>New build- New build- Total Total Total build- Plant ing Total build- Plant ing total</td>
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<td></td>
</tr>
<tr>
<td>Total, new houses:</td>
<td>342-0</td>
<td>307-4</td>
<td>341-0</td>
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<tr>
<td>Water and sewerage:</td>
<td>26-7</td>
<td>27-9</td>
<td>24-9</td>
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<td>Total, agriculture, forestry and fisheries:</td>
<td>24-9</td>
<td>23-0</td>
<td>29-0</td>
</tr>
<tr>
<td>Miscellaneous local government services, England and Wales:</td>
<td>3-5</td>
<td>3-3</td>
<td>4-0</td>
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<td>Total, miscellaneous local government services, England and Wales:</td>
<td>6-0</td>
<td>5-9</td>
<td>6-0</td>
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<td>Education:</td>
<td>53-8</td>
<td>58-3</td>
<td>68-3</td>
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<tr>
<td>Total, principal sectors above:</td>
<td>1,831-8</td>
<td>1,728-4</td>
<td>1,833-2</td>
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<tr>
<td>Miscellaneous licensed and authorised building, &amp;c.:</td>
<td>126-0</td>
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<td>107-6</td>
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<tr>
<td>Ministry of Works...</td>
<td>3-9</td>
<td>3-6</td>
<td>3-5</td>
</tr>
<tr>
<td>Ministry of Food...</td>
<td>2-9</td>
<td>3-2</td>
<td>3-9</td>
</tr>
<tr>
<td>Ministry of Housing and Local Government...</td>
<td>2-6</td>
<td>4-1</td>
<td>(e)</td>
</tr>
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<td>Blitzed cities:</td>
<td>0-4</td>
<td>0-7</td>
<td>2-0</td>
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<td>New towns:</td>
<td>8-9</td>
<td>8-2</td>
<td>(e)</td>
</tr>
<tr>
<td>Total, miscellaneous licensed and authorised building, &amp;c.:</td>
<td>144-7</td>
<td>128-1</td>
<td>117-0</td>
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### Gross Fixed Investment (continued)

£ million at end-1951 prices (see Note (a))

<table>
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<th></th>
<th>1950</th>
<th>1951 Estimate</th>
<th>1952 Approved</th>
<th>1952 Departmental proposal</th>
<th>1952 Recommendation (see Note)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Total</td>
<td>Total</td>
<td>New building</td>
<td>Plant</td>
</tr>
<tr>
<td><strong>Civil investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(cont.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Passenger cars</td>
<td>128.0</td>
<td>130.0</td>
<td>81.0</td>
<td>—</td>
<td>(5)</td>
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<tr>
<td>Other (e)</td>
<td>497.0</td>
<td>511.0</td>
<td>(520.0)</td>
<td>(5)</td>
<td>(70)</td>
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<td><strong>Total, civil investment</strong></td>
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<td>2,547.1</td>
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<td>1,122.6</td>
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<td><strong>Total, defence investment</strong></td>
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<td>170.0</td>
<td>263.0</td>
<td>165.0</td>
<td>123.0</td>
</tr>
<tr>
<td><strong>Total, civil and defence</strong></td>
<td>2,725.0</td>
<td>2,718.0</td>
<td>2,871.0</td>
<td>998.0</td>
<td>1,245.0</td>
</tr>
</tbody>
</table>

**Notes.**

(a) The recommendation refers to total investment, shown in the final column. The analysis between new building, plant and building repairs is our assessment of how the recommended total might be split.

(b) Included under Board of Trade and Ministry of Supply.

(c) Included under the final item “Other.”

(d) The estimates of 1950 achievement and 1952 approved programme have been converted to end-1951 price levels by assuming the following price increases:

- New housing: 18 per cent.
- Other new building: 19 per cent.
- Plant and machinery: 14 per cent.
- Building repairs: 15 per cent.

The estimates of 1951 achievement have been converted to end-1951 price levels by assuming increase of price of 3, 3, 5 and 2 per cent. respectively.

(e) This item includes: plant and machinery for miscellaneous industries and services (e.g., laundries, hotels, quarries, warehouses); building repair expenditure exempted from licensing (e.g., on houses, shops, factories); certain plant, &c., for water undertakings excluded from the figures for water shown elsewhere in the table (about £10 million each year).

(f) This represents the estimated value of 60,000 vehicles.

(g) This represents the estimated value of work done corresponding to completion of 215,000 houses.
ANNEX III

INDIVIDUAL PROGRAMMES

Deep Mined Coal

1. The National Coal Board have hitherto failed to achieve their authorised investment programme. Thus in 1951 capital expenditure is unlikely to exceed £28.7 million despite price increases, compared with the approved amount of £36.8 million, which was itself £3 million less than what the N.C.B. expected to do a year ago. Among the reasons given by the Coal Board are lack of planning, unexpected difficulties in executing the work, and shortages of mining machinery and equipment caused indirectly by the Defence programme.

2. The Ministry of Fuel and Power have now submitted a revised programme amounting to £33 million for 1952 and £38 million for 1953 which is stated to be maximum investment realisable. (These fall substantially below the previously approved levels of £44 million and £46 million respectively.) We recommend that the current proposals should be accepted without any diminution whatsoever. Indeed, in view of the vital importance of increasing coal production, it is essential that the N.C.B. should make every possible effort to achieve the greatest practicable rate of investment in the mines even if this entails exceeding in real terms the present proposals.

Hard Coke

3. Hard coke-making capacity must be increased as adequate supplies of metallurgical coke are essential to the expanding steel production programme, especially as the steel industry is becoming increasingly dependent upon pig iron supplies, to a growing extent from lean home ores. Accordingly we propose that this programme should not be cut.

Electricity (British Electricity Authority)

4. The British Electricity Authority have proposed a programme of £160 million for 1952. This provides for an increase in expenditure on distribution of £9 million of which £4 million is due to increased volume of work. Some increase will result from the increase in the housing programme and some further expenditure on reinforcement is no doubt unavoidable, but a reduction of about £2 million can be made if a decision is taken to suspend rural electrification, and there may be room for some reductions elsewhere. The residue of the cut will fall on generation and main transmission with the broad consequences indicated in paragraph 16 of this Report.

North of Scotland Hydro-Electric Board

5. Work on the Board's projects has been running at a level rate for several years. They now propose that capital expenditure in 1952 should be maintained at the earlier approved level of £14 million, despite the rise in prices, thus making a reduction in real terms. We recommend that this programme should be accepted for 1952 so that a sufficient labour force may be maintained to permit an orderly continuation of the schemes. Steel supplies may not be as large as desired by the Board but we understand that they can continue non-steel using work.

Gas

6. The Ministry of Fuel and Power, in consultation with the Gas Council, have drastically reduced the investment requirements of the Area Boards for 1952 in order to bring them into relation with the capacity of the gas plant manufacturers and the availability of specialised components. Even so the programme put forward is substantially higher, in real terms, than that already authorised. The justification for this is the present inability of the gas industry to meet large new industrial demands, the likelihood of widespread gas shortages in spells of severe weather, and the need to improve the efficiency of many gas plants.
7. There is undoubtedly a cogent case for more investment in this sector. Other needs are, however, relatively more urgent, and it is unlikely that sufficient steel would be available to permit a programme of the size envisaged. Accordingly we recommend that investment should be reduced to £48 million, which is equivalent in real terms to a cut of 5 per cent. on the previously authorised programme. Within the reduced total available to them we consider that development work should be, as far as possible, concentrated in those areas where the shortages are most acute.

Petroleum

8. As indicated in Paragraph 16 of the main report this programme is of vital importance in saving dollar expenditure and should not be curtailed. Unfortunately it requires a considerable tonnage of steel, larger than the amount allocated for Period I, 1952. The return on each ton of steel is, however, very high and we consider that more steel must be found for it.

Railways

9. The British Transport Commission and the Railway Executive have represented to us that it is now imperative to restore the full efficiency of the track; to repair a large number of structures which, if left alone, will become more and more dilapidated; and to strengthen the rolling stock by renewal. The proposals they have made to us are designed to increase the current level of investment in order to overtake arrears of maintenance and renewal and to start a small amount of new development work. We regard the case which has been made out as extremely strong. Unfortunately, to carry out a programme such as has been proposed the Railways would need considerably more steel in 1952 than they used in 1950. We do not believe that such quantities can be made available. We therefore recommend that the Railway Executive should reduce the new building work which they propose to start in 1952 by two-thirds and should make a very large reduction in the coaching stock they plan to build. We consider that their proposals for new wagons and locomotives should not be cut. Although we have doubts as to whether there will be enough steel for their maintenance proposals we propose no cut on this item.

10. We recommend that the London Transport Executive should also reduce the new building work which they propose to start in 1952 by two-thirds, but we do not consider that any cut on their rolling stock programme would be possible in 1952.

Roads

11. We recommend that the Ministry of Transport's proposals for the maintenance of roads be accepted. The volume of maintenance work on trunk roads and on classified roads in counties should be kept at the present level. The request which has been made to highway authorities to reduce the level of maintenance on unclassified roads should not be withdrawn.

12. We recommend a cut of £0.7 million on the Ministry's proposals for new works. It will be possible to start very few new road works in 1952 and these will be ancillary to other programmes (e.g., in New Towns).

13. A request was made by the Ministry of Transport to be allowed to spend £1.5 million a year, over and above what they had included in their programme, on a large number of small road improvement schemes which might help to reduce the accident rate on the roads. Whilst appreciative of the desirability of effecting such improvements we feel that in present circumstances much the same end might be achieved by earmarking a small part of the amount spent on maintenance, much of which in any case covers improvement schemes for this specific purpose.

Ports

14. The Ports-investment programme is intended to replace war damage, to improve efficiency at the ports and to improve the working conditions of dockers. A cut of £1.9 million on this programme would allow all work in progress to continue but would not enable any new major works to be started in 1952 and would cut new minor works to one half of the level proposed by the Ministry.
New starts in 1952 would be limited to those small works which are urgent and essential on safety grounds.

Inland Waterways

15. This programme does not include any new major works, but only minor improvements. No cut on this programme is proposed.

Civil Aviation

16. It is probable that the conflicting demands of military aircraft will not permit the achievement of the civil aircraft investment programme. Accordingly the major part of the reduction we recommend is on aircraft.

Post Office

17. The Post Office has cut its proposals for civil investment very severely in order to free men and material for the large amount of defence work which it is undertaking. Most of the Post Office civil work will be inextricably linked with defence work. The programme has been planned so that provision for civil needs is made at the same time and place that defence work is done. Although the civil work which is to be done in this way would not normally be given very high priority by the Post Office this civil work will have to be done eventually and it would be most uneconomic not to do it at the same time as the defence work is done. Very little of the civil work which the Post Office would normally wish to do has been included in their programme, but we consider that it should be possible to achieve a small reduction on this work.

Ships

18. The shipyards have a large volume of orders on hand both on United Kingdom and overseas account. The Admiralty and the Ministry of Transport would like at least to maintain the level of activity of the last few years. The objective for British shipbuilding at the present is to supply the growing number of tankers which are now necessary and to modernise the dry cargo and passenger fleet. Ships are a valuable war potential. Even those sold abroad go to friendly countries and would be available to us in time of war. Unfortunately the shipbuilding industry consumes very large quantities of steel which are unlikely to be available. On the present steel allocation the Admiralty intimated that their present programme would have to be cut by about 10 per cent. and that this reduction would have to fall on both United Kingdom and foreign orders alike. We cannot see any way of avoiding this cut of 10 per cent. in the programme.

Agriculture

19. We recommend that agricultural building, including farm building and arterial watercourses, be cut by about 15 per cent. We believe that a relatively small cut on the volume of work in this programme can considerably reduce the steel requirements since it is only a small part of the work (e.g., arterial watercourses and farm water supplies) which needs substantial quantities of steel.

20. We recommend that the Scottish programme be reduced from £0-45 million to £0-40 million and that the Fisheries programmes for England and Wales and for Scotland each be reduced by £0-2 million. It will not then be possible to begin any new major works in 1952.

21. We recommend that supplies of agricultural machinery and tractors to the home market should be cut by 30 per cent. below the programme previously approved. This will enable exports to be increased or the steel requirements of the industry to be reduced. This reduction of supplies to the home market could, we understand, be achieved by voluntary co-operation of the manufacturers of agricultural machinery and implements.

Iron and Steel

22. We recommend a small cut on the programme previously approved. The programme we recommend will allow work to be begun in 1952 on several blast furnaces, on ore preparation plant and on two mills for the production of bearing tubes. We understand that the industry would also wish to embark on large-scale development schemes in 1952. We consider, however, that in present circumstances such schemes must be postponed.
Manufacturing Industry

23. The Departmental proposals for new building for manufacturing industry in 1952 are framed on very modest lines and represent a smaller volume of work than was done in 1950. We have no doubt that these proposals are far below what it would be profitable and desirable to invest in manufacturing industry.

24. We propose that the Departmental proposals should be reduced by about one-quarter. We understand that in general these cuts are less severe than those which are likely to be enforced by the building steel allocation if the present level of allocation is maintained for the whole of 1952. Nevertheless, the consequences of the cuts we propose will be very severe. In general, the reduced programmes allow for no more work than has already been licensed. Since the Departments must issue licences in 1952 for some highly essential projects, such as sulphuric acid plants and work specified by the factory inspectors, they will find it necessary to review the licences already issued and to revoke the less essential. Although work has not yet started on some of the projects already licensed it will probably be necessary to stop some work which is now in the early stages of construction. This may be done either by the revocation of licences or by an intimation that it will not be possible to allocate any steel for these projects.

Health Services

25. This programme covers hospitals, clinics, old peoples’ homes, health centres and nurseries. The most important work in this programme is that intended to relieve overcrowding in mental hospitals and to provide hospitals and clinics in New Towns and on new housing estates. The reduction we propose is very severe but we were informed that it is broadly in line with what could be done if the provisional building steel allocation for the first quarter of 1952 were maintained throughout the year. This level of steel supplies will make it necessary to stop some work already in progress. Since the proposals of the Department of Health for Scotland are very modest in relation to the programme previously approved, we propose that the cut on the Scottish programme should be less severe than that on England and Wales.

Water and Sewerage

26. The water and sewerage programme for England and Wales has been running above the previously authorised level, mainly because the schemes involved are generally large and take many years to complete so that the decisions to reduce investment could not be implemented quickly. The programme for 1952, recently put forward by the Ministry of Housing and Local Government, is for the expenditure of £36 million, which exceeds the authorised programme by nearly 50 per cent. Such a programme would involve considerable quantities of building steel, which will not be available. Accordingly, we recommend that it should be reduced to £24 million. We are informed that this will entail stopping work in progress with consequent locking up of valuable resources in idleness. In straitened circumstances, however, it is less undesirable to postpone such long-term projects than schemes which yield an earlier return.

Miscellaneous Local Services

27. This programme covers all investment by local authorities in England and Wales which is not included in other programmes. The biggest items are private street works, parks, offices, public halls, libraries, piers, sea defence works, and public cleansing and refuse disposal services. The Ministry has proposed that this programme should be raised from the £5 million previously approved to £7 million. We consider, however, that much of this work is inessential and that the programme should be reduced to £3·5 million. Of the programme proposed by the Ministry £1 million is maintenance work and about £3 million is new work already approved by the Ministry, although some of the work approved has not yet been started. It will be necessary, therefore, to withdraw some approvals and it may be necessary to stop some work in progress.
Education

28. We recommend a cut of £7.4 million on the Education programme for England and Wales. We believe that the effects of this cut will be less severe than would be the effects of the provisional building steel allocation for this programme (of 10,000 tons in the first quarter of 1952) if it were continued for the whole of 1952. Nevertheless, it will not be possible on the programme we recommend to start work on any new schools until late in 1952. This will lead to grave difficulties in areas where the school population is rapidly rising and where new housing estates are being built at a distance from existing schools. These problems will become especially acute in 1954 and 1955. Although the cut we propose on the Scottish programme is proportionately less than that on England and Wales the effects of this cut will be of the same character.

Universities

29. In order to save steel we recommend that the Universities should not start work on any new major projects in 1952. We recommend, therefore, that the University Grants Committee’s proposals for new building work in 1952 be reduced by £150,000. We recommend a small increase in the programme for maintenance work above that previously approved.

Home Departments

30. The reduction we propose will allow the Home Office to start less than one-sixth of the new work in their programme for 1952. The work to be cut out includes new cells at prisons, the conversion of existing premises into children’s homes, heating installations at approved schools, the replacement of police stations and fire stations, a public house, and police stations in new housing areas. Our proposal is £0.4 million below the Home Office’s absolute minimum requirement. We propose that the proportionate reduction on the Scottish Home Department’s programme should be the same as on the Home Office’s programme.

B.B.C.

31. All the major works in this programme are already well under way. About £0.4 million is proposed for minor works, including those already started. A cut of £0.2 million is unlikely to allow the B.B.C. to begin any new work in 1952 other than what is essential on safety grounds.

Northern Ireland

32. We have not in the time available been able to discuss with the Northern Ireland Departments concerned the review of their investment programme. In real terms this is in accordance with the programme they drew up a year ago. In view of the special difficulties of Northern Ireland, in particular the higher level of unemployment, it seems unexceptionable that the previous level of investment should be maintained as an objective. But it seems clear that the shortage of some materials, in particular building steel, will have adverse effects. Accordingly we think that it is unlikely that as much will be achieved as is hoped for. The situation may be eased, however, if the building programme can be adjusted so that more work is done on projects which require but little steel.

Miscellaneous Sector

33. This sector covers a wide and varied range of investment. Only the licensed building work, however, is subject to control and the rest of this sector is no more than a reasonable estimate on the basis of past experience.

34. Our recommendations for the licensed building work in this sector are as follows:

(a) Board of Trade—This programme covers insurance offices, hotels, warehouses, laundries, &c. We recommend a cut of about 40 per cent. on this work. The Board of Trade should be permitted to use part of its allocation for manufacturing industry for this work if it wishes to do so.
(b) Ministry of Food.—This programme covers slaughterhouses, catering, egg packing, grain drying and storage, &c. We recommend a cut of about 40 per cent. on this work. The Ministry of Food should be permitted to use part of its allocation for manufacturing industry for this work if it wishes to do so.

(c) Ministry of Transport.—This programme covers building for the road transport industry and a small amount of other work. We recommend a cut of about 30 per cent.

(d) Blitzed Cities.—This programme covers the rebuilding of the centres of provincial blitzed cities. The present programme of £4 million is not large in relation to the demand, but since the greater part of this work consists of rebuilding shops and offices its economic value is small. We recommend a cut from the £4 million at present approved to £2.5 million. This will necessitate the stopping of work in progress, but we consider that steel should not be made available for this work when it is impossible to find steel for important industrial projects, often in the same areas. The Ministry of Housing and Local Government propose to tell the authorities concerned to concentrate on work which uses little steel. If this is done we believe that the amount of steel required for a programme of £2.5 million should be very small.

(e) New Towns.—This programme covers work on offices, shops, town centres, public houses, industrial sites, churches, &c. in the New Towns. We recommend a 25 per cent. cut since we consider that this work should be kept down to a very austere basis for the present.

(f) Ministry of Works.—This programme covers the building work which is licensed by the Ministry of Works without the sponsorship of another Department. We recommend that the new work on shops, offices, &c., should be severely restricted and that work in progress should be stopped where to do so will save substantial quantities of steel. We recommend that the licensing ceilings for maintenance work (including housing conversions) should be raised by 15 per cent. to meet the rise in costs since 1950. This maintenance work has been severely restricted for many years and we consider that it would be most unwise to further reduce the volume of work. An increase in the licensing ceiling should enable the allocation between the local authorities to be made on a more equitable basis.
PERSIA: INTERNATIONAL BANK PROPOSALS

Memorandum by the Secretary of State for Foreign Affairs

At the suggestion of the Pakistania Ambassador in Washington, the Vice President of the International Bank, Mr. Garner, informed Dr. Mussadiq on 10th November that the Bank would be willing to try to make temporary arrangements for the operation of the Persian oil industry pending a final settlement, if invited to do so by both parties to the dispute.

2. Dr. Mussadiq, though non-committal, expressed willingness to explore this idea and asked that it should be put to His Majesty's Government. Mr. Garner has since given us a memorandum, elaborating his ideas and has discussed it with myself and my colleagues of the Persia Committee. We have given him a memorandum (agreed with the Anglo-Iranian Oil Company) commenting on his proposals. We emphasised that any such arrangements as those contemplated by the Bank must be without prejudice to the legal rights of both parties in any final settlement and that our memorandum and any subsequent discussions on it were designed to assist the Bank in working out a plan: the Bank itself would have to decide whether it constituted a suitable basis for negotiations with the Persians.

3. At the Bank's request we have given them all the information they require about the Persian oil industry and the effect which any interim arrangements might have on His Majesty's Government's case before the International Court of Justice. In response to a personal request from the President of the Bank, I have arranged for a Director of the Anglo-Iranian Oil Company to go to Washington to assist the Bank's staff in elucidating the material we have sent them.

4. I understand that Mr. Garner hopes to be in a position to formulate specific proposals in early January. These proposals are likely to provide, inter alia, for the Bank to have complete freedom to appoint a management with full authority over the production and refining sides of the industry. This management, whose head would probably be of "neutral" nationality, would be responsible for recruiting the operating group to run the industry. The bulk of the foreign operating staff would probably have to be provided by the Anglo-Iranian Oil Company. Profits would be split on a 50/50 basis between the Persians and those foreign interests supplying the operating and marketing facilities, which, in effect, would be primarily the Anglo-Iranian Oil Company.

5. Such a scheme would appear to protect the essential interests of His Majesty's Government and the Anglo-Iranian Oil Company. It may be more difficult for the Bank to convince the Persians that it also
protects their essential interests. The Shah has apparently placed his hopes on the Bank's intervention to save him from having to take direct action against Mussadiq. The public statements of the Persian Government, however, are not propitious. In a recent speech in the Majlis, Mussadiq, referring to his discussions with Mr. Garner, intimated that the Bank would only be intervening to help Persia finance her industry and sell her oil, not to control or manage it as trustee for the parties. It is too early yet, however, to say that Mussadiq has adopted a firm attitude. It is essential that the independent role of the Bank in this matter should be publicly emphasised at every opportunity.

6. If the Bank decides to submit specific proposals, the greatest care will have to be taken to ensure that their presentation and timing do not strengthen Mussadiq's political position which has recently been considerably weakened. It would help him to restore it if he could represent that he was in negotiations over the oil question. I therefore recommend that:

(i) in public we should be well advised to maintain silence and apparent indifference to the fate of Persian oil, while in private we should do all we can to assist and encourage the Bank in drawing up a plan.

(ii) Any specific proposals from the Bank should, in the first instance, be communicated to the Persian and British Ambassadors in Washington, requesting written statements from their Governments that they accept them as a basis for negotiations.

(iii) His Majesty's Government's reply to such proposals should not be published until a satisfactory reply has been received from Mussadiq, and our public comment should be confined to a statement that the proposals were being seriously considered but the outcome must depend on whether the Persian Government accepts the proposal as a basis for discussion.

A.E.

Foreign Office, S.W.1,

17TH DECEMBER, 1951.
CABINET

KASHMIR DISPUTE

MEMORANDUM BY THE SECRETARY OF STATE FOR COMMONWEALTH RELATIONS

I wish my Cabinet colleagues to have available the essential facts in the Kashmir dispute. This is a long-drawn-out business on which I shall no doubt have to consult them from time to time.

2. I have therefore had prepared the attached paper summarising the history of the dispute and the issues involved.

3. The present position is that efforts at mediation between the two parties, conducted under the aegis of the Security Council, have reached a deadlock. Briefly speaking, there are two main lines of policy which the United Kingdom Government could follow—either (a) direct intervention, or (b) continued support of action through the Security Council.

4. I am clear that, at any rate at the present stage, direct intervention would be most unwise. In the past all attempts at direct intervention, whether by the United Kingdom Government alone or jointly with the United States Government or other Commonwealth Governments, have proved fruitless. The fact is that there are no means of imposing a solution from without.

5. We should, therefore, continue to work through the Security Council towards the holding of a plebiscite to settle the future of Kashmir.

6. Dr. Graham was appointed by the Security Council this year as their representative to hold discussions with India and Pakistan on the procedure for demilitarisation preceding a plebiscite. He put in a first report early in October, and his second and final report is expected just before Christmas. On detailed tactics much will depend on the precise form of his report. Its substance is likely to be that he has been unable to make any progress since he reported in October.

7. We have, therefore, to consider what the next step should be in the Security Council. The Pakistanis will probably decline to negotiate further unless the Security Council says how it thinks the outstanding points of difference should be resolved. This would be asking the Security Council to go somewhat beyond the policy of pure mediation which they have followed in the past and to bring some pressure to bear on India to modify her present rigid attitude. It is, however, right that we should develop gradual pressure on India in this way and, provided that the United States are in full agreement with this policy, the other members of the Security Council may be expected to follow our lead. But in framing a resolution for the Security Council we must be careful that the pressure on India is not such as to defeat our ends by leading India to reject the resolution and to refuse to take discussions any further.

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Recommendations

8. Our policy should be to promote a resolution by the Security Council having two main elements in it:

(a) It should deal on the following lines with the three remaining points of difference which stand in the way of agreement on a demilitarisation plan:

(i) The resolution should back the Pakistan view that the Plebiscite Administrator should be appointed as part of the demilitarisation negotiations and before the end of the demilitarisation period.

(ii) Neither party has accepted the views of the other as to the number of forces each would need to retain on their respective sides of the cease-fire line. While preserving a balance between the Indian and Pakistan claims, the Security Council should in particular look towards the retention by India of forces considerably less than those at present stipulated by her.

(iii) The Security Council should not, however, be committed to a view on the precise length of time required to complete demilitarisation, since this issue raises technical military problems which the Council should avoid.

(b) The Security Council should ask the two parties to seek to eliminate these narrow points of difference by direct discussion themselves and to report back within two months.

9. An important factor in the failure of Dr. Graham's recent efforts is that India is now in the throes of a general election campaign which will not be completed till the end of January. We cannot expect India to take any new decisions until the election is over and we should therefore aim to postpone launching a resolution in the Security Council until the end of January at the earliest. We shall have to take pains to persuade Pakistan to accept this delay; but we must accept the possibility that our hand may be forced by the Pakistan refusal to wait so long, in which case we should have to be ready to act at short notice on the above lines in the Security Council.

10. It is urgently necessary to exchange views with the United States and Commonwealth Governments (in particular Canada and Australia) with whom we have always worked in close accord over this problem.

11. The Foreign Secretary is in general agreement with the line of policy indicated in paragraphs 8 and 9 above and, in anticipation of our colleagues' approval, he and I are proceeding on that basis to elicit the views of the United States and Commonwealth Governments.

Commonwealth Relations Office, S.W. 1,
17th December, 1951.
REPORT ON THE KASHMIR DISPUTE

1. The Kashmir dispute is at the root of the present strained relations between India and Pakistan. A settlement of the dispute would be the greatest single contribution which could be made to the solidarity of the Commonwealth and to the strengthening of the policy for containment of Communism. While it would leave many other problems still to be resolved in South Asia, it would have the immediate effect of—

(a) binding India and Pakistan more firmly to the Commonwealth;
(b) strengthening their stability and that of the whole sub-continent as a firm base against Communism;
(c) strengthening their economic position by removing the cause of crippling defence expenditure;
(d) opening up prospects of help from Pakistan in the Middle East.

So long as the Kashmir dispute lasts, however, both countries will remain preoccupied with this problem and there will be a constant danger of war between them.

Background of the Dispute

2. The history of the dispute is long and complicated but the essential points are as follows:—

(1) Kashmir is a predominantly Muslim State whose Hindu ruler acceded to India in 1947;
(2) Shortly after his accession tribesmen from Pakistan invaded Kashmir and India sent in troops to check the invasion;
(3) The United Nations, to whom the dispute was then referred, eventually succeeded in January 1949 in arranging a cease-fire, leaving Pakistan in occupation of the northern and western areas of the State (almost exclusively Muslim in population) and India of the rest (including the Vale of Kashmir, which is politically and economically the most important part of the State). United Nations military observers have been stationed on the cease-fire line since then;
(4) Both India and Pakistan have subsequently accepted the recommendation of the United Nations that the future of the State should be settled by a free and impartial plebiscite;
(5) No progress has hitherto been made in implementing this recommendation because the parties have not been able to agree on practical measures for the arrangement of a plebiscite or for the demilitarisation which both have agreed in principle must precede a plebiscite;
(6) Dr. Graham, the present United Nations Representative, has been trying to persuade the parties to accept a detailed plan for demilitarisation. Progress has so far been blocked by disagreement on three main points—

(a) the speed at which demilitarisation should be effected (Pakistan accepts Dr. Graham’s proposal for a 90 days’ period, while India thinks a longer period will be required);
(b) the balance of forces to be left on each side of the cease-fire line (India has stated that she requires about 21,000 regular Indian troops and an unspecified number of locally recruited troops, against a total of 4,000 local troops on the Pakistan side; Pakistan has proposed approximate parity between the two sides); and
(c) the date on which the Plebiscite Administrator should begin to operate in Kashmir (Pakistan accepts Dr. Graham’s proposal that he should be appointed during the demilitarisation period, while India considers his appointment should be separately considered at a later stage).
Attitude of Parties

India

3. The Indian attitude throughout the United Nations negotiations has been based on the following three main claims—

(i) that the accession of the Maharaja to India in 1947 was valid and that until an agreed decision is made to the contrary the whole State of Kashmir is legally part of the Indian Union. From this it follows that the entry of Pakistan troops into Kashmir in 1948 is proof that Pakistan is an aggressor in Kashmir and as such should have no claim to an equal say in the solution of the dispute;

(ii) that the Government of Sheikh Abdullah in the Indian-held part of the State is the legal Government of the whole State, and any solution to the Kashmir dispute and any arrangements for a plebiscite must take account of this fact;

(iii) that the Central Government of India is currently the responsible Government for the defence and security of the whole State of Kashmir, and any arrangement for demilitarisation must be made on this understanding. A major factor governing the Indian attitude has been the fact that Indian policy over Kashmir is the personal concern of Mr. Nehru and a question on which nobody else has proved to have any real influence. Mr. Nehru has a sentimental attachment to Kashmir, being himself descended from a family of Kashmiri Brahmins, and he still tends to speak of Kashmir as his native territory. He is also a personal friend of Sheikh Abdullah, the leader of the Government of Indian-held Kashmir. In addition to this the Pakistan claims on Kashmir, based as they are on the preponderance of Muslims in the State, are in direct antipathy to Mr. Nehru's ideal of the secular State and his frequent denials of the validity of the two-nation theory.

4. Apart from this, India's attitude throughout has been influenced by the fact that she is already in possession of the most important part of the State. Sheikh Abdullah, himself a Muslim, has introduced a number of political, economic and social reforms in this area. He has set up a Constituent Assembly as a preliminary to establishing a constitution for the State, and it is expected that some time in 1952 the Assembly will pronounce itself in favour of the accession of the State to India. India believes with some reason that the effect of his activities will be to build up gradually in the Vale, which is the vital area, a majority opinion in favour of accession to India. Her main objective throughout has therefore been to play for time by raising practical objections to the implementation of any particular plans for demilitarisation and for a plebiscite; in the long run, when Sheikh Abdullah is ready, she would aim at securing agreement to an arrangement under which the almost entirely Muslim areas on the Pakistan side of the present cease-fire line would go to Pakistan and the area on the Indian side of the cease-fire line, either with or without a plebiscite (which when the time is ripe she would expect to go in her favour), to India.

Pakistan

5. Pakistan's attitude is based on the claims—

(i) that the Maharaja's accession in 1947 was accepted by the Governor-General subject to the consultation of the wishes of the people;

(ii) both parties have agreed that the people's wishes should be ascertained by an overall plebiscite conducted under United Nations auspices;

(iii) failure to make any progress towards a plebiscite arises from India's insistence on conditions which would in effect prevent the people of Kashmir from voting freely and fairly.

6. The Pakistanis regard Kashmir as naturally an integral part of Pakistan. The economic outlets and communications of the State have traditionally been through Pakistan territory, and the main rivers on which the Pakistan Punjab relies for irrigation have their headquarters in Kashmir. The geographical position of the State gives it an obvious strategic importance. Pakistan's point of view is, therefore, that, if Kashmir was occupied by India, India could at any time gravely threaten her strategic and economic security. Pakistan is confident that a plebiscite
covering the whole State, if not delayed too long, would be bound to give a majority
for union with Pakistan. It is possible, however, that in the last resort she would
accept a partition with a plebiscite only in the Vale.

7. Against this background Pakistan's general objective is exactly the opposite
of India's; she seeks the earliest possible implementation of the agreement to hold
a plebiscite and presses for a firm ruling on the Security Council which will dispose
of the practical difficulties which have hitherto impeded it.

Considerations which have hitherto governed United Kingdom policy

8. The main considerations on which United Kingdom policy has hitherto
been based are as follows:

(a) That fundamentally an effective solution can only be achieved by agree­
   ment between the parties.
(b) That no opportunity should be lost of encouraging the parties to work
   out a solution together.
(c) That the measure of agreement embodied in the United Nations recom­
   mendations for demilitarisation and a plebiscite, which have been
   accepted by India and Pakistan, should be preserved.
(d) That in order to give every opportunity for (b) above, and to avoid inflam­
   mation of public opinion in India and Pakistan, a deadlock in the United
   Nations proceedings should be avoided.
(e) To avoid, in this dispute between two members of the Commonwealth,
   committing ourselves to a policy definitely hostile to one or the other.
   At the same time our aim has always been to exert the maximum
   pressure of world opinion on India to exhibit some willingness to
   compromise.
(f) Following upon this, to avoid weakening Pakistan's position, e.g. by
   endorsing any proposal for partition without ensuring adequate safe­
   guards in advance.
(g) To make it easier for the Pakistan Government to restrain the highly
   inflammable emotions which the Kashmir dispute arouses in the
   Pakistan population.

9. Our fundamental objective throughout the dispute has been to avoid any
action which would—

(a) Increase the danger of war between India and Pakistan.
(b) Arouse the hostility of India or Pakistan to such a degree as to threaten
   the defection of either of them from the Commonwealth; and, on the
   positive side, to create conditions likely to lead to a settlement.

10. We have throughout worked closely with the United States on the
Security Council, and have been careful to keep in close touch with other Common­
wealth Governments.

Present state of Indo-Pakistan relations

11. Relations between the two countries have been uneasy ever since partition
and the Kashmir dispute has acted as a focus for their mutual distrust and hostility.
There have been recurrent crises of acute tension. In 1948 there was an imminent
danger that the fighting in Kashmir between the armed forces of India and Pakistan
would develop into general hostilities between the two countries. The communal
disturbances of March 1950 so strained relationships that the Indian Government
made large-scale troop movements towards the Pakistan frontiers in the Punjab
and Bengal which were countered by movements of the Pakistan Army. The two
Prime Ministers met in April 1950 and concluded the Delhi Minorities Agreement
which produced a relaxation of the immediate political tension; the troops, however,
were not all withdrawn; in particular the bulk of the Indian troops which had
been moved towards the Punjab frontier were left in their advanced positions.
In July 1951, when feelings had been fermenting over the Kashmir dispute and
Pakistan leaders had been guilty of a good deal of intemperate talk about the
possibility of settling the dispute by violent means, the Indian Government moved
large forces, including their Armoured Division, forward from their 1950 positions
to the immediate proximity of the Punjab frontier. Counter-dispositions of the
Pakistan Army were made and a period of acute tension followed.
12. Although neither side has withdrawn its troops from these positions, tension has significantly relaxed since the end of August. The assassination of Mr. Liaqat Ali Khan appears to have shocked both countries at least temporarily into a calmer mood.

13. Our belief is that neither side wishes for war nor will deliberately provoke one. The present situation, however, is one of obvious danger which could easily lead to an uncontrollable outbreak. Two possible causes of an outbreak are—

(a) A renewal of communal strife in Bengal or elsewhere; or

(b) An incursion by Pakistan tribesmen into Kashmir arising from impatience at the failure of the United Nations to secure a settlement of the territorial dispute.

Prevention of War

14. An outbreak of war between India and Pakistan would be a major disaster. It would inevitably throw the whole sub-continent into turmoil and let loose uncontrollable communal warfare on an enormous scale. The ensuing chaos and disruption would leave the field open for Communist exploitation. We have examined the possibilities of our taking effective action of either a military or economic nature to prevent such a war. The conclusions of this examination are briefly as follows:

Military

15. An examination recently made by the Chiefs of Staff indicated that there are no military measures open to us which could be effective in preventing hostilities. Neither the Commonwealth nor, we think, the United Nations would be able to make available sufficient forces to control events. An arms embargo would have a fairly quick effect on Pakistan but only a long-term effect on India, and would not, therefore, of itself prevent war.

16. The possibility of a military guarantee has been considered but is open to a number of objections. These are:

(i) the United Kingdom has not the power to make such a guarantee effective; a policy of "gestures" would be worse than useless;

(ii) India would not accept a guarantee and would react strongly against a unilateral guarantee of Pakistan;

(iii) there would be obvious objections to the United Kingdom undertaking such a guarantee without the support of the rest of the Commonwealth; it is unlikely that this would be willingly given and an attempt to secure it might seriously shake the Commonwealth;

(iv) a guarantee might result only in further disturbance of relations between India and Pakistan, each trying to manoeuvre to invoke the guarantee against the other.

Economic

17. Economic sanctions would require the active co-operation of at least the rest of the Commonwealth and the United States, and could not be really effective without the support of the United Nations as a whole. It is inconceivable that they should be applied in advance of actual hostilities. The suggestion has been made that we should work for a declaration in advance that supplies would be withheld from whichever country was the aggressor. We are unlikely to be faced with a deliberate act of aggression and it may be difficult to determine which country was the guilty party. In such circumstances an advance commitment of this kind might only be a serious embarrassment; moreover it is most unlikely that it would have any effect in preventing war.

18. An oil embargo would have a very rapid effect since both countries are entirely dependent on imported oil. It is, however, estimated that both sides maintain stocks which could keep their armed forces in full operation for about two months. Again, therefore, an oil embargo would not of itself prevent war, and any such embargo imposed in advance of hostilities would paralyse the economic life of the two countries.

Diplomatic Action

19. In this situation we are thrown back on diplomatic action as the sole means open to us for preventing war and the scope of diplomatic action is of
course itself limited by the ineffectiveness of the military or economic action open to us. But we have a very great asset—our present friendly relations with both countries and the strong moral influence which we still wield in both countries. It is important to build up this asset against the evil day when we may greatly need it. For all these reasons, therefore, there are strong arguments why we should 
(a) be cautious about taking sides or giving the appearance of taking sides in the various disputes between the two countries; 
(b) refrain from premature intervention; 
(c) endeavour to keep down tempers on both sides and to avoid action which might exacerbate opinion on either side.

Ultimate solution of the Kashmir dispute

20. There seems no doubt that the ultimate solution must be partition. In that event the area at present held by Pakistan, which is almost exclusively Muslim, would remain with Pakistan, and the Hindu area of Jammu and the Buddhist area of Ladakh would go to India. Such a settlement would avoid large-scale migration (and the danger of communal disturbances) which would inevitably follow the accession of the whole State to one country or the other. But the future of the Vale would still remain in the crux. This could be settled either—
(a) by recognising the present de facto partition along the cease-fire line, giving the Vale to India, or
(b) by a plebiscite. There is little doubt that a fair plebiscite would give the Vale to Pakistan, provided it was conducted before India has had time to consolidate her hold over the area. This consideration is, of course, one of the main reasons for Pakistan's impatience.

21. It must be assumed that an imposed solution is out of the question. No outside powers could, or would be willing to, undertake the necessary coercive action. In any case an imposed solution would entail bitter opposition from one party and could not lessen but might well increase the present tension between the two countries. We must therefore work for a settlement by agreement between India and Pakistan, or at least for one acceptable to both. It is for consideration how far, if at all, we should come out openly on one side or the other in the negotiations.

22. To back India would be morally wrong. She is committed to a plebiscite, and there is little doubt that her present tactics are directed towards spinning out negotiations until either the cease first line is accepted, faute de mieux, as a permanent dividing line or she so consolidated her position in the Vale that she can be confident that a plebiscite would go in her favour. To support India in this policy would, moreover, provoke Pakistan to the point of explosion.

23. We are firmly committed to a fair plebiscite under United Nations auspices, and this is the solution Pakistan demands. To that extent, therefore, we are bound to support Pakistan, particularly as, since India holds the crucial area of the Vale, it is India who must make positive moves before a plebiscite can be held. We have accepted the view (which is amply endorsed by a study of plebiscites held in the past) that a fair plebiscite would be impossible without more or less complete demilitarisation and it is by her failure to accept this that India is at present blocking progress. It must, however, be admitted that India has some cause for her reluctance to leave a military vacuum in the Vale. Four years ago tribesmen from Pakistan invaded the Vale and were eventually supported by regular Pakistan forces. During last summer Pakistan spokesmen and the entire Pakistan press were guilty of a series of bellicose and threatening statements. Although these threats were concerned with the action that Pakistan might take if continued Indian intransigence prevented a plebiscite and therefore might be discounted if a plebiscite were actually being prepared, it remains true that demilitarisation must be to a certain extent an act of faith by India. It is essential that Pakistan should realise this and should help to dispel Indian suspicions. It is fair to add that although Pakistan agreed, India refused to entertain suggestions of a neutral force (put forward by the Prime Minister of Australia at the London meetings in January 1951) to guard the security of Kashmir and hence to allow the withdrawal of Indian forces. This gives justification to suspicions that she is making the most of these military difficulties in order to aid her policy of delay.

24. There is only one agreed principle on which a solution can be based—that is that the future of the State should be decided by a plebiscite. Unless this
measure of agreement is preserved the whole dispute will be thrown back into the melting pot. But in order to make any progress, pressure of some kind must be brought to bear on India.

25. There are, however, limitations on the methods open to us. No good purpose would be served by the United Nations, still less the United Kingdom, taking a line openly hostile to India. This would do no good over Kashmir, where India would merely dig in her toes and feelings would be further exacerbated; in the broader sphere it would do harm to India's relations with the United Kingdom and with the West in general. We are, therefore, limited to the use of diplomatic pressure and the hope that India may gradually be influenced by the force of world opinion.

26. Although it is frustrating to see this dispute, with all its debilitating effects on the two countries, drag on, and tempting to search for some method of solving it by direct and vigorous action, experience in the past has shown that India is not to be easily moved from her position. The Security Council have for four years been searching for a means of bringing about a plebiscite, both by discussion in the Council and by the negotiating efforts of a series of agents (the Commission for India and Pakistan, General McNaughton of Canada, Sir Owen Dixon of Australia and now Dr. Graham of the United States). In September 1949 Mr. Attlee and President Truman jointly supported, in personal messages to the two Prime Ministers, a proposal for arbitration. Although the Pakistan Government accepted this proposal, the joint appeal did not succeed in persuading Mr. Nehru to accept it. At the time of the Commonwealth Prime Minister's meetings in London in January 1951 the Prime Ministers of five Commonwealth countries (the United Kingdom, Canada, Australia, New Zealand, and Ceylon) jointly tried in private conversation with the Prime Ministers of India and Pakistan to persuade them to accept suggestions in particular for a neutral force; Liaquat Ali Khan accepted the suggestions, Mr. Nehru did not.

27. There is, in fact, no panacea which could bring a speedy solution of this dispute. There is no clear-cut choice between right and wrong. Even the most intransigent aspects of Indian policy may be partially justified by reference to the history of the dispute, and Pakistan's undoubtedly greater readiness to fall in with constructive suggestions no doubt stems in part from the fact that India is in possession of the disputed territory.

Alternative Lines of Approach in the Immediate Future

28. It is against this background that we must determine our future policy. Three broad lines of approach are at present under consideration:

(a) That Kashmir should be partitioned straight away by agreement of Indian and Pakistani Governments outside the Vale and that the problem of the Vale should be left "on ice" for, say, 5 or 10 years with some form of United Nations supervision over the administration; meanwhile, the development of water resources of the Indus basin should be undertaken under some international authority. (This suggestion was put forward by the Americans as a new approach to the problem.)

(b) To initiate secret diplomatic action by the United Kingdom, with or without the assistance of the United States and/or other Commonwealth countries, to impress on both parties the urgency and gravity of the problem and to use our good offices towards finding a solution.

(c) To continue our efforts in the Security Council to bring the parties to an agreed solution. Comments on these three possibilities are as follows.

29. There are serious objections to course (a) above:

(i) Neither party would accept putting the Vale "on ice" as proposed, though India's objections would be directed against the supervision of the administration by the United Nations.

(ii) It is most unlikely that the canal waters question could be settled in the absence of a final territorial settlement of Kashmir.

(iii) The International Bank are engaged in an attempt to make some progress towards joint development of the Indus basin, and we are anxious not to make their task more difficult by involving it in the political dispute.
30. As to course (b) considerations in favour are—

(i) that negotiations of this sort might create a new atmosphere for discussion;
(ii) that such negotiations would be away from the glare of publicity and both sides might be more ready to make decisions in private;
(iii) that Pakistan is likely to welcome the prospect of direct intervention by the United Kingdom Government in such negotiations.

Considerations against are:—

(iv) direct intervention by the United Kingdom has proved fruitless in the past; experience shows that it produces no response;
(v) that we should have nothing new to offer;
(vi) that there would, therefore, be real danger that the negotiations would fail; this might both

(a) impair our influence with both parties, which might seriously weaken our position if we were faced at any time with the necessity for urgent diplomatic action in face of a threat of war between the two countries;
(b) seriously exacerbate feeling in Pakistan, because the fact of the discussions would have to be made public and their failure would inevitably cause acute disappointment to Pakistan public opinion;

(vii) India would be unlikely to welcome such negotiations and might even decline to take part in them at all.

31. It seems, therefore, that course (c) above is the least unsatisfactory available. But there is one issue which we shall have to face in this context. The Security Council has so far concentrated its efforts on bringing the two parties together. We must face the fact that there is no further hope of progress simply along these lines. The time has come when the Security Council must consider adopting a resolution which would express a view on the way in which a settlement should be reached of the outstanding points of difference between the parties on the demilitarisation of Kashmir. We would have to be prepared to put our names to a resolution embodying such a statement, although it would mean going beyond the considerations set out in paragraphs 8 and 9 above which have hitherto governed our policy. This resolution would need extremely careful phrasing, to avoid any outright criticism of the Indian arguments.

Commonwealth Relations Office,
15th December, 1951.
CABINET

REPORT OF THE SUB-COMMITTEE ON THE ECONOMIC SITUATION

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

At their meeting on 28th November (C.C. (51) 12th Conclusions) the Cabinet appointed a Sub-Committee of the Economic Policy Committee under my Chairmanship to formulate proposals for remedying the economic situation.

2. I annex a first report by the Sub-Committee. We have analysed our present economic position and pointed to the dangers which threaten the country from the three linked causes of inflation, the failure of production and the deficit in our balance of payments. We proceed to the following conclusions:

(a) An announcement on economic policy will have to be made when Parliament reassembles in January. The measures announced must be such as to give confidence both at home and abroad that we can right the balance of payments and secure a regular surplus on current account (paragraph 12).

(b) Increased production, and the encouragement of production, for essential home needs as well as for export, is the core of our problem. Coal takes first place. Imports of steel are vital (paragraphs 19 to 21).

(c) We should aim at increasing the volume of exports by at least £100 million a year. To do this it is essential to reduce the overload on our economy (paragraphs 22 and 23).

(d) A bill should be introduced in February to effect a reform of the utility scheme and purchase tax, which is needed if textile exports are to flourish (paragraphs 23 and 24).

(e) In order to reduce the overload on the engineering and metal-using industries the level of production of some goods made for the home markets by the metal-using industry should be reduced by £60 million per annum; home investment in engineering products should be reduced below the present level by £100 million per annum; and the building programme should be cut back to such a scale as to need no more steel than in 1950 (paragraphs 26 to 30).

(f) We approve of the proposals of the Minister of Labour and National Service, contained in his paper C. (51) 18, for a Regulation of Engagement Order and for labour supply inspection. We recommend that they should be brought into force as soon as possible (paragraph 31).

(g) As one means of reducing the overload on our economy it is necessary to cut civil expenditure substantially. We consider that we should aim at a reduction in the civil expenditure for which Departments have asked by up to £100 million, which implies a reduction on this year’s figures of more than £40 million. This involves taking about £40 million off the health service, about £20 million off education and about £40 million off other civil expenditure (paragraph 35).

(h) We aim at a reduction of 7,000 in the staffs of civil departments, other than the Post Office, within the next few months. Over a longer period, once the principle is accepted that individual services must sometimes be curtailed, savings might rise to 15,000 or 20,000 altogether (paragraph 37).

(i) Except for the Bill referred to in (d) above, no fiscal measures, of a kind which would have to be carried out by a Finance Bill, should be announced in January; these should wait for the Budget (paragraph 38).
In order to help break the wage-price spiral a draft White Paper should be prepared, for submission to the Cabinet, explaining the issues in simple language for everybody to read. The Minister of Labour and National Service will join with me in sponsoring this paper (paragraph 39).

3. I commend these proposals for the consideration of my colleagues. Our final decisions must be adequate to meet a menacing situation. The country at large does not realise where things are going. It must be realised that the attached Report cannot give a complete picture. In particular, there may be much to add by way of constructive proposals as a result of the Prime Minister’s visit to America and following on my conversations in January with the Commonwealth Finance Ministers.

4. We should also relieve the castigation by cuts and austerities by including some indication that we intend to strike out for greater production through encouragement of enterprise and effort. This applies especially to coal. Our task can be rounded off in a worthy manner only if my colleagues will add their constructive comments and suggestions to our ad interim submission.

R. A. B.

Treasury Chambers, S.W. 1,
17th December, 1951.

ANNEX

REPORT OF THE SUB-COMMITTEE ON THE ECONOMIC SITUATION

I.—The Problem

The position which confronted us

1. At the end of October when the Government took office we were confronted with a picture of a balance of payments crisis of the utmost gravity. Three main indicators of the state of affairs were put before us and all disclosed a deteriorating position. Our overall balance of payments, which had shown a surplus of nearly £180 million in the second half of 1950, had changed into a deficit at a rate estimated at some £350 million in the second half of 1951. This represented a deterioration at an annual rate of more than £1,000 million over one year. Our gold and dollar reserves were running out at an ever-increasing pace. In the four months July–October we lost over £320 million or about one-quarter of our reserves at the end of June. Our position in E.P.U. which had been in large surplus up to the Spring of 1951 had also changed into a deficit at an increasing rate. In October alone this deficit amounted to no less than £89 million.

2. Unless drastic and immediate remedial action could be taken there was no prospect of any improvement in the situation. Without such action confidence in sterling, already gravely impaired, would be still further damaged and the drain on our vital reserves would become impossible to sustain.

The action we took

3. In these circumstances, the Government decided on stop-gap measures which would be followed by further action. The first of these measures was to reduce overseas expenditure for 1952 by £350 million. In addition, steps were taken to lighten the load on the domestic economy by postponement of new building. A review of the Investment Programme was promised as well as a rigorous examination of Government expenditure. Finally, we took the first steps to reintroduce a measure of control over the domestic monetary situation.

Later developments

4. Though much is to be hoped in the medium term from these steps already taken, their effect on the balance of payments itself can clearly only be gradual. Meanwhile, however, events have not stood still. In several respects the position has deteriorated even during the past few weeks, e.g., prices of sterling area exports have fallen and demand for them, particularly from the United States, has reached new low levels. A reassessment of the outlook which has just been made in connection with the bilateral talks with the United States on economic assistance discloses that the United Kingdom balance of payments deficit may be nearer £450
million in the second half of this year rather than the £350 million previously estimated. Moreover, the gold and dollar deficit in the fourth quarter of this year will reach almost £350 million (compared with £250 million which was previously estimated). In the light of these developments we must assume that the prospects for 1952, both on gold and dollar account and on overall account, are considerably worse than was previously thought. Even if there is room for argument about the precise figures of the forecasts there can be no argument about the magnitude of the problem which faces us.

The nature of the problem
5. The basic fact is that we are trying to do too many things at once; to re-arm, to maintain our standard of living and social services, to carry out our international commitments, to assist in overseas development and to maintain the sterling system. At the same time, we have recently met a series of misfortunes, some of them outside the Government's control: the rise in the cost of our imports, the fall in the prices of the main sterling area raw material exports and the loss of Abadan. The result is that our economy has become seriously overloaded and that we have no flexibility left to meet new calls upon us and, indeed, cannot meet those which already exist. In consequence, we are faced with a continuing crisis, both internally and externally.

6. The only way out of this is to put ourselves in a position to pay our way. We are unable at present to do this because we do not produce enough, because we do not export enough (or, alternatively, import too much) and because internal inflation keeps goods at home which should go abroad and, by raising prices, adversely affects our power to compete in world markets.

7. There are, therefore, three aspects of the problem, all of which are interrelated, namely:
(a) Balance of Payments.
(b) Load on the Economy.
(c) Inflation.

By far the most urgent of these three is the balance of payments. The gravity of this problem reflects our failure to deal effectively with the problems of production and inflation.

The balance of payments
8. The dimensions of the balance of payments problem can be easily summarised. At the outset of the rearmament programme we set ourselves the task of maintaining the gold and dollar reserves and of keeping a balance on current United Kingdom account, excluding stockpiling. We have failed to an alarming degree on both these accounts. As regards the central gold and dollar reserves we shall lose £550 million in the second half of this year and, even after the cuts and other measures referred to above and assuming no major loss in confidence, we estimate that we shall lose a further £300 million or so by the middle of 1952. Our reserves would then have reached the level they were at when we devalued, i.e., £500 million, and would have dropped in one year from a total of about £1,350 million. Furthermore, there is every indication that this trend will continue.

9. So far as the United Kingdom balance of payments on current account is concerned we had a deficit in the first half of this year of about £120 million, and in the last six months, while our import programme has been running at a fairly high level, we shall have a deficit of no less than £450 million.

10. It is quite clear from this that we have in the past set our economic objectives too low, i.e., that we have not allowed enough margin to meet the risks to which the United Kingdom is specially prone in view of its dependence upon imports and of its position as the central banker for the sterling area. Unless we allow for these risks we shall bump along from one crisis to another; we must, therefore, as a normal feature of our economic life work for and attain a large surplus on United Kingdom current account.

11. In these circumstances, our major objective must be to stop or reverse this trend of our balance of payments and in the gold and dollar reserves as soon as possible. We cannot rely on economic aid from the United States to do this. Such aid is a help but does not really alter the basic weakness and, in fact, in some ways may increase it. We should expect naturally to get some help in this from the other members of the Sterling Area, but if we attain a surplus and get this help it will not be too much to restore our position.
12. But while this must be our aim we are nevertheless faced with an immediate problem. We can, if we take sufficiently strong decisions, overcome our difficulties in the medium and long term. But in the next six months or so we shall be faced with a situation of the utmost gravity which can be decisively affected only in one way, namely, by the full restoration of confidence. This must depend upon the announcements which the Chancellor of the Exchequer makes in January and in the Budget about the Government’s policies on economic affairs. It is essential to restore confidence in order to enable the medium-term solutions to be worked out. We suggest, therefore, that the Chancellor’s statement must comprise two things:

(a) We should definitely announce our view that it is absolutely necessary for the soundness of the United Kingdom economy and of the sterling area system for the United Kingdom to have a surplus on current account as a regular feature of its economic life.

(b) Measures which we announce in January and in the Budget should be such as to give both the people at home and countries abroad the confidence that we shall attain this objective.

Load on the economy

13. The main reason why we cannot export enough to close the external gap is the excessive load of home demand on the engineering and metal-using industries. We cannot sell any more consumer goods overseas for lack of customers. We cannot sell more coal or raw materials because we are not producing enough. Only the engineering industries can provide the really substantial increase in exports we need. The production of these industries is held down by shortage of steel. Consequently, more for export means less for the home market. But the home market is demanding more, not less; primarily for defence, but also for investment and consumption. Unless the home demand is reduced, exports will fall instead of rise. The cuts in investment and consumption which we propose in this paper will not by themselves be enough to allow our engineering exports to expand sufficiently. It will also be necessary to curtail very sharply the rate at which defence production by the metal-using industries is allowed to build up.

14. Similarly, unless other users of steel are restricted, production in the engineering industries will fall instead of rise, and the export problem will be even worse. The biggest claimant for more steel is the building industry. Here, again, there must be a sharp curtailment of the claims for steel made by this industry, both for civil investment and for defence works. With more steel, our production would be higher, and this would improve the output of the engineering and building industries alike.

Inflation

15. First, there is inflation of demand. The sum of what the Government is spending, what business firms are trying to spend on plant and buildings, and what consumers are able to buy from their incomes, adds up to more than the value of the goods available to be bought. This leads to balance of payments difficulties because the home market sucks in goods that we ought to export and does not offset this by buying less imports. It also shows itself in a demand for more workers than are available and is partly responsible for our difficulties in manning essential industries such as coal-mining and defence production. This pressure of demand is most acute in industries producing capital goods of all kinds, and this has been made worse by the steel shortage which is keeping down engineering production below the capacity of the industry.

16. Second, there is the wage-price spiral. There is a serious danger that this will get out of hand. The index of weekly wage-rates rose from 111 in October 1950 to 122 in October 1951. We are now working through a round of wage increases which will themselves lead to price increases, and so it may continue. The index of retail prices rose from 115 to 129 in the last twelve months, and if it goes on at this rate the value of money will be called in question. We cannot hope to cure this by deflationary measures alone; it would mean creating more unemployment than would be economically desirable or socially tolerable. Yet we must check the trend, or we shall run into grave social disturbances either by the direct effects of runaway inflation or by the drastic measures that would be needed to stop it.
The problem is to devise a programme of action which includes sufficient hope and adequate correction of our present unbalance. So far, inevitably, the action which we have announced has been mainly restrictive. Restrictive steps can be taken sooner and have quickest results, but the history of the last five years shows that, by themselves, they are not the answer. We hope to put forward proposals in due course which shall hold a reasonable balance between that economy and retrenchment which we all agreed to be necessary, however painful, and those positive measures which provide greater incentive to work and more pleasure in life.

Given the short time at our disposal we cannot yet produce such a balanced programme. We have carried some of our work further than other parts. We do not wish our colleagues to judge it until we can put it forward in balanced form. Therefore, at this stage we present only an interim report, asking for decisions in some matters, but reserving others for later consideration.

II. — The Work of the Sub-Committee

Production

The increase of production which is our central need depends not only on the tightening of the economy and the avoidance of waste which are the main subjects of this paper, but also on the creation of incentives to produce and on hopes of a not too distant reward for work. On this side of the problem we are pursuing several lines of attack, and certain considerations on one, in particular, will be developed early by the Lord President. For the moment we confine ourselves to stressing two points.

Coal

First, our biggest single problem is the need to produce more coal. That is vital; unless we solve it we cannot hope to avoid one crisis after another in our internal economy and in our balance of payments. We have put this question first of all those which we have considered. We urge that the Secretary of State for the Co-ordination of Transport, Fuel and Power, who is going to discuss the problem with us, and the other Ministers concerned, should be given every possible support in his task.

Steel

The second big production problem is steel. Here the situation may alter if we can get steel from the United States.

Exports

There is little hope of any substantial or permanent increase in exports until the other measures to which we refer have been taken and have had time to take effect. A nation which is seeking to carry out a large defence programme, to maintain consumption levels at home, and to sustain investment upon a scale beyond its monetary and material resources, has little chance of increasing exports at the same time — quite the contrary. Retrenchment at home is thus an essential feature of any export drive. Exhortation alone is not enough, and it would in our view be a psychological mistake to launch any major campaign for increased exports until these other measures which are proposed have been announced. The Government must establish and observe the principle that exports are a first charge on our resources.

Our aim should be to build up the volume of exports by at least £100 million worth a year. It will clearly be difficult if not impossible to attain this figure during 1952–53. The problem differs between different types of goods. In engineering products there are shortages of steel and man-power which we hope to alleviate by the methods already described. With non-metal consumer goods the problem is to find markets. A buyer's market has developed in textiles and competition will increase. We wish to draw attention to the serious handicaps under which the textile industry is labouring. The confusion which at present surrounds purchase tax, utility schemes and price-fixing in this industry has now reached a point which impairs its competitive ability. Indeed, an important range of goods is under present conditions virtually excluded from manufacture, and the whole industry is under the strain of a system of controls and taxes which bears little or no relation to present-day needs.
24. Steps can be taken—and in our view should be taken—to deal with this problem as a matter of urgency. They will involve legislation and will affect the purchase tax. It is inconvenient, but it is possible, to bring in such legislation before the Budget. The advantage to the export trade of acting quickly is so great that we recommend that a Bill should be introduced in February. The Chancellor of the Exchequer and the President of the Board of Trade will put forward detailed proposals in a separate paper.

25. We must not overlook the contribution that the tourist industry can make, particularly in the dollar fields, to increased earnings. Further Government action will be needed to help the industry.

**Investment and the metal-using industries**

26. We must reduce the overload on the engineering and metal-using industries to which we have referred in paragraph 13 above. The probable gap, on present policies, between total home demand on the engineering industry and the supplies available for home use, on the assumption that we shall get the engineering exports which we need, will be £300 million per annum in 1952 and 1953. This gap will be partly closed by economies in defence. The remainder will have to be closed by cuts in home consumption and investment.

27. We recommend cutting the level of production of consumer goods for the home market by the metal-using industries by £60 million per annum at 1950 prices. We have examined a schedule of cuts in the various industries, and we propose that the Departments concerned should work out detailed proposals to be brought into action as soon as possible.

28. We recommend that home investment in engineering products should be reduced below the present level by £100 million per annum. Proposals are being prepared in the review of investment programmes which has now started.

29. We must restrict the use of steel for other purposes, including building. We cannot provide as much steel for building as in 1950, and the load on the industry must be limited accordingly. Officials have been instructed to work out plans on the assumption that the defence building programme (including civil defence, storage, communications and measures to maintain the civilian economy in war-time) will not exceed £90 million in 1952 at 1950 prices.

30. These cuts will raise big problems, particularly the cuts in the building programme. They will be brought before the Cabinet by the Chancellor of the Exchequer in a separate paper.

**Man-power**

31. The Cabinet referred to us (C.C. (51) 13th Conclusions, Minute 2) the proposals of the Minister of Labour and National Service for a Control of Engagement Order and for labour supply inspection which are contained in his paper C. (51) 18. These proposals will be a useful complement to our proposals and we recommend that they should be adopted as soon as possible.

**Government Expenditure**

32. Expenditure by the Government is one of the main causes of our overloaded economy. Where the expenditure is on scarce services or commodities (e.g., building), it is particularly important. But every penny saved from the Government's net outgoing helps to reduce the claims on the country's production. Defence expenditure is being dealt with elsewhere. But we must also reduce our civil expenditure substantially. Unless it is checked, it will rapidly increase, both because of the natural growth of developing services, such as the National Health Service and Education, and because of the increases in prices and wages.

33. We have spent a good deal of time on examining Government expenditure. In consultation with the Ministers concerned we have gone in detail into the National Health Service and Education, and we have discussed more briefly the estimates for 1952-53 for Agriculture, Works Services, Information Services, Civil Aviation and the Board of Trade. We have also considered the question of Civil Service numbers. Nevertheless, we are not yet ready to put our proposals to the Cabinet. There is no means of cutting back expenditure substantially without big changes of policy, and before proposing such changes we wish to consider the various possibilities in rather more detail. Further, it is most important to have
a balanced programme of retrenchment. It is impossible for any Minister to defend restrictions on financial grounds of the services for which he is responsible unless he can show that other services are being similarly treated.

34. We can, at this stage, give some idea of the scope of the problem. The Chancellor has received from the Departments at least the totals of their estimates for the year 1952-53. These figures are provisional only, but when they are compared with this year’s estimates they show the natural increase of services of civil expenditure. This table shows the total of the sums for which the Chancellor of the Exchequer is being asked. It excludes all defence expenditure, broadly interpreted: it does not include the figures for Civil Defence or for strategic reserves, or for the “civil” expenditure of the Ministry of Supply, most of which is closely allied to defence expenditure. The National Health Service and Education (the subjects which we have gone into in greatest detail) are put forward not at the figures which the Ministers concerned have suggested (since they and we always recognised that economies would be needed) but at the figures to which they would rise if there were no major changes of policy. Food subsidies are put at £410 million, as last year.

<table>
<thead>
<tr>
<th>Service</th>
<th>1951-52</th>
<th>1952-53</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Health Service</td>
<td>398</td>
<td>417</td>
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<tr>
<td>Education</td>
<td>228</td>
<td>251</td>
</tr>
<tr>
<td>Other Social Services</td>
<td>418</td>
<td>438</td>
</tr>
<tr>
<td>All Social Services</td>
<td>1,044</td>
<td>1,106</td>
</tr>
<tr>
<td>Food Subsidies</td>
<td>410</td>
<td>410</td>
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<tr>
<td>Other Services</td>
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<td>486</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,940</td>
<td>2,002</td>
</tr>
</tbody>
</table>

35. Naturally we do not accept the figures put forward by Departments, and not yet examined, as being an indication of the amount which will be put before Parliament in the Estimates. Very substantial economies are needed and (with the assistance which Ministers have given us) we already see our way to some of them. The Chancellor will secure many others in the course of his ordinary examination of the Estimates. In our view he must be able to say when he makes his statement to the House in January that he is reducing civil expenditure (as defined above) substantially below the figure for 1951-52, and up to £100 million below what it would be if there had been no change of policy, i.e., the figure should be reduced from about £2,000 million to something approaching £1,900 million. This cannot be done without cuts in social service expenditure: about £40 million will have to be found from the health service, about £20 million from education and the other £40 million from other civil expenditure.

36. Costs will be higher next year than this by about 10 per cent. Expenditure over the range of civilian expenditure has been steadily increasing over recent years by something approaching £100 million a year, in spite of all that has been done to check it. Therefore it would be a greater achievement to keep expenditure stationary or slightly dropping than appears on the face of the figures; in a time of rising prices and wages revenue will also rise.

Civil Service Numbers

37. We have agreed to a proposal by the Chancellor of the Exchequer that he should secure over the next few months a reduction of 7,000 in the staffs (at present 301,600) of Civil Departments other than the Post Office. This would save about £3 million a year. Further reductions—perhaps up to 15,000 or 20,000—will be made over a longer period, though we recognise that this will involve a curtailment of services. Appropriate reductions of staff should also be made by the Service and Supply Departments, the Foreign Service, and the Post Office.

Fiscal Measures

38. It would be possible to bring forward some fiscal measures in January; for example, the Excess Profits Tax. This would mean a Finance Bill, which would be hard to deal with at that season. In general we concur with the view of the
The wage-price spiral

39. We have referred, in paragraph 16, to the great danger of the wage-price spiral. Something can be done by the measures we have proposed and by other monetary action, but this will take time and will not remove the favourable bargaining position of the Trade Unions. Some steps must be taken to explain the situation to the country and to get that general co-operation in dealing with the problem which is the only alternative to drastic deflation. The Chancellor therefore proposes, and we agree, that a draft should be prepared which would set out the whole problem in simple language and which, if the Cabinet approve it, might be published as a White Paper. The Minister of Labour and National Service would be willing to join in sponsoring the paper and to discuss it with his Joint Advisory Council. Such a document should lead to wide discussion and to the creation of a public opinion in which the problem could be managed. It would help the Chancellor if he could refer to this document when he makes his statement in January. There are many difficulties in such a statement, but they can be considered when the draft is before the Cabinet.
CABINET

TRANSFER OF THE HIGH COMMISSION TERRITORIES

Memorandum by the Secretary of State for Commonwealth Relations

Dr. Malan has declared his intention to press his demand for transfer of the Territories (Basutoland, Bechuanaland and Swaziland) early next year. I do not recommend any immediate action, but my colleagues should be aware of what is impending.

2. A note setting out the facts and arguments more fully is annexed.

3. Our position is clear. We are bound by forty-year old pledges to consult the Territories' inhabitants and Parliament here. Neither will agree to transfer. Our answer must be "no".

4. Yet two of the Territories are economically and geographically at Dr. Malan's mercy. And a bad quarrel with the Union would not only prejudice their co-operation with us in defence and trade, but might lose us the Territories. The issue will therefore require the most careful handling.

5. It is not clear how or when Dr. Malan will proceed. He talks of getting his Parliament to submit a petition to The King in Council. This is the procedure specified in the South Africa Act of 1909. But today's altered constitutional position makes it an awkward approach, since it is quite clear that His Majesty could not be advised on a matter like this by South African Ministers alone: and it would have to be arranged in some way or other that United Kingdom Ministers were brought into the matter. There is danger here of the Crown being embroiled in dispute and of republicans in the Union making capital out of this.

6. The Union Parliament sits from January until May or June. When it assembles next month Dr. Malan may disclose his plans more fully. On the other hand he may decide to test our reactions before determining his tactics. He could do so and still fall back on the petition method of approach before his Parliament rises.

7. We could try now to dissuade Dr. Malan from raising the matter at all. This would merely be a repetition of a move made by Mr. Attlee's Government which was deeply resented but resulted in brief delay on the excuse that Dr. Malan would await a more stable Government in the United Kingdom. It is unlikely to do any good and would probably make matters worse.

8. Alternatively we could make known informally through the Union High Commissioner our difficulties and express willingness to discuss at any time the situation which results from our inability to transfer.
17TH DECEMBER, 1951

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Alternatively we could make known informally through the Union High Commissioner our difficulties and express willingness to discuss at any time the situation which results from our inability to transfer.
But this would not help much. Dr. Malan must know that we would not refuse to discuss. Accordingly I do not think that we should take the initiative. If it came out that we had done so, it would be strongly criticised in this country and unsettle opinion not only in the Territories but elsewhere in the Empire.

9. I recommend therefore that we should simply watch the position and leave Dr. Malan to raise the matter in his own time and in his own way. The sort of line we might then take is indicated in paragraphs 8 - 10 of the Annex, but we cannot definitely decide how to deal with his approach until we see what form it takes.

Commonwealth Relations Office, S.W.1,

17TH DECEMBER, 1951.
Note on the Transfer Question

1. The South Africa Act, 1909, provided for the possible transfer of these Territories (Basutoland, Bechuanaland and Swaziland) to the Union at some future date, and for the machinery of transfer if it came about.

2. The Act does not constitute any obligation to transfer. (Very similar provision was made for the incorporation of the two Rhodesias in the Union, but this has not prevented their pursuing an entirely different path.) The constitutional safeguards provided in the Act have gone with the power of disallowance. Two pledges, given during the passage of the Bill through the United Kingdom Parliament, have been frequently reiterated since by various United Kingdom Governments and recently by the Prime Minister. These pledges are that transfer should not take place

(i) until the inhabitants, natives as well as Europeans, have been consulted; and

(ii) until the United Kingdom Parliament has been given an opportunity of expressing its views.

This leaves the last word with the United Kingdom Parliament.

3. The Union case is that the provision in the Act amounts to a promise and that fulfilment is long overdue. Dr. Malan has said that no other sovereign state would today tolerate islands within its boundaries administered by someone else. He argues that none of the Territories could ever survive as an independent unit and that economically and geographically they are part of the Union. The Union, he claims, suffers through lack of control of what goes on inside them. This prejudices Union defence and development. As for pledges, the native inhabitants are not competent in his opinion to judge an issue like this.

4. For his own political purposes Dr. Malan is out to make the maximum capital out of his demand and is prepared to make it an election issue in the Union. This puts his opponents on the spot. They are bound to agree that transfer is desirable. General Smuts was always a party to the demand for transfer and his successors take the same view. They have already stated that on the main issue, there is no difference between them and the Government. The United Party's only criticism is therefore of Dr. Malan's methods and timing. The wilder men in the Nationalist Party may try to use our refusal to transfer as an excuse for hastening a republic.

5. On our side the pledges are clear and categoric. The native inhabitants of the Territories are very strongly opposed to transfer and the United Kingdom Parliament equally averse to it. Transfer against the wishes of the inhabitants would be a gross breach of faith and is therefore out of the question. On the other hand a serious breach in relations with the Union would adversely affect their co-operation with us over defence, trade, the supply of gold, etc.

6. The worst feature is that the Territories are completely at Dr. Malan's mercy. Two of them are hopelessly vulnerable to economic pressure by the Union. The Union could deprive Basutoland of all contact with the outside world and starve it into subjection very quickly.
Short of this, the Union could make our continued administration very difficult and expensive, simply by turning nasty in day to day relations.

7. It would not be in the Union's real interests to quarrel badly with us or to incur the public rebuff which would follow if the native inhabitants were consulted on transfer and declared themselves against it, as they would. The highly emotional Afrikaner may ignore this, but many South Africans feel that their country is lonely and friendless in the world today. They would be reluctant to get seriously at odds with the United Kingdom. Apart from the grave and persistent difficulties arising from a fundamental difference on native policy, there are many affinities of character and many common interests between ourselves and South Africans of both parties.

8. From this comes a hope, perhaps forlorn, that, if our difficulties were brought home to them, the Union Government might be persuaded however reluctantly to rest indefinitely on an agreement, which recognised the Territories' economic and geographic affinities with the Union. The working relations which exist today between the Territories and the Union are a credit to both. The Union's part in this— the provision of communications, markets, defence, etc.—is seldom acknowledged. For our part we could undertake to press on with conservation and development of the Territories' natural resources and to give priority to the things (e.g. development of the Orange River watershed in Basutoland and improved control of foot and mouth disease in Bechuanaland) which affect the Union most. We could offer the fullest collaboration over immigration control, customs arrangements and defence planning. A very comprehensive agreement could be shaped to give formality and firmness to the needs of an unusual situation.

9. Even if the present Union Government rejected such an agreement, there are many South Africans who would say that in the circumstances it was not an unfair offer. This might take the edge off their reactions to our refusal to transfer.

10. When the Union demand materialises, therefore, we shall have to make absolutely clear that conditions do not exist in which consistent with our pledges we can bring about transfer of the Territories. We should nevertheless offer to meet with the Union Government or its representatives and discuss the resulting situation. We may be able to bring home to them our understanding of their aspirations, our complete inability to meet these and our willingness to forge the closest possible bonds of co-operation between the Territories and them in all practical matters. Although it would fall far short of their desires, an agreement, formalising and improving current working arrangements between the Territories and the Union, is the only alleviation we could offer in a situation promising such grave difficulties if it is not dealt with in a spirit of understanding and goodwill.
17TH DECEMBER, 1951

CABINET

PURCHASE TAX AND UTILITY

Memorandum by the Chancellor of the Exchequer and the President of the Board of Trade

Since the introduction of utility schemes in 1941, utility goods have been exempt from Purchase Tax. But, since the war, the scope of the utility schemes has been very considerably extended, mainly in order to meet post-war social and economic needs; and this extension, coupled with the automatic link with tax exemption, has gradually produced a series of problems to which it is now very urgent to find an answer.

2. The previous Government set up a Committee, under the Chairmanship of Sir William Douglas, to consider these problems. Its terms of reference are contained in Annex 'A'; and its report is expected in the very near future. As soon as it is available we shall have to decide what action we are prepared to take; but provisional decisions are possible and should be taken forthwith.

3. The problems involved are briefly as follows:

(i) Export trade is now being lost because manufacturers will not produce for export a sufficient variety of medium grade goods which are not covered by the utility schemes, and for which, at present tax-inclusive prices, there is no home demand if for any reason export sales do not materialise. One serious disadvantage of the present Purchase Tax arrangements in the utility field is the virtual disappearance of goods at prices immediately above top utility prices which results from the sudden jump from complete tax exemption to tax on the full wholesale value. This has led to the creation of a "blind spot" in the production range at this point. Similar problems arise in the case of slightly cheaper goods which differ from the utility specifications. Action to remove this "blind spot" is probably the only step we can take to give immediate help to textile exports.

(ii) The utility arrangements are now in a very unsatisfactory condition, and there is no further scope for piecemeal efforts to keep them going or to deal with related price control problems. We cannot tackle these problems effectively as long as there is a direct link between Purchase Tax and utility status. The report of the Douglas Committee will probably be very critical of the present arrangements, and will show that, for the most part, the utility schemes have outlived their usefulness as a means of providing any effective measure of price control and quality maintenance.

(iii) Though it is arguable whether the present Utility/Purchase Tax arrangements are a significant contributory factor in the present recession in the textile industries, traders are putting the blame for the present slump on these arrangements and pressure for immediate changes is
becoming almost irresistible. The position would become quite untenable
if substantial unemployment arose in Lancashire while the present
Purchase Tax/Utility arrangements remained unchanged.

(iv) We import a certain quantity of goods which are of utility
quality, but, because they are not specifically "utility", are not eligible
for remission of Purchase Tax. This discrimination against imports is a
breach of our international commercial policy obligations, and we are
committed to its removal in the very near future.

4. It is probable that the Douglas Committee will recommend
that the only solution of the above problems which is compatible with
the requirement in their terms of reference, i.e. not to sacrifice
revenue but also to preserve the advantages of the utility schemes to
consumers, is an arrangement which is commonly called the 'D' scheme.
The essence of this scheme is outlined in Annex '3'.

It will be seen that the scheme is complicated and offers
considerable opportunities for discussion in Parliament. But we shall
have the advantage that the legislation will be based on the report
of an impartial and expert survey.

5. A final decision on the acceptability of this scheme must be
defered until the Douglas Report is available and has been studied together
with any alternative scheme. But if the 'D' scheme is to be implemented,
a considerable amount of detailed work will be necessary which will take
about two months. This work has already been put in hand and will be
pressed forward with all possible speed. Once it is known that the
Douglas Report has been received by the Government there will be heavy
pressure for its publication and for a statement of the Government's
intentions. The longer such a statement is delayed, the more damage
will be done to trade, both at home and for export. While we do not, at the
moment, wish to commit ourselves about the best date for action, we must
clearly be prepared to act rapidly if circumstances make this imperative.
We, therefore, seek our colleagues' approval to the preliminary work on
the 'D' scheme being carried forward to the point where the necessary
legislation can be introduced, if necessary, at very short notice in the spring.
This will involve a certain amount of technical consultation with trade
interests, but we hope, in the interests of security, to confine this
consultation to those trade representatives who are already members of the
Douglas Committee.

6. We will submit proposals for final decision - by the Cabinet,
as rapidly as possible after the Douglas Report is available.

R.A.B.

P.T.

17TH DECEMBER, 1951.
ANNEX 'A'

THE TERMS OF REFERENCE OF THE DOUGLAS COMMITTEE

To review the present system of Purchase Tax affecting those classes of goods within which utility schemes operate (i.e. cloth, garments, footwear, household and furnishing textiles, furniture and bedding) in relation to international agreements bearing on the internal taxation of imported goods, and to the interest of the export trade, consumers and manufacturers; to consider possible adjustments of that system with a view to removing or reducing any difficulties to which it gives rise; and to submit recommendation on these matters, having due regard to the need to maintain the advantage of the utility schemes to consumers, the expansion of the export trade, and the yield of Purchase Tax revenue which would accrue, under the existing arrangements, from the classes of goods in question.
1. The scheme would operate only in respect of those articles for which there is utility manufacture. These are textiles, clothing, footwear, and furniture.

2. Within this field it would operate in respect of all goods whether they were utility or non-utility.

3. Purchase Tax would be charged on all such goods, but only on the amount by which their wholesale value exceeded a fixed deduction, called 'D' for short. This deduction would, therefore, resemble the personal allowances which are deducted before Income Tax is assessed.

4. The deduction would have to be fixed separately for each class of goods concerned; probably about 150 separate 'D's' would need to be assessed.

5. The present revenue would be maintained if the deduction for any class of goods were calculated so that about half of the total number of purchases of the goods concerned remained completely tax free. Above this point, since the deduction is the same for all goods in any one class, the amount of tax would form a bigger and bigger proportion of the value of the goods as the price increased. The tax would range from a very small amount on goods just above the exemption point to something approaching the present amount on the most expensive goods. The main fiscal effect of the change would, therefore, be to redistribute the tax collected from medium price goods in this field by reducing the tax on these goods which are at present non-utility and imposing some margin of tax on the highest priced utility goods.

6. Legislation would be necessary on Finance Bill lines.

7. This scheme would have the following advantages in relation to the problems outlined in the covering memorandum:

(a) The substitution, by means of the 'D' scheme, of a gently rising rate of tax would eliminate the 'blind spot', and be of considerable advantage to the export trade.

(b) The divorce of utility from Purchase Tax would restore to the Treasury and the Board of Trade respectively freedom of action to administer the Purchase Tax on a fiscal basis and to make such modifications in the utility scheme as policy dictates, without the complication which at present arises from the fact that utility goods are automatically exempt from Purchase Tax.

(c) There is already widespread speculation about the report of the Douglas Committee and about possible major changes in the utility field. Uncertainty on these points is probably one contributory factor in the present abnormal recession in buying of textile goods.

(d) The scheme would completely solve the difficulty of import discrimination, since the tax would depend solely upon the value of the goods and not upon a utility mark.
CONFIDENTIAL

C. (51) 51
20th December, 1951

CABINET

COLOMBO PLAN


We circulate herewith for the information of our colleagues a memorandum which has been prepared by officials of the departments concerned on the Colombo Plan for the economic development of South and South-East Asia. The Plan originally took shape at the meeting of Commonwealth Foreign Ministers in January 1950. Detailed plans for development were worked out by the Commonwealth countries in the area at a meeting in London in September 1950, and are now being actively carried out.

2. It is important in the struggle of ideas in Asia to persuade the people of the region that their true interests are best served by continued association with the free world. To this end it is necessary, amongst other things, to convince them that the Western Powers are sincerely and actively interested in helping them to improve their living standards, and the Colombo Plan has been our main effort in this direction. The Plan has played and can continue to play a considerable part in bringing home to the United States Administration and public the urgent necessity for economic assistance to this area.

4. The importance of the Plan as a means of fostering the Commonwealth connection and, in particular, relations between the old and the new Commonwealth countries, is a strong argument for the United Kingdom to continue to play, and to be seen to play, a major rôle in working for its success. The initiative in the Plan came from the Commonwealth and its centre of gravity is, and will obviously remain, in the Indian sub-continent. Any patent weakening of United Kingdom initiative or support would reduce United Kingdom influence in the Commonwealth countries in particular, and in the area of South and South-East Asia in general.

5. No meeting has been held since February 1951. To sustain the impetus of the Plan, it seems essential to hold the next meeting at Ministerial level. This is clearly expected by the countries concerned. To suggest anything less at this stage would tend to create discouragement and disappointment among the countries in the area.

6. We have approved the detailed recommendations set out in paragraph 22 of the attached memorandum and action is proceeding accordingly.

(Initialled) A. E.
A. L. B.
R. A. B.
I.

20th December, 1951.
ANNEX

**COLOMBO PLAN**

**History of Colombo Plan**

1. The Colombo Plan originated with the meeting of Commonwealth Foreign Ministers in Colombo in January 1950, when agreement was reached on the vital importance of the economic development of South and South-East Asia in the maintenance of the political stability of the countries in that area, and in the growth of an expanding world economy based on multilateral trade. The region with which the Plan is concerned includes India, Pakistan, Ceylon, the Federation of Malaya, Singapore, North Borneo and Sarawak, Burma, Siam, Indo-China, Indonesia and the Philippines and contains about one-quarter of the world's population. Although the region is rich in natural resources, economic development has not in the past kept pace with the increasing pressure of population, and many millions of people live at the barest subsistence level. The rapid political developments in the area since the war have made it urgently necessary that the new Governments should promote the economic improvement which is essential to their social stability and the strengthening of their free institutions.

2. After the Colombo Conference a process of Commonwealth Consultation was begun with the purpose of making the most effective attack on the problem, and of focussing world attention on the needs and difficulties of the area. The Commonwealth Governments took the initiative because three-quarters of the people in the area live in countries which are members of the Commonwealth and the whole area is one with which Commonwealth Governments have close political and economic ties. But it was contemplated from the start that non-Commonwealth Governments in the area should be invited to participate on equal terms in whatever Plan could be devised to lead to international action; it was recognised also that the resources for the effective development of the area were more than the Commonwealth itself could provide, and that it would be necessary to seek the co-operation of other countries.

3. The Colombo meeting had agreed on the establishment of a Consultative Committee to co-ordinate action under the Plan and the first meeting of the Committee was held in Sydney in May 1950. It was attended by Ministers from every Commonwealth Government except South Africa, which felt unable to participate because of its preoccupation with African affairs, but asked to be kept fully informed of developments; the United Kingdom was represented by the Paymaster-General (Lord Macdonald). It was agreed at this meeting that the first step was to assess the extent of the problem. Each country in the area was therefore invited to prepare a six-year development programme for incorporation in a report to be drawn up at a second meeting of the Consultative Committee in London. In fact, none of the non-Commonwealth countries invited prepared programmes in time for the meeting, and indeed most of them have still not decided whether to join the Plan. (See paragraph 14 below.) It was also agreed in principle at the Sydney Meeting to set up a Technical Co-operation scheme to increase the supply of technical assistance to the area. Commonwealth Governments represented on the Committee agreed to provide finance for technical co-operation to the extent of £8 million over the three years beginning 1st July, 1950, the United Kingdom share being fixed subsequently at up to £2.8 million.

4. The second meeting of the Consultative Committee was held in London in September 1950. It was attended by representatives of the Governments of Australia, Canada, Ceylon, India, New Zealand, Pakistan, and the United Kingdom and its Dependent Territories in the area; the Governments of the Associated States of Indo-China (Cambodia, Laos and Viet-Nam) and the Government of Thailand sent delegations to a joint meeting with the members of the Consultative Committee early in October, which was also attended by observers from Burma and Indonesia. The main work of the meeting was the production of the Report referred to in the preceding paragraph, which was approved by member Governments and published in the United Kingdom in November 1950 as a White Paper.* The meeting also

* Cmd. 8080.
recommended a constitution for the Technical Co-operation Scheme, including the establishment of a Bureau in Colombo to act as a clearing house for offers and requests for technical assistance. This has since been set up, under a United Kingdom Director, Mr. G. M. Wilson.

5. The Report of the Committee, in addition to a general review of the history and objectives of the Plan, contains details of the development programmes produced by the Commonwealth countries in the area—India, Pakistan and Ceylon, the Federation of Malaya, Singapore, North Borneo and Sarawak. The total cost of these programmes was estimated at £1,868 million, of which £1,084 million would be required in the form of external capital; the breakdown is as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Cost of Programme</th>
<th>External Finance Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaya and British</td>
<td>£1,379</td>
<td>818</td>
</tr>
<tr>
<td>India</td>
<td>280</td>
<td>145</td>
</tr>
<tr>
<td>Pakistan</td>
<td>102</td>
<td>60</td>
</tr>
<tr>
<td>Ceylon</td>
<td>107</td>
<td>61</td>
</tr>
<tr>
<td>Borneo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>£1,868</td>
<td>£1,084</td>
</tr>
</tbody>
</table>

6. India has now substituted a five-year Plan costing £1,345 million for her original six-year programme costing £1,379 million. The new Plan is divided into two sections, the former consisting of essential projects amounting to £1,120 million; the latter of desirable projects making up the remaining £225 million. The first part is to be financed by internal capital to the extent of £841 million and by external contributions already promised, leaving a balance of about £217 million for which the Indians will, if necessary, resort to deficit financing. The second part of the Plan can only be carried out if additional external finance becomes available. Pakistan has now produced a two-year programme, consisting of priority projects from her original programme, and amounting to about £50 million. This excludes several Colombo projects which are already under way.

7. It had always been our hope to persuade the United States Government to join the Plan, since they alone could fill the gap between total requirements for external assistance and the amount which the Commonwealth donor countries could offer. The United States Government was therefore kept informed of the progress of the London meeting and shortly afterwards they accepted a formal invitation to take part in the work of the Consultative Committee. The United States Administration, for reasons connected with the difficulty of securing appropriations from Congress, has shown anxiety lest their participation should commit them to endorsing particular development programmes, figures for the aid required, or priorities in the allocation of aid. However, the Committee has always in its reports avoided implying any such endorsement on the part of the donor countries either severally or collectively, and the American anxieties on this score have not prevented their participation in the work of the Committee. It is of interest to note that since the report on the Plan was published the United States Administration have for the first time asked Congress to appropriate funds specifically intended for South and South-East Asia, and they have now secured a substantial sum (see paragraph 11 below).

8. There was a third meeting of the Consultative Committee in Colombo in February 1951, at the official level, to review the situation generally following the publication of the Report on the Colombo Plan, and to make recommendations to Governments regarding future procedure for continuing consultation amongst the Governments participating in the Plan. It was attended by the seven interested Commonwealth Governments, and by the United States, Cambodia and Viet-Nam as members. Observers were sent from Burma, Indonesia, the Philippines and Thailand; and by invitation there was a representative of the International Bank. The conclusions of this meeting are summarised in paragraphs 9 and 17, and the proposed arrangements for the next meeting are being submitted to Ministers for approval in paragraphs 18-22 below.

9. It was generally agreed at the London meeting that it would not be desirable to channel the provision of aid through any central allocating organisation (such as O.E.E.C.), and that negotiations for the provision of aid should be handled bilaterally between donor and recipient Governments. The United Kingdom, however, at the third meeting proposed the establishment of a small secretariat to
maintain continuity between meetings of the Consultative Committee and to facilitate the exchange of information. The proposal was accepted in principle, but the Committee thought it would be premature to set up the secretariat at that stage. The matter will therefore fall to be considered at the next meeting of the Committee and the United Kingdom policy on this subject will in due course be considered when the briefs are prepared for that meeting.

External Finance: Needs and Commitments

10. At the September 1950 meeting of the Consultative Committee the Chancellor of the Exchequer offered a United Kingdom contribution for the six-year period of about £330 million, consisting of sterling releases, Colonial Development and Welfare Funds for United Kingdom South-East Asian territories, &c.; and £30 million for non-Commonwealth countries. The figures were not quoted in the Conference, but were given privately to Commonwealth delegates. On 28th November, 1950, Mr. Gaitskell announced in the House that the United Kingdom contribution, including the repayment of sterling balances, "may amount to well over £300 million." Agreement has now been reached with India, Pakistan and Ceylon for total sterling releases of £252 million over the six years. All these releases have been announced to Parliament. We have stated in the Colombo Report, paragraph 31, that it is not the present intention of the United Kingdom Government, in view of their special responsibility for Malaya, Singapore, North Borneo and Sarawak, to seek finance from other Governments in respect of these territories, apart from assistance available under present arrangements; and the Chancellor of the Exchequer stated in the House on 28th November, 1950, that we should ourselves provide any external finance required by these territories for the execution of their development plans.

11. In addition to the United Kingdom contribution, the following promises of assistance have been received:

(a) Australia has offered £25 million over six years, of which £7 million approximately is for 1951-52.
(b) Canada is to give $25 million in 1951-52.
(c) New Zealand has made a provisional offer of £1 million a year for three years, to be reviewed at the end of 1951-52.
(d) The United States Administration has obtained an appropriation of $237 million for assistance to South-East Asia (including Formosa) under the mutual Security Programme against their original request for $375 million. We do not know how much of this will accrue to Colombo countries, but out of the original appropriation the Administration were intending that about $80 million should go to the Indian sub-continent. In addition, the United States Government in May this year extended a loan of $190 million to India for the purchase of wheat and other commodities for famine relief.
(e) The International Bank for Reconstruction and Development has already lent to India $60 million and is negotiating with Pakistan for a similar amount. In addition, a loan of $25 million has gone to Siam.

12. This does not measure up very well against our original hopes for the external financing of the Programme (that about £400 million should come from the Commonwealth and the remainder, to wit about £600 million, from the United States and International Bank). However, the original estimates and the Colombo Report were based on the pessimistic outlook of September 1950; for instance, the assumption was that rubber prices would remain at about 1s. per lb. Although prices have declined from the peak figures reached earlier in the year, they are still for the most part substantially above the levels prevailing in September 1950, and there has been a marked change of emphasis since the inception of the Plan, when the greatest limitation on development was shortage of finance. Stockpiling, rearmament and the consequent round of world inflation have resulted in big increases in the prices of the area's primary products and big increases in their sterling balances. External finance is no longer the main problem. To the extent that Government revenues benefit by means of export duties, &c., and that there is more money in private hands which can be tapped by taxation and internal Government loans, there is considerably more internal finance available for development. In spite of the rather disappointing nature of the contributions announced, and in spite of increased costs, it is unlikely that at any rate for 1951-52 the
execution of the development programmes of the Commonwealth countries in the area, with the possible exception of India, will be hindered by lack of money. The basic difficulty which the countries are likely to encounter, and which is causing them some apprehension at present, is that of ensuring a regular supply of capital goods for the fulfilment of their plans. Hitherto, difficulties in the supply of such equipment from the United Kingdom have not been encountered except in a few isolated cases. But the competing demands of the defence programme, the home investment programme and export requirements will make it increasingly likely that we shall only be able to sustain the necessary level of supplies at the expense of some equally desirable recipient.

Non-Commonwealth Participation in the Plan

13. Countries outside South-East Asia.—It has always been hoped eventually to enlist support for the Plan from the potential donor countries outside the area which are not members of the Commonwealth. The position of the United States has been discussed in paragraph 7 above. In addition, the Governments of both France and the Netherlands have formally expressed their desire to take part in the Plan. We favour this in principle since they could contribute to its success. The question was discussed at the meeting in Colombo last February. However, partly because the Asian Commonwealth countries were reluctant to agree to French or Dutch participation, and partly because it was thought that to bring them in at this stage might deter the non-Commonwealth countries of South-East Asia which have not yet joined the Plan (in particular Indonesia) from doing so, it was agreed that the French and Dutch should not at that stage be invited to join the Plan. The position was explained informally to the Governments of France and the Netherlands, who understand the difficulties. It may be necessary to consider this matter again at the next meeting of the Consultative Committee (see paragraph 22) and the United Kingdom policy in this event will be considered at the appropriate time.

14. Countries in South-East Asia.—All the non-Commonwealth countries of South-East Asia—Burma, Siam, Indonesia, the Philippines, the Associate States of Indo-China (Vietnam, Laos and Cambodia)—have been invited to join the Plan, but so far only the three Associate States have decided to do so. The rest have hung back for a variety of reasons—reluctance to align themselves too closely with the West, fear of compromising their new won independence, and because some of them are already receiving from the United States of America and the International Bank about as much aid as they are physically and administratively capable of absorbing.

15. Since the Plan was published last year, the rise in commodity prices has much improved the respective balances of payments of those countries which have not yet joined the Plan, and most of them are now accumulating sterling. Unless, therefore, they increase greatly the tempo of their present development plans, or unless world prices move against them, they are unlikely in the near future to have any urgent or well-founded claim for United Kingdom assistance, should they now join the Plan.

16. Separate considerations apply to Indo-China. All three Associated States have actually joined the Plan, and Vietnam recently produced a development programme. The question of aid to Vietnam is at present under consideration, and if necessary a separate submission will be made to Ministers in due course.

Arrangements for Next Meeting of Consultative Committee

17. At the meeting of the Consultative Committee held at official level in Colombo last February it was recommended inter alia:—

(1) that a further meeting of the Committee (at Ministerial level) should be convened as soon as practicable;
(2) that the Committee should meet by mutual agreement whenever necessary, and at least once a year; and
(3) that the Committee should publish an annual report and such other reports as may be necessary.

18. In July last United Kingdom Ministers agreed that our aim should be to hold a Ministerial meeting of the Consultative Committee at about the turn of the year to approve the draft report, which would be put into final shape by a
short working party of officials immediately before the Ministerial meeting." On
the initiative of the United Kingdom, which had held the Chair at the last
Ministerial meeting this idea was communicated to the other Governments
concerned, who accepted our suggestions that the meeting should be held either
immediately before or immediately after the proposed meeting of Commonwealth
Finance Ministers. The United Kingdom also offered to circulate suggestions
regarding the preparation of the actual report.

19. Our own ideas, which have been accepted in the main, are that the chief
objects of the report would be to state progress, to provide an up-to-date re-assess-
ment in the light of changes in economic circumstances, and to obtain from the
recipient countries details of their actual plans and requests over the first two years
of the Plan period commencing July 1951. The last of these would provide a basis
on which donor countries, in particular the United States, could formulate their
own estimates for assistance needed. The United Kingdom has circulated drafts
of a synopsis for the report and of a questionnaire designed to elicit the necessary
information, and these drafts have been substantially accepted.

20. Decisions as to the venue and timing now to be suggested for the meeting
have to be taken. Certain of the Governments concerned have already expressed
the view that the meeting should be held in the Colombo Plan area, i.e., at Colombo,
Delhi, Karachi or Singapore. Other Governments for various reasons would prefer
this meeting to be held, as we originally had in mind, in London, consecutively
with the meeting of Finance Ministers. We now consider that the latter alternative
is impracticable for a number of reasons, principally the preoccupation that there
will be with the very serious financial questions to be discussed in January. The
general advantages of having the meeting in the area are obvious—the Plan does,
after all, concern Asia; furthermore, we know that a meeting in the area is the
more likely to command American support. The proposal for a meeting in the
area, at a date later than the Finance Ministers' meeting, therefore holds the field.
The Finance Minister of Pakistan has already suggested Karachi as venue and it
is considered that we need look no further; indeed, it would be difficult to ignore
this suggestion.

21. The timing of the meeting must be arranged to avoid clashing with—
(a) the Commonwealth financial talks being held in London from 8th to
20th January approximately;
(b) a meeting of the Economic Commission for Asia and the Far East (E.C.A.F.E.)
being held at Rangoon from 29th January to 9th February; and
(c) the Colombo Plan Exhibition being held in Colombo from mid-February
to mid-March 1952, during which period it would be impossible for the
Minister and officials dealing with Colombo Plan matters in Ceylon to
be absent from the capital.

22. It is therefore recommended that the United Kingdom should suggest to
the other members of the Consultative Committee—
(a) that the offer by Pakistan of Karachi as venue for the meeting should be
accepted;
(b) that the Ministerial meeting should commence on about 24th March, 1952;
(c) that a preparatory meeting of officials should begin about a fortnight before
the Ministerial meeting; the actual date would depend on the amount
of preliminary work on drafting the report that could be done in
advance, by the United Kingdom or any other country;
(d) that the International Bank be invited to participate and the non-Common-
wheat countries in the area who have been invited to join the Colombo
Plan (Burma, Indonesia, Siam and the Philippines), but have not yet
done so, should be invited to send observers;
(e) that the agenda for consideration should include the following:

(i) Preparation of the Annual Report
(A draft chapter for the Annual Report on the operation of the
Technical Co-operation Scheme is being prepared by the Council
for Technical Co-operation in Colombo.)
(ii) **Rôle of the International Bank**

(This item is included with the object of allowing the bank's representatives to give some indication not only of the amount of assistance which the bank can provide, but also of the bank's general outlook and policy, and of the conditions which it normally expects in connection with its loans.)

(iii) **Future Organisation for Continuing Consultations**

(See paragraph 9 above.)

(iv) **Liaison with the Economic Commission for Asia and the Far East (E.C.A.F.E.)**

(The Executive Secretary of E.C.A.F.E. has suggested informally that an observer from that organisation should be invited to future meetings of the Consultative Committee. Members of the Committee have expressed widely differing views on this question and it is proposed that it can best be discussed at the forthcoming Meeting.)

(v) **The Colombo Plan Exhibition**

(The Government of Ceylon announced at the Meeting of the Committee in February 1951 their willingness to convene a Colombo Plan Exhibition in Colombo during February 1952. The majority of the countries who are members of the Committee will be participating. It is considered that an opportunity should be given to the Ceylon Government at the next Meeting to report to the Committee on the Exhibition.)

The position of non-Commonwealth countries as regards the Plan will call for discussion. It has been thought best that this should be dealt with informally between delegations rather than in open discussion.
CABINET

REDUCTIONS IN CIVIL INVESTMENT IN 1952

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

The investment programme for 1952, which was approved by our predecessors earlier this year, is much in excess of the resources available to achieve it. This is mainly, though not solely, due to failure to foresee the shortage of steel and the full extent of the adverse movement of the terms of trade. The first has seriously affected building output, which has been less in 1951 than in 1950. The second makes it necessary that we should export more and invest less out of the production of the metal goods industries, which is limited in total by the steel shortage. If we do not do this we shall not have an external balance. This paper only serves to show how serious our position will be unless we can get more steel.

2. The Sub-Committee of the Economic Policy Committee charged with preparing measures to deal with the economic situation instructed officials to prepare proposals for a revised civil investment programme for 1952. on the assumption that building work for defence purposes would be limited to £105 million at 1951 prices in that year, and that the amount of civil building work must, therefore, be limited to what could be done without overloading the building industry on this assumption about defence work. We also gave instructions that the aim should be to reduce investment in plant and machinery by £100 million at 1950 factory prices below the estimated level in 1951.

3. I have circulated separately (C. (51) 45) the report by the Investment Programmes Committee containing proposals for implementing these instructions. The report is not an agreed document. The function of this Committee is to hear the conflicting claims of Departments and make proposals for an arbitration by Ministers between these claims which will provide a programme which is reasonable in the light of the general economic situation. The main means for enforcing the programme are building licensing, the authorisation of investment plans and individual projects of nationalised industries and local authorities and public utilities, and the powers of persuasion possessed by the Ministry of Supply over the engineering industry. These have recently been reinforced by steel allocation. I think that we should all prefer to see the level of investment kept within reasonable bounds mainly by influencing demand through fiscal and monetary measures, but this can be brought about only by a change in the general situation which cannot be made quickly. Meantime, in my view, we must continue to use such direct controls as are necessary.

4. The broad consequences of the recommendations made by the Investment Programmes Committee are as follows:

(1) Building work, including work for defence but excluding housing, will be envisaged in 1952 at approximately the same level as was achieved in 1950. This is 2 per cent. higher than in 1951. Nevertheless, the revised programme involves substantial cuts from the existing programme for 1952, which was 10 per cent. higher than the achievement in 1950. Since work has been planned and in many cases started with the object of building up to this higher level, the revised programme will
mean that very few new projects can start in 1952 and that a good deal of work already licensed and possibly some work already started will have to be stopped;

(2) the Committee point out that the use of steel for building is very much heavier in certain kinds of work, notably that for the basic industries and for manufacturing industry, than it is for housing and some kinds of rather less essential investment. It is therefore not possible to alleviate a situation which is largely due to a shortage of building steel by imposing the cuts on the least essential building projects. A choice has to be made between imposing reductions on the programmes for essential basic industries, such as the Fuel and Power industries and the Railways, and imposing it on manufacturing industry projects which are most desirable in order to improve the competitive position of British industry. The Committee have put the weight of the reductions on manufacturing industry, but also propose a reduction in the very large total of the electricity programme of £8 million and a reduction in the programme for gas. The Committee envisage that the cut on electricity will be made as to £2 million by suspending rural electrification developments, and as to the residue by slowing down the long-term programme of the British Electricity Authority. This programme is a heavy user of building steel, but the cut will mean accepting a further delay beyond 1956 in bringing the supply and demand for electricity into balance if the present estimates of future demand are accepted. The cut on manufacturing industry will mean that in order that some essential projects can be licensed during 1952 work already licensed and some work in progress will have to be stopped. These consequences are no more drastic and may be less drastic than the steel allocation will in any case require. The cuts also fall fairly heavily on water and sewerage, education, the health services and on the miscellaneous field—shops, churches, hotels, commercial premises, public houses, and work on the reconstruction of blitzed cities.

5. The reductions in plant and machinery and vehicle investment will to some extent be achieved as a result of the cuts on building, but the proposals envisage a cut of 30 per cent. on agricultural machinery for home use and a reduction of the home market quotas for motor cars and commercial vehicles to 60,000 of each type. This is a very large reduction on the level of supply in 1951. A reduction of 10 per cent. in shipbuilding, as compared with 1950, is proposed in spite of the importance of this industry for defence and for invisible exports. This is in line with the current level of steel allocation. The Railway programme, which contains much plant, is put at £5 million more than the Railways achieved in 1951, but is slightly below the level of 1950. A special plea has been made by the Railway Executive and the Transport Commission for a much higher programme and steel allocations to match it. The full reduction in plant and machinery required by the instructions to the Investment Programmes Committee can, in their opinion, be achieved only if additional measures of control are introduced over the sale of plant and machinery to the home market. It is recommended that officials should give further consideration and report again on the means available for achieving this result. I think we should agree that a reduction of the size required is unlikely to be achieved by persuasion and voluntary means, though before any further form of control is introduced I consider that we should discuss the matter with industry.

6. I have brought the proposals of the Investment Programmes Committee before the Cabinet because in my view reductions in investment of the size proposed are an essential part of the measures required to restore a healthy economy. I desire, therefore, to have the approval and support of my colleagues for the proposition that cuts of the size proposed are necessary. There is obviously much room for discussion as to how these reductions should be distributed over the component programmes, and, if necessary, I propose to hold a meeting of the Ministers concerned to discuss the distribution proposed by the Investment Programmes Committee. I must emphasise that it is of great importance to get the programme for 1952 firmly decided and implemented by Departments because it is now very late to exercise any effective influence on the programme for 1952. This can be done only if we take quick decisions and if these are enforced by my colleagues through their Departments.
7. There is, however, one major point raised by the Investment Programmes Committee for the consideration of Ministers. This is the size of the housing programme. The Minister of Housing and Local Government in his memorandum, C. (S1) 43, has asked for authority to build new houses with the necessary housing services at a rate of 300,000 houses a year to be achieved in 1954 (rising by stages in the intervening years), with authority to build more if he can. I am as anxious as anyone to get the housing programme up but I believe that we shall do this best by avoiding the error of attempting more than can be performed. It seems to me that there is great force in the argument that if the building programme is authorised at a level which would absorb the resources of labour and materials likely to be available, then there are bound to be local shortages which will have a wholly disproportionate effect on the total level of output. If, on the other hand, the programme leaves a margin of resources and labour, this does not mean that these resources are left idle. It means that the jobs in progress are completed more expeditiously. In fact we get more done by trying to do less. This, of course, is only true within limits, but it looks to me as if the programme proposed by the Investment Programmes Committee (which includes only 15,000 additional new houses in 1952) will leave only a small margin, if any, of labour and resources in 1952. If this is right we ought not to add more houses to the programme without reducing something else. The cuts envisaged are already severe and I do not think we can envisage larger reductions. I think we shall do better in the long run if we wait until 1953 to review the possibility of introducing more than 15,000 additional houses into the programme. We should not, I suggest, decide that until we have the review of investment in 1953 and can see the setting in which the decision has to be taken.

8. Conclusion
I ask my colleagues to agree:

(1) that cuts in the investment programme of the size and general character proposed by the Investment Programmes Committee are required and should be given early approval, subject to further Ministerial discussion of the distribution of the cuts if necessary;

(2) that we should impose the reduction proposed by the Committee on the electricity programme and take a decision to suspend rural electrification work;

(3) that the question of new forms of direct control over home investment in plant and machinery should be examined and reported on by officials as speedily as possible;

(4) that we should limit the number of new houses to be built under the programme to 215,000 in 1952, and that we should await the Investment Programmes Committee's report on 1953 before setting a target for that year and for 1954.

R. A. B.

Treasury Chambers, S.W.1,
18th December, 1951.
Memorandum by the Secretary of State for Foreign Affairs

The future procedure in regard to

(a) the custody of
(b) the exercise of clemency towards and
(c) the extradition of

war criminals is a matter which must form part of the contractual settlement with Germany. The three Western Governments have therefore to decide what instructions are to be sent to Bonn as the basis of negotiations with the German Government.

2. The war criminals concerned are those held in the three Western Zones and do not include for this purpose those sentenced by the International Military Tribunal at Nuremberg and now confined under quadripartite control in Berlin.

3. The present figure of war criminals in the three Western Zones are British 192 (of whom 26 are serving sentences of 21 years and 19 sentences of 20 years), United States 130, French 196.

Recommendations

I recommend that:

(i) The German Federal Government should accept responsibility for the custody of the war criminals. It would appoint a representative to an Advisory Clemency Tribunal. It is suggested that the other two members should be a neutral and an allied representative appointed by the Government responsible for the trial of the criminal whose case the Board was considering. This tribunal would decide all questions of clemency concerning all war criminals imprisoned in the Federal Republic. It would be authorised to take into account all relevant circumstances bearing upon the justice of the sentences particularly for the purpose of introducing the greatest possible measure of uniformity. It would not, however, be competent to question the correctness of the conviction. The Federal Government would undertake responsibility for seeing that the criminals served the sentences in accordance with the decisions of the Tribunal.

(ii) If, however, contrary to present indications this solution proved unacceptable, a proposal could be made for the continued detention of war criminals under the control of an international body, which would be responsible for clemency. As regards custody, the responsibilities of the international body would be worked out in negotiation with the Germans. This would raise greater practical difficulties than solution (i).
(iii) The present clemency review of the sentences passed on the war criminals in the British Zone should in either case continue as hitherto, pending the conclusion of an agreement with the Federal Government.

(iv) The extradition of war criminals should be brought to an end as soon as possible.

5. As regards 1(a) and (b) (Custody and Clemency) the possible courses are set out below:

(i) the continued detention of war criminals in the Federal Republic under Allied control. This was the solution advocated by Mr. Morrison in a short discussion with Mr. Acheson and M. Schuman at Washington in September last, when he suggested reconsideration after an interval of 3 years.

But it is highly unlikely that the Germans would accept it and it would be difficult as well as impolitic for us to try to enforce it, more especially as the Federal Chancellor has been assured that supreme authority will only be retained in certain fields which do not include the position of war criminals.

(ii) The removal of war criminals from Germany. The obvious advantages are (a) certainty that the sentences will be duly served and (b) the removal from the Federal Government of a source of weakness and internal controversy on a highly contentious topic.

But there would be an immediate and very inopportune outcry in Germany just at a time when the whole contractual settlement came up for Parliamentary approval. This would be based on our patent intention to disregard German public opinion on the subject. It would also be necessary to introduce legislation here (and in the United States and France). This might well engender considerable heat in Parliament and would certainly come up against practical difficulties. (N.3. This solution was discussed and rejected in the case of Italian war criminals.)

(iii) The continued detention of war criminals in the German Federal Republic but under the control of an international body set up for the purpose. This proposal might be more acceptable to German opinion than (i) or (ii) and it is possible that neutral Governments would be willing to co-operate by nominating individuals to the controlling body, which would be responsible both for custody and for clemency. Even without governmental co-operation, suitable individuals might be found.

But the plan might be badly received in Germany and it is not certain that neutral Governments or suitable individuals would agree to share in so unattractive a responsibility.

(iv) The adoption of the same procedure as is contained in Article 11 of the Treaty of Peace with Japan, whereby Japan agreed to accept the judgments and carry out the sentences, power to exercise clemency being retained by the Government or Governments which imposed the original sentence in each case, the power only to be exercised on the recommendation of the Japanese Government.

But the Germans are in a much stronger bargaining position than the Japanese because we are (a) demanding a German military contribution to Western defence and (b) expecting them to continue to
cover the costs of Allied forces in Germany. Therefore the views of German ex-Service Associations have to be taken into account by any German Government. It is certain that the Federal Government would insist upon more favourable terms as essential if it were successfully to carry out its responsibility for continued custody.

(v) The adoption of some procedure similar to but more conciliatory and 'face-saving' than (iv), whereby the Germans would retain responsibility for custody but would be invited to participate in the exercise of clemency. The proposal is that an Advisory Clemency Tribunal should be established with neutral, German and Allied representation, this last to be appointed by the Government responsible for the original trial of the criminal whose case was under consideration by the Tribunal.

The legal position would be that the power of clemency would reside de jure in the German Government but de facto in the Advisory Tribunal. It would be necessary to obtain the German Government's undertaking to keep the criminals in safe custody until the end of their sentence, subject to the recommendations of the Tribunal, which the German Government must agree to implement.

6. Informal discussions indicate that the Federal Chancellor would be disposed to accept this solution (v) on the assumption that the neutral member would have the casting vote. Such a solution should (i) satisfy German public opinion that the criminals still in prison should stay there and so enable the German Government to keep them there; (ii) relieve me of any present responsibility as Foreign Secretary for clemency recommendations and so remove the question from internal controversy here. But certain sections of British public opinion might criticise an arrangement under which the last word rested with a neutral, however impartial. If exception were taken to any particular decision of the Tribunal, which would presumably follow the procedure of a majority vote, criticism would be likely to focus upon the neutral member rather than upon the British member, who would be assumed to have formed the minority.

7. I am advised that His Majesty's Government have the power to hand over to the German Federal Government the responsibility for the custody of German war criminals by virtue of the Royal Prerogative in the realm of Foreign Affairs. The Italian and Japanese Peace Treaties provide precedents. The power of clemency must legally vest in the German Federal Government since that Government would have the custody.

8. There remains (c) Extradition. Under its Basic Law, the Federal Government may not grant extradition of German nationals. Such extradition has therefore been effected by the Occupying Powers themselves. Under the contractual settlement with the Federal Republic, the extradition of war criminals must cease.

A.E.

Foreign Office, S.W.1,
18TH DECEMBER, 1951.
CABINET

GERMAN WAR CRIMINALS:

POSSIBLE RELEASES BEFORE CHRISTMAS

Note by the Secretary of State for Foreign Affairs

In C.(51) 36 of 3rd December I recommended that "the period of pre-Trial custody should now be reckoned as counting towards the sentence imposed in each case at the trial". This proposal was accepted by the Cabinet (C.C.(51) 15th Conclusions, Minute 5) subject to verification that pre-trial custody had already been taken into account in assessing sentence.

2. There are three ways in which pre-trial custody may be considered by a Court or on a subsequent review:

(i) it may be "borne in mind", i.e. the Court may be informed of the period of custody but may decide to disregard it;

(ii) it may be "taken into account", i.e. the Court may give some credit for it in fixing the sentence;

(iii) it may be "reckoned towards sentence", i.e. set off in its entirety against the sentence which would otherwise have been passed.

3. I now find that at least in some cases War Office Military Courts did in fact "bear in mind" the period of pre-trial custody. There is, however, normally no record on the proceedings to show whether it was "taken into account" and, if so, to what extent. It would be so difficult as to be impossible at this stage to ascertain what happened in each particular case, but it is safe to say that there must have been many cases where pre-trial custody was either "borne in mind" or "taken into account", but NOT "reckoned as counting towards sentence".

4. I therefore now propose to "reckon as counting towards sentence" in all cases a period which, I am informed, can be accurately fixed in each case, equivalent to the period of pre-trial custody.

5. I am informed that some 40 war criminals will thus qualify for release.

6. If the principle which the Cabinet has approved is right and at the same time it is impossible in practice to except from its operation cases to which it may have already been applied, I consider that it must be made a matter of general application even at the cost of extending a double benefit to a fortunate few.
MEMORANDUM

By the Minister of Agriculture and Fisheries

I must bring to the notice of my colleagues the adverse effects that will certainly follow if the proposal by the Chancellor in C. (51) 52 to suspend all rural electrification is accepted.

The decision in this sense which was taken by the previous Government was not publicly announced but its existence became known as the result of a circular from the British Electricity Authority to Area Boards and it was the subject of much adverse comment in the farming Press.

As soon as I took office I received written representations from the President of the National Farmers' Union protesting strongly, in the interests of food production, against the unfairness of selecting rural areas for special restrictions. He has since reinforced these representations in an interview with me. I am convinced that discrimination against agriculture will have adverse repercussions upon agricultural production and the most unfortunate psychological effects upon the farming community at a time when we want them to make fresh efforts to increase our supplies of food in the face of many difficulties.

While I quite recognise that the general state of our resources is bound to limit severely the amount of rural electrification that will be possible over the next few years I would urge my colleagues to agree that some new work may proceed in rural areas and that the Area Electricity Boards be given the necessary discretion. I also ask for authority to inform the agricultural industry at the appropriate time that the discrimination of our predecessors against rural areas will not be endorsed by this Government.
CABINET

INTERIM REPORT OF THE STEEL COMMITTEE

MEMORANDUM BY THE MINISTER OF HEALTH

The Steel Committee submit to the Cabinet this interim report on the progress which they have made in preparing the plan for the return of the iron and steel industry to private enterprise.

2. The Minister of Supply has discussed the problem with representatives of the British Iron and Steel Federation and believes that proposals on the lines here set out would be acceptable to them. The Minister is also consulting the T.U.C., the Iron and Steel Corporation, the Iron and Steel Consumers' Council and the Joint Iron Council on various specific issues, but discussion with them has not yet been completed.

3. The Bank of England are now engaged on a detailed study of the problems involved in marketing the securities and a report from the Governor of the Bank is expected in the near future. The Federation are confident that the majority of the securities can be sold to private enterprise without loss; we think, however, that the difficulties of this, though we have not yet examined them fully, are likely to be greater than the Federation expect.

4. In the meantime, the Committee consider that the following provisions should be included in an Iron and Steel Bill on which drafting has begun.

Realisation

5. The Iron and Steel Corporation should be abolished, ownership of the steel companies having been transferred as soon as possible (Ministry of Supply) to a Realisation and Management Agency. It should be possible to set up the Agency in about a month after the passage of the Bill. This Agency would as rapidly as possible dispose of the ownership of the companies, acting as a holding company until it had done so.

Supervision of the Industry

6. A Statutory Board should be set up to supervise the iron and steel industry in its widest sense, covering not only that part which is now nationalised, but all the main activities of the industry. The Board should include, in addition to independent members, representatives of the Iron and Steel Federation, of the trade unions and of consumers. It would have the duty of promoting the efficient and economical supply of iron and steel in quantities and qualities and at prices best calculated to serve the public interest.

7. The Board should be empowered to lay down maximum permitted prices to be observed by steel producers. All steel-producing companies should be placed by statute under a contractual obligation towards the Board to observe these maxima, the obligation being enforceable by civil proceedings taken by the Board.
8. In addition the Minister of Supply should have an overriding right, after consultation with the Board, to vary by Statutory Order, subject to affirmative or negative resolution procedure in Parliament, the prices fixed by the Board. It would be prudent for tactical reasons to give this power to the Minister permanently, though we do not expect that in normal times, when there is a reasonable balance between supply and demand, it would be much used. The widely representative nature of the Board, including as it would users of steel, should normally provide an adequate safeguard against excessive prices. The prices fixed by the Board would thus be subject as a rule to Parliamentary review only to the extent that the Minister could be asked at any time why he had not exercised his powers of intervention.

9. These normal arrangements for steel prices to be supervised primarily by the Board, but with Ministerial powers held in reserve to prevent excessive profits being made either generally or in particular sections of the industry, would not in themselves suffice for conditions of shortage such as those at present existing, since control by the Board would affect only prices charged by the steel-producing companies and would not govern prices charged by other dealers or prevent the development of a black market. We therefore contemplate that during any period of shortage of steel (as at present) the Minister would make full use of his reserve powers to fix by Statutory Order prices which would take the place of prices fixed by the Board. The use of these Ministerial powers would supersede the present statutory control exercised under the Supplies and Services Act. Prices fixed by Statutory Order would, of course, be applicable not only to the producing companies but to all sellers of steel; and breach of them, whether by the companies or by anyone else, would be a criminal offence.

Development and Expansion

10. In order that the Board may supervise the development of the industry, the Bill should provide for prior consultation with them before any major schemes of capital investment by way of extensions or modernisation are put in hand. But the real problem is that of ensuring that schemes of development or modernisation which are desirable are in fact carried out. We have considered the possibility of seeking to enforce the carrying out of such schemes by the companies wherever they were regarded by the Board or by an arbitrator as commercially reasonable; but we have come to the conclusion that no practicable method can be devised to enforce compliance by the companies with directions given by the Board to carry out such schemes.

11. We suggest, therefore, that the Board should be given power to recommend to the industry as a whole or to individual companies such schemes of modernisation or development as they may consider desirable for the promotion of their objects in the efficient and economical supply of iron and steel. The Bill should provide that in the event of a company or companies declining unreasonably to co-operate with the Board in the execution of proposals designed to improve the efficiency of the industry, the Board might report the matter to the Minister recommending such action by him as they might think appropriate. It would then be for the Government to decide whether, by legislative action or otherwise, to adopt those recommendations.

12. Provision should also be made for the Minister, either on the recommendation of the Board or of his own motion, to arrange for the execution at public expense (wholly or in part) of schemes of development desired by him in the national interest (e.g. for defence or social reasons) but which no company was willing to undertake on its own account without assistance. Such schemes might be on the site of an existing company, in which case that company would carry out and manage the extension; if they were on a new site a suitable existing company might be employed to erect and manage the new works or a new publicly owned company might be created for the purpose. In order to protect public funds from unreasonable demands in cases where existing companies were assisted or remunerated from them, provision should be made for the determination by an arbitrator of fair and reasonable terms of assistance or remuneration in the particular circumstances of each case.
Common Services

13. The Board should be empowered—
   (i) to promote research, training and education;
   (ii) if it considered the common services provided by the industry in such matters as the procurement of raw materials and of imported steel to be inadequate, itself to intervene and arrange for improved services to be provided;
   (iii) to raise a levy on the industry to meet its expenses arising out of (i) or (ii) or otherwise.

H. C.

Ministry of Health, W. 1.
20th December, 1951.
CABINET

STERLING BALANCES

NOTE BY THE CHANCELLOR OF THE EXCHEQUER

In accordance with the request of the Cabinet at its meeting on 1st November (CC (51) 2nd Conclusions, Minute 3) I circulate herewith for the information of my colleagues an objective account of the sterling balances.

Egypt

2. We must decide before 31st December whether to honour our undertaking to release to Egypt £10 million (or £15 million according to the state of her free No. 1 Account) on 1st January, 1952 (see paragraph 5 of the paper). To refuse the release would certainly be regarded by the Egyptians as the imposition on them of a major economic sanction. We know that they are very much concerned about the possibility that the 1951 Agreement will be abrogated by the United Kingdom and the release withheld. We cannot be certain that if the release is made it will improve our relations with Egypt, but it is clear that to withhold it would result in a serious deterioration in them. My colleagues will remember that on 7th December (CC (51) 15th Conclusions, Minute 3) the Cabinet approved the recommendation of the Foreign Secretary that no economic sanction should be taken against Egypt at present. I think this decision remains the right one and I accordingly recommend that the releases due on 1st January, 1952, should be made in accordance with the Agreement. This will involve no positive action on our part. The Bank of England will merely accept instructions from the National Bank of Egypt to transfer the sum involved from Egypt’s No. 2 to her No. 1 Account.

R. A. B.

Treasury Chambers, S.W. 1,
20th December, 1951.
THE STERLING BALANCES

Origin of the Sterling Balances and their movements since war

1. Broadly speaking, the “sterling balances” consist of the net sterling liabilities of United Kingdom banks and other financial houses to overseas customers: they include funds held as cover for Dominion and Colonial note issues and the London funds of the Crown Agents for the Colonies. Before the war the total of such liabilities was about £600 million, of which about £340 million was due to Commonwealth countries. By the end of 1945 they had risen to about £3,700 million. This great increase was mainly due to United Kingdom military expenditure in the countries concerned and to the fact that, owing to our inability to export during the war, we had to pay in sterling and not goods, for our essential imports.

2. The table appended to this note shows, at intervals since the war, how the United Kingdom sterling liabilities have been distributed geographically by areas, including separate figures for the countries with the outstandingly large balances.

3. During 1946 and 1947 the total fell by £91 million. Some countries (India, Pakistan, Egypt) drew freely on their balances, in order to finance deficits in their balance of payments. In other cases (the Colonies and South America) the balances grew, because the countries concerned had favourable trade balances. During 1947, however, the crisis in the United Kingdom balance of payments made it necessary for us to secure the agreement of the countries with the largest holdings to a restriction of their right to draw on them. The principal agreements were with India (undivided), Egypt and the South American countries: and these provided for the blocking of the balances and for the limitation of drawings to agreed annual amounts. In the case of Australia and New Zealand, who had made gifts to the Exchequer, there were informal understandings that their balances would not be drawn down below the then current levels (about £130 million and £70 million) except for certain agreed purposes (e.g., the repatriation of sterling debt). In the case of the Colonies we relied on their voluntary co-operation not to run their balances down.

During 1948 and 1949 the total again fell, by £186 million. India, Pakistan and Egypt continued to draw on their balances at agreed rates to finance trade deficits. The Argentine paid out large sums in compensation for the British-owned railways she acquired. On the other hand, Australia and West Africa were able to accumulate sterling as a result of favourable trading balances and, in Australia’s case, because of a large inflow of sterling capital.

The year 1950 and the first half of 1951 showed a very different trend and the total rose by about £750 million. As a result of rising prices of raw materials and generally more favourable trade positions, India’s balances remained practically stable and Pakistan’s increased. Those of Australia and the Colonies increased by no less than £268 million (or 75 per cent.) and £325 million (or 56 per cent.) respectively. The balances of countries outside the Sterling Area remained, in total, practically stable.

But in recent months the trend has been reversed once more. July showed little change on the whole, but during August, September and October the total of the balances fell by £30 million, £90 million and £80 million respectively. Owing to the fall in the prices of their main products, coupled with rising import costs, practically all Sterling Area countries except the Colonies found it necessary to use their balances to meet trade deficits. In the result, the total of the sterling liabilities to all Sterling Area countries fell during the four months ended 31st October, 1951, by about £180 million. Those to non-Sterling Area countries remained, in total, little changed.

The Blocked Balances

4. From 1947 until this year the release of these balances was governed by successive agreements made for one year (or sometimes two years) at a time. The Colombo Plan, which involved programmes of expenditure on development by the countries of South and South-East Asia over six years from July 1951, made it necessary to agree with some of the countries concerned how far their blocked
sterling balances should be used to help to finance the trade deficits which are likely to occur during the period of development. As a result of discussions during 1950 and 1951 agreements were reached with India, Pakistan and Ceylon, which effected final settlements of these countries' balances. The main provisions of the agreements are:

(a) In the case of India and Pakistan, so much of the blocked sterling as represents the minimum amount required to be kept as backing for the local currency is to be transferred from their blocked accounts to their free accounts; but in each case it is the subject of assurances that there is no intention of drawing on it and that it will not be drawn on without previous consultation with us. The amounts in question are India £310 million, and Pakistan £30 million. (Ceylon was offered, but declined, a similar arrangement.)

(b) For all three countries, the remaining blocked sterling is to be released in equal annual amounts over six years of the Colombo Plan. The amounts to be so released are: India, £35 million a year; Pakistan, £4 million a year; Ceylon, £3 million a year.

Egypt

5. From 1947 to this year the release of Egypt's balances had also been regulated by successive annual agreements. When it had been agreed to make long-term settlements with India, Pakistan and Ceylon, it was decided to negotiate a settlement with Egypt, which had for some time been pressing for a more permanent arrangement. The agreement which was signed in July 1951 provided, as regards the blocked sterling balances:

(a) that £14 million should be converted into gold or dollars at once—this has been done; and

(b) that out of the remaining blocked balances (£216 million) £135 million should be released over a period of ten years (which may be extended to thirteen years) at the rate of £10-15 million a year. The remainder of the blocked balance (£80 million) is to be considered before the end of the agreement period.

The Cabinet has already considered the general question of our economic and financial relations with Egypt. A decision will be necessary before the end of this month whether any steps should be taken to prevent the releases to which Egypt will otherwise be entitled in 1952 under the agreement of last July. Under that agreement Egypt is entitled to £10 million certainly and perhaps to £15 million on 1st January, 1952.

6. There are some minor agreements for the release of other blocked sterling balances, but they are insignificant from the point of view of general policy.

7. The present position of the blocked balances is, therefore, that we are committed to agreements which effectively settle these balances by providing for their ordered release over the next six to ten years.

The Free Balances

8. The blocked balances subject to restricted annual releases are in fact now a small proportion of the total—only some £500 million out of some £4,000 million. The major part of the balances consist of (a) the balances of those countries none of whose balances have been blocked (some £2,650 million); (b) the free balances accumulated by “blocked” countries out of unspent releases of past years or as a result of post-1947 trading and financial transactions (some £500 million); and (c) the currency reserves of India and Pakistan, which are nominally free but which those countries have agreed not to draw on (£340 million).

9. The free balances of the members of the Sterling Area—which account for some £2,300 million out of those under (a) and (b) above—are a fundamental feature of the Sterling Area. Such members conduct the great bulk of their overseas trade and payments in sterling and, for that purpose, require to hold their external reserves in sterling. Their currencies are, formally or informally, linked with sterling and they therefore find it necessary or advantageous to hold sterling as currency backing. Sterling is also held for special purposes such as pension funds and sinking funds. Broadly speaking, the sterling balances of a member are the necessary cushion which takes the shock of movements in its balance of payments.
In times of surplus it accumulates sterling; at other times it draws on balances so accumulated to meet its deficits. As has already been shown, the sterling balances of the Sterling Area countries rose appreciably up to June last as a result of their favourable trade and payments positions. This had considerable advantages for the United Kingdom in that we were able to pay for a large part of our imports in sterling instead of having to provide compensating exports. Clearly, however, the members concerned were content to allow this sterling to accumulate only on the assumption that when their balance of payments turned the other way they would be free to use the sterling to meet their deficits. This they have already been doing during recent months and it is clear that they will need to continue doing so. Their freedom to draw down their balances in this way, as and when necessary, is vital to the continued existence and cohesion of the Sterling Area.

10. That is not to say, however, that the United Kingdom Government is necessarily helpless to influence the rate at which these free balances are drawn on in the future. It would be wrong for us directly to restrict the use of the balances themselves; but we shall, in fact, hope to persuade the other members in the sterling Commonwealth, in our forthcoming consultations with them, to adopt such policies as will result in a reduction of their trade deficits and so of the rate at which they will need to draw on their balances. I shall be submitting recommendations to my colleagues about our policy at the forthcoming meeting of Commonwealth Finance Ministers in due course.

The American Loan Agreement (December 1945)

11. This Agreement contained a clause stating that the Government of the United Kingdom "intends to make agreements with the countries concerned ... for an early settlement" of the sterling balances and that we would "make every endeavour to secure the early completion" of arrangements for dividing each country's accumulated balances into three categories: (a) those to be released at once and made convertible for current transactions; (b) those to be released by instalments over a period of years beginning in 1951; and (c) balances to be "adjusted" as a contribution to the settlement of war and post-war indebtedness and as a recognition of the benefits to be derived from a settlement of this question.

12. Although we made the promised endeavours, we have never been able to achieve the settlement proposed in this clause. Discussions with India, the largest holder concerned, in 1947 emphasised the political impossibility of securing Indian agreement to the cancellation of any part of her balances. (Her main arguments were that in fact she contributed more than her share of the cost of the war and that she regarded the balances as external reserves to be used for essential economic development.) Similar discussions were held about the same time with Egypt, who likewise refused to agree to any cancellation.

13. Since 1947 our policy has been that cancellation must be secured by agreement and cannot be imposed. The United States Administration have not in fact pressed us to implement the provisions of the Loan Agreement: no doubt they have recognised our difficulties and have been content with the "blocking" measures we have taken to deal with the situation. Our latest discussions with them were in the spring of 1950, when we were considering the policy of funding most of the balances of the Colombo Plan countries over the six years from 1951. We then informed the Americans of our general plans and suggested to them that any voluntary cancellation of balances was only likely if it was in exchange for United States aid towards development. On the latter point the American reaction was quite negative—any question of United States aid must be settled on the merits of individual countries' needs and not as part of a scheme for dealing with the sterling balances. In the meantime they encouraged us to go ahead with funding. There have been no further discussions with the Americans on our general policy and we have gone ahead on the lines set out earlier in this note.
### UNITED KINGDOM STERLING LIABILITIES TO OVERSEAS COUNTRIES

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### Non-Sterling Area Countries—

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CONFIDENTIAL
C. (51) 58
20th December, 1951

CABINET

MIGRATION POLICY: ASSISTED PASSAGE AGREEMENT WITH AUSTRALIA

Renewal of Empire Settlement Acts, 1922 and 1937

MEMORANDUM BY THE SECRETARY OF STATE FOR COMMONWEALTH RELATIONS

I must trouble my colleagues with the following questions:

(a) Whether, in view of the urgent need for economy in Government expenditure, we should endeavour to negotiate ourselves out of our obligation to pay up to £500,000 a year under the Assisted Passage Agreement with Australia. This Agreement was renewed for three years, up to 1954, very shortly before the change of Government.

(b) Whether we should renew the Empire Settlement Acts, under which the Secretary of State is empowered to make contributions to Empire settlement schemes up to a maximum of £1,500,000 a year. These Acts are due to expire in May next.

I annex a note setting out the facts and points at issue (Annex A).

2. Assisted Passage Agreement.—My own view is that, under existing conditions, it is difficult to defend spending large sums of public money on helping some of the most productive elements in the country to leave it. It seems to me that this position is quite consistent with holding that migration from this country within the Commonwealth is desirable and should be encouraged. To put the point shortly, one can agree that the under-populated areas of the Commonwealth require a blood transfusion, which can best be supplied from this densely populated island; but there seems no reason why part of the cost of the operation should be paid by the impoverished donor.

3. Reluctantly I have come to the conclusion that we should terminate, at any rate for the time being, our contribution to this scheme: the only remaining scheme of its kind, since emigration to other Commonwealth countries now proceeds without any United Kingdom financial assistance. However, this step should not in practice affect migration to Australia, since the Australians made it clear, during the late negotiations over the renewal of the Agreement, that in that event they would take over our liability themselves.

4. In all the circumstances I recommend that we should ask the Australians, on the ground of the deterioration of our financial position since the Agreement was renewed, to release us entirely from our financial obligations under the Agreement as from the end of this financial year. I ask my colleagues to authorise me to open negotiations with the Australians on this basis and to report the result to the Cabinet.

5. Empire Settlement Acts.—For the reasons explained in the annexed note (Annex A), I recommend that, whether or not we continue to contribute financially to the Australian Passage Scheme, a one-clause Bill should be passed during the present session extending the Empire Settlement Acts for five years, i.e., until 1957; and that the Legislation Committee should be authorised to make arrangements accordingly.

Commonwealth Relations Office, S.W. 1,
20th December, 1951.

41624
ANNEX A

ASSISTED PASSAGE AGREEMENT WITH AUSTRALIA AND RENEWAL
OF EMPIRE SETTLEMENT ACTS, 1922 AND 1937

The Empire Settlement Acts, 1922 and 1937, empower the Secretary of State for Commonwealth Relations to make contributions to Empire Settlement schemes up to a maximum of £1,500,000 a year. These Acts are due to expire on 31st May, 1952.

2. Assisted Passage Agreement.—Apart from certain minor schemes with voluntary organisations for child migration, costing about £40,000 a year, our only commitment under the Acts is the Assisted Passage Agreement with the Australian Government, which has been in force since 1947. Under this Agreement the migrant pays £10, the United Kingdom Government (since 1950) £25, and the Australian Government the balance of the cost of the migrant’s passage, which works out at an average of £156 per adult. The Agreement was recently renewed for three years ending 31st March, 1954, subject to a maximum United Kingdom expenditure of £500,000 in any one year. In practice this maximum will always be reached unless there is an unexpected falling off in migration to Australia (see the table at Annex B showing the number of migrants and United Kingdom expenditure under the Agreement to the present date).

3. The main reason for the decision to renew the Agreement was the unfavourable impression which non-renewal would have produced on Australian public opinion. This was the point to which the Australians themselves attached most importance. They were anxious for a renewal of the Agreement not so much on financial grounds as because they felt that, whatever might be said in public, a withdrawal of United Kingdom financial assistance would inevitably be construed as meaning that we were no longer in favour of migration.

4. Instructions have now been issued that next year’s Estimates must be reduced as far as possible even if this involves the re-negotiation of an Agreement. At the same time the Australians have notified us that in future, in selecting migrants for assisted passages, they propose to concentrate on single men who are skilled workers in the engineering, electrical and metal trades and, if possible, on coal miners. This marks a fundamental change in the spirit in which the Agreement has previously been administered. Hitherto, it has always been understood that the Australians would take a fair cross-section of our population.

5. In these circumstances the question arises whether we should ask the Australians, on the ground of the deterioration in our financial position, to release us entirely from our obligations under the Agreement as from the end of this financial year, or whether we should seek their consent to a reduction of our liability from £500,000 to, say £250,000 per annum. In view of the urgent need for economy the former course seems preferable and it is suggested that negotiations should be opened with the Australians on that basis.

6. Renewal of Empire Settlement Acts.—We are advised that it would not be possible, without fresh statutory authority, for the Secretary of State to carry out his financial obligations under the Australian Agreement beyond 31st May, 1952, when the Empire Settlement Acts are due to expire. If our contribution to the Australian Scheme were suspended, it would still be desirable to renew the Acts on the following grounds:

(a) the Acts have been in force for thirty years and to allow them to lapse would be likely to arouse a good deal of public criticism;

(b) renewal would leave the door open for a resumption of United Kingdom assistance to Commonwealth migration should it be considered desirable to do so when financial conditions improve. To that extent it might be expected to facilitate the acceptance both here and in Australia of the suspension of our contribution to the Australian scheme;

(c) irrespective of what is decided on the Assisted Passage Scheme, it will probably be desirable to continue our support to the existing child migration schemes (see paragraph 2). In that case we are advised that the extension of the Empire Settlement Acts would be required as an annual charge over a period of years would be involved.
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7. **Period of Extension.**—The 1922 Act was given a life of fifteen years which was prolonged for another fifteen years by the Act of 1937. Before committing ourselves to a further long-term extension of the policy of subsidising migration we need to give thought to the whole question of our future migration policy. There is no time for this before the Acts expire and in any case this is hardly the moment for going into the matter fundamentally. In the circumstances it is suggested that the Acts should be extended for five years.

8. **Amount of United Kingdom Liability.**—The balance of advantage seems to lie in allowing the existing limit of £1,500,000 to stand. Any change, which would presumably have to be downward, would invite questions and criticisms. Moreover, the question is really academic since in practice any payments on account of migration will be limited by our own parlous financial condition, and not by any maximum imposed by the Acts.

9. **Recommendations.**—To sum up, it is suggested that—

(a) in view of the deterioration in our financial condition since the Assisted Passage Agreement was renewed last summer, we should ask the Australians to release us from the whole of our financial liabilities under the Agreement as from the end of this financial year;  
(b) whether or not we continue to contribute financially to the Australian Passage Scheme, a one-clause Bill should be passed during the present session extending the Empire Settlement Acts for five years, i.e., until 1957.

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**ANNEX B**

**NUMBER OF ASSISTED MIGRANTS AND UNITED KINGDOM EXPENDITURE UNDER THE ASSISTED PASSAGE AGREEMENT WITH AUSTRALIA**

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Number of Migrants</th>
<th>United Kingdom Expenditure £</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947-48</td>
<td>3,155</td>
<td>52,244</td>
</tr>
<tr>
<td>1948-49</td>
<td>11,373</td>
<td>408,010</td>
</tr>
<tr>
<td>1949-50</td>
<td>22,183</td>
<td>607,987</td>
</tr>
<tr>
<td>1950-51</td>
<td>32,289</td>
<td>917,000</td>
</tr>
<tr>
<td>1951-52 (Estimate)</td>
<td>42,000</td>
<td>568,000</td>
</tr>
</tbody>
</table>

(including backlog from previous year)
PUBLIC RECORD OFFICE

Group: CAB
Class: 189/48

Document(s) noted as wanting*
retained in the Department of origin*
at the time of the transfer of the class to the P.R.O.:

C (51) 59

(date) 28-5-81

for Departmental Record Officer.

*delete as necessary.

2017(H) 001767 11,800 6/72 A.G. 2840/4
CABINET

MALAYA

MEMORANDUM BY THE SECRETARY OF STATE FOR THE COLONIES

I append my report on the Federation of Malaya and its "Emergency."

My recommendations are to be found as follows:

1. The Chain of Command and Responsibility  ...  34-47
2. Federal War Council and Cabinet  ...  48-50
3. Police  ...  51-62
4. Home Guard  ...  63-69
5. Protection of Resettlement Areas  ...  70
6. Education  ...  71-75
7. Malayan Civil Service  ...  76-83
8. General Conclusions  ...  84-94
9. Malay Regiment  ...  Appx. X

The report has a number of rather long appendices. They are:

I.—Itinerary and Sources of Information.
II.—Text of Broadcast in Singapore on 11th December, 1951.
III.—Federal and State Councils, &c.
IV.—Armoured Vehicles for the Police.
V.—Arms, Clothing and Equipment urgently required by the Police.
VI.—Earth-Shifting Equipment.
VII.—Chemical Defoliation of Roadside Jungle.
VIII.—Language Teaching.
IX.—Intelligence Services and Related Counter-Measures.
X.—Terms of Employment of British Officers and Other Ranks posted or seconded for service with the Malay Regiment.
XI.—Detention and Repatriation.
XII.—Man-power and National Service.
XIII.—Tax Evasion.
XIV.—Financial Devolution.
XV.—Extension of Service beyond Retiring Age.

These are added mainly for the benefit of the new High Commissioner, when he is appointed, in the hope that they will save him work and enable him to dispense with many of the investigations in which I have necessarily been involved. I have no wish to burden my colleagues with studying these appendices: they will, however, perhaps agree that their range and detail demonstrate how inadequate are the instruments of our policy.

O. L.

Colonial Office, S.W. 1,
21st December, 1951.
The Country

1. The territory of the Federation of Malaya is not large, about the size of England without Wales: the population is about that of Wales without England.

2. The country is divided from north to south by a dorsal range rising in places to 7,000 feet. Three-quarters of the whole area of the country is covered with dense jungle. Little light penetrates to the jungle where it is thickest. Because of this the aboriginal who lives in the jungle is stunted; and, to give another example, the Malayan elephant is a much smaller animal than the Indian. A man would have to be fit and tough to cut his way through the jungle at a greater rate than five miles between dawn and dusk.

3. No-one can fail to notice the splendid roads which interlace the country, particularly in the west. They are testimonials to British rule. Often the jungle comes down to the verge of the roads. Roads crossing the spinal barrier from west to east are few.

4. The last geographical feature worthy of mention is the numerous rivers: their waters are discoloured by the erosion of the rich soil and alluvial.

5. Broadly speaking, there are no seasons; the temperature does not rise much above 90 degrees; it rains a little almost every day, a lot once a week and still more during the monsoons; the humidity is high. Europeans easily stand the climate for about two years at a time without losing energy or health, but it is a mistake to prolong any tour of duty beyond two years without leave.

6. Rubber (the most important industry) is grown all over the Federation, but the rich tin alluvials in the plains, caused by the erosion of the central range, are almost all found on the western side of the main watershed.

The People

7. The population is mainly Malay, Chinese and Indian (chiefly Tamils), though there are smaller communities of Cingalese and Eurasians. The numbers are approximately as follows:—

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malays</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Chinese</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Indians</td>
<td>500,000</td>
</tr>
<tr>
<td>Others</td>
<td>70,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,070,000</strong></td>
</tr>
</tbody>
</table>

The European population to-day is about 10,000. It is very rarely that a European remains in the country when he retires. Before the war the Malays, who at one time or another have all come from the territories now constituting Indonesia, were regarded as indigenous; while the Chinese and Indian communities were regarded as immigrants, most of whom would at some time in their lives return to their native lands. There are, however, considerable Chinese communities in Penang and Malacca (and in Singapore) who are proud to call themselves “King’s Chinese.” They have been in Malaya for many generations, are British subjects (fervently loyal and devoted to the Crown) and can speak only English. They are deeply anxious not to have their British citizenship diluted, so to speak, by inclusion in any United Malaya. They would not tolerate separation from the British Commonwealth.

8. The Malays are for the most part farmers, growing rice and vegetables and producing rubber, copra, palm-oil and oil-seed and small quantities of pineapple. They are rarely found in commerce and industry.

9. The Indians, mostly Tamils, provide a good deal of the unskilled labour of the country, many tapping rubber and a few working in the dredging or hydraulicimg of tin.

10. The Chinese, on the other hand, are found in all the activities of the country—in rubber and tin, as common labourers, as agriculturalists, as proprietors
of rubber estates (20 per cent. of the rubber on smallholdings and 17 per cent. of
that on estates is Chinese owned) and of the mines (40 per cent. of the production
of tin is Chinese owned), as merchants, as contractors, as shopkeepers (of whom
they constitute much the greater part), as bankers and as traders. Every year they
gain greater economic strength and increase their hold over the wealth of the
country.

There are many rich Chinese in the Federation, highly sophisticated, urbane,
shrewd, politically aloof and inscrutable. They are mostly absentee land­
lords with no following in the villages or among the mass of their fellow-countrymen.
Many live in Singapore, where their touch with the Chinese in the plantations or
mines of the Federation is still more distant. It is amusing and stimulating to argue
or negotiate with them but they are generally politicians without constituencies,
leaders without followers, remote from the problem, trimming adroitly, ready
sometimes with advice and almost always with criticism, but not prepared to lead
or even to exhort.

The Constitutional Pattern

11. Even before the war the constitutional and administrative position in
Malaya was complex: immediately after the war an attempt was made to simplify
it by the creation of the Malayan Union. This, however, met with such opposition
from the Malays that it was rescinded (perhaps too readily) and replaced by the
present Federation Agreement, under which the Malays have greater executive
authority than before the war, at any rate in the former Federated States.

12. In many important matters, such as defence, internal security, economic
and financial policy, labour policy and immigration, both legislative and executive
authority rests with the Federal Government. In other matters, including health,
education, agriculture and land, all executive authority and a measure of legislative
authority rests with the nine State and two Settlement Governments,* although
the Federal Government retains legislative authority over all questions of common
concern.

13. Both the Federal and the State Governments have Legislative and Execu­
tive Councils. The Federal Legislative Council (with a large unofficial majority)
consists entirely of nominated members, as do all the other Legislative and Execu­
tive Councils.

14. In April this year a Member system† of Government was introduced,
under which the responsibility for the different Departments of Government was
divided between nine Members (excluding the High Commissioner, the Chief
Secretary and the Financial Secretary), of whom six are unofficials. In each State
the chief executive (Mentri Besar) is a Malay nominated by the Ruler.

15. In the Federal sphere no expenditure outside the provision of the annual
budget may be incurred without the authority of the Finance Committee which,
under the Financial Secretary, consists entirely of unofficials.

16. The position of the British in Malaya is based upon treaties with the
Malay Rulers. The influence of the British has now in fact to be exercised by
persuasion rather than direction. Their power is nevertheless very great and in
the last resort their influence prevails. Apart from this, and the limited repre­
sentation of the other races on the various Councils, political power is in the hands
of the Malays. It is exercised through the Rulers and Mentri Besars in the States
and through the Malay preponderance on all Councils. The High Commissioner
has the usual reserved power to override his Legislative and Executive Councils in
the interests of public order and good government.

17. Thus, partly from the heterogeneous nature of the population, and
partly because of the existence of the Malay Rulers, a political pattern has been
formed ill-adapted to the needs of a small country at any time, least of all at a time
of political convulsion and emergency. The most striking way in which the com­
plexity of this pattern can be expressed is to say that the Federal Government has
very often to work through eleven other Governments.

* The States are Johore, Kedah, Kelantan, Negri Sembilan, Pahang, Perak, Perlis, Selangor
and Trengganu. The Settlements are Malacca and Penang and Province Wellesley.
† This curious nomenclature describes the half-way stage to a Cabinet or Ministerial system.
18. We cannot now re-shuffle all the cards. Some, but not all, of the adminis-
trative tangle to which I shall refer in the course of this paper is due to these
causes, but the administration, like the country, is covered with jungle.

Political Organisations

19. The most important Malay political body is the United Malay National
Organisation (U.M.N.O.), whose President was until recently Dato Onn*, then the
most influential figure in Malayan politics. In September this year, however,
after breaking with U.M.N.O., he formed the Independence of Malaya Party
(I.M.P.) and thereby lost nearly all of his Malay support. U.M.N.O. aims at
"Malaya for the Malays" and has consistently stood for preservation of the
"special position" of the Malays under the Federation Agreement. This position is
reflected, for example, in the admission of all Malays to Federal Citizenship,
whereas not more than one-third of the Chinese qualify for it.

20. I.M.P. marks a clean break with the tradition of racial separation in
Malayan politics and has as its slogan "Unity, Freedom, Independence and
Equality for All." Dato Onn has said that it aims at independence within ten years
and he refuses to commit himself on the question whether an independent Malaya
would remain within the Commonwealth. I.M.P. has been strongly supported by
the Chinese and Indians but has found little favour among the Malays. Dato Onn
is a volatile but clever politician. By European standards he is at worst unreliable
and at best fitful. Despite his loss of Malay support he is still a force in the land.
I have had two long talks with him and I am fairly sure that he favours the
inclusion of a united Malaya in the British Commonwealth. He is certainly ready
to say so in private.

21. The main Chinese political party, the Malayan Chinese Association, aims
at acquiring for the Chinese equal rights in the Federation. It represents in the
main only the middle classes and has little influence on the great body of the
Chinese peasant population. Its President, Dato Tan Cheng Lock, is a garrulous
old man whose philosophy is woolly, though his intentions are good.

22. The rôle of the Indian parties, the Malayan Indian Congress and the
Federation of Indian Organisations, has never been clearly defined, and internal
dissensions have so far prevented the development of any effective Indian political
policy.

23. The only European organisations which need to be mentioned are those
representing the planters and miners. Their aims are industrial rather than
political and they are chiefly preoccupied with restoring conditions in which their
members can once more carry on their businesses undeterred by the threat of
violence.

The Emergency

24. The history of the Emergency is too recent to make it worth while to
retrace it: we are concerned with the problem as it is posed to-day. It cannot be
too strongly emphasised that the Emergency is almost entirely concentrated in
the Federation and is outside the Colony of Singapore. The Singapore police have the
usual task of watching and suppressing subversion and Communist cells. There is
no military and hardly any para-military problem in Singapore.

25. If the present situation had to be summed up in a sentence it would run:
"You cannot win the war without the help of the population, and the Chinese
population in particular, and you cannot get the support of the population without
at least beginning to win the war." It is therefore clear that we must organise
a much heavier and more concentrated impact upon the enemy and key up the
machine at once.

26. It is, however, necessary that the word "enemy" should be defined. The
Communist organisation is headed by a Secretary-General, with two or three staff
officers. It is not known, but it is believed, that this central body is located some­
where in Pahang. The war is waged with two instruments, propaganda and armed
forces. The Min Yuen, or People's Movement (probably numbering about 10,000)
is used for both: the armed bandits are recruited from them in the villages and it

* "Dato" is an honorific title.
is the Min Yuen who penetrate the Resettlement Areas, the schools, the villages and the Trade Unions with Communist doctrine. They also find supplies for the armed forces and undertake small ambushes.

27. The Communist organisation is widely decentralised. It works through State units and is again devolved down to Districts and even to villages. The armed forces themselves are divided into twelve or thirteen regiments. Regimental Headquarters usually operate at the State level. The operational unit is seldom much larger than 10 or 12 men up to a platoon. They used to undertake larger operations but these have apparently been abandoned because of the heavy losses which they entailed. The total estimated strength of the armed bandits is between 3,000 and 5,000 but, owing to the paucity of information, it is not clear how much of this force is committed to active fighting and how much is held in reserve.

28. It is the general opinion that Communist efficiency has greatly improved and that a formidable instrument, both for propaganda and for war, has been forged. Propaganda again is an “overcoat” term: some of it is driven home by harrying the population at the point of a gun, the rest of it by peaceful and insidious means. One of the most serious features of the whole problem is the amount of protection money and payment in kind which are being made daily to the bandits. On the one hand, the rich Chinese are known to be paying large sums of money to prevent their estates and mines from being attacked; on the other, the Chinese labourer is passing food and clothing or stolen rubber and tin to the bandits through the wire of the Resettlement Areas or directly in the fields or jungle generally from fear but sometimes from sympathy. The European companies and single Europeans are not paying directly, but I fear that many know that indirectly they are receiving protection in this way. For example, the Shell Company has a large fleet of oil tanker lorries: they are seldom, if ever, attacked. The reason appears to be that the retailer who depends for his livelihood on selling the oil is paying the protection money.

29. Such is the present picture of the enemy tactics but, if we are successful in increasing our victories over the bandits, the Communists may well elect to go underground. Thus, in parallel with the “military” impact mentioned at the beginning of this section, we must quickly forge much more effective weapons for the warfare of ideas.

The Role of the Army

30. I have everywhere been impressed by the efficiency and bearing of the British troops and their commanders. Throughout the Federation they are engaged in joint operations with the police and civil authorities and are fighting a trying campaign with great courage and efficiency. The National Service men are proving themselves first class, both in combat with the enemy and in their resilience to the climate. Morale is uniformly high. The armed forces are contributing to the campaign against the bandits almost all that can be expected of them.

31. Except in certain small and remote districts along the Siamese frontier, they have prevented the enemy from gaining military control of areas outside the jungle. They have broken his larger offensive in Johore and elsewhere and have forced him to operate in platoons or smaller units. If the present pressure of the British forces is not relaxed, Communist military action can at least be contained within this reduced compass.

32. This is vital, but it must be recognised that the war has now nearly reached a deadlock. In spite of the considerable casualties inflicted upon the bandits their operational strength remains virtually constant.

33. This deadlock must be broken. Part of my main proposals concerns the creation of trained Police Forces and Home Guards. For this training, Police and Special Constables will have to be withdrawn; and during their absence the Army will have to bear a serious additional burden of static defence. I have discussed this matter with the Commander-in-Chief Land Forces, Far East, who combines outstanding military ability with a firm grasp of the political situation, both in Singapore and Malaya as a whole. I have obtained from him an assurance of his fullest co-operation during this difficult transitional period. I believe that, once the training and re-training of the Police and para-military forces have been completed, police action, including the better provision of information, will render military action gradually more effective and, I hope, ultimately unnecessary.
MEASURE PROPOSED AND REASONS

The Chain of Command and Responsibility

34. This in my view has been unsound: the idea of having, in effect, two heads at the summit, one for military operations and the other for civil administration, in a condition of affairs that differs from both war and peace, must inevitably lead either to conflict between the authorities or to long-drawn-out discussions to reach an accommodation and compromise between two points of view. In my opinion the most effective single measure to be taken is the unification and concentration of command and responsibility in one man.

35. A note on the civil administration is necessary here. Partly from the highly complicated political jigsaw puzzle through or around which it must work, partly from its pre-war traditions of conscientious but unhurried administration, partly from over-centralisation in the Poona-like society of Kuala Lumpur, partly from the host of new problems which almost daily crowd in upon an overstrained service, a Government machine has grown up of which I am critical.

36. Owing to this strain inexperienced Government officers are sent straight out on to the ground—and a good District Officer is worth more than a battalion. The central authority thus finds it necessary to issue more and more directions. In this way the central authority becomes itself desk-bound, clogged with paper and remote. I was told by one man in a district which I reached from Kuala Lumpur in forty-five minutes by Auster, that I was almost the only man from Kuala Lumpur (apart from the High Commissioner and the Director of Operations) whom he had seen since the Emergency began.

37. A cold wind must blow some of the paper out of these Government offices. Only an experienced, forceful and ruthless administrator will succeed in creating a system equal to its task. That system must be closely knit, muscular, quick and instant; delay must be abhorrent; action not distasteful.

38. I must add that the Malayan Civil Service includes many men of great ability, knowledge and energy, devoted to their work. It is not in the main the material but the system which is at fault.

39. It early became quite clear to me that, if one man was to be entrusted with both civil and military responsibilities, it would be necessary to appoint a Deputy High Commissioner to handle the great bulk of the civil administration. Otherwise, the head man would quickly be immersed in the paper jungle and never be able to turn his attention to the real jungle and its menace.

40. Unfortunately, an amendment of the Federation Agreement is involved, but I have succeeded in obtaining the agreement of the Rulers to this. Their Highnesses are suspicious of any alteration and, for reasons into which I need not enter, negotiations with them were extremely delicate.

Deputy Director of Operations

41. If any alterations are required in the directive appointing the Deputy Director of Operations (the present document appointing the Director of Operations would appear adequate), they should be made only after discussions between the new High Commissioner and General Lockhart.

42. The "G" Branch of the Deputy Director of Operations can and should be small, but a Director of Intelligence and an intelligence staff (as far as possible drawn from military and police headquarters) should be added. Through them the Deputy Director of Operations would be able to direct, co-ordinate and distribute intelligence derived from the two main sources—the police and military intelligence branches. The present structure is noticeably faulty at this point.

43. I recommend, therefore, the appointment of one man, to be styled High Commissioner and Director of Operations, with a Deputy Director of Operations on one side and a Deputy High Commissioner on the other.

44. I have carefully studied whether there should be an extension of the area of the High Commissioner's responsibility so as to include other territories, and where his headquarters should be. I must strongly advise that his responsibility should be confined to the Federation and that his headquarters should be in Kuala Lumpur.
45. The Malays are fearful that the increasing Chinese population, and their growing hold on the wealth and economy of the country, will soon destroy the present political strength of their race. All the Rulers, who are by no means a negligible force and are entrenched behind the Federation Agreement, would be bitterly opposed to such a step.

46. On the other hand, the Chinese in Singapore are to-day apprehensive of being drawn into a bigger unit in which their future might be determined by Malays. Furthermore, they are hardly involved in the Emergency. If this spirit of isolation is smug, it is at least deeply ingrained.

47. Finally, not only is Kuala Lumpur the seat of civil government: it is also nearest to the centre of the fighting. The Deputy Director of Operations must have his headquarters there. If the necessary cohesion is to be gained there can, in my opinion, be no doubt that the High Commissioner must also have his headquarters at Kuala Lumpur.

Federal War Council and Cabinet

48. The proposed appointment of a High Commissioner, charged with both civil and “military” responsibilities, and the other measures which I have described, should ensure quick and ultimately decisive action in the Emergency. We must avoid the risk of this “cutting edge” being blunted by the complex of Councils and Committees which exists in the Federation to-day. The Federal and State Legislative and Executive Councils are normal and necessary parts of the constitutional machinery prescribed in the Federation Agreement, and there can be no question of making any radical changes in their functions or composition.

49. The Federal War Council, on the other hand, is an “Emergency” growth and I have devoted some thought to its place in the general pattern—in particular to the possibility of reducing the number of these bodies by combining the War Council with the Executive Council. This Council has grown to its present size as a result of a demand from the various principal communities to be associated with the higher direction of the war. Even though, as at present constituted, it is an impossibly cumbrous body for practical purposes, it serves two very useful ends. On the one hand it satisfies, at any rate partially, the aspirations of the leaders of the various communities; and on the other hand it associates them with what must frequently be distasteful measures. I am satisfied that at present there are insuperable political difficulties in the way of increasing the membership of the Executive Council to embrace that of the War Council, or of reducing the membership of that Council to the number prescribed for the Executive Council. I have agreed that this Council should remain as a separate body. I have, however, arranged that an inner “War Cabinet” should be set up, consisting of the High Commissioner, his Civil and Operational Deputies, the Chief Secretary and four prominent Asians. The remaining members of the Council can usefully be employed on other Committees to deal with such matters as man-power, education, resettlement, &c.

50. I am also satisfied that the devolution to State War Executive Committees has proved itself. I have met the members of three of these Committees and have been impressed by their keenness and capacity for gearing the military and civilian efforts in their respective States.

Police

51. Urgent and drastic action is called for. The Emergency is in essence a Police rather than a military task. More troops would add little to the impact. While some of the Police are being drawn back from the ground for training more troops would doubtless be useful, but I am satisfied that this difficulty can be surmounted by temporary measures and by stepping up the present operations for a short time in the areas principally affected.

52. The figures for Johore are typical. At the beginning of 1951 it was estimated that there were 780 armed bandits in the State; during the year altogether 309 armed bandits and Min Yuen have been killed or captured or have surrendered: to-day there are estimated to be still 750 armed bandits in the field.
53. In short, I do not recommend any increase in troops but concur in the British Defence Coordination Committee (Far East) Summary S.E.A.C.O.S. 242 of 15th November, paragraph 16:

"There must therefore be no further reduction in the total number of army units in Malaya before the Spring of 1953 at the earliest. After that any reduction must depend on the success or otherwise of the campaign over the next twelve months. The Spring of 1953 is selected as a date as it is necessary to plan far ahead and an unexpected reduction in troops at short notice has repercussions throughout the country as plans are readjusted. We are especially concerned with the recent change of tactics of the bandits in attacking convoys which must make additional demands on armoured car units and a requirement for a considerable increase in armoured personnel carrying vehicles."

54. The organisation of the Police is in utter disorder and even the Regular Force is inefficient. For example, soon after my arrival I tried to obtain both the "state" (or numerical composition) of the Force on the one hand and its deployment on the other. After cross-examination I could obtain no satisfactory answer under either heading. No detailed allocation of establishment has been laid down below State level; the Chief Police Officer in each State has a free hand to make what use he wishes of the officers and men posted to him. It is difficult to believe that in the absence of authorised establishments there can be rational planning of expansion or that the needs in man-power can be gauged, requests for additional officers and technicians justified and priority for building programmes (particularly permanent buildings) decided.

55. I have now been supplied with the following figures: They give an accurate general picture, but in detail they must be accepted with reserve:

<table>
<thead>
<tr>
<th></th>
<th>1948</th>
<th>December 1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gazetted Officers</td>
<td>150</td>
<td>561</td>
</tr>
<tr>
<td>Inspectors (Asian)</td>
<td>188</td>
<td>614</td>
</tr>
<tr>
<td>Police Lieutenants (European)</td>
<td></td>
<td>743</td>
</tr>
<tr>
<td>Other Ranks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulars</td>
<td>9,888</td>
<td>19,704</td>
</tr>
<tr>
<td>Special Constables</td>
<td></td>
<td>38,466</td>
</tr>
</tbody>
</table>

56. Of the Special Constables approximately 24,000 are employed on estates and mines and on guards. The remainder are used to augment the normal Police formations of all kinds and the Jungle Companies (3,500 strong). Some 2,300 Auxiliary Police are organised to perform voluntary part-time duty. The Regular Police are also concerned with the arming and training of part of another large force of part-time Police (amounting now to about 100,000) and Home Guards. Officering, training, housing and supplying have fallen behind—indeed, they are now out of all relation to this expansion.

57. Owing to the Emergency this huge Force has been totally committed—and in a haphazard manner. For example, the total density of officers over the whole Force, including the large staff employed at headquarters, the Asian Inspectors and the newly-engaged European Police Lieutenants, is roughly 1 in 30 of the full-time force. On the other hand, the density of officers in the 24,000 Special Constables performing duties on estates and mines is apparently only 1 in 480. Again, of the 561 Gazetted Officers only 170 can be regarded as fully trained and the Police Lieutenants are not trained Police Officers in any sense: few of them know the language. In the Army it is considered desirable to have a larger density of officers in untrained than in trained forces. This does not mean that the Special Constabulary should, even when untrained, have more officers than the Regular Police Force; but they should certainly have many more than at present or than will be required when they have been trained.

58. As well as being unled, the Special Constabulary are almost entirely untrained: they are mere levies.

59. Unfortunately, there is another very serious aspect of the disorganisation of the Police. The Government has wide emergency powers of mass arrest and detention without trial. No doubt these powers must sometimes be used, but a
properly organised and trained Police Force should be able to focus arrest on the guilty and reduce the numbers detained on suspicion without trial.

60. The figures are at present profoundly disquieting. A guess is that perhaps 200,000 persons have been so detained for less than 28 days. It is known that 25,000 persons have been detained for 28 days or more. Of these less than 800 have been prosecuted. After deportation and release there are still 6,000 detained without trial. A trained Police Force should be able to make great, even startling, reductions in these numbers.

61. I propose, therefore, to relieve the Commissioner of Police, who is a gallant officer but without the necessary grasp of organisation in these exceptional circumstances, and to replace him with the best that can be found. I have already arranged for a thorough examination of all possible sources from which a replacement can be drawn. The Home Office are being most helpful in this search.

62. When the new Commissioner has been appointed I shall arrange for the Regular Police Force and the C.I.D. to be treated as one distinct Force, and for the Special Constabulary to be separately organised. Both Forces will be commanded by the Commissioner of Police.

63. My proposals for the Home Guard follow.

Home Guard

64. It is axiomatic that we must gain the support and help of the Chinese population and involve them much more deeply in the struggle.

65. One of the great weaknesses to-day, which is unfortunately bound to persist for a long time, is that the Police—both the Regular Force and the Special Constabulary—are overwhelmingly Malay, while the bandits and those whom they are terrorising are overwhelmingly Chinese.* In the face of this handicap it is hard to gain the confidence of the population, to increase the flow of intelligence and to concert the proper counter-measures.

66. The Chinese will not volunteer since they at present enjoy high wages and good opportunities for trade and are not attracted, as are the Malays, by the rates of pay in the Regular Police Force. They are not satisfied that the British will stay in Malaya; they harbour some patriotism towards the Chinese People's Government even if they are not themselves Communists; and they feel marked men if they voluntarily join any section of the Police. When conscription was first introduced many young Chinese liable for service took to the jungle or left the country.

67. I am, however, satisfied from the success which has attended direction into the Regular Police this year that the Chinese can with equal success be directed into a Home Guard if the rôle of that Force is the protection of Chinese lives and property in the towns and of the Resettlement Areas into which their countrymen have been concentrated outside the towns. I would hazard the guess that they will serve loyalty. Some risks will attend arming these guards but I am sure that they must be accepted.

68. The formation of a Chinese Home Guard should, however, be looked upon only as a first step to trying to gain much more Chinese support and to enlisting much larger numbers of them in the Police.

69. Although a beginning has been made there is at present no discernible framework or organisation of the Home Guard. I have discussed the matter with the Deputy Director of Operations and have suggested the name of an officer already in the country for the post of Inspector-General. The Deputy Director of Operations is busy examining the measures necessary to expand the Home Guard and make it into a coherent force under his hand. Only those serving full time will be paid.

Protection of Resettlement Areas

70. This subject has already largely been covered under the headings "Police" and "Home Guard," but I am arranging that better wire fences and better lighting

* Out of a total of 38,466 Special Constables only 1,860 are Chinese. Since the Emergency began, 2,378 bandits have been killed; of these 2,409 were Chinese.
of the perimeter of these areas should be regarded as urgent. I saw a well wired
and lighted fence at Pertang in Negri Sembilan: it is ironical that this village, which
is notorious for a sullen population in sympathy with the bandits, should be better
protected than many of the areas which are far more favourable to our cause.

Education

71. There is no compulsory primary education in Malaya although the
Government is already committed to the principle. The cost would be about
$20 million per annum, say, £2,140,000.

72. More serious than the money required is the strain on man-power and
materials involved in this programme. Nevertheless, there is scope for ingenuity
and I am satisfied that the Government of the Federation should act rapidly. I
shall try to animate it and produce action.

73. It would, in my opinion, be wrong to regard the effect of primary educa­
tion only as a long-term weapon in the war of ideas. Children coming back from
school convert their parents to our way of thinking—instances could be cited—
and provide some answer to the propaganda being whispered to them from the
jungle.

74. Again, a most important feature of primary education is to bring the
races together while they are children and to teach them a common language.

75. In the long-term war of ideas, which we must win if we are to see a
peaceful country and one which can some day be entrusted with self-government
within the British Commonwealth, it is obvious that education and the impartial
administration of the law must take first place.

Malayan Civil Service

76. The high standard of local administration set by District Officers and the
members of the professional departments, such as the Medical, Education and
Engineering Departments, is in danger.

77. The housing shortage is disastrous. I found an officer with his wife and
two children, recently returned from leave, who had been posted to a new district
and would have had to live over a Chinese shop (where trade was thought to extend
beyond inanimate commodities) if the British Adviser had not crowded them into
his own house. These conditions are widespread and when better known in England
will make recruitment almost impossible.

78. Again, armed with a pay code unsuited to to-day's conditions, the Estab­
lishment Officers have fought a successful rearguard action. Exasperation over the
rigid attitude adopted by the central authority is spreading. Recruitment is sluggish
and there are now some 500 unfilled vacancies in the Service.

79. The high cost of living and of sending children home for education makes
it imperative to revise the system of expatriate allowances.

80. Finally, there are doubts whether the British will remain long enough
in the country to provide a career for young men. I tried in the broadcast which
I made in Singapore to reassure opinion upon this.

81. Further measures covering the whole Colonial Service, such as inter­
change of officers and guaranteed employment and pensions, are in hand but must
take some time to complete since they will involve all Colonial Governments.

82. Reverting to the local problems, I insisted that a Board should be set up
to study the necessary changes. It is directed to report to me by 31st January and
is now at work.

83. I need hardly add how vital is this problem. If the Service disintegrates
under our hands—and it is no exaggeration to say that that might happen—then
the chances of achieving any of our long-term aims would indeed be finally,
destroyed.

GENERAL CONCLUSIONS

84. It appears to me that the objective of one day building a united Malayan
nation within the British Commonwealth and Empire should not be abandoned. I
believe that the ever-improving communications of our century—Singa_\_pore will soon be less than 24 hours by Comet from London—the rapidity with which news and propaganda can now be spread, and above all the increasing education and literacy of all people make it impossible to hold any other policy than the creation of new Dominions, self-Governing but part of the Commonwealth owing allegiance to the Crown.

85. Fifty million islanders shorn of so much of their economic power can no longer by themselves expect to hold dominion over palm and pine on the nineteenth century model of power and paternalism which made us the greatest nation in the world. We may regain our pinnacle of fame and power by the pursuit of this new policy.

86. Nevertheless, in Malaya to-day there is only one reason to expect that we can achieve a united nation. All the others are at present against us. The factors against the idea in this plural and heterogeneous society are formidable. The Malays are a simple, agricultural people, the Chinese a sophisticated one with centuries of experience upon which to draw. They are at once agricultural, commercial and industrial and will continue to gain a bigger hold on the wealth of the country. Of all the religions likely to appeal to a Chinaman the Muslim faith is, perhaps, the last. Under its code he could not open his shop or work his mine on Fridays but must needs pray. The consequent loss of profit and increase in overheads is unacceptable to his realistic temperament. His staple and favourite diet, pork, would be taboo. Again, of the Chinese who are not Communists many have a patriotic sentiment for China, some for the Chinese People's Republic and others for the Kuo Min Tang.

87. These are the fundamental difficulties: the immediate obstacles are hardly less. To-day 95 per cent. of the bandits are Chinese, while more than 90 per cent. of the police are Malays. Apart from the British influence, political power is in the hands of the Malays and economic power is increasingly passing to the Chinese. Nor is the broad pattern—two million Chinese, two and a half million Malays and half a million Indians—so simple as it sounds. The States of Kelantan and Kedah, for example, contain one-third of the whole Malay population. These States look to the British to keep Malaya for the Malays. In Johore, half the population is Chinese, half Malay and other races. Their voice is less clear.

88. On the other hand, the one favourable factor is the absence of any obdurate hostility between the two races like that between Jew and Arab. In small bodies, on the Executive and Legislative Councils, in the Universities, the races mix easily and without constraint. Both set high store on good manners and have a predilection to smile rather than to frown.

89. These are indeed slender foundations upon which to build and it is easy to feel that we might not be vouchsafed the time. Genuine partnership between the races will, in my opinion, take more than a generation and can come about then only if inter-racial schools are quickly established.

90. In these plural societies the policy of our predecessors—of using self-government as an instrument for creating unity—is an example of political immaturity amounting to folly.

91. In plural societies self-government must be the expression, not the instrument of unity. If a young man and a young woman of different races were highly suspicious of one another, we should hardly oblige them to marry by ordinance and expect harmony. Even when they love one another, marriage is not invariably a guarantee of harmony, or even of continuity. In seeking to create a Dominion like Canada, in which the British Protestant and the French Catholic are ruled by a single government, there is the ever-present danger of creating a Palestine in which unitary government tends only to increase the fissiparous forces at work.

92. These fears haunt the various races; none of them in their heart of hearts wish to see us go. They still believe in British justice. We must not break down their belief. The King's Chinese and the Malay States openly express these sentiments in fervent phrases. Other Chinese imply it. All know that we are their hope and stand-by.
93. I say, therefore, that we must persist. I believe that with patience and wisdom there is a reasonable chance—if we are given the time—of reaching our goal, a united Malayan nation within the British Commonwealth and Empire.

94. To go too quickly now to impose self-government would be to condemn the whole country to confusion, and almost certainly to civil war, and to throw the Malays into the arms of the Indonesians. We must adapt the old saw of one of the wisest political peoples of their day: "Festina lente."
ITINERARY AND SOURCES OF INFORMATION

1. 29th November to 1st December – Bukit Serene, Johore.

   By air from London to Singapore and thence by road to Bukit Serene.

   (a) Consultations with Commissioner-General, South East Asia; Governors of Singapore, North Borneo and Sarawak; Officer Administering the Government of the Federation of Malaya; Commanders-in-Chief, Far East; retiring and incoming Directors of Operations; and other senior Service Commanders and Government officials.

   (b) Meeting with unofficial members of the Executive Councils of the Federation and Singapore.

   (c) Meetings with Johore State War Executive Committee; principal officials and Police Officers; military commanders; and unofficials (planters and business men of all races) in the State.

   (d) Visits by road to Resettlement Areas and Police Stations and meetings there with Police Officers and other ranks; Resettlement Officers; and local military commanders.

2. 2nd to 8th December – Kuala Lumpur.

   By road from Bukit Serene to Singapore and thence by air to Kuala Lumpur.

   (a) Consultations with Officer Administering the Government of the Federation and his senior officials; Director of Operations; G.O.C., Malaya, and other senior Service Commanders; Commissioner of Police and other senior Police and C.I.D. Officers; Mentri Mentri Besar of the Malay States; British Advisers of most of the States; and District Officers and Police Officers on the ground in a number of States.

   (b) Meetings with Malay Rulers; Executive Council of the Federation; and Federal War Council.
(c) Meetings with representatives of United Malay National Organisation; Malayan Chinese Association; Malayan Indian Congress and Federation of Indian Organisation; Malayan Trades Union Council; Federated Malay States Chamber of Mines; All-Malayan Chinese Mining Association; Rubber Producers' Council; Incorporated Society of Planters; Malayan Estate Owners' Association; and United Planting Association of Malaya.

(d) Private talks with Officer Administering the Government of the Federation; Director of Operations; Commissioner of Police; retiring Director of Intelligence; G.O.C., Malaya; Commandant, the Malay Regiment; President of the Independence of Malaya Party; President of the Malayan Chinese Association; Trades Union Adviser to the Federal Government; representatives of the Malayan Civil Servants' Association; and leaders of the European planting and mining communities.

(e) Visits to:

(i) Combined Operations Room for the State of Selangor for a meeting with the Selangor State War Executive Committee.

(ii) By Austor over typically dense, mountainous Malayan jungle to Bentong in Pahang, one of the areas most seriously affected by bandit operations, where there were meetings with Mentri Besar; British Adviser; local District Officer; local military commander; Chief Police Officer for the State; representatives of the Malay, Chinese and Indian communities; Malayan kampong guards and Chinese Home Guards; Resettlement Officers; planters; and other officials and unofficials.

(iii) Combined Operations Room at Federal Police Headquarters, where there were discussions with Commissioner of Police and other senior Police and C.I.D. Officers.
(iv) Malayan Military Headquarters for talks with G.O.C., Malaya, and other senior Service Commanders.

(v) Police Depot to see something of Police training.

(vi) By air to Ipoh in Perak, the State in which the bandit menace is at present at its worst, for meetings with State War Executive Committee; Mentri Besar; British Adviser; local military commanders and Police Officers; local officials of the civil administration; and representatives of the various racial, planting, mining and business communities.

(vii) By air to Penang to meet Resident Commissioner and his staff; senior local Police Officers and military commanders; and members of all local racial and business communities.

(viii) By Auster to Negri Sembilan, to meet Mentri Besar; British Adviser; Chief Police Officer and other local Police Officers; local military commander; local planters and miners; (including visit to a tin mine), and heads of the nine small States constituting the Federation of Negri Sembilan; to see Resettlement Areas and Police Stations; and to visit a Battalion of the Suffolk Regiment at Kajang.

3. 15th December – Bukit Serene, Johore.

By air from Hong Kong to Singapore and thence by road to Bukit Serene. Final consultations with the Commissioner-General, South East Asia.

4. 16th to 19th December, – Kuala Lumpur

By road from Bukit Serene to Singapore and thence by air to Kuala Lumpur.

(a) Final consultations with Officer Administering the Government of the Federation and his senior officials and Director of Operations.
(b) Visit by air to Kota Bahru in Kelantan to see a typical predominantly Malay State.
1. I have tried to see as much as I could during the short time that I have been in the country. It has to be a short time because action is required at once. I have been in the States of Johore, Pahang, Selangor, Negri Sembilan and Perak and in the Settlement of Penang and now I am back in Singapore. I have given the problem of the Emergency intense study.

2. First of all, let me express my admiration for the courage of the many ordinary people, Malay, Chinese and Indian, growing rice, tapping rubber or mining tin, who go about their daily life not knowing what may befall them. Amid them all the Europeans have set their own splendid example of continuing courage. Nor can anyone who has recently been in touch with what I may call "the front line" help saying a word of gratitude to the women, who are steadfastly suffering all these anxieties and dangers.

3. I have tried, as far as possible, to see everybody that I could. I have seen representatives of all the communities. I have talked to District Officers, planters and miners, policemen, soldiers, Resettlement Officers and Home Guards. I have listened to many voices. But the problems are many and there is no one answer.

4. I have seen something of the British, Gurkha and Malay troops and their commanders, the Royal Navy and the Royal Air Force with its Australian contingent.

5. This is warfare which makes heavy demands upon troops, especially those used to northern climes. Yet day by day they are showing to the inhabitants of this country and to the world an example of discipline, courage and humour. The National Service man has proved himself beyond all expectation.

6. In short, I have been engaged, so to speak, upon reconnaissance. This must be followed by plans and plans must be followed by immediate action. When I get home I shall address a State document to the Prime Minister and the Cabinet.
to obtain their agreement and their help. I must therefore excuse myself from going into detail now but there is much that I can say. I shall report that the main headings under which the immediate problem should be attacked are these.

7. First, the over-all direction of our forces, military and civil, against the enemy. It is not an easy problem. Let me put it this way. War is a matter of violence; the art of administration is a matter of reflection and of check and counter-check. These two widely different activities have to be geared so that they move in concert and express themselves in immediate impact upon the enemy. I cannot go into the measures which I shall propose to secure this end. They will not be long delayed.

8. Second, the re-organisation and training of the Police is urgent. They are doing a stout-hearted job in face of trial and difficulties but we must now achieve a much higher state of training in the Special Constabulary and create a Reserve of trained police.

9. Third, Education. Too many do not have a clear enough idea of what they are fighting for. They must be taught, and one of the ways in which it can be done is by pressing forward with the project for compulsory primary education. It is not only the war of arms that must be won; education must help us to win the war of ideas. Of course, the effects of education are most striking in the long term but even at the beginning the children who go back to their parents from school are living evidence of another way of life to set against that which is being whispered to them from the jungle.

10. Fourth, a much higher measure of protection of the resettlement areas must be achieved, and achieved quickly.

11. Fifth, the organisation of a Home Guard. We must move now to enlist in the Home Guard a large number of Chinese in the towns and in the Resettlement Areas to defend their homes and their fellow countrymen. I have seen such a Home Guard working in Pahang and I am encouraged to think, from this small instance, that the object can be achieved.
12. Sixth, we must tackle the problem of the great strain under which the Civil Service is at present suffering. We must review their terms of service and strive to maintain the high standards which have always been set. We must recruit the best here and at home.

13. These are the main subjects upon which we must concentrate our attention and our energies. There is a host of smaller but highly important details which we must tackle at the same time. My report to the Cabinet will contain a massive appendix. I cannot go through all the subjects but can mention only a few upon which action must be taken at once. For example, armoured vehicles. There must be sufficient armoured vehicles to enable the civil authorities, the Police, the planters and miners to move about upon their duties in vehicles which enable them to hit back if they are attacked. I cannot subscribe to the theory that protecting a man from rifle-fire reduces his fighting spirit. Another subject is the officering of the Malay Regiment. This will require consultation with my colleagues. There is also the important matter of increasing - and rapidly increasing - the number of Government officers who can speak Malay and Chinese. There is the question of the appropriate weapons for issue to planters and miners. The propaganda system appears to require careful scrutiny. These are a few instances among many.

14. On my return to England I shall wish to be kept in close touch with all these important matters, and shall closely watch their development.

15. In solving these problems we must look for help to the great Colony of Singapore. We must look to all races here, and particularly to the enlightened and educated Chinese. We must look to those who are proud to call themselves the "King's Chinese", who have been here for many generations and whose descendants will be living here long after the present problems are forgotten.

16. I have already said that this is a war of ideas as well as of arms. We have to see that our philosophy opens up to the peoples of Malaya the prospect of a finer and freer life than that which our enemies are now trying to instil.
17. The ideal for which all communities in the Federation of Malaya must strive is a united Malayan nation. When this has been achieved that nation will carry the responsibilities and enjoy the advantages of self-government. Then, we confidently hope, Malaya will add strength to the British Commonwealth, the greatest association of free peoples of which history tells.

18. Political advancement, economic development, social services and amenities are rungs in the ladder. Today, however, we have to place emphasis on the immediate menace. We must ask who are the enemies of those ideals? Who are the enemies of political advancement? What is delaying progress towards it? The answer is Communism. The answer is the terrorists. The answer is the Min Yuen and those who, partly from fear and partly from sympathy, create a passive but no less serious obstacle to victory. All these in greater or lesser degree betray our ideal and upon them we must unite in visiting, under the law, the full severity which their betrayal merits. Only so will victory be gained.

19. Without victory and a state of law and order, which it alone can bring, political advancement becomes a hollow mockery to everyone and not least to the worker in field, in mine and in factory. The first duty of every government in every country is to ensure and protect liberty. Freedom from fear is the first human liberty.

20. The pursuit of the ideal of a united Malaya will demand great political wisdom and the exercise of those rarest of human virtues, patience and forbearance.

21. The British believe that they have a mission in Malaya and they will not lay it aside until they are convinced that terrorism has been killed and buried and that a true partnership of all communities can lead to true and stable self-government. The road to this partnership will certainly be long - it may well be very long - and it runs through jungle and ravine. But we will protect it, we will stay, we will never quit until our aims - and they are common to all races - have been achieved.

22. I believe, too, that when self-government has been attained, the British have a place and
a part to play in Malaya together with their fellow-citizens of the other races. Let all Britons know, therefore, that there is a future open to them in Malaya - first, in bringing about the partnership of all the communities, and thereafter in the united and self-governing Malaya which will emerge.

23. In conclusion, I want to turn back to the subject of the Emergency. I cannot promise you speedy success. I can - and do - promise you speedy action. Only with your help can the war be won but I end by saying that if we act together my confidence and my faith is that law and order and freedom from fear can be regained and restored.
Appendix III

FEDERAL AND STATE COUNCILS, ETC.


The Federal Legislative Council has 75 members, of whom 14 are officials, 9 are the Presidents of the Councils of State of each of the nine Malay States, 2 are representatives of the Settlement Councils of Penang and Malacca and 50 are unofficials. The unofficial members are all nominated. They are selected to represent different interests - employers, labour, industry, commerce, etc. The racial composition of the Council is at present:

- 34 Malays (3 officials, 9 Presidents of State Councils, 22 unofficials)
- 17 British (10 officials, 7 unofficials)
- 16 Chinese (1 official, 15 unofficials)
- 5 Indians
- 2 Ceylonese
- 1 Eurasian.

(Note: When a Deputy High Commissioner is appointed it is the intention that he will normally preside over the Legislative Council, thus relieving the High Commissioner of this duty).


This Council consists of the High Commissioner, three ex officio members (the Chief Secretary, the Attorney-General and the Financial Secretary), four other official members (one of whom, the Member for Home Affairs, is a Malay) and seven unofficial members (at present two Malaya, two Chinese, one European, one Indian and one Ceylonese). It has recently been decided to increase the membership of the Council from 14 to not more than 19.

3. A Federal War Council was set up in April, 1950, under the Chairmanship of the Director of Operations, the other members being the Chief Secretary, the G.O.C.,
the A.O.C., the Commissioner of Police, the Secretary for Defence and the R.N. Liaison Officer (when required).

Its functions were to be to decide on operational policy and to put it into effect.

In October, 1950, the Council was expanded by the addition of two Malay unofficials (Keeper of the Rulers' Seal and Dato Om), a Chinese unofficial (Dato Tan Cheng Lock) and a European unofficial (Mr. G.D. Treble, a Pahang planter). At the same time the High Commissioner assumed the Chairmanship.

After the death of Sir Henry Gurney in October, 1951, there was an insistent demand for the expansion of the Council to include much wider representation of the various communities and interests. It now consists of all the members of Executive Council (except one who lives in Penang), together with a few extra unofficial members - representatives of all communities particularly affected by the Emergency - making a total of 20. Its functions have necessarily changed with its change of character and it is now purely advisory on important matters of war policy. For this reason the Service Chiefs (including the Commissioner of Police) are no longer members, their executive responsibility being represented by the Director of Operations. Its composition, by races, is at present as follows:-

<table>
<thead>
<tr>
<th>Officials (including &quot;Members&quot;)</th>
<th>Unofficials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europeans</td>
<td>8</td>
</tr>
<tr>
<td>Malays</td>
<td>1</td>
</tr>
<tr>
<td>Chinese</td>
<td></td>
</tr>
<tr>
<td>Indian</td>
<td></td>
</tr>
<tr>
<td>Ceylonese</td>
<td></td>
</tr>
</tbody>
</table>

4. State and Settlement Legislative and Executive Councils.

In each State and Settlement there are Legislative and Executive Councils (the former with unofficial majorities) roughly reflecting the composition, but on a smaller scale and with necessary local variations, of the corresponding Federal bodies.
5. **State War Executive Committees.**

These bodies were set up in 1950 at the instance of the Director of Operations to facilitate the carrying out of his instructions and to avoid the unacceptable delays which were inevitable when action was taken through the normal civil authorities. They consist of the Mentri Besar, British Adviser, Chief Police Officer and senior military officer in the area, each of whom is responsible for executive action in his own sphere.

6. **District War Executive Committees**

Similar bodies have been set up in Districts or Police circles (which cover several Districts). Their composition varies but the basic membership includes the District Officer, the Officer Commanding the Police and the local Military Commander.

7. The War Executive Committees thus provide a direct chain of command from the Director of Operations down to District level.
ARMoured VEHICLES FOR THE POLICE

The "procurement" of armoured vehicles has not been properly organised and requests had been made for vehicles which, I fear, will prove unsuitable. The orders were also too small. Accordingly I gave instructions that a Committee should be set up to go into this question. The Committee contained representatives of the civil administration, Police, and Army. Its report is attached.

REPORT

1. TYPES

Armoured vehicles are needed solely for protection against roadside ambushes. For this three types are required:-

(i) for carrying numbers of men travelling on dangerous roads or when called out on operations;

(ii) for escorting soft vehicles; and

(iii) for carrying individual officers travelling on duty in dangerous areas.

2. SPECIFICATIONS

Ideal specifications of these three types of vehicles would be:-

(i) Troop-Carrying Vehicles

   Fully armoured to carry driver and 10 men. Quick and easy means of exit. Ports from which small arms can be fired. Weight not to exceed 5½ tons in order that vehicles may negotiate bad roads and weak bridges.

(ii) Escort Vehicles

(iii) **Vehicles for carrying individual officers**

- Fully armoured. Accommodation for driver and two men. Required for all purpose travel and should therefore provide a modicum of comfort.

All the above should be fitted with run-flat tyres and be provided with a full scaling of spare parts.

3. **NUMBERS REQUIRED**

The following numbers are based on optimum requirements and take no account of limiting factors of finance or availability of vehicles:

(i) **Troop Carrying Vehicles**.............902

Scale of issue: 1 to each Police Station with 20 men and over.
2 to each District H.Q.
3 to each Contingent H.Q.
4 to each Jungle Company.
10% reserve.

(ii) **Escort Vehicles**......................206

Scale of issue: 2 to each District H.Q.
2 to each Contingent H.Q.
10% reserve.

**Note:**

This number is not required for present purposes but envisages the need for escorting civil food convoys if food control measures prove successful.

(iii) **Individual Transport Vehicles**.....502

Scale of issue: 1 to each O.C. Division
1 to each O.C.P.D.
1 to each O.S.P.C.
1 to each P/Lt. stationed on estates or mines.
3 to each Contingent H.Q.
8 to each Police H.Q.
1 to each Jungle Company
10% reserve.

**Total**
4. **AVAILABILITY**

It is realised that it may not be possible to obtain vehicles answering all the specifications given in paragraph 2. For instance it would not be possible to obtain a fully armoured vehicle capable of carrying 11 men and weighing only 5½ tons. The aim must therefore be to procure the most suitable vehicles available which offer the best delivery dates.

5. The ideal vehicle would be one which is capable of performing all 3 duties efficiently. In this respect consideration has been given to modifying a G.M.C. A.P.C. by armouring the top and back of the driver's cab and installing an armoured casing in the rear of the vehicle sufficient to give protection to one man and from which he can fire an L.M.G.

6. This type of vehicle would not, however, offer as high a standard of efficiency as having one type of vehicle to be used as a troop-carrier and another type capable of being used in the dual role of an escort vehicle and for the transportation of individuals, as the specifications of these last two types of vehicles are very similar.

7. The most suitable type of vehicle available for use as a troop-carrying vehicle is the G.M.C. A.P.C. suitably modified. Modifications required are armouring of the roof and rear of the driver's cab and raising the sides and rear of the back of the vehicle 12" with armour plate.

150 of these vehicles are now in the country and will be modified as required. 341 are on order and should be modified before being shipped.

A further 411 will be needed to meet the full requirements stated above. If they are not available in the United Kingdom enquiries will be necessary in Canada, where they are or have been manufactured.

8. The most suitable type of vehicle known at present that could be used in the dual role of an escort vehicle and for the transportation of individuals is probably the G.M.C. Scout Car.
It is not known whether they are in fact available or still in production but enquiries should also be made in Canada about this type of vehicle.

The Police have at present only 26 (Ford Lynx) of this type of vehicle. On the above figures 682 are therefore required but if a dual purpose vehicle could be obtained, the total requirements could probably be reduced.

9. Other vehicles which have been considered are:

(a) Humber Scout Cars. These are unsuitable as no spares are available.

(b) Daimler Scout Cars. These vehicles carry Ford Lynx only a driver and 1 other and need to be modified to provide top protection and a turret. Spares position of Ford Lynx is unknown.

(c) Morris Armoured Scout Cars. These are mechanically unsound and the spares position is unsatisfactory.

(d) "OXLEY" type on a Ford V8 Chassis. It is considered that in order to armour this vehicle effectively, the weight of armour would be too much for the chassis and suspension. However, if tests on the prototype prove to be satisfactory this vehicle could be considered to provide transportation for individuals but would not be satisfactory as an escort vehicle.
(e) Armoured Land Rovers
The weight of armour is too much for the carrying and tractive capacity of the vehicle.

(f) Saloons converted by partial armouring as used by Estate and Mines managers.
The intensive use to which Police vehicles are put would entail constant mechanical breakdowns, since these vehicles are not built to carry armour and the weight imposes too great a strain.

10. MAINTENANCE

As armoured vehicles require more maintenance than soft vehicles, an increase of armoured vehicles for the Police Force on the scale suggested will impose a very heavy strain indeed on Police maintenance facilities. A variety of makes of vehicles should therefore be avoided, if possible. The provision of GMC APCs and GMC Scout Cars would be the ideal solution from this point of view since they are the same vehicle mechanically and both maintenance and supply of spare parts would be greatly simplified.

11. SUMMARY

(a) 341 GMC APCs now on order require modification before being shipped. A further 411 GMC APCs suitably modified are required. These vehicles are considered the most suitable as troop carriers.

(b) 180 further vehicles are required for escort duties.

(c) 502 vehicles are required for transportation of individuals.

(d) GMC Scout Cars will satisfy (b) and (c) above if available.
(e) If GMC APCs and GMC Scout Cars are not available either in the United Kingdom or in Canada in sufficient numbers, vehicles should be provided which would meet required specifications as nearly as possible such as the Ford Lynx (if spares are available) for escort duties and the "OXLEY" (if proved satisfactory in tests) or any similar vehicle for transporting individuals.

(f) All vehicles should be fitted with run flat tyres and have a full scaling of spares.

(g) Results of enquiries into costs and availability may entail modification of programme.

16th December, 1951.
ARM'S, CLOTHING AND EQUIPMENT URGENTLY REQUIRED
BY THE POLICE AND OBTAINABLE ONLY FROM THE
UNITED STATES OF AMERICA.

Requirements

1. 1,000,000 yards
   Khaki cellular
   shirting or twill
   or Khaki drill.

   Estimated consumption of Khaki
   clothing in 1952 is:

   787,000 yds. cellular shirting
   846,000 yds. Khaki Drill.

   Indian mills are the normal
   suppliers but delivery pro-
   spects from India are bad
   because of internal diffi-
   culties. Alternative
   sources of supply have been
   found which should largely
   satisfy Khaki drill require-
   ments during 1952, and
   enquiries are now being made
   in the United Kingdom about
   the supply of cellular
   shirting, or of twill or
   Khaki drill in lieu. If
   Khaki cellular shirting
   cannot be obtained in the
   United Kingdom it may be
   necessary to order up to a
   million yards of it in the
   United States.

2. 12,000 carbines
   M.I. and
   4,000,000 rounds
   .300 ammunition.

   These weapons have proved
   to be ideal for jungle warfare,
   being easily handled and giving
   a high rate of accurate fire.
   Supplies can be obtained
   only from the United States
   of America. The numbers
   asked for will be sufficient
   to enable demands of estates
   and mines for this type of
   weapon to be met.
3. 500 Pump Guns and 125,000 rounds of steel plated ammunition. 

These guns are considered an essential part of Police Jungle Company equipment. They would greatly increase fire power of Coys. They can be obtained only from the U.S.A.
EARTH-SHIFTING EQUIPMENT

1. 20 caterpillar tractors (10 Type D.7 and 10 Type D.B.) have been ordered from the Caterpillar Tractor Company Ltd. of the United States. These orders received the support of two American Missions (the Griffin and Melby Missions) which visited Malaya in 1950. The tractors were originally needed because the building of new roads and improvement of existing ones was a very urgent economic necessity in Malaya; and the Economic Cooperation Administration have endorsed the supply of the tractors on economic grounds. Owing, however, to the needs of the United States re-armament programme, supply cannot be met unless these tractors are given operational priority by the Defence Department (a "D.O. rating").

2. The urgency of the construction of new roads in Malaya is now military, and economic considerations are secondary. Unless the road-building programme can be pushed ahead (for which the tractors are essential) the campaign against the Communists will be seriously impeded. Among vital projects which are an immediate military need are:

(a) Mountain roads to set up V.H.F. wireless stations for the Police network. This network, comprising 18 stations in all, will link the huge number of Police Stations built and under construction as part of the plan for defeating the Communists. They are situated on mountains and over 50 miles of new mountain roads are required. Because of lack of plant only one or two of these roads have so far been completed.

(b) Approach roads to Resettlement Areas. Several hundred miles of road are required for squatter resettlement schemes. Many miles are already being built but, because of lack of plant, the bulk remain to be started. The resettlement schemes are the vital core of the "Briggs Plan", and unless these areas are linked with the main communication arteries it will remain very difficult indeed to supervise and protect them.

(c) Operational Trunk Roads. Over 100 miles of operational roads suitable for military vehicles in all weathers are required. For lack of plant most of these roads have not yet been started. The Temerloh-Maran Road, for example, reduces
the distance from east to west coast by 72 miles. This road is necessary not only for long-term strategic purposes but also for the present Emergency. Another road, 65 miles long, will open up the Malay-Siam border to military and police traffic and greatly facilitate the control of this vital frontier, across which terrorists can at present pass into the relative sanctuary of Siam.

3. The War Office and Foreign Office are taking this matter up vigorously but if they are unsuccessful it is hoped that the Prime Minister will agree to press the matter at the highest level. An assurance could be given to the Americans that this equipment, if supplied, would be used in the first place only for work of immediate importance to the anti-communist campaign.

4. Other road-making equipment now in Malaya or due to arrive there shortly will be quite useless unless these tractors can be supplied.

5. It is also urgent for the prosecution of the anti-communist campaign that more tracks should be driven through the jungle. For this additional equipment will be necessary. I am arranging to have these means examined and will as soon as possible submit proposals for obtaining the required equipment.
CHEMICAL DEFOLIATION OF ROADSIDE JUNGLE

1. It is agreed on all hands that the risks of ambush by bandits can be greatly reduced by defoliation of roadside jungle. A certain amount of this is already being done by hand but the process is slow and costly and the vegetation quickly grows again. Chemical defoliation would, it is believed, be much more effective.

2. Experiments on a small scale have been carried out using two recently discovered hormone weed killers (2, 4-D and 2, 4, 5-T) with Sodium tri-chloracetate in various combinations.

3. Tests began on the 17th September, 1951, by means of hand sprays, and within ten days the foliage was dead. Three months later no significant regeneration had taken place and the original growths are generally dead. Current observations strongly support the view that there will not be regeneration of any plant growth sufficient to provide cover for the enemy for six months, and probably for one year, after treatment.

4. For the most effective treatment the current costs of the chemicals involved is equivalent to £190.00 (£22) per acre. On the assumption that it will be desirable to clear roadsides to a depth of 100 yards on either side (=72.7 acres per mile) the cost of the chemicals per mile of road will be £13,780 (£1607). With further experimental work it is believed that the dose can probably be reduced to give a cost of chemicals of £55.00 (£6) per acre, or £4,000 (£133) per mile of road. The cost of cutting by hand varies between £300 - £450 per acre for three slashings a year depending on the denseness of the growth. A shorter distance than 100 yards may have to be accepted. The savings are therefore massive.

5. On the 14th December attempts were made to use a "TIFA" fogging machine for practical roadside tests. This is the only spraying equipment available in the country but it proved unsuitable because the solution emulsified. Other possible measures are being explored.

6. Messrs. Imperial Chemical Industries, Malaya, Ltd,
have conducted the foregoing experiments and they report that a combination of chemicals has now been found which will meet the purpose. While these chemicals have been successfully applied by hand the advantages to be derived by this method of control by chemicals can be fully realized only by means of large-scale mechanical methods of application. It is now therefore an engineering problem. I.C.I. Ltd. and Plant Protection Ltd. in England have been kept fully informed by I.C.I. (Malaya) and they have been asked to carry out trials of all types of spraying equipment.

7. There are three main uses for this chemical method of control:

(a) rail and roadside clearance in dangerous areas (likely ambush positions);

(b) clearance of perimeters of resettlement areas, etc.; and

(c) destruction of crops grown by, or for, the bandits in remote jungle areas.

(a) and (b) require mechanical means of application though (b) can possibly be done by hand spraying. For (c) the Federation Government has ordered through I.C.I. (Malaya) Ltd. two sets of Spray rigs for use in Auster aircraft. This is the only purpose yet in mind for application by aircraft. Earliest date of delivery is February/March, 1952, and despatch by air has been requested.

8. Summary.

(a) A suitable combination of chemicals has been found and supplies are available from sterling sources.

(b) The cost of chemicals (taking no account of the cost of application) compares favourably with the cost of slashing by hand.

(c) Mechanical methods for large-scale application have not yet been determined. This is now the main problem.

(d) I.C.I. Ltd. and Plant Protection Ltd. have details of experiments carried out and have been requested (through I.C.I., Malaya) to carry out research for suitable mechanical equipment.
APPENDIX VIII

Language Teaching

1. As part of their training in order to qualify for confirmation, officers of the Malayan Civil Service and gazetted officers of the Malayan Police Service are normally required to pass examinations in Malay, Chinese or Tamil within 2½ to 3 years of appointment.

2. During the past three years officers of the Malayan Police Service have been confirmed in their appointments on the recommendation of the Commissioner of Police, Federation of Malaya, or the Commissioner of Police, Singapore, whether they have passed the prescribed examinations in language or not, since it has been held that in Emergency conditions they do not have opportunities for study.

3. Of the 194 Malayan Civil Service officers recruited from 1946 to 1951 inclusive, 114 have passed the test in one or other of the prescribed languages. Of the 519 Police Officers recruited during the same period, 163 have passed lower standard Malay.

4. The figures in the preceding paragraph include all officers serving in both the Federation of Malaya and Singapore, since the Malayan Establishment provides expatriate officers for both territories, and officers on the common establishment are liable for service in either administration.

5. Officers selected to learn a Chinese dialect are normally sent to China for 18 months to 2 years. Since 1946 28 Malayan Civil Service cadets and one Assistant Superintendent of Police (on probation) have been sent to China. Of these, 9 Malayan Civil Service cadets and the Police Officer are still there.

6. Two intensive courses in colloquial Cantonese and Hokkien were organised at Cameron Highlands in July/August, 1951. Each course takes 12 officers and lasts 6 months. 20 Police and 4 Malayan Civil Service officers attended the first two courses, and the same numbers are to attend the second two courses, which are due to begin in January/February, 1952.

7. Evening classes in Malay were started in Kuala Lumpur in June, 1951, to teach Police Officers stationed in the neighbourhood. These classes will be continued in 1952.

8. Cadets appointed since January, 1950, have in most cases been required to undertake full-time duties
in the field and have not had normal opportunities for study. The majority of those appointed in 1950 have, however, now been released from special Emergency duties, and steps must be taken to ensure that the remainder, after serving 9 to 12 months in Emergency posts, have suitable opportunities for taking up the study of both language and law.

9. Police Lieutenants, being temporary officers, are not required by their terms of service to pass any examinations. Of the 837 recruited up to date, 112 have passed some examination in Malay. This is not enough, however, and I have therefore arranged for examination of the possibility of awarding bonuses to them as an inducement to learn Malay.
INTELLIGENCE SERVICES AND RELATED COUNTER-MEASURES

I

INTELLIGENCE SERVICES

A. Intelligence against the Enemy

The importance of intelligence in the Malayan campaign cannot be exaggerated. Every police operation is in large measure an intelligence task and the Malayan campaign is in essence a police operation. In a country covered with dense jungle, where evasion is easy and contact with the enemy cannot be made without secret information, it is essential that intelligence should be gained from the Communist forces without their knowing. Intelligence, therefore, to use semi-technical language, must be "live" as well as "blown" or "dead". It must come from sources whose "pumping" is unknown to the Communists.

At present, the opposite occurs. The bulk of our reliable information is obtained not from agents or police friends or contacts but instead from corpses, prisoners of war and captured documents. This process builds up an interesting academic or even strategic picture. It would be most useful in fighting regular troops in formal battle, but it is of much less value against a mobile, intelligent and localised guerilla force.

The provision of more "live" as opposed to "blown" or "dead" information must be the task of the Police Force. In this, until recent months, they have failed. They have been handicapped by post-war reorganisation, shortage of Asiatic officers, expansion of the Uniformed Force and the striking fact that more than 90 per cent of the enemy are Chinese while 95 per cent of the Police are Malay. In addition, the C.I.D. Special Branch formerly operating from Singapore and serving both Singapore and the Federation has on two different occasions been separated from the main Police Forces, with unfortunate results. The reorganisation of the Federation Police C.I.D. by Sir William Jenkin, although starting with the handicap of having few if any agents and contacts, and its re-integration with the main Federation Police Force, seem to
have established a firmer framework and already military commanders report an increased flow of information.

Nevertheless, it would be foolish to expect any profound improvement even with an increased and more efficient C.I.D. until the basic police training of all ranks of the regular, uniformed police is improved. It is mainly on the uniformed police that C.I.D. counter-measures must be based. Without the firm base of a Police Force in close touch with the people, penetration of enemy organisations becomes most difficult. In Malaya, little or no deep penetration of the enemy has been achieved. To-day, many of the regular Police Force, far from being policemen capable of carrying out their share of investigations and of acquiring intimate local knowledge, are little more than static, para-military guards - which throws an extra burden on the C.I.D. In addition, weaknesses exist in the intelligence filing system at lower levels. Thus little is done at police stations to identify and arrest thousands of wanted persons classified by the C.I.D. as active Communists.

Improvements are likely to take some little time to achieve. Meanwhile, as the efficiency of police intelligence improves, intelligence can and is being collected in the following ways.

(a) aggressive patrolling by police and military;
(b) Police round-ups and security checks;
(c) aggressive patrolling by jungle squads and companies;
(d) deep patrolling by Malay Scouts;
(e) reconnaissance by air; and
(f) interrogation of suspects and captured bandits.

It should also be possible for the C.I.D. to concentrate on specific targets in certain areas. At the moment a special C.I.D. investigation is being launched against the Min Yuen. This investigation, however, is still in the course of being planned. It should also be possible to appoint special investigation teams aimed at certain individuals - that is, to hunt down individual men from Communist higher
formations through their families, properties, sweethearts, etc. This will be undertaken shortly.

Recommendations:

(1) more Chinese must be recruited or directed for all Regular branches of the Police and given chances of promotion;

(2) more training in basic police and intelligence methods must be given to all police branches irrespective of race;

(3) the question of new techniques for penetrating the jungle by aerial photography should be examined;

(4) the gaining of intelligence from the aboriginal tribes should be investigated; and

(5) the training of agents should be accelerated where this is possible and they should be used against specific targets under C.I.D. arrangements.

B. Security of our own Forces

Because over 150,000 persons have been absorbed into the Security Forces, some risks in recruitment have been taken without proper screening. Efforts must therefore be made to tighten up our own security arrangements. If the Malayan Communist Party at any time succeeded in bringing about a civil war in certain regions, many unforeseen misfortunes would befall us. The growing efficiency of the enemy must be combated more vigorously on our home ground. Recent disquieting incidents have been the suspected purloining of ammunition from lighters in Singapore; the sale of arms by Special Constables and Home Guards; the penetration of Home Guards by the Min Yuen; the treachery of a Sakai chief tracker; the disclosure of a Communist cell in King's House, Kuala Lumpur; and the infiltration into the Chinese schools of Communist teachers and literature. At every level and in every Service Department normal security precautions must be tightened up.

Recommendation:

A conference should be held of the chiefs of the Services and Police and the heads of the Government
Departments concerned to consider the problem and set up suitable machinery in Kuala Lumpur and in Singapore to deal with internal security of our own forces. Trade Union organisations should be consulted at a later stage.

C. Use and Control of Intelligence by Field Forces

At lower levels this is largely a matter of harmonious relations between soldiers and policemen. These in general seem to exist. C.I.D. personnel and intelligence files are usually available to the military down to battalion level. At the centre, however, a more purposeful use might be made of intelligence. The Deputy Director of Operations should establish an Intelligence staff to deal with the various aspects of intelligence and guide the intelligence campaign in the direction which his plan demands. This is, perhaps, all the more necessary owing to the slender resources available. He should be able to issue general directives to the C.I.D., Internal Security Forces, "black" propaganda and subversive organisations as they grow up under his command. For this purpose he should be given a Directory of Military Intelligence or Director of the Intelligence Bureau. Whether this man should be a soldier or a policeman is immaterial, though the balance might be in favour of a policeman.

Recommendations:

(a) that a Director of the Intelligence Bureau be appointed to the Deputy Director of Operations; and

(b) that the main Operations and Information Room be located at the headquarters of the Deputy Director of Operations.

D. Auxiliary Intelligence Instruments

1. Propaganda and Information Department
   (Information Department, Film Unit, Public and Press Relations, Radio, etc.)

   This Department is in a confusion of divided loyalties and responsibilities and must be entirely reorganised under one head. At present it is inefficient. The vernacular press is
ill served by it. The Film Unit, whilst possessing 63 mobile vans and a film studio, has so far failed to produce any propaganda films of importance. Because Dato Onn is the Member in Charge of these services, reorganisation may prove difficult, but such is the importance of this weapon that means must be found for undertaking complete reorganisation under one chief who is a trained propagandist.

2. Special Emergency Information Department

This deals with psychological warfare and is under the control of the Deputy Director of Operations. It does good work in straight propaganda. It is short of staff, makes use of Chinese Affairs Department staff half-time at lower levels or borrows staff from the Information Department proper.

3. "Black" or Counterfeit Propaganda Department

This Department hardly exists, but could do useful work. Its chief concern is the sporadic production at long intervals of a bogus Communist newspaper. The Department is very much understaffed. Occasional hours are devoted to it by the head of the Special Emergency Information Department. It employs one Chinese cyclostyler full-time and enjoys the part-time co-operation of one Chinese literary expert.

4. Subversive Activities (Military)

This Department existed for a short time but was abandoned. It could do useful work with suitable staff.

Recommendations:

(a) the whole information and propaganda machine must be drastically reorganised and put under one head, who is a propagandist;

(b) the film studio must be reorganised for the production of local propaganda films;

(c) the present Special Information section should perhaps be removed from the Deputy Director of Operations to the general Propaganda and Information Department while the new chief of
the whole Propaganda Department creates an efficient liaison between himself and the Deputy Director of Operations; and

(d) the Black Propaganda Department and the Subversive Activities Section should be increased, given expert chiefs and placed under the control of the Director of the Intelligence Bureau to the Deputy Director of Operations.

CONCLUSION

Until the Regular Police are re-trained as policemen and until all Police Branches have a complement of Chinese personnel, progress in intelligence work will remain patchy and haphazard. At present it is only the information got from the bodies of dead bandits or from prisoners which saves the face of our Intelligence Services. If the Malayan Communist Party decided to become clandestine and concentrate on political action, the intelligence canvas would be blank indeed.

The existing instrument of police intelligence is inadequate. It must be developed.

II SUBVERSIVE ACTIVITIES

It is suggested that a special subversive section should be set up under the Deputy Director of Operations, with one or two units in the field. For political as well as security reasons it is important that such a section should be secret and under his personal control.

Recommendations:–

(a) a subversive section to be placed under the direct command of the Deputy Director of Operations;

(b) the Deputy Director of Operations to submit an establishment for such a section; and

(c) suitable persons to be recruited for it in Malaya and the United Kingdom.
III

DECEPTION TACTICS

One of the major assets of the Communists is undoubtedly their local intelligence services. This strength might be turned against them, and their own intelligence network used to feed them with false information. This can be done only in the Districts as the enemy have now streamlined their command down to companies and Platoons. This disadvantage is, however, almost outweighed by the fact that in the nature of things bandit maquis or guerilla forces are vulnerable to rumour and liable to exhaust themselves in the panic to which that leads.

Deception should be organised with the chief objects of:

1. discrediting the bandits' sources of intelligence in the Min Yuen by the infusion of information soon proved to be false or valueless; and

2. harrying the bandits by spreading signs and rumours which will force them to keep on the move.

These steps may not result in killing bandits but by intensive deception the morale of individual units in desperately tough country can be profoundly shaken if they are constantly kept on the move.

Recommendations:

(a) that this matter be considered by the Deputy Director of Operations;

(b) that, if he is agreeable, a small expert cadre from the United Kingdom be put under his command; and

(c) that a school for local army and police officers be opened at his Headquarters.
TERMS OF EMPLOYMENT OF BRITISH OFFICERS
AND OTHER RANKS POSTED OR SECONDED FOR
SERVICE WITH THE MALAY REGIMENT

1. The type of British officer so far being obtained for the Malay Regiment is not up to the standard required to maintain British prestige. It has been represented to me that this situation has arisen as a result of difficulties in the conditions on which British officers are assigned for duty with the Regiment.

2. At my request I was given the annexed memorandum on the question at issue between the Federation Government and the War Office.

3. This discloses a system which should not be accepted. It is therefore necessary that the whole matter should be urgently re-examined and I propose to discuss it with the Secretary of State for War early in the New Year.
MEMORANDUM

1. It is accepted by the War Office that the system of posting British personnel to the Malay Regiment is not sound. As long ago as November, 1949, the Colonial Office said "Though the War Office have power to post officers and men compulsorily for service under Colonial Governments they are not prepared to make a regular practice of this, but only to do it temporarily to prevent the breakdown of a Force through lack of volunteers. The present rates of additional pay have not been in operation very long. If they do not produce sufficient volunteers it will be necessary to review them irrespective of whether officers and men are provided by formal secondment or on loan as at present."

2. The Regiment is at present about 40 officers below strength and no officers are yet available for the 6th Battalion or for any further expansion beyond that Battalion. Special additional pay has recently been authorised to encourage officers to volunteer. This additional pay, which will presumably be subject to United Kingdom tax, was authorised without reference to the Federation Government and there are a number of points which are not clear. G.H.Q. FARELF have been asked to state how they propose to interpret the War Office instructions.

3. Other points which affect the position are:-

(a) Secondment or posting. The War Office seem to have abandoned the idea of secondment, presumably because there are few if any officers prepared to be seconded on present terms of service. The Federation has always pressed for definite secondment terms which would assure the Federation of the services of officers for definite periods and also incidentally permit the introduction of certain obligations on the part of the officer. For example, before the war officers were required to qualify in Malay within a given period. There appears to be no reason why a clause should not be included in terms of secondment to the effect that normal British service conditions would apply should circumstances at any future time
necessitate the assumption of responsibility for the Malay Regiment by the Army Council.

(b) Income Tax. If secondment terms were re-introduced officers would be paid directly by the Federation Government and liable to pay the local and not United Kingdom income tax. In May, 1949, the Federation reluctantly agreed to accept the proposal that British personnel serving with the Regiment should draw their emoluments from British Army funds and should be liable to pay United Kingdom income tax.

(c) Housing. Apart from the severe shortage of accommodation (Government or Army) which in any case deters officers from volunteering, there is a fundamental divergence of opinion between the War Office and the Federation Government as regards the housing arrangements. The Federation view is that officers should pay the Federation Government rate for the class of quarters occupied. The War Office fear (quite unnecessarily in present circumstances) that this will mean the granting of preferential treatment to officers and other ranks serving with the Malay Regiment over those serving with British Regiments. The War Office therefore consider that "to avoid complications likely to arise" entitlement to quarters should be based so far as is possible on British Army scales and rent charged at current British Army rates for unfurnished quarters. In practice the Federation view has been adopted.

(d) Passages. Although in the original conditions of service put forward by the Federation Government in August, 1948, it was proposed that British personnel should be granted free passages for themselves and their families in accordance with regulations in force for other British Army personnel serving in Malaya, the Commandant has recently recommended that British personnel posted or seconded for service with the Regiment should be permitted to travel to and from Malaya by civilian passenger steamers. It is understood that the War Office rarely grant this privilege to officers and other ranks who would normally travel by troop-ship because a passage by troop-ship is cheaper than one by passenger liner.
(e) Leave. The Federation has proposed that the Government leave regulations applicable to expatriate officers should be applied to British Army personnel serving with the Regiment. The War Office is not prepared to accept this, stating that "it would be detrimental to the individual's health if he were permitted to accumulate terminal leave at the expense of his annual leave".

(f) Inter-tour leave pay. Early this year the War Office informed G.H.Q. FARELF that officers who wished to return for a second tour must revert to the home establishment with effect from the date of embarkation from Malaya. Prior to this ruling officers who proceeded on leave between tours were retained on the pool establishment of the Regiment. This permitted them to continue to draw language pay, additional pay, pay of temporary rank if held and, for a period of 61 days, local overseas allowance. Under the War Office ruling, such officers lose language pay, additional pay and local overseas allowance with effect from the date of embarkation and may only, as a concession, receive pay of temporary rank for 61 days from the same date. It is believed that instructions have been issued permitting officers serving with the RWAFF to draw additional allowances during periods of inter-tour leave.
DETENTION AND REPATRIATION

1. The Federation Emergency Regulations provide for detention under two separate sections. Under Section 17(1) individuals may be detained for a period not exceeding two years. Anyone detained under this Section has the right to object to the detention order. If he does so his case is considered by a Committee of Review. People detained under this Section may also ask for their cases to be reviewed by the Chief Secretary after they have been in detention for 18 months.

2. Under Section 17D detention orders can be made covering all the inhabitants of a stated area, or one or more of those inhabitants as may be named, if the High Commissioner believes them to be guilty of having helped the terrorists, or of having failed to disclose information to the police. There is no right of appeal against detention orders made under this Section.

3. Persons detained under either Section may be deported from the Federation, provided that they are not Federal citizens or British subjects born in Malaya.

4. The numbers of persons detained under these Sections are:

<table>
<thead>
<tr>
<th></th>
<th>Reg. 17(1)</th>
<th>Reg. 17D</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Total number of persons detained for more than 28 days at any time since the start of the Emergency</td>
<td>25,641</td>
<td>10,118</td>
<td>35,759</td>
</tr>
<tr>
<td>(b) Total number repatriated to China</td>
<td>11,261</td>
<td>879</td>
<td>12,140</td>
</tr>
<tr>
<td>(c) Total number still detained (December 1951)</td>
<td>6,341</td>
<td>2,263</td>
<td>8,604</td>
</tr>
</tbody>
</table>

Of the 25,641 persons detained under Regulation 17(1), 22,667 were Chinese, 1,753 Malays and 1,099 Indians.

5. At my second meeting with the Conference of Rulers on the 16th December it was agreed that up to 5,000
detained persons might be sent to an island off the coast of North Borneo. It is accepted that they cannot stay in North Borneo permanently and must ultimately be re-absorbed in Malaya or repatriated to China. Their final disposal may cause difficulty and the establishment of camps in North Borneo will be expensive, but it is considered necessary to accept these disadvantages to give some satisfaction to the Malays, who have pressed strongly for the removal from Malaya of as many Chinese as can be expelled. A survey team will be sent to make the necessary arrangements in North Borneo.

6. I have repeatedly impressed upon the authorities in Malaya the need for using either Section 17(1) or Section 17D only with the greatest circumspection. I am addressing a memorandum on this subject to the Officer Administering the Government of the Federation and shall impress upon him the great need for releasing with the utmost speed those who, after examination, are found to be guiltless. Section 17D may no doubt have to be used occasionally but it is a measure of Draconian severity and the authorities must be very sure of their ground before applying it.
I append a memorandum which I have had from the Government of the Federation of Malaya.

I am not satisfied that the present system works satisfactorily. I am told that, under the first National Service Bill, the Police were swamped with directed men and that the call-up was therefore stopped. This has of course led to inexplicable anomalies and injustices.

I am addressing a note to the Federation Government to ascertain whether my information on this is correct and whether, if more men are likely to be called up than are required, the Government will consider introducing some kind of ballot.
MEMORANDUM

1. Under the Emergency Regulations men aged 18 to 23 inclusive are at present directed into the Federation Police Force.

2. Monthly requirements, based on police training facilities, have been met throughout 1951. There has been a concurrent increase in the voluntary recruitment of Malays. Prevention of widespread evasion, chiefly by Chinese, has proved impossible because registration was not introduced simultaneously in all parts of the Federation, let alone Singapore, and because certificates of registration were not issued.

3. The scheme will run down early in 1952, when, it is estimated, 5,000 men will have been directed, including 2,500 Chinese, against the initial request for 6,000 (i.e. to give one Chinese in ten in the Police.)

4. In concert with the Singapore Government, which has agreed that the Federation's Comptroller of Manpower should in war be Comptroller for Singapore, too, twin National Service Bills are now being drafted, which will provide for registration of all men aged 18 to 54, and for direction for (a) Local Forces, (b) Police Force, (c) civil defence forces, (d) labour.

5. There will be no mention in the Bills of exemption of aliens. This is essential since a high proportion of the Chinese population are neither British subjects nor Federal citizens. Exemption of aliens from particular types of service flows from the legislation governing the Forces; and similar procedures concerning, for example, U.S. citizens and Dominion subjects, will be ironed out administratively, as has been done successfully over direction into the Federation Police Force.

6. Industry of all races has been consulted and Advisory Manpower Committees set up. They will report to the Malayan Manpower Sub-Committee, which is also responsible for examining bids for manpower. Present information suggests that Malaya may be unable to meet Service requirements for European officers, skilled men and technicians.

7. The new legislation will be introduced into the Legislatures early in 1952 and the machine tested.
over two age groups, to meet requirements in the Federation for further police and in Singapore for the Local Forces.

8. Major legislative difficulties which may be possible of solution only by Defence Regulations are (a) direction in one territory for service in the other and (b) direction into His Majesty's Forces otherwise than by the expedient of initial direction into the Local Forces.

9. The major practical difficulty is prevention of evasion. It would become minor with Chinese co-operation, which the Chinese allege would be forthcoming if (a) police pay was increased and (b) after completion of service a directed man automatically became a Federal citizen.
Tax Evasion

1. There is widespread evasion of income tax in Malaya, mainly because of the peculiarities of Chinese accounting and book-keeping and of the shortage of expert income tax staff. The main burden of taxation therefore falls upon the European commercial and official community and the Chinese pay far less than their due share. The result is that the whole system of taxation is in danger of being brought into contempt. The political dangers of this are obvious.

2. It is estimated that at least 20% of trading profits escape tax by reason of deliberate evasion, and the figure may well be much higher.

3. Evasion by the Chinese is roughly of two types:

   (1) The simple type, which probably includes 90% of Chinese traders. Here the trader, who probably does not know his actual profit, under-estimates his income without any deliberate intention to defraud. His conception of income is what is left after he has lived out of his business.

   (2) The second type of evader is the wealthier Chinese trader. This type, with an income of anything over £6,000 a year, practises deliberate evasion of a kind most difficult to detect.

4. The only way of dealing with the latter type is to have a staff of qualified experts engaged full-time on the investigation of these complex cases. Successful prosecutions would no doubt have a salutary effect on other persons engaged in similar malpractices, but thorough investigation of the affairs of such a taxpayer may extend over many months. At present there seems very little prospect of engaging permanent officers for this work but a start could be made by sending a small team of experts to Malaya for long enough to give such advice as would make it possible to bring two or three exemplary prosecutions. The formation of such a team is now being taken up urgently with the Treasury and the Board of Inland Revenue.
FINANCIAL DEVOLUTION

1. Under the Federation of Malaya Agreement of 1948 there is already considerable financial devolution by the Federal Government to State Governments. This is accompanied by annual block grants from Federal revenue.

2. Further devolution of financial responsibility to local authorities would, however, help in the prosecution of the campaign against the bandits, and at my request arrangements for it are now being examined by the Federation Government.
EXTENSION OF SERVICE BEYOND RETIRING AGE.

1. The age at which an officer in Government Service is required to retire is 55 years. There are probably a number of competent officers who would be willing to continue to serve beyond that age and who would still be sufficiently fit and active to do good work.

2. The Federation Government has been asked to examine the possibility of encouraging selected officers to continue to serve after they have reached the age of compulsory retirement.

3. I have also asked the Federation Government to comb out of office jobs as many trained and experienced officers as possible for work "on the ground".
24TH DECEMBER, 1951.

CABINET

FOOD IMPORTS IN 1952

Memorandum by the Lord President of the Council and the Minister of Food

To meet the immediate financial emergency, the Chancellor of the Exchequer has had to impose cuts on the imports of food of £170 millions. We recognised and accepted the necessity for this: but we must ask the Cabinet to affirm the view that this is an emergency measure and one that must be of as short duration as possible.

2. Every effort will be made to provide the maximum quantities of grain and meat and fruit from our own soil. We are dependent upon other countries for at least half of our food - and, of course, our trade with these countries depends on our importing as well as exporting.

3. We do not believe that the country can for long be contented and vigorous on the present and reduced import programme of food.

There is much that to our way of thinking is wrong with our present food policy.

4. First, our present policy sets definite limits upon the food we are able to get, which is not as much as the country needs: we are fixing buying prices for some products, e.g. meat, butter and cheese, which are below world prices, and hoping that we shall be able to get enough to meet our slender rations mainly from our Dominions in return for long term contracts.

5. The result is not good, and in the end does not produce the goods we need. We maintain large staffs to carry out a policy of rationing - meanwhile when open general licences are granted we find private traders able to buy foods and to sell at prices which are certainly assisted by our subsidy policy.

6. We believe that we must disentangle the present system of Government buying, taking it stage by stage according to the conditions of supply and our capacity to finance a full diet free from Government control.

7. The following proposals indicate some of the steps we might take as a beginning:-

(i) The Ministry should submit a plan for derationing tea. The present overall consumption of tea is about 2 1/3 ozs. per person per week on the average. We should probably require 3 ozs. in a free market.

We believe that supplies are available in the sterling area if we are prepared to pay higher prices. The present subsidy on tea is £15 millions a year - 8½d per lb. To achieve a free market this would have to go. We believe that in the short run there would be a
considerable rise in prices but that the demand for the better quality teas would absorb a considerable part of the extra cost and that the lower qualities would not rise in price proportionately.

We would have to increase our imports of tea by possibly 80 millions to 100 millions lbs. per year, at a cost, including higher prices in the short run for present supplies, of about £40 - £50 millions.

(ii) We believe that we could increase our meat supplies by allowing the meat traders to buy meat offals in a free market overseas. Such offal would not be cheap in the early stages of the scheme, but within a year we should find the prices reduced – and maybe from this start we could get back to competitive buying for meat supplies other than offal.

Such offals would be an additional supply and, of course, unrationed.

The Chancellor could fix the figure to be made available for this purpose. We cannot get more meat without paying for it.

We have reason to suppose that some of the countries that have favoured Government selling organisations for meat, would welcome this halfway step towards a free market.

(iii) The present system of sugar rationing with special organisation for giving bonuses is expensive and irritating, both to the public and to the Government. There is probably enough sugar in the world for us to give up rationing, if we were allowed to import what we need: initially something like 850,000 tons would be needed from dollar sources, at a cost of some £36 millions. Not only could we dispense with sugar rationing but also with sweet rationing. All sugar confectionery should be free from both price control and rationing and forced to find the proper economic price: that doubtless would reduce the demand.

The abandonment of rationing for tea, sugar and confectionery would save labour centrally and locally.

(iv) We want to bring to the notice of the Cabinet the position regarding feeding stuffs. These are generally in short supply. Before the war merchants used to import about 8 million tons a year; this was at a time when we could buy from other countries all the meat and eggs and poultry we wanted. Now when we are very short of these things we import only 3½ million tons of feeding stuffs as such. This reduction it must be noted occurs when we are unable to buy as much meat and eggs as we need even if we had the currency to pay for them. The Treasury fix the amount of the feeding stuffs pool – which includes home-grown feeding stuffs – at 5½ million tons, and thus make it inevitable that our home production of meat and eggs will be less than the maximum our land is capable of producing.

We can considerably improve on our present pig production and we can add to our supplies of poultry and eggs if we can buy more feeding stuffs.

We could get some extra quantities of feeding stuffs both from dollar sources, if we had the currency, and from non-dollar sources at high prices – the available quantities over the next twelve months are estimated at about 500,000 tons.
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We could get some extra quantities of feeding stuffs both from dollar sources, if we had the currency, and from non-dollar sources at high prices - the available quantities over the next twelve months are estimated at about 500,000 tons.
Concurrently we are making every effort to grow more feeding stuffs at home.

(v) The Ministry should work out plans in consultation with the Agricultural Departments for derationing eggs and cheese.

8. We do not ignore the difficulties, particularly in the short run, in the field of prices, wages, subsidies, both to consumers and home producers, and purchasing power. But we submit these views to our colleagues as an indication of our approach to the problems of food supply and with a plea for some financial latitude to enable us to buy more food, to release the people from some of the present controls and to fulfil our Election promises regarding food policy.

24TH DECEMBER, 1951
ASSISTED PASSAGE AGREEMENT WITH AUSTRALIA

Memorandum by the Minister of Labour and National Service

The Secretary of State for Commonwealth Relations has raised again the question whether we should put an end to our obligation to pay up to £500,000 a year under the Assisted Passage Agreement with Australia.

2. To do so would save money but there are disadvantages which I ought to point out to my colleagues before a decision is made. Our policy should, I assume, be to help the Commonwealth to get emigrants from Great Britain but at the same time to avoid losing too much man-power of particular types of which we stand in need, e.g. in the coal mines, brickyards, farms, foundries and engineering workshops.

3. By the terms of the existing agreement, under which the payment is made, my Department has a recognised right to intervene. This takes the form of scrutiny of Australian publicity material, of consultation about recruitment programmes especially for types of man-power in short supply, of examination of individual applications for passage assistance and of a detailed analysis of workers who are given passages under the scheme. If the agreement were ended, this right would be lost.

4. Australia's power of attracting our people shows no sign of diminishing. In 1948, the figure of British migrants she received was 34,445; in 1949 the figure increased to 53,059; in 1950 it was 54,104; and in the first half of 1951 it was 32,858. Approximately two-thirds of these migrants have had Government assistance, and it is estimated that more than half the "breadwinners" (as distinct from families and dependants) have been skilled workers. The potential impact, therefore, of Australian migration policy on our man-power, not only in the skilled categories but in important unskilled categories, would, in the absence of some form of reasonable control, be sharp and hard to resist.

5. At present we can make our wishes known and these wishes must be respected by the Australians if the benefits of an agreement which they greatly value are to continue. Now we hear that the Australians mean to be more selective. They are to concentrate on single men who are skilled workers in the engineering, electrical and metal trades and, if possible, on coal miners. If this agreement goes, it will be difficult to control this trend. Our experience with the Canadians, with whom we have no agreement, illustrates this; they are at present extending their migration operations in this country and we may have to face more determined and selective recruitment of our man-power from them also.

6. I hope, therefore, that my colleagues will weigh the advantages of going on with the agreement against the comparatively modest economy which could be effected by ending it.

Ministry of Labour and National Service,

24TH DECEMBER, 1951.
ASSOCIATION OF THE UNITED KINGDOM WITH THE EUROPEAN DEFENCE COMMUNITY

Memorandum by the Secretary of State for Foreign Affairs

In the communique issued at the close of the talks which the Prime Minister and I had with members of the French Government in Paris on the 17th and 18th December, it was stated that -

"His Majesty's Government will associate themselves as closely as possible with the European Defence Community in all stages of its political and military development.

The United Kingdom forces under the direction of the Supreme Allied Commander in Europe will be linked with those of the European Defence Community for training, supply and operations by land, sea and air."

2. The French, German, Italian and three Benelux Foreign Ministers are meeting in Paris from the 27th December onwards in an attempt to resolve their differences about the European Defence Community. Assuming that they succeed and that an agreement is in sight, it will be desirable for us to define in more detail the form of our association with the European Defence Community. The suggestions set out in the Annex to this paper have been agreed between the Foreign Office and the Chiefs of Staff. The next step would be to put these suggestions to the French Government and to say that, if agreeable to them and the other Governments participating in the Paris Conference, His Majesty's Government would be disposed to formulate these suggestions in a declaration which might at a suitable moment be made public. The suitable moment would probably be after the signature of the six-Power agreement and before its submission for ratification to the six national Parliaments concerned.

3. I ask for authority from my colleagues to make an approach on these lines at an appropriate moment to the French Government, if the results of the present six-Power meeting in Paris warrant it.

A. E.

Foreign Office, S. W. 1,
29TH DECEMBER, 1951.
ANNEX

RELATIONS BETWEEN THE EUROPEAN DEFENCE COMMUNITY (E.D.C.) (IF ESTABLISHED) AND THE UNITED KINGDOM

His Majesty's Government might offer to take the following steps:

1. To associate themselves with any suitable machinery that may be set in order to supervise the general political common interests of the E.D.C. and the United Kingdom in means of European defence;

2. To associate themselves with any suitable machinery that may be set up for permanent consultation between the United Kingdom Chiefs of Staff and the equivalent military authorities on the E.D.C.;

3. To undertake that the United Kingdom forces on the Continent shall, subject only to the requirements of SACEUR, operate as closely as possible with the E.D.C. forces, and shall be tied up with them as far as possible in matters of training, administration, supply, etc.;

4. To accept at once individuals, units or formations, of the E.D.C. for training with British formations in Germany and elsewhere and, in addition, to lend British officers and units, where this is administratively possible, to E.D.C. formations. This might well be easier to develop in the Air Force than in the Army; for example it may well be practicable to integrate European Air Force Wings into British tactical Air Force groups; we should be ready to examine this possibility;

5. To declare that in war SACEUR has authority to allot British formations as he thinks best in the light of the military situation at the time; this authority includes that of placing British formations under command of a E.D.C. Commander if convenient. To declare further that in peace we would make British formations temporarily available for training with European Defence Forces under the overall command of SACEUR;

6. To declare that it is the intention of the United Kingdom to maintain armed forces on the Continent for such time as she deemed necessary having regard to the requirements of the European Defence Community and the United Kingdom's special responsibilities in Germany.