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16TH SEPTEMBER, 1952

CABINET

JAPAN'S APPLICATION TO ACCEDE TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Memorandum by the President of the Board of Trade

In E.A. (52) 110, I sought authority for lodging objection to the use by Japan of an intersessional procedure under which tariff negotiations could be held between contracting parties to the General Agreement on Tariffs and Trade (G.A.T.T.) and newcomers as a preliminary to the accession of the latter to the G.A.T.T. That authority was given on 30th July (E.A. (52) 23rd Meeting, Minute 6). I pointed out in E.A. (52) 110 that, even if a sufficient number of such objections were lodged, this would secure only a short deferment as the question of her application to enter into tariff negotiations with a view to accession would then fall to be discussed at the Seventh Session of the contracting parties in October and that we should then have to decide what attitude the United Kingdom should adopt on that occasion towards the application.

2. This stage has now been reached. The United Kingdom, Australia and New Zealand voted against the use of the intersessional procedure. Three votes were necessary to secure that Japan's application should be deferred for discussion at the Seventh Session. We have, therefore, been successful in our immediate objective. France, Norway and the three Benelux countries replied to the Secretariat of the G.A.T.T. to the effect that, in their view, the Japanese application should be referred to the Seventh Session; the Secretariat would have regarded the replies as votes against the use of the intersessional procedure if three clear votes had not been cast in any event against its use.

3. Before coming to the question of our line of action at the G.A.T.T. session, I should indicate briefly the practical effects which would follow if, as a result of Japan's being admitted to membership of the Agreement, we and the other existing parties became obliged to accord to her the treatment provided for by the terms of the Agreement as they at present stand. The main effect would be that all countries members of the G.A.T.T. would be under an obligation to give most-favoured-nation treatment to Japanese trade. This gives rise to special difficulties in regard to Commonwealth trade, which are explained below, but it is also a general difficulty for us that foreign countries will be driven to raise their tariffs in order to protect their own industries against Japan and that because of the most-favoured-nation Article our exports will suffer from these measures. All countries whose exports are vital to their economy will no doubt be sensitive to this point. We are probably the country that will be most affected because Japan's exports and ours are competitive over such a wide field. It would seem impossible to find any solution to this problem without allowing open discrimination against Japan, and it is evident that few other countries are prepared to deny most-favoured-nation rights to Japan.

4. It is, therefore, all the more important that we should try to find a solution to the special problems that would be created for Commonwealth trade by Japan's accession to the G.A.T.T. The grant of most-favoured-nation rights
to Japan by the countries of the Commonwealth would matter less if, as in pre-war
days, all of us in the Commonwealth were free to take, without any effect on the
duties which we charge on one another's goods, the alternative course of raising,
in respect of those classes of goods in which Japanese competition is acute,
the duties applicable to imports of such goods from all foreign sources. But
the position is now quite different in that, under the "no new preference rule" of the
G.A.T.T., Commonwealth countries are not free to raise the duty on foreign-
made imports of any class of goods without increasing correspondingly the rate
applicable to British goods. Thus, for example, if Australia were obliged to
give Japan the treatment provided for in the G.A.T.T. in order to give her own
cotton textile industry increased protection against Japanese textiles she would
have not only to increase the import duty on cotton textiles from all foreign
countries, but also, in order to comply with the no new preference rule, to
increase equivalently the preferential duties on our cotton textiles; and the same
would apply elsewhere in the Commonwealth. It is primarily this effect of the
no new preference rule of dragging up British preferential rates when Common-
wealth countries raise their general tariff rates that makes the question of
Japanese admission to G.A.T.T. so difficult for us. I may mention in this
connection that the Chairman of the Cotton Board, in discussion with my
Department, is now strongly pressing the view that, since Lancashire cannot
rely on the indefinite continuance of quota restrictions, either in the independent
Commonwealth countries or in the Colonies, as a means of protection against
the competition of Japan, it is essential to make the strongest effort to obtain,
as an alternative, substantially larger tariff preferences in these markets
over Japanese goods.

5. It is evident that we could not willingly permit the coming about of
such a situation, in which the whole Commonwealth would be bound hand and
foot not to raise duties against cheap Japanese goods save by means which would
gravely injure intra-Commonwealth trade as a whole and in particular our
export trade to Commonwealth markets. It is true that there exists Article XXXV
of the G.A.T.T., which would enable us in respect of the United Kingdom and
the Colonies, and the other Commonwealth countries in respect of their own
territories to contract out of all obligations under the G.A.T.T. towards Japan.
But it is certain that India, Pakistan and Ceylon would not exercise this right.
Nor on the whole is it probable that the older Dominions would do so; they and
other countries are likely to feel that, if Japan is to be invited into the G.A.T.T.,
the members should be prepared to give her the benefits of the G.A.T.T. The
existence of Article XXXV does not therefore materially ease for us the
difficulties which, essentially as a result of the no new preference rule, the
accession of Japan to the G.A.T.T. would create for our export trade.

THE PROBLEM AT THE SEVENTH SESSION

6. The question at issue at the Seventh Session will be whether Japan
should be regarded as an acceptable candidate for accession and, if so, when
and where tariff negotiations between her and those contracting parties who wish
to negotiate with her should be held. This issue is for decision by a simple
majority vote. Whatever the decision, a contracting party which did not wish to
negotiate with Japan could not be obliged to do so. If the decision at the
Seventh Session is favourable to Japan, the contracting parties will consider
later, in the light of the results of the tariff negotiations, whether Japan should be
allowed to accede: at that stage Japan will need the affirmative votes of two-
thirds of the contracting parties in order to accede. If these votes are obtained,
it will then be for any country which has not entered into tariff negotiations with
Japan to decide whether to invoke Article XXXV of the General Agreement and
thus to refuse to bind itself to apply the Agreement to Japan.

LIKELY ATTITUDE OF OTHER COUNTRIES

7. The attitude of the United States has changed since I consulted my
colleagues in E.A. (52) 110 and now appears to be as follows. They are likely
to sponsor a resolution which would welcome the application of Japan to enter into
tariff negotiations with a view to accession and are likely to resist any attempt
by other contracting parties to reject the Japanese application during the October
Session. As already explained, if the matter were pressed to a vote, they
would only need to obtain the support of a bare majority of the contracting
parties. They could count on the support of the Asiatic countries (India,
Pakistan, Ceylon, Burma and Indonesia) and they may well be able to influence
the Latin American countries (Brazil, Chile, Cuba, the Dominican Republic,
Haiti, Nicaragua and Peru) to vote on their side. The U.S.A. will, moreover,
get support from European countries. Sweden is anxious to enter into tariff
negotiations with Japan; the attitude of Denmark appears to be similar.
Germany, Italy, Turkey and Czechoslovakia have stated that they had no objection
to the use of the intersessional procedure. France has indicated that she
would not formally oppose the accession of Japan but would make it clear that
she would not herself grant most-favoured-nation treatment to Japan. Even the
non-Asiatic Commonwealth countries are probably not united in opposition to
the accession of Japan; South Africa did not object to the use by Japan of the
intersessional procedure although she does not intend to enter into tariff
negotiations with Japan. (Canada did not vote against the use of the intersessional
procedure apparently because she found that three votes had already been cast
against its use.)

COURSES OPEN TO THE UNITED KINGDOM

8. Clearly our delegation at Geneva should in the first place see whether
they can persuade the United States and a majority of other countries effectively
to postpone a substantive decision. But it is virtually certain that the United
States will reject a course involving overt delay and that we shall have to deal
with a resolution definitely agreeing to Japan's entering into tariff negotiations
with other countries with a view to acceding to the G.A.T.T.

The line that our Delegation at Geneva should take on such a Resolution
has been discussed with Foreign Office and Treasury officials. It is common
ground that we should have to make it plain that, in our own case, the question of
Japan's accession raised special and difficult problems. Our delegation should
refer to the fact that Her Majesty's Government in the United Kingdom are
currently reviewing their whole commercial policy; they should indicate in
general terms that the question of Japanese accession (for the reasons given
in paragraphs 3 and 4 above) presents especial difficulties for us so long as
Commonwealth trade is subject to the rigidities and inhibitions of the no new
preference rule, and that unless these difficulties can be smoothed out by a
change in the rules we shall not ourselves enter into tariff negotiations with
Japan and it might be necessary for us to invoke Article XXXV.

10. The view of Foreign Office and Treasury officials, I understand, is that
having made our own position clear in this manner, we should not oppose the
resolution, nor even abstain from voting on it, but should vote for it. They
consider that as our abstention would be quite ineffective we should be incurring
Japanese ill-will to no purpose, whereas a positive vote for the resolution, even
though we had made the reservation described in paragraph 9 would have some
positive value in our relations with the United States and Japan. They suggest
furthermore that in exchange for our support we might be able to secure that
the resolution was in a form which required Japan's tariff negotiations to be
carried out at a full tariff conference of the contracting parties (an arrangement
which would probably delay the negotiations until late in 1953).

11. I consider that it would not be consistent on our part to make a
statement about our difficulties as described in paragraph 9, and then to vote for
a resolution designed to facilitate Japan's accession. Nor could we do so without
incurring violent criticism from the Lancashire cotton industry and from our
other industries which are looking to us to do the little that we can to help them over the problem of Japanese competition in their export markets. A vote for such a resolution will be taken by most people in this country to mean quite simply that we want Japan in the G.A.T.T. with all that that implies. No technical explanations or excuses about the various stages of admission or escape clauses are likely to alter this opinion. Our industries look to the Government to give a lead to other Governments and especially to Commonwealth Governments to refuse to commit themselves to giving most-favoured-nation rights to Japan. In this country it will appear the worst weakness to have voted in favour of a resolution which is bound to lead to the difficulties about which we will have warned the other contracting parties in our statement. I, therefore, recommend that having made our position clear we should abstain from voting on the resolution.

12. If we proceed on this basis in the G.A.T.T. discussions, we should, I recommend, continue as hitherto to say in public in the United Kingdom that it continues to be our policy not to commit ourselves to giving most-favoured-nation rights to Japan. We are, it is true, continuing to give her most-favoured-nation treatment, but we actually restrict imports from her severely for balance of payments reasons. For convenience, I attach details of statements on this subject by the previous Government and my own statement. To support Japan's application by our vote at the forthcoming session of G.A.T.T. would be in reality, and still more in appearance, an important step towards securing for her a guarantee of most-favoured-nation rights and would not be, at any rate easily, reconcilable with my own statement in the debate on the Japanese Peace Treaty. It appears moreover from statements of the previous Government that we would be quite likely to be attacked for such a course from the left flank as well as from the right.

13. I therefore recommend that -

(i) Our Delegation at Geneva should explore the possibilities of securing a delay on the lines described in paragraph 8 above.

(ii) If our Delegation is unable to secure such a delay, they should make a statement of our difficulties as described in paragraph 9 and abstain from voting on the resolution.

(iii) In public statements we should continue to say that it remains our policy not to commit ourselves to give most-favoured-nation rights to Japan.

(iv) This course of action should be discussed with other Commonwealth countries' officials at the pre-G.A.T.T. discussions next week.

P. T.

Board of Trade, S. W. I.,

16TH SEPTEMBER, 1952.
ANNEX

DETAILS OF GOVERNMENT STATEMENTS (see paragraph 12)

1. In answer to a Parliamentary Question from Mr. Anthony Greenwood on the 19th March, 1951, the then President of the Board of Trade, Mr. Harold Wilson, included in his reply the following sentences:

"His Majesty's Government have carefully considered whether they could take the step of entering into a formal undertaking... to extend most-favoured-nation treatment to Japan, and they have decided that in all the circumstances they should not enter into such an obligation."

"...His Majesty's Government will continue to accord to Japanese goods the benefit of the most-favoured-nation tariff, but it would be unwise for us to tie our hands in any way until the future course of the Japanese economy and of Japanese commercial policies have become more clearly established."

2. In a supplementary reply to a Parliamentary Question by Mr. Assheton on 26th July, 1951, the then President of the Board of Trade, Sir Hartley Shawcross, said:

"We have made it quite clear that we can give no undertaking to extend most-favoured-nation treatment to Japan in the future."

3. At the opening of the Geneva Session of the Contracting Parties on 19th September, 1951, the then President of the Board of Trade, Sir Hartley Shawcross, said that if Japan applied for full membership of the G.A.T.T., Britain would have seriously to consider whether she could extend to her obligations already extended to the original members. He went on to say that the question of Japan being admitted as a member of the G.A.T.T. had not yet arisen, and "at present, we have no intention of granting her most-favoured-nation rights."

4. On 25th November, 1951, on winding up the debate on the second reading of the Japanese Treaty of Peace Bill, I made the following statement:

"I was asked... what our attitude would be about most-favoured-nation treatment. My answer is that to-day we extend most-favoured-nation treatment to Japan, but we are under no obligation to do so under the Treaty that we have signed, nor will we tie ourselves to do so because it would, in these circumstances, be unwise, with the future as uncertain as it is. The truth is - and I would say this to those who attack us - that this country is free to impose quotas, to put on tariffs or to discriminate against Japanese trade coming into this Island."
The attached paper (C. (52) 302, Japan and the General Agreement on Tariffs and Trade) will be considered at tomorrow's meeting of the Cabinet under Item 2.

Cabinet Office, S. W. 1.

17TH SEPTEMBER, 1952.
CABINET

JAPAN AND THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Memorandum by the Minister of State

While the course of action proposed by the Prime Minister of the Board of Trade in his memorandum (C. (52) 301) will be less harmful than if we were to vote against Japanese admission to the General Agreement on Tariffs and Trade (G.A.T.T.), there is no doubt that it will be interpreted, in view of our past attitude, by Japan, U.S.A., and other countries as evidence of our continued distrust of Japan and of our desire to delay her accession to G.A.T.T. and if possible, to prevent it. It will accordingly amount to a severe blow to the standing of post-war Japan, will cause resentment in U.S.A. and will increase the temptation to Japan to resort to her pre-war "unfair" trade practices which are more to the disadvantage of the United Kingdom than to that of any other country.

2. The negative policy represented by abstention is, in the view of the Foreign Office, open to the following objections:

(a) It will not delay or prevent the accession of Japan and will be seen in Japan as a fruitless gesture, which would accentuate our weakness in their eyes.

(b) It will not assist British industries to compete with Japan nor serve any useful economic purpose.

(c) It will cause resentment in Japan and may therefore endanger negotiations with Japan in which the United Kingdom has more to lose or gain than the Japanese, particularly those dealing with the status of British Commonwealth Forces in Korea and with sterling area payments.

(d) It will tend to increase antagonism and conflict between Japan on the one hand and the Commonwealth on the other. On the commercial side this will make Japan redouble her efforts to undercut and oust British exports in important and valuable markets over which Her Majesty's Government have no direct control and when they consequently cannot ensure that measures are taken to protect British industry.
Politically it will be a blow to those Japanese who favour cooperation with the West, but a gift to communist propaganda in Japan. It will add to the temptation to which Japan is subjected of playing the free world off against the communist world and will contribute to the very real danger of Japan's moving away from the West towards communism. Strategically this is dangerous.

It will run counter to United States policy of building Japan up economically and politically as the main anti-communist bulwark in the Far East and so tend to increase the divergences between United Kingdom and United States policy in that area.

3. The Japanese language, way of life and standards of conduct are utterly different from Western ways. There is therefore always an inherent tendency for Japan to play a lone hand. Japan's increasing population (large in relation to her area) and the commercial threat which she presents to other countries combine to turn her isolationist tendencies into competitive and antagonistic ones. It is this which is so dangerous for the United Kingdom and the Commonwealth. If Japan can be brought into international organisations and can play an equal part with other Western countries in international life, these tendencies may be counteracted. Her accession to G.A.T.T. would be particularly desirable as it contains a number of useful safeguards against the sort of trade malpractices which caused such bitterness between Japan and the United Kingdom before the war. This is a further reason for avoiding an attitude of opposition or hostility barely disguised as neutrality (which would be the effect of abstention) towards Japan's application to accede to G.A.T.T., all the more so as neither opposition nor abstention will be effective in preventing or delaying Japanese accession. We have also to recognise that Japanese competition with British industries is largely in Colonial and Commonwealth markets over which Her Majesty's Government have no direct control and where British industries can consequently only be protected if the governments concerned are willing to increase margins of preference and thereby raise the prices charged to their consumers.

4. The Foreign Office therefore consider that, as an alternative to the line proposed by the President of the Board of Trade, it would be more compatible with our interests for instructions along the following lines to be issued to the United Kingdom delegation at Geneva:

(i) to work and vote for a resolution which would welcome the Japanese application to accede to G.A.T.T. and declare Japan eligible in principle to become a contracting party after she has carried out tariff negotiations;

(ii) to explain that the United Kingdom is reconsidering its attitude towards G.A.T.T., and give notice that, pending this reconsideration, Her Majesty's Government would be unable to undertake tariff negotiations with new applicants and might be forced to invoke Article XXXV if new applicants acceded to G.A.T.T. This would safeguard us as regards retaining our freedom of action to protect United Kingdom industries against Japanese competition.

S.L.

Foreign Office, S.W.1.
17TH SEPTEMBER, 1952.
THE INDUSTRIAL DISPUTES ORDER, 1951: POSITION OF PROFESSIONAL ORGANISATIONS

MEMORANDUM BY THE MINISTER OF LABOUR AND NATIONAL SERVICE

I find it necessary to refer to my colleagues, and to ask them to resolve, a difference between the Chancellor of the Exchequer and myself about an amendment which I desire to make to the Industrial Disputes Order, 1951 (Order 1376) relating to the position of Professional Organisations.

2. This Order, as my colleagues are aware, provides for industrial disputes which are reported to me to be referred in certain circumstances to compulsory arbitration. The provision was first introduced as a wartime measure in 1940 and embodied in the Conditions of Employment and National Arbitration Order, 1940 (Order 1305). At the end of the war it was continued at the request of both sides of industry. In conditions of peace certain of the provisions of the original Order were found to be inappropriate and last year, after long discussions with industry, the old Order was revoked and replaced by the present Industrial Disputes Order.

3. Unfortunately in drafting the new Order the expression “trade union” was used to describe the organisations which had the right of reporting disputes on behalf of workers.

4. This had the result of excluding from the right to report disputes many professional organisations which, while not technically trade unions, habitually take part in negotiating conditions of employment on behalf of their members. (Such organisations include, for example, the Royal College of Nursing and other organisations of professional employees in the health field, the British Medical Association, the National Union of Teachers, &c.). Immediately, a large number of professional organisations protested to my predecessor and subsequently to myself at the withdrawal from them of a right which they had enjoyed under the old Order.

5. This result was never intended. There is no reason on merits why professional organisations should be excluded from the right to report disputes under the Order. There is no reason why they should be treated any differently from trade unions in this matter. Their exclusion has led to the anomaly in some cases where trade unions and professional organisations form part of the same machinery of negotiation for the same category of employees, that the trade union representing a small minority of the employees can report a trade dispute whereas the professional organisation representing the great majority of the employees cannot.

6. I came to the conclusion that this could not be justified and that the right to report disputes which the professional organisations had enjoyed under the old Order and which had been taken away from them by inadvertence must be restored to them. Accordingly, several months ago, after discussion with the National Joint Advisory Council, I informed the professional organisations mainly concerned that I would make the necessary amendment to the Order.

7. Before I did so, however, my Department consulted the Treasury which expressed serious concern at the prospect of highly paid professional persons being
able to take to compulsory arbitration claims for improved remuneration. This concern arises largely, I understand, out of the experience of the Danckwerts Award for general practitioners. The Treasury are anxious to prevent the reactions of that Award spreading to other sections of the Public Service and in particular to avoid giving consultants in the Health Service the right to compulsory arbitration; they feel that any extension of the use of compulsory arbitration by highly paid professional or managerial staff is dangerous and might have serious consequences in the Civil Service itself and that large increases of salary to such staff would do much harm to the policy of wage restraint. In addition they regard the Industrial Disputes Tribunal as unsuitable for pronouncing upon the claims of such people and feel that the Government could retain more flexibility by the use of ad hoc machinery specially constituted. After much discussion the Treasury have suggested that the best way of meeting these difficulties is to introduce a salary limit into the Order—in other words to give access to the Industrial Disputes Tribunal only to persons whose salaries are not above a certain figure.

8. I cannot accept this suggestion. I have much sympathy with the apprehensions expressed by the Treasury, but I cannot help feeling that they are exaggerated.

9. During the period from 1940 to 1951 during which the old Order was in force and the right to report disputes was far more extensive than is now proposed, none of the dangers feared by the Treasury materialised. I see no reason why they should in future.

10. As regards the medical profession, the view is held by the legal advisers to my Ministry and the Ministry of Health that a dispute as to the amount of remuneration made available for medical practitioners providing general medical services under the National Health Service cannot be dealt with under the Order even if the proposed amendment is made. It seems very unlikely that consultants would wish to make use of the present Industrial Disputes Tribunal since they want a different kind of Tribunal including representatives of the medical profession. There is naturally room for difference of opinion as to the suitability of the Industrial Disputes Tribunal for pronouncing upon the claims of highly paid professional or managerial staff. But at least the Tribunal has long and varied experience of dealing with wage claims which raise extremely complicated issues, and not merely with straightforward claims.

11. The Treasury proposal raises issues that are different from and much more fundamental than those involved in my limited proposal to restore to professional organisations the right which they previously enjoyed and which, as I have explained, was taken away from them only by inadvertence.

12. The proposal for a salary limit would take away the right of access to compulsory arbitration from persons who now enjoy that right under the present Order, for a considerable number of associations (including some professional organisations), which are in a position to satisfy the definition of a trade union in the Order, have in membership professional and other persons with high salaries.

13. The Treasury proposal indeed involves a fundamental change in the scheme of compulsory arbitration as embodied first in Order 1305 and now in Order 1376. Such a change would involve long and difficult negotiations with all parties in industry (not merely the professional organisations). It would be very difficult for me to await the uncertain outcome of those negotiations before fulfilling my undertaking to the professional organisations to restore to them the right to report disputes under the Order.

14. Accordingly I propose to my colleagues that I should now proceed without further delay to amend Order 1376 so as to restore to professional organisations the right to report disputes under the Order.

W. M.

Ministry of Labour and National Service, S.W. 1.

20th September, 1952.
CONFIDENTIAL
C. (52) 304
25th September, 1952

CABINET

AMENDMENT OF THE TOWN AND COUNTRY PLANNING ACT, 1947

MEMORANDUM BY THE MINISTER OF HOUSING AND LOCAL GOVERNMENT

I was authorised to prepare a draft of the kind of "White Paper" which might be used in connection with the proposed amendment of the Town and Country Planning Act, 1947.

2. Here it is.

3. It has been prepared by me, with the help of my advisers in the Ministry of Housing only.

4. The object of the draft is to show how the Limited Compensation Scheme might be presented to Parliament and the public.

5. General agreement has now been reached on all but one point.

6. It is agreed that the £300 million shall not be distributed next year.

7. It is agreed that compensation for land compulsorily acquired or compulsorily sterilised, shall be at existing use value plus 1947 claim, and shall only be paid as and when each case arises.

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11. It is agreed that compensation for land compulsorily acquired or compulsorily sterilised, shall be at existing use value plus 1947 claim, and shall only be paid as and when each case arises.

12. It is agreed that development charge, at 100 per cent. should be modified.

13. The only difference is this: I want to abolish development charge. The Chancellor of the Exchequer wants to reduce it to (say) 60 per cent.

14. The arguments for abolition are,

(a) that it is a hateful and hated tax;
(b) that it cannot be (like ordinary taxes) accurately calculated, but depends on the judgment of the valuer, and is often a matter for "negotiation";
(c) that it is a tax on development. The old land reformers used to attack undeveloped land, not development;
(d) that the developer has to pay out hard cash at the very moment when he is incurring all the costs of development;
(e) that there seems no logical basis for 60 per cent. more than for 50 per cent., 40 per cent. or any other percentage.

15. The arguments for retaining charge are,

(a) that it is unfair that some landowners (where land is not compulsorily acquired or compulsorily sterilised) should get the full profits arising from sale for development, while others will only get limited compensation;
(b) that it is wrong that private owners should pocket "betterment" due to public effort;
(c) to allow (a) and (b) would offend the public conscience and may become a scandal; lead to much political agitation; and perhaps end in a clamour for land nationalisation.

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10. My reply to this is,
(a) that the wide use of compulsory purchase for re-sale to private owners as part of local authority development schemes will avoid any scandal;
(b) that if you want to keep a tax on permitted development and any profits made, then you should tax the man who sells land (who is receiving cash) not the man who develops land (who is paying out cash). This, of course, is a matter for a Finance Bill, not for an amendment of the Town and Country Planning Bill;
(c) that large scale development for private housing will need to be stimulated rather than restrained;
(d) that if the Government want to acquire all development rights, then they must pay for them, i.e., stick to the present scheme—the £300 million payout;

11. I would present the political case as follows,
(a) Socialists were prepared to pay out £300 million to landowners, however remote the intention to develop. We think this a scandalous waste of public money. Indeed, we propose "compensation as you go";
(b) development charge is a clog on development and falls specially hard on little men, we abolish it;
(c) charge for "change of use" seems indefensible to most people. If "change of use" is undesirable, "planning" stops it. Why should you pay for doing what "planning" says it is in the public interest that you should do.

12. These are the arguments. I hope the Cabinet will have an early discussion and decision. We must make a decision quickly, for Parliamentary and technical reasons.

Ministry of Housing and Local Government, S.W. 1,
25th September, 1952.
ANNEX

PROVISIONAL DRAFT OF WHITE PAPER

TOWN AND COUNTRY PLANNING ACT, 1947

AMENDMENT OF FINANCIAL PROVISIONS
Part I.—Introduction

1. Her Majesty’s Government have had under review the financial provisions of the Town and Country Planning Act, 1947.

2. When these provisions were introduced into Parliament they commanded a broad measure of agreement. Indeed, they do not differ very greatly from the proposals contained in the White Paper on the Control of Land Use (Cmd. 6537) which was laid before Parliament in 1944 by the Coalition Government. But in operation they have attracted a great deal of criticism from many different quarters: from local authorities, from representatives of industry and commerce, from professional bodies, from property owners, large and small, and from many private people anxious to build themselves a house or to engage in some other enterprise. Her Majesty’s Government think it will be generally agreed that the financial provisions are giving rise to difficulties in practice.

3. The problem which the financial provisions were designed to meet is the dual one of compensation and betterment arising out of the control of land use. This control inevitably inflicts loss on some people, while conferring benefits on others. The resulting problem of compensation and betterment was analysed in the Report of the Uthwatt Committee published in 1942 (Cmd. 6386), summarised in the White Paper of 1944 and fully discussed in the debates on the Bill for the Act of 1947.

4. The solution adopted in the 1947 Act was to vest all development rights in the State, and to make intending developers pay to the State a licence fee (development charge) on being granted permission to carry out development. Three main pillars support the system:—

(i) no development* may be carried out without planning permission and, subject to certain exceptions, when permission is granted a development charge must be paid based on the increase in the value of the land due to the grant of permission;

(ii) payment is to be made out of a £300 million fund to anyone who can show that his interest in land is materially depreciated by the Act. Claims for this purpose have been made and nearly all have been agreed or settled.

(iii) as the corollary to (i) and (ii), the price at which land is bought by compulsory purchase is its value for its existing use (i.e., development value is excluded); and all land should in theory change hands at or about this price, though the Act does not make that obligatory.

5. Her Majesty’s Government intend to maintain unimpaired the full control of land use provided for in the Act. It is as necessary now as ever it was to prevent building over good agricultural land or over land containing valuable mineral deposits; to restrain the outward sprawl of the great towns; to improve living conditions and industrial efficiency; to preserve the countryside and coast line from further disfigurement and destruction; and to enable public authorities to acquire land needed for public purposes without having to pay inflated prices.

6. The question the Government have had to consider is whether it is possible, while maintaining these powers unimpaired, so to adjust the financial provisions as to reduce or get rid of the difficulties which have arisen in practice; and to do this without materially increasing the burden on public funds or bearing too hardly on private individuals.

7. Her Majesty’s Government have come to the conclusion that amendment which will retain the essential features of the Act of 1947, but which will get rid of its worst practical difficulties, is possible. Their proposals, in broad outline,

* Development is very widely defined. It includes any building, engineering or mining operations and any material change in the use of any buildings or of land.
are set out in Part III below. In order that these may be better understood, the difficulties in the existing system are described in Part II. The legislative programme is outlined and certain transitional questions are discussed in Part IV.

**Part II.—The Practical Difficulties of the Existing Financial Provisions**

8. Most of the difficulties spring in one way or another from the unwillingness of people to act in accordance with the theory which underlies the financial provisions, or from their inability to understand them, or from a widespread conviction that they are unfair. Perhaps the greatest difficulty has been that people generally do not understand either the principles or the practice of the Act, particularly the separation of development value from the land. But it is to be noted that many of those who do understand the Act believe that it needs amendment.

9. The difficulties may best be described by reference to the main features of the 1947 scheme:

(i) **The £300 million Fund**

10. At one time it was suggested that the £300 million might be grossly insufficient to meet claims for compensation for depreciation in values. Most of the claims made by owners to the Central Land Board have, however, now been assessed; and the total will be only about £350 million. Some owners whose land was ripe for development in 1947 have been promised payment in full; their claims amount to about £100 million. Once these “preference” claims have been met the fund would enable the remainder to be paid at the rate of about 16s. in the £.

11. Under the Act as it stands agreed claims on the fund have to be paid before 1st July, 1953. But to pay all these claims in the next twelve months, apart from its considerable inflationary effect, would put a great deal of money into the hands of owners who have no real case for payment: who have no intention of developing their land, or whose land is not, indeed may never be, ready for development, or who can fairly be prevented without any payment from carrying out further development where such development would be contrary to the public interest (e.g., changing the use of a building to the detriment of neighbouring properties). Furthermore, once the £300 million are paid out it would be exceedingly difficult for any future Government ever to alter the financial provisions at all radically, however badly they seemed to be working. For all the holders of claims would have been paid, both those who will be allowed to develop and those who will not.

(ii) **Purchase at existing use value**

12. As indicated, all land transactions should, on the theory of the Act, take place at or around existing use value; and compulsory acquisitions do take place on that basis. But except where they are forced to do so, owners are, naturally, unwilling to sell land for development at no more than it is worth for its existing use, since a sale on that basis provides no return for the trouble and expense involved. If that is all they are to get they might as well keep the land and one result of the Act has been that little land is being offered for development.

13. If, however, the developer pays more than existing use value, the effect of the Act is to increase the total which he pays for the land (since development charge has also to be paid and it is in effect part of the purchase price). The Act is therefore increasing the cost of private development. The Central Land Board have indeed power to intervene in order to compel transferences on the existing use basis; and on occasion they have, when approached by a prospective developer, acquired compulsorily on his behalf land for which the owner was asking more than existing use value. But intervention of this kind in the individual case is at best haphazard, and the implied notion that if A has a fancy to build on a bit of B's land, he can ask the State to get it for him, is not an attractive one. In any event the existence of the power contributes to the reluctance of owners to offer land for development at all.

14. To the extent, therefore, that the existing use basis is effective it has helped to keep land off the market; and to the extent that it has been ignored the cost of development has risen. Local authorities do, of course, buy land at existing use value, and in recent years they have been responsible for a large proportion of
the building which has been done. But private developers, whose activities should be encouraged, have been severely hampered through being unable to obtain land for development at a price which takes sufficient account of their liability to charge.

(iii) Development charge

15. The strongest criticisms of the Act have been levelled at development charge which, if logical and perhaps equitable in theory, has seemed arbitrary and unfair in practice. The theory is that the levy of development charge by the State enables the public (albeit on a basis of rather rough justice) to collect any betterment due to public effort; that it ensures equality of treatment between those who are not allowed to develop their land and those who are; and that while it helps to meet the cost of paying compensation it does not, or should not, add to the cost of development. In practice, however, charge is seen as a straight tax on development—which is bitterly resented; and few people can understand its basis, since it bears no obvious relation either to the cost of the land or to the cost of the development.

16. The great majority of private people who want to build a house or to start a shop or other enterprise are people of small resources to whom the theory of the financial provisions is really meaningless. Sometimes they have no claim, either because they have bought the land without getting the claim, or because the land had in 1947 little or no development value; the charge to them is just an additional burden imposed on their enterprise. Even if they managed to buy the land cheaply they resent charge; indeed some of the bitterest complaints have come from those who did buy cheaply—the very people in whose case the Act is working as it was presumably meant to work. It may be that they would have had to pay more for their land had it not been for the Act; but that they could have understood. They could have bargained; they could have tried elsewhere; they could have been lucky. But charge is everywhere; implacable, inescapable, governmental.

17. For developers who hold claims on the £300 million charge is, for the time being, not so bad. Since it was announced that the sum would be sufficient to meet claims at least up to 16s. in the £ the Central Land Board have been setting off charge up to 80 per cent. of the relevant claim. In other words where claim and charge equal each other the prospective developer who holds a claim is at present, having to pay down only 20 per cent. of the charge. But very often the charge exceeds the claim. This is bound to happen as the prospects of development concentrate and mature in particular places. So that most people will find, as time goes on, that the charge exceeds, in some cases greatly exceeds, the claim. It is improbable that people will willingly accept this. Also there will be many cases where charge must be paid where no claim was made or admitted; where in 1947 there seemed to be little or no prospect of development, e.g., where the owner merely wants to enlarge, or improve or change the use of his building. This too people will find it difficult to swallow. In short, it will become increasingly difficult to maintain the exaction of charge.

18. Nor is the general hostility to charge by any means the only difficulty. As explained above, land-owners do not in fact sell land for development at its existing use value. There is no obligation on them to do so. The burden of charge accordingly falls in whole or in part upon development. Moreover it has to be paid just at the stage when the developer is least able to meet it, when he is facing the cost of development. The true additional burden may not be very great. But with the cost of developing as high as it is to-day any addition is serious. And sometimes the addition is severe.

19. One criticism widely made is that the basis of charge is uncertain. Since it is assessed on the difference between the value of the land without permission to develop and its value for the development permitted, it is inevitably a matter of judgment and valuation—and therefore for negotiation, just as the price of land is a matter for negotiation. Quite small adjustments made in the two values during the process of such negotiation can sometimes have a very large effect on the amount of charge finally assessed. This is inherent in the nature of charge; but the effect is to destroy confidence in its validity. A tax (and nothing will persuade people that charge is not a tax) should not be negotiated between the official and the subject. It should be certain and as far as possible unchallengeable. This development charge of its nature cannot be.
20. Suggestions have been made in the past few years that in order to reduce some of the difficulties associated with charge, particular classes of development, such as private housing, or changes in the use of buildings, or the extension of buildings beyond the present charge-free limits, should be exempted from charge. The Government have examined the various possibilities, but have come to the conclusion that no substantial exemptions could be made without giving rise to difficulties as great as those from which it is desired to escape. The charge on private housing could not be abolished without upsetting the basis for assessment of charge on municipal housing—and indeed on many other forms of development—and reducing the income from charge to a negligible amount. About 70 per cent. of the charge at present being collected comes from house-building (including municipal housing). The charge on change of use or on extensions could not be abolished without penalising new building by comparison with old. In any event the proposal that certain forms of development should be exempted from charge really derives from the belief that charge is a tax on development. But it is not in theory supposed to be anything of the kind; it is supposed to be the purchase price of the development value, which the owner would get if the State did not.

21. Another possible approach would be to reduce the rate of charge for all development—say to 75 per cent. or even 50 per cent. This has considerable attraction, particularly if payment of claims on the £300 million fund is deferred, and such charge as has to be paid can be set off against the claim where one applies. (Indeed, it would be difficult materially to reduce charge unless the payment of claims were deferred—see paragraph 11.) This might provide the owner—particularly the owner with a claim—with an incentive to sell land at a price which would be low enough for the developer to be able to pay the reduced charge without any burden on the development.

22. Her Majesty's Government have examined at length the possibility of a solution along these lines. It seems to them, however, that there can be no certainty that land would, even with a heavy reduction of charge, normally change hands at a price that took account of the developer's liability to pay whatever charge is levied. The vendors of land, like the vendors of any other commodity, will get the best price that they can and the charge, however small, would in effect be passed on, in whole or in part, to the developer. Moreover, the problem is not merely one of easing the market in land: there is an urgent need for developers who already own suitable land to be put in a position to make use of it. Charge even at a reduced rate would act as a deterrent, and one that would be specially resented at a time when there is an urgent need to encourage desirable development like housing, not place obstacles in its way. To the extent that charge can be set off against claim it may be tolerated; but even a reduction of 50 per cent. will not avert the difficulties which must arise when charge begins to be much greater than claim. Nor, if charge be reduced to 75 per cent. or 50 per cent., is there any clear principle why it should stand at any particular figure: the process of reduction, once begun, will be difficult to stop. From the point of the revenue, a heavily reduced charge becomes hardly worth collecting when allowance is made for the cost of collection.

23. Development charge is thus too weak an instrument to act as the lynchpin of a permanent settlement. Accordingly the Government have reached the conclusion that a mere adjustment of the existing financial provisions is unlikely to provide a stable solution; and they have decided that a more radical amendment must be made.

Part III.—The Limited Compensation Scheme

24. In the barest outline. Her Majesty's Government propose—
(1) not to pay out the £300 million fund, but to retain the once-for-all reckoning of the 1947 Act by limiting the compensation payable on any piece of land to the full agreed value of the appropriate claim on the fund;
(2) to pay compensation for planning restrictions only as and when the development of land is prevented or seriously restricted;
(3) to fix the compensation payable on compulsory acquisition at the current existing use value of the land plus the full amount of the agreed claim, both to be paid by the acquiring authority;
(4) to abolish development charge altogether.

These proposals may conveniently be called the Limited Compensation Scheme and are set out in the following paragraphs.
Compensation at 1947 Values

25. The essence of the Government's proposals is to turn the "depreciation payments" of the 1947 Act into compensation payments. They believe that there will be general agreement that the once-for-all reckoning of compensation effected by the Act of 1947 must be maintained. Unless that is done effective control over the use of land cannot be maintained, for the cost of compensation, if it always had to be paid at the peak value, would be crippling. It would also include a large element of value created by public effort. The Government will be prepared to pay compensation for loss of development value created in the past—up to the point where the 1947 axe fell—but not for the loss of development value created in the future.

26. The limit within which it is proposed that compensation should be paid is 100 per cent. of the claims admitted and agreed by the Central Land Board. Since the basis is now to be admittedly a compensation basis it would not be fair to pay less than 100 per cent. of the admitted claim where the owner is deprived of all development value. This principle will be subject to certain modifications (see paragraph 30).

27. It may be argued that it is unfair to limit compensation in this way. Land which now has a very small claim upon it may at some future date acquire considerable development value. Values will tend to follow the plan and the land which acquires this high value will normally be land on which development will be permitted: but there will be exceptions, and some may feel that to limit compensation in these cases will inflict hardship on the owners. But such hardship, if it is hardship, is inherent in the Act of 1947 as well as in the Limited Compensation Scheme: if the pay-out were made now owners would receive nothing for these distant and prospective values. All transactions in land over the past five years have taken place in the full knowledge that the 1947 development value was the most that anyone could hope to receive by way of compensation from the £300 million fund; indeed, most claimants expected to receive only a fraction of that value. For the future no one should pay more than current existing use value plus 1947 development value for land without first making sure of permission to develop. The value to be placed on the land with the benefit of that permission will be a matter for private judgment.

Deferral of payment

28. There will probably also be general agreement that payment of compensation should not be made until damage is actually inflicted. This proposal has in substance been made in several quarters, notably by the Royal Institution of Chartered Surveyors. The intention is that compensation should not be paid until there is a real proposal to develop, which is prevented by the refusal of planning permission, or a real need to establish that permission will not be granted. (The Royal Institution of Chartered Surveyors contemplated that claims would also have to be paid when charge was levied; but as Her Majesty's Government propose to abolish charge that does not arise.)

Payment on basis of full agreed claim with interest

29. As explained, payment will be on the basis of the full agreed claim. The Act provides that interest should accrue on any sums due to be paid as from the Appointed Day (1st July, 1948). The underlying assumption was that the payments would be made within five years; and since payments are now to be deferred Her Majesty's Government propose that interest should be allowed to accrue for a further, though limited, period. The duration of this further period is one of the several points to which further considerations will be given; but it will certainly run to the point at which claims which have already become due—where development has already been prevented or land has been compulsorily acquired—are paid.

Exclusion from compensation

30. It is not intended that compensation should be payable in every case in which permission to develop is refused or conditions are attached to a permission. For example, compensation will not be paid for a refusal to allow a change in the use of a building,* or refusal to allow one type of building rather than another; or refusal to allow development which would place an undue burden on the

* With the general abolition of charge there will, of course, be nothing to pay in future when a change of use is permitted.
community, e.g., in the provision of public services; or refusal to allow development which would endanger public health or safety. It seems reasonable that development of this kind should be prevented without compensation on the general principle of good neighbourliness and public interest; and there is precedent for doing so in the Town and Country Planning Act, 1932. The precise limits of the exclusions have still to be worked out.

31. Her Majesty's Government intend that the scrutiny of claims for compensation and the payment of compensation, should be the responsibility of an agency of the central Government; but provision will be made for appeal to an independent tribunal against a decision by the agency that a particular case falls within the exclusions prescribed by the Regulations, and against the assessment of the amount of compensation to be paid on any particular decision, subject always to the maximum of the agreed claim.

Basis of compensation for compulsory acquisition

32. Her Majesty's Government propose that the basis of compensation for compulsory acquisition should be the current existing use value of the land plus the full value of the agreed claim (if any) on the fund. This will mean that an owner whose land is required for a public purpose may receive something less—perhaps in some cases a great deal less—than its current market value; but he will be no worse off than if his land were to be bought under the original Act. To pay an owner on compulsory acquisition something less than he might get if he sold privately can be criticised, and no doubt will be criticised, as being harsh. On the other hand, if public authorities were required to pay full market value for land needed for public purposes they would, in many cases, have to pay a price enhanced by the plan itself or by public improvements made at public expense. It is not possible to separate the value due to these elements from the value due to chance or to the general trend of development. The owner whose land is compulsorily acquired, like the owner of land which is not allowed to be developed, only loses his chance of making a profit. He will receive full value for the existing use and also his claim for 1947 development value (plus accrued interest) which should fully cover—in most cases more than cover—anything he has actually paid for development value. Where a public authority finds that it has to buy land for which permission to develop has already been obtained and something higher than 1947 development value paid, they will be required to pay to the owner any additional expenditure which it can be shown that he has incurred on the strength of the planning permission.

Use of Powers of compulsory acquisition

33. One result of the changes which Her Majesty's Government propose will be a free market in land. This will make it easier for developers to secure the land they want but there is a danger that the market price of land on which building is to be allowed will rise, perhaps steeply, especially where such land has to be limited by planning (because of agricultural or mineral values, or the desire to restrict the growth of towns) in relation to the demand. Whether this will in practice happen must be uncertain. But it might; and if it did the cost to private developers would be serious, the difference between the price paid by public authorities for their development and the current market price might become too great, and the fortunate owners whose land was allowed to be developed privately would attain a privileged position which would offend the public conscience.

34. Her Majesty's Government propose, therefore, that local authorities should be empowered and encouraged to buy compulsorily land which is earmarked in their plans for early development, in order to make it available to private developers on reasonable terms. Wide powers of acquisition in order to bring land into development in accordance with the plan already exist in the Act of 1947; but these powers need some simplification to enable local authorities to engage, as necessary, on wide-scale acquisition for the purpose of disposal to any person willing to develop in accordance with the provisions of the plan. The usual procedure for compulsory acquisition with the customary safeguards will of course apply.

35. The power of the Central Land Board to acquire land will disappear with their function of collecting charge. The type of acquisition now contemplated by Her Majesty's Government is very different, in that it will originate in the planning proposals and not in the desire of particular individuals to get particular plots of land.
Abolition of Development Charge

36. From a date to be fixed by legislation no further development charge will be collected. Her Majesty's Government have considered whether this could be achieved by Regulation under the existing Act, but they do not think that that would be a suitable method of introducing so big a change. The legislation for this purpose is being introduced immediately. Legislation will also be required (see Part IV below) to deal with some of the cases in which charge has already been paid.

General

37. The new scheme is by no means a wholesale reversal of the old: it is an adaptation of it in the light of experience. Indeed, it could not have been devised had the Act of 1947 never been passed. Under that Act the control of land use has been firmly established and local planning authorities have been able to make plans for the future development of their areas, which they could not have done except in the confidence given by the compensation settlement.

38. But Her Majesty's Government believe that the need to make radical amendments now is established by the practical difficulties outlined in Part II. And they think that their proposals will retain the essential features of the 1947 settlement, while restoring the free market in land (except for land needed for public development, or which it is desired to encourage private persons to develop) and getting rid of one of the obstacles at present inhibiting private persons from building or similar enterprise. There will no doubt be criticism of the scheme; in this sphere there is certainly no perfect solution. The main criticisms which Her Majesty's Government have considered are as follows.

39. The new scheme makes no attempt to be self-balancing and does not seek to extract betterment, or anything approximating to betterment. It does not seem to Her Majesty's Government, however, that there is really any necessary connection between the payment of compensation and the collection of betterment: although in the past there has been a tendency to think so. The whole community benefits from the control of land use, not merely those who are allowed to develop. Some may argue that for this reason the proper course would be a tax on increments in site values. But, if so, it should surely be so designed that it is paid by the man who cashes in on the benefit at the moment of sale and not, like development charge, by the man who initiates the development at the time when he has to bear all the costs involved. The merits and practicability of such a levy may be disputed: what is certain is that it is no essential part of the arrangements required for effective control of the use of land and for the payment of fair compensation to those who interests are affected.

40. It may be suggested that to make payment of compensation turn on planning decisions is a retrograde step which will adversely affect the quality of planning decisions. The reply to this is that the mischiefs and inadequacies of planning arrangements before the war arose not from the connection between planning and compensation but from two vital facts: first, that compensation was a local authority responsibility, second, that it was unlimited. The Act of 1947 made it, in effect, an Exchequer responsibility and limited the total liability. Both these essential features remain.

41. Her Majesty's Government do not pretend that the Limited Compensation Scheme will provide equality of treatment as between owners who are allowed to develop and those who are not, or those whose land is bought compulsorily. The present system does not produce equality in practice and Her Majesty's Government do not believe it to be attainable. In any event, it seems to them an illusion to suppose that equality is synonymous with equity. The terms of compensation proposed are in themselves reasonable, and whilst the man who is refused permission to develop, or whose land is bought compulsorily, will perhaps feel envious of his neighbour who is left free to realise the current development value of his land, there will be safeguards in the powers of compulsory acquisition.

42. Finally, there is the question of cost. It is impossible to estimate, with any accuracy, the cost of the Limited Compensation Scheme or to compare it with the cost of carrying out the Act. The Scheme, on one hand, involves the loss of revenue from charge. This had, up to 31st August, 1952, brought in £184 million. It is accruing at the rate of about £8 million a year and that figure would increase as the special categories of land which are free of charge are exhausted. But it
would, of course, be a very long time indeed before the revenue began to meet the cost of paying out the £300 million fund with accrued interest. Under the Scheme, although there will be a loss of revenue from charge, nothing like £300 million will ever have to be paid out because permission to develop will be given for a good deal of the land covered by claims on the fund, and some claims will not now be paid (e.g., those applying to existing buildings and those applying to land which the owners never propose to develop). A good deal of money will have to be paid out in the first few years for land which has already been compulsorily acquired and for land where development has already been prevented; but this will not amount during those years to anything like the net cost of paying out the whole £300 million even if charge were maintained at 100 per cent. A true comparison of the cost of the two schemes would depend on the rate of development and, if the Act were to be maintained, on the future of charge. Neither can accurately be estimated.

Part IV.—Miscellaneous

Technical Difficulties

43. Claims under Part VI of the 1947 Act were intended to provide a basis for the distribution of the £300 million fund: they relate not to depreciation in the value of land itself but to depreciation in interests in land existing in 1948.* Under the Limited Compensation Scheme, as under all schemes for deferred payment (e.g., that put forward by the Royal Institution of Chartered Surveyors), the title to compensation must run with the land. This gives rise to a number of technical difficulties. There may be changes in the interests concerned between 1948 and the date when payment has to be made. Again, some claims cover wide areas: as and when these are split into smaller holdings it will be necessary to apportion the claim in order to provide each with its appropriate compensation quota. The detailed provisions necessary to meet these difficulties are being worked out.

44. A difficulty of a more general character arises from the need, under any scheme which provides for compensation to be paid as and when planning permission is refused, to defeat applications for permission made with the sole purpose of securing compensation. Sometimes the proposal will be merely premature—development would not naturally have taken place until later; sometimes, as where the land is held for recreation or to protect the amenities of adjoining property, it may be wholly fictitious. Intention can seldom be proved or disproved and cannot therefore be made the test of a "genuine" application. In some cases, particularly where the land is held to safeguard the amenities of a dwellinghouse, the answer may be to grant the permission which is ostensibly sought. For the rest, provision will be made to ensure that no claim for compensation shall lie when planning permission is refused solely on the grounds that development would be premature. Her Majesty's Government are considering what further steps should be taken to ensure that payment is only made as and when loss is sustained. It may be desirable to provide that in specified circumstances payment of the claim in full shall confer an option to acquire the land.

45. Provision will also have to be made for the registration of claims for compensation; for repayment of compensation if a planning decision is altered and development is after all allowed; for scrutiny of decisions by local planning authorities which involve payment of compensation where the Government—who have to pay—do not feel able to accept the decision; and for a variety of other matters.

Transitional Arrangements

46. Her Majesty's Government propose to repay to anyone holding the relevant claim on the £300 million fund any development charge he has already paid, whether the charge exceeded the claim or vice versa. This will, in the normal case, extinguish so much of the claim as related to the land which was developed. They also propose to pay in full with accrued interest all claims (apportioned where necessary) relating to land which has been compulsorily acquired. Immediate payment in full would also be appropriate where permission to develop the land

* Thus there may be two or more claims in respect of the same piece of land, representing freehold and leasehold interests.
has been revoked (as has happened in the Green Belt around London), or where land has already been sterilised by the refusal of permission.

47. Difficult cases arise where the person who paid the charge does not hold the claim, generally because the land has changed hands since the Act came into force. Here the equity of the matter depends entirely on the price paid for the land. If this was no more than existing use value there is no case for repaying the charge to the developer: payment ought to be made to the owner who sold. Where the developer paid the full unrestricted value for the land he has a case for repayment, even though what he did was contrary to the intention of the Act and the advice given by the Central Land Board: certainly the owner who has already received full value has no case even though he holds the claim. These, however, are the extreme types of case: in the majority of cases the price paid has been somewhere between restricted and unrestricted value. Here the fair course would be to divide the payment between developer and claim-holder according to the price at which the land changed hands. To do this would involve an enquiry into the facts of individual transactions and may not prove administratively practicable. Her Majesty's Government do not therefore feel able at this stage to give any undertaking as to how they will deal with these cases. They are also considering what adjustments would be appropriate where a vendor has sold land without the benefit of the claim and no development incurring charge has taken place.

Legislation Programme

48. Owing to the pressure of Parliamentary business and the intricate drafting which some of the provisions may require it will not be possible to introduce the main Bill embodying the Limited Compensation Scheme before the autumn of 1953. Meanwhile, as already stated in paragraph 36, Her Majesty's Government propose to introduce immediately a Bill to relieve the Central Land Board of the duty to collect charge. This Bill will also suspend the obligation laid on the Treasury by the present Act to distribute the £300 million fund by 1st July next year.
SECRET

C.(52) 305

23rd September, 1952.

CABINET

THE DECONTROL OF TEA

Memorandum by the Minister of Food.

In my memorandum C.(52) 118 of 7th April, I made proposals for increasing the tea ration and adjusting retail tea prices in preparation for the ending of tea rationing. These proposals were approved by my colleagues (C.C.(52) 39th Conclusions, Minute 9).

2. As a first step towards de-rationing, the weekly ration was increased on the 13th July, 1952, from 2 ozs. to 2½ ozs. On the 7th September the ration was again increased from 2½ ozs. to 3 ozs. At the same time, blenders were encouraged to increase stocks of packeted tea held at their depots throughout the United Kingdom and controls were modified to enable retailers and wholesalers to build up stocks to meet any exceptional temporary demand which might follow the removal of rationing controls.

3. Stocks of tea in the United Kingdom and afloat are ample to meet unrationed demand over the next few months, and world supplies should be sufficient to enable importers to meet all our requirements after the initial period. Any further delay in ending rationing might lead to restriction of production, with the consequent risk of shortage in the latter part of 1953.

4. The response of the blending and distributive trades to the call for stocking-up has been satisfactory. I am satisfied that the risks of local shortages have now been reduced to a minimum and that the situation is likely to deteriorate rather than improve by postponing action. Evidence as to the present uptake of the 3 oz. ration is not conclusive but, from sales figures supplied by the large multiple stores, consumption appears likely to fall below 3 ozs. once rationing is ended.

5. I am satisfied that all necessary precautions have now been taken, and that the time is ripe to end rationing. I propose to do so therefore on the 5th October. This information, which must, of course, be given at the last possible moment, will be released to the press in time for publication on the morning of that day, and for announcement in the Sunday morning news on the B.B.C. I propose, at the same time, to remove price control and other controls on tea except those relating to the import of tea from the non-sterling area, which will have to be retained for balance of payments reasons. I do not expect the removal of price control to result in any increase in prices which are now tending downwards.

6. I think my colleagues will be interested to have this advance information about the course I propose to adopt.

G. LL-G.

Ministry of Food, S.W.1.
23rd September, 1952.
CABINET

RELATIONS WITH THE UNION OF SOUTH AFRICA
IN THE CONTEXT OF THE UNITED NATIONS.

Memorandum by the Secretary of State for Commonwealth Relations.

At the forthcoming General Assembly of the United Nations the South African Government will almost certainly be severely attacked on three questions: the question of the treatment of Indians in South Africa; the general racial policy of the Union Government, which has given rise to the current passive disobedience campaign; and the problem of South West Africa. The attack on the first two questions will probably be led by the Indian Delegation. It is necessary to decide the policy by which the United Kingdom Delegation should be guided on these issues. Brief notes on these three items are at Appendices I, II and III.

2. Our policy on all these items should have regard to three basic factors. First, we must preserve our own rights as a Colonial Power vis-a-vis the United Nations: we cannot afford to allow that organisation to establish a "right" to intervene in any way in our colonial administration. In our view the political affairs of our dependent territories are essentially a matter within the domestic jurisdiction of the United Kingdom and as such fall outside the scope of the Assembly by virtue of Article 2(7) of the Charter. Secondly, we have a reputation to maintain as a champion of liberal Western civilisation. We would wish to maintain this reputation not only in the United Nations but also before our own public opinion and - what is perhaps even more important - opinion within our colonies. African and Asian opinion in our colonies is especially hostile to the Union of South Africa, and any move on our part which could be construed as endorsement of Union racial policy could bring us into serious conflict with that opinion, especially in West and Central Africa. We must also bear in mind the strength of opinion in India and Pakistan on this subject.

+ Article 2(7) of the Charter reads as follows: "Nothing contained in the present Charter shall authorise the United Nations to intervene in matters which are essentially within the domestic jurisdiction of any State."
3. Thirdly, we must do all we can to preserve and strengthen our relations with South Africa. This is important not only on the general ground of the desirability of maintaining our Commonwealth links, but also for weighty strategic and economic reasons. The Nationalist Government's willingness to co-operate both in Middle East defence in wartime and in anti-Communist measures represents a change in traditional policy which must be encouraged. Moreover, our continued use of the Naval Base at Simonstown is of the utmost importance to us both in peace and in war. Further, South Africa is a source of supply for a number of raw materials of great importance to the United Kingdom in peace-time and vital to us in time of war. Economically the stability of the sterling area is dependent on the United Kingdom obtaining a substantial part of South Africa's gold output and equally the Union furnishes an important market for our exports. It must also be borne in mind that the High Commission Territories of Basutoland and Swaziland, and possibly the Bechuanaland Protectorate as well, can at any time be economically strangled if the Union Government chooses to deny them essential facilities. I suggest that each item might be considered in the light of these factors.

Persons of Indian Origin in South Africa

4. This represents a direct clash between the Union on the one hand and India (together with Pakistan) on the other. Clearly this debate will serve no useful purpose and the only helpful role that we can perform is to do our best to make it as short and as temperate as possible. We could not discuss the merits without offending either one side or the other. Apart from this, it would be most unwise to be drawn into such a discussion because the subject appears to fall clearly within the sphere of South Africa's domestic jurisdiction and therefore (by virtue of Article 2(7) of the Charter) outside the scope of the United Nations. In 1946, we proposed that the question of the Assembly's competence should be referred to the International Court of Justice for its opinion. This proposal was defeated and, since then, the line our Delegation has taken has been that before the item can be discussed, the Court's opinion should be obtained; but we ourselves have not again formally proposed such a reference. I recommend that we maintain our previous policy, subject to the modification that in future we should not advocate a reference to the International Court of Justice except as a last resort in an attempt to prevent the passage of a thoroughly objectionable resolution (e.g. one which sought to establish the principle that the United Nations was entitled to intervene in the political affairs of non-self-governing territories). For there is this disadvantage in a reference to the Court, that we should not be able sufficiently to control the wording of the question that would be put to it. Thus the question might be phrased in such a way that the Court was asked to give an opinion of the general effect of Article 2(7) of the Charter with regard to the competence of the Assembly to discuss the political affairs of non-self-governing territories. The legal arguments are finely balanced on this issue and there is considerable danger that the Court as at present composed would tend to show a bias against the Colonial powers. Even if the question posed were carefully limited, the Court might well express some general views unhelpful to the United Kingdom on the effect of Article 2(7) in examining its relevance to the limited issue. An opinion of the Court therefore might well establish the competence of the Assembly to discuss not only this particular issue but also general problems arising from the presence of immigrant peoples in our own Colonies (e.g. Indians in Kenya).

5. The safest course for the United Kingdom Delegation to pursue, therefore, seems to be to do all they can, at the moment, to keep the idea of a reference to the Court in the background; to work for a moderate and short debate; to seek to get both sides to discuss their differences directly;
to work for a moderately worded resolution; to play as inconspicuous a part in the debate as they can; and, in particular, to abstain on any resolution critical of South Africa.

South Africa's Racial Policies

6. This item encroaches even more obviously on the field of domestic jurisdiction. As Appendix II shows, we have already made our position clear to the Government of India. In reply to their request that we should intervene directly with the Union Government, we declined to do so on the ground that this was a matter which in our view clearly lay within the field of the Union's internal jurisdiction. A fortiori we could not support any attempt by the United Nations to intervene. To do so would be a volte face. Moreover, it would be against our colonial interests to support such an attempt, for we might then be regarded as having consented to a debate that might later be quoted as a precedent for the discussion of matters within our own domestic jurisdiction (e.g. in relation to a colony).

7. It must be remembered, however, that South Africa's racial policies have aroused strong emotions both here and elsewhere - especially in some of our colonial territories. These feelings will be played on to the full in New York and much will be made of the claim that this is a matter of human rights and therefore eligible for discussion in that context. Our reply must be that Article 2(7) of the Charter has overriding effect and precludes discussion of the subject. We should therefore vote against the inclusion of the item in the agenda. If - despite our opposition - the item is debated, our delegation should make a formal reservation that they do not regard the debate as setting a precedent; should avoid committing themselves to any expressions of opinion on the merits of the case, while making it clear that their opposition to the inclusion of the item on the agenda relates solely to the question of competence; and should be guided generally by the policy proposed in paragraph 5 for the item on people of Indian origin in South Africa. Since it is impossible to predict the manner in which the Assembly may decide to deal with the item, I recommend that our Delegation be given discretion to abstain on or vote against any resolutions that may be put forward.

8. I should warn my colleagues that if the Assembly does decide to include this item in its Agenda - as it almost certainly will - the Union Government may well decide to withdraw their Delegation and take no further part in the work of this session of the Assembly. From time to time, South African Ministers have even gone so far as to suggest that South Africa might withdraw altogether from the United Nations if the Assembly continues its hostile treatment of issues affecting South Africa.

South-West Africa

9. There is, on the merits, something to be said in favour of the Union's point of view. In the first place she had a very reasonable case for incorporating the territory into the Union in 1946. We then supported the Union Government, and it seems probable that, but for the fact that South Africa's racial policy was even then causing concern, the Assembly would have agreed to the proposal. In view of the Assembly's rejection of the proposal, South Africa admits that she remains internationally accountable for her administration of the territory. What she has not so far been prepared to admit is that her accountability is now to the United Nations. This is why she has not so far accepted that part of the International Court's opinion which advises that the United Nations has rights of supervision in respect of South-West Africa.
similar to those exercised by the League of Nations, including the right to receive reports on the Territory and to examine written petitions relating to it. This is the crux of the disagreement between the Union and the rest of the United Nations. The Union Government's attitude is based mainly on the belief that the opponents of their racial policy would seize the opportunities afforded by public debate of reports and petitions to criticise their domestic affairs.

10. We can have some sympathy with the Union's attitude in view of the hostile character of the Assembly's attitude in the past and in particular of the Fourth Committee (in which the South West African item would be debated). Moreover, the Court's opinion is only an advisory one and, as it has no binding force, the Union Government are within their strict legal rights in rejecting part of it; our own legal experts have always been doubtful of the legal soundness of this particular part of the opinion. Our predecessors however decided that advantage lay in accepting the Court's opinion as a whole. My immediate predecessor also agreed with this view, which has accordingly been expressed by our Delegation at the last two sessions of the General Assembly. Even if it were desirable, I consider that it would be very difficult to follow a different course now.

11. In considering our policy, regard must be had to the fact that the debate on this item will take place in the Fourth Committee (which discusses colonial questions). Feeling in this Committee is strongly anti-colonial, and in recent years it has been endeavouring to enlarge its powers beyond the scope laid down by the Charter of the United Nations. The Colonial Powers have to be constantly on the alert to frustrate these attempts. Hitherto we have been reasonably successful in this contest. In particular we have been able to preserve the principles listed in the Annex to C. (52) 232 on which the Cabinet recently agreed that we could not yield (C.C. (52) 75th Conclusions, Minute 7). One of these principles is likely to be challenged during the forthcoming debate on South-West Africa, since it is possible that the anti-colonials may make a further attempt to maintain their claim that the Fourth Committee is entitled to hear oral evidence from petitioners from South-West Africa. It would be but a short step from this to claim the right of the United Nations to hear oral evidence from petitioners from non-self-governing territories. We could not concede the latter claim; but our position would be undermined if even the former were re-asserted by the Fourth Committee and put into effect without protest from ourselves. To this extent our interests lie in the same direction as those of the Union Government.

12. On the other hand, we must be careful to avoid giving the South Africans any encouragement to think that they can be sure of our support if they adopt an unconciliatory attitude to the Fourth Committee. If they were to do so, feeling in the Fourth Committee would become exacerbated, with consequent risk of danger to our own interests. Moreover, we must remember that much of the opposition to South Africa on this issue arises from the feeling that unless South Africa is made accountable to an international body like the United Nations for its administration of South-West Africa, the inhabitants of that territory will be exposed without any defence to the Union's racial legislation. We cannot ignore this sentiment and we must therefore avoid giving the impression by our actions in the Assembly that we are indifferent to the fate of these people. These two factors impose definite limits on the extent to which we can go in supporting South Africa.

13. Taking all these factors into consideration, I feel that the best course for our Delegation to adopt would be to advise the South African Delegation (if it is still present when this item is discussed) to adopt a conciliatory attitude, and to counsel moderation generally while avoiding the impression that we are prepared to compromise the happiness of the inhabitants of the territory. If a solution
is proposed which offers some hope of acceptance but which does not entirely comply with the Court's opinion, our Delegation should not reject it on that ground alone. They should not regard themselves as entirely fettered by our advocacy of that opinion as a whole. Should the South Africans directly challenge that opinion, however, we would have no alternative but to support it. If this policy is accepted, it is proposed to inform the South African Government in advance that this is the limit to which we can go in supporting them on this item.

14. It is therefore recommended:

(i) On the problem of people of Indian origin in South Africa
that our policy should be to work for a moderate debate; to seek to get both sides to discuss their differences directly; to work for a moderately worded resolution; to play as inconspicuous a part in the debate as possible and to abstain on any resolution critical of South Africa.

(ii) On South Africa's racial policy
(a) that we should vote against the inclusion of the item in the Agenda on the ground that it is a matter of domestic jurisdiction, to which Article 2(7) of the Charter applies;
(b) that if it is included in the Agenda our intervention in debate should be limited to a restatement of our views, including the point that our opposition to the inclusion of the item on the agenda relates solely to the question of competence;
(c) that the Delegation should be given discretion to abstain on or vote against any resolution.

(iii) On the problem of South-West Africa
(a) that the United Kingdom Delegation should work for a moderate debate in order to prevent points of principle arising affecting our own vital interests; defend our interests should such points arise (e.g., the hearing of oral petitioners) while avoiding any implication that in doing so we necessarily agree with South African policies; help the South Africans by counselling moderation; and endeavour to persuade them to make concessions to the majority view that the opinion of the International Court of Justice must be accepted as a whole, including the obligation to submit reports to the United Nations and of acknowledging their right to receive written petitions;
(b) that if, in spite of our efforts at moderation, a head-on clash were to occur on the question of the validity of the International Court's opinion, we should make it plain that we adhere to the view that it should be accepted as a whole;
(c) that the Union Government should be told in advance the limits within which we are prepared to support them.

15. The Secretary of State for the Colonies and the Minister of State have seen this memorandum and are in general agreement with my recommendations.

Commonwealth Relations Office, S.W.1.
24th September, 1952.
THE TREATMENT OF PEOPLE OF INDIAN ORIGIN
IN THE UNION OF SOUTH AFRICA.

The Government of India first brought this question before the United Nations in 1946; the origins of it go back to 1860, when the first Indian coolies were brought to Natal.

2. The Indian community in South Africa consists mainly of the descendants of coolies and of the Indian traders who followed them, and now numbers about a quarter of a million (almost all of whom are concentrated in Natal, the United Party stronghold) in a total population of 11½ millions. The community has protested for many years about disabilities imposed on it in relation to the Europeans (though these are less than those imposed on the natives). These disabilities include the denial of the vote in Natal, and Transvaal and the Orange Free State, restrictions on inter-Provincial movement, on the acquisition and occupation of property, difficulties in the way of taking up certain forms of employment and trade, and the various regulations segregating the races in public vehicles, public offices and similar places.

3. The Indian and South African delegations took up in 1946 the same broad positions as they maintain today. The Indians said that the Union Government's treatment of Indians in South Africa constituted a denial of human rights, and asked the Assembly to call upon the Union Government to revise its policies accordingly. The South Africans maintained that the matter was one of South African domestic jurisdiction and that, under Article 2(7) of the United Nations Charter, the United Nations had no competence to intervene. The United Kingdom suggested that the question of competence be referred to the International Court; this suggestion was turned down by the Assembly when put to the vote.

4. Since 1947 Pakistan has appeared on the international scene and has felt obliged to support the Indians on this issue, though she has never played a prominent part in the debates. The Nationalist Government in South Africa which took power in 1948 has based its policy on the principle of apartheid (segregation) for non-European South Africans, and the Indian Government's attitude has also hardened, particularly since the introduction of the Group Areas Bill in 1950.

5. Partly owing to the United Kingdom's influence, talks took place in Cape Town early in 1950 between the representatives of India and Pakistan and South Africa, and resulted in tentative agreement to hold a round table conference to negotiate for a settlement. The Conference was never held, as the Indian Government refused to take part in such a conference while the South Africans persisted with their racial policies.

6. The Resolution adopted at last year's Assembly recommended that the Governments of India, Pakistan and South Africa should set up a commission of three members to negotiate for the settlement of the problem. If the Governments did not nominate the members of the commission, the Secretary-General was authorised to lend his assistance to the Governments to facilitate negotiations, either in person or by appointing someone to represent him. The Resolution further called upon the South African Government to suspend further action under the Group Areas Act and gave it as the opinion of the Assembly that a policy of apartheid is necessarily based on doctrines of racial discrimination. We abstained on the voting for this Resolution.
7. The South Africans later informed the Secretary-General that they did not accept the Resolution as it constituted intervention in a matter within the Union's domestic jurisdiction, and said, as they have often said in the past, that they were willing to take part in negotiations with the Indians and Pakistanis outside the pur view of the United Nations on the lines tentatively agreed in 1950. The Indians and Pakistanis thereupon said that, in view of the South African attitude, nomination by them of a representative on the three-man commission would serve no purpose. The commission has therefore not been set up.

8. The Secretary-General has made a tentative approach to the South Africans, as authorised by last year's resolution, to see whether he could do anything to help, but the South Africans have rejected his initiative, and he is expected to report failure to the Assembly in New York.

APPENDIX II

SOUTH AFRICA'S RACIAL POLICY

The Government of India in a memorandum dated 2nd April expressed their great concern at "the gradual accumulation of tension and of elements of racial conflict in South Africa". The memorandum went on to develop the Indian Government's attitude on the question of Indians in South Africa and then expressed regret that no important European group in South Africa had yet questioned the moral validity of the apartheid laws in connection with the Separate Representation of Voters Act. It went on to draw our attention to the civil resistance campaign involving non-violent defiance of apartheid, which was then being planned and said that once the campaign started racial conflict might spread beyond South Africa and awake a sympathetic response in India and many other countries. The Indian Government therefore hoped that we would exert all our influence with the Union Government in order (a) to ensure that civil resistance would be so handled as not to intensify racial antagonism; and (b) to bring about some change in South Africa's racial policies which are injuring the cause of world peace.

2. The United Kingdom Government replied on 24th April to the effect that we saw objection to the proposed intervention with the Union Government and that in particular, to advise the Union Government how to deal with the civil disobedience campaign would constitute intervention of a most direct character in the Union's internal affairs, which would not only be useless but might even exacerbate feeling. We were therefore not prepared to act upon the Indian Government's suggestion.

3. The Indian High Commissioner sent me a further memorandum on 17th July which was mainly addressed to the issue of Indians in South Africa. It also drew attention to the aspirations of the indigenous population of South Africa and said that in the Indian Government's view "a spirit of sympathy and progressive liberalism is essential if racial conflicts between the members of the politically dominant and the politically subject races in Africa are not to degenerate into violent conflicts...which might prove disastrous to our hopes of establishing lasting peace... If the purposes of the United Nations are to become a reality, neither national sovereignty nor the view that any issues that gravely menace these purposes are exclusively domestic, can be regarded or argued as postulates which would not require consideration or may not suffer modification".
4. No reply was sent to this last memorandum. We felt that we had sufficiently set forth our own views in the memorandum summarised in paragraph 2 above and that there was no point in controvering again the Indian views.

5. On 11th September the Indian High Commissioner gave me a further memorandum, which said that the Indians would be raising the question of race relations in South Africa at the Assembly and asked for our support in getting the Assembly to take note of the passive resistance campaign, express disapproval of South Africa's racial policies and recommend to the Union Government that, in the interests of peace, they revise their racial policies "in accordance with the principles of the Charter". If the proposals in the body of this paper are approved I intend to inform the Indian Government that we cannot comply with their request.

APPENDIX III

SOUTH WEST AFRICA.

South West Africa is the only remaining former Mandated territory which has neither acquired independence nor been placed under the United Nations trusteeship system. In 1946, at its first session, General Smuts asked for the General Assembly's agreement to the incorporation of South West Africa in the Union, since consultations had shown that this was the strong desire of the European and of the majority of the native inhabitants. He was supported by the United Kingdom delegate since we were convinced that the consultations had been fairly conducted. The General Assembly, however, refused to accede to General Smuts' request and for several years at each successive General Assembly the South Africans were pressed to place the Territory under the trusteeship system.

2. In 1949, largely as a result of United Kingdom initiative, the International Court of Justice was asked to define the legal position. The Court's Advisory Opinion, given in 1950, was briefly to the effect that although the Union was under no legal obligation to place South West Africa under the trusteeship system it was accountable to the United Nations for the Territory to the same extent as it had previously been to the League of Nations, including the obligation to submit reports to the United Nations and to take cognisance of petitions addressed to that organisation. Competence to change the status of the Territory lay with South Africa acting with the consent of the United Nations.

3. The 1950 General Assembly, largely at the instigation of the United Kingdom, adopted a resolution accepting the Court's opinion as a whole and setting up an Ad Hoc Committee to negotiate with South Africa on suitable arrangements for carrying out the Court's opinion. South Africa, although not accepting the Court's opinion in its entirety, agreed to join in negotiations. This Committee made certain suggestions, which were rejected by the South Africans, for supervisory arrangements similar to those of the League of Nations. The Union's own counter-proposals proved unacceptable to the Committee since the contained no provision for reports and petitions.

4. Discussion of the problem in the Fourth Committee (the dependent territories Committee) of the 1951 General Assembly was prejudiced from the start by the Committee's decision to invite certain South West African tribal chiefs to give oral testimony before it. In common with the South Africans, we opposed this decision as being unconstitutional under the United Nations
Charter. The South African Delegation having failed to obtain a reversal of the Committee's decision withdrew from it for the remainder of the Assembly. In the event, the Union authorities refused to allow the tribal chiefs to attend the Assembly. In their absence the Fourth Committee heard statements by the Reverend Michael Scott.

5. The Fourth Committee passed two resolutions which were adopted by the General Assembly. The first reiterated earlier resolutions that the Territory should be placed under trusteeship while the other continued the Ad Hoc Negotiating Committee until the next Assembly and at the same time solemnly called upon the Union to honour its international obligations. The United Kingdom Delegation abstained on both resolutions; on the first because the International Court had advised that the Union was under no such obligation, on the second because of its gratuitously offensive implications.

6. The Union Government is at present engaged in further negotiations with the Ad Hoc Committee.
CABINET

SUPER-PRIORITY FOR THE B.35 BOMBER AIRCRAFT

MEMORANDUM BY THE MINISTER OF SUPPLY

I ask that super-priority should be granted for the B.35 bomber aircraft, which have been ordered from A. V. Roe, Ltd., and Handley Page, Ltd. I made this proposal in my paper C. (52) 187 which was considered by the Cabinet on 12th June, but a decision was deferred pending the review of the defence programme (C.C. (52) 59th Conclusions, Minute 5).

2. The creation of a modern jet bomber force is essential to the global strategy approved recently by the Cabinet. Yet, even with the grant of super-priority it is most unlikely that the first aircraft can be delivered to the R.A.F. in much less than three years. If super-priority is not granted delivery dates will fall back by at least a year and probably longer.

D. S.

Ministry of Supply, S.W.1,
5th December, 1952.
CABINET

THE SUDAN

MEMORANDUM BY THE MINISTER OF STATE

In a despatch dated 8th May the Governor-General of the Sudan submitted to Her Majesty's Government and to the Egyptian Government the draft of a new Constitution for the Sudan. Under the existing arrangements, this draft can be promulgated as an order by the Governor-General if, within six months of the date of the despatch, both Governments have not expressed their disapproval of it.

2. It has of course always been our intention that the Statute should come into force, and our hope, as the Foreign Secretary told the House of Commons last November, that it should be working by the end of 1952. Under present arrangements this could be achieved by merely saying nothing: but to let the Constitution come into force by default would leave the way open for suggestions that Her Majesty's Government were not positively interested in the programme of constitutional advancement. Further, to do this, or alternatively to give our approval without discussion with the Egyptians, would lay us open to the charge in Egypt and elsewhere of having pushed the Constitution through without consideration for the Egyptian interest in the Sudan or the need to seek agreement with Egypt. It would, in fact, be much more satisfactory for our general relations with Egypt and for the future of the Sudan if agreement could be reached with Egypt about the introduction of the Constitution.

3. Since the breakdown last May of discussions with Hilali's Government about a formula to serve as a basis for discussions on the Sudan, there have been no contacts between Her Majesty's Government and the Egyptian Government on this subject. The various Egyptian Governments have, however, held abortive discussions with representatives of Sayed Abdel Rahman el Mahdi Pasha (the principal supporter of the Umma Party in the Sudan) in an attempt to reach agreement.

4. The six months' period will end on 8th November. Her Majesty's Ambassador at Cairo has therefore, on instructions, spoken to General Neguib, the Egyptian Prime Minister, about the Sudan. He has informed him that Her Majesty's Government intend early in October to send a despatch to the Governor-General giving Her Majesty's Government's approval to the draft Constitution. At the same time he has informed him that certain amendments, designed to meet Egyptian objections, have been inserted into the text of the Constitution, and that Her Majesty's Government's despatch to the Governor-General will include certain conditions attaching to Her Majesty's Government's approval, which are again designed to meet Egyptian objections. He has also suggested that the Egyptian Government should join in an International Commission, consisting of British, Egyptian and Sudanese representatives with a Chairman who would be a national of a country not directly interested in the Sudan, to supervise the elections which will follow the introduction of the Constitution.

5. The idea of a Tripartite Commission is not a new one. In Foreign Office despatch of 20th February defining the policy of Her Majesty's Government on lines approved by the Cabinet, Sir Ralph Stevenson was given authority " at the appropriate time to suggest that a Commission, upon which the United Kingdom,
Egypt and the Sudan would be represented, should be set up in the Sudan to observe the conduct of the elections to the Sudanese Parliament” (last sentence of paragraph 11).

6. General Neguib has replied to the Ambassador’s approach that he must consult his Government, but will let us have their answer by 1st October at the latest. If the Egyptian Government show readiness to co-operate, but express apprehension about committing themselves without any agreement on the protection of Egyptian interests after the introduction of the Constitution, Her Majesty’s Ambassador has authority to say that Her Majesty’s Government hope that it would be possible to agree on some machinery for associating Egypt with them in ordering Sudanese affairs between the coming into force of the Constitution and the exercise of self-determination by the Sudanese, and to hint that, for example, the International Commission might remain in being after the elections as an advisory body on constitutional development.

7. If the Egyptian Government accept the proposals they might say that there is no time between now and November to appoint and bring into operation the proposed Commission. In this case, Her Majesty’s Ambassador will say that it might be possible to suggest the postponement of the elections for a period of a few weeks in order to give more time, but that such postponement will only be possible if the Egyptian Government have agreed to co-operate on the Commission and are ready to make public their agreement.

8. If, as is perhaps more likely, these proposals do not appeal to the Egyptian Government, and they ask for a postponement in the introduction of the Constitution until agreement can be reached on the whole subject of the Sudan’s future, they will be informed that, with Her Majesty’s Government’s blessing, the Sudan Government will have to proceed without their co-operation.

9. Once the hurdles of bringing the Constitution into force and holding elections have been passed, it should be possible to bring the Sudanese Government, which will by then have been established, into discussions between Her Majesty’s Government and the Egyptian Government about the Sudan. The Sudanese Government will also be able to express the Sudanese view on the speed and form of the next steps in constitutional development towards self-determination.

10. The despatch of instructions to Sir Ralph Stevenson, which sets out more fully the considerations summarised above, is being distributed separately to my colleagues.

S. L.

*Foreign Office, S.W. 1,*  
*25th September, 1952.*
26TH SEPTEMBER, 1952

CABINET

THE INDUSTRIAL DISPUTES ORDER 1951

Memorandum by the Chancellor of the Exchequer

I wish to comment on the Minister of Labour's memorandum C. (52) 303 about the amendment which he wishes to make to the Industrial Disputes Order, 1951 (Order 1376) about the position of professional organisations.

2. I fully recognise that the general principle of compulsory arbitration is an essential part of the country's industrial machinery. What I doubt most strongly is whether the compulsory arbitration procedure of the Industrial Disputes Tribunal is suitable for settling the salaries of very highly paid professional staff.

3. There is to my mind something repugnant in the idea of the managerial grades taking the employer to compulsory arbitration and the objections are even stronger in the case of the public services, where the Exchequer pays part, if not all, of the salaries. The Order would not in form bind the Crown, but if it were passed I should find it extremely difficult to avoid compulsory arbitration for the most senior grades in the Civil Service, who have, up to now, been excluded from the Civil Service compulsory arbitration procedure.

4. Not only is the general idea repugnant, but the procedure of the Industrial Disputes Tribunal is also, I think, unsuitable for settling the complicated issues arising from the remuneration of the most senior staff. The Tribunal's main function is to settle industrial wage claims of a straightforward nature.

5. The Minister suggests that there is no real danger of the senior professional classes resorting to the Tribunal. No claims from such classes materialised from 1940 to 1951. I cannot be so confident. Until recently it has not been the practice, or even the desire, of managerial staff to have their remuneration settled by arbitration, but in the last few years the attitude of the professional classes has altered and the Danckwerts award has been a most powerful stimulus to other professional classes to use this procedure.

6. If I am right, the Minister's proposal may result in a series of Danckwerts awards to the senior professional classes. As I pointed out in C. (52) 190, such awards will set up a dangerous chain reaction, particularly if the consultants are included in the process. There would be bound to be repercussions in the Universities, in the local Government service and in the higher Civil Service.

7. Finally, with respect to the Minister of Labour, large increases given to the most highly paid professional classes would be most dangerous to the wage restraint policy. Industrial workers will not be content with a 10/- increase if they see the £2,000 man getting an award of £10 a week.
8. For all these reasons, while I recognise the Minister of Labour's difficulties, I think that in amending Order 1376 he should provide that compulsory access to the Tribunal would not be given to those earning more than, say, £1,500 a year.

R.A.B.

Treasury Chambers, S.W.1.,

26TH SEPTEMBER, 1952.
CABINET

DISMISSALS OF LABOUR
AT THE GLOSTER AIRCRAFT FACTORY.

Memorandum by the Minister of Supply.

The revision of aircraft requirements, following upon the acceptance of the Chiefs of Staff review of global strategy, has resulted in the cancellation by the Air Ministry of production orders for 341 Meteor aircraft out of the total remaining programme of 817.

2. These cancellations will oblige the manufacturers, the Gloster Aircraft Company, to reduce the labour force of their factory at Gloucester from 5,400 to about 2,900 over the next few months.

3. Apart from the unemployment problem which this involves, I am concerned about the possible delays it may cause in the deliveries of the new Gloster Javelin all-weather fighter. The production programme for this aircraft would require the firm to start recruiting labour again towards the end of 1953, building up to a peak of 5,900 by March, 1955. There is, however, no certainty that having once dispersed the labour, it will be possible to attract it back in the numbers and at the speed needed.

4. Moreover, the publicity which these large-scale dismissals will receive, is bound to create a feeling of insecurity throughout the aircraft industry generally and may have a serious effect upon its ability to recruit labour in the future.

5. I feel that the Cabinet would wish to consider these possible repercussions before the cancellations are put into effect.

D.S.

Ministry of Supply, W.C.2.
1st OCTOBER, 1952.
PUBLIC RECORD OFFICE

Group: CAB
Class: 1955

Note: Retaining

Document(s) retained in the Department of origin under S 3(4) at the time of the transfer of the class to the P.R.O.:—

C(52) 311 29th September 1952

(date) 14/9/82

(Signed) Departmental Record Officer.

*delete as necessary.
CABINET

AMENDMENT OF THE TOWN AND COUNTRY PLANNING ACT, 1947

Memorandum by the Secretary of State for Commonwealth Relations

In paper C. (52) 304, the Minister of Housing has presented to the Cabinet his draft of a White Paper on his policy for amending the Town and Country Planning Act, 1947. I am not concerned with the main proposals for the abolition of development charge. From these I do not dissent. But there is one aspect of the proposals which I, like I am sure others, find profoundly disturbing. In the covering memorandum, he states that the Cabinet have agreed to the principle that whereas landowners who sell to private developers shall receive present use value plus present development value, i.e. the full market value, landowners whose land is acquired by a public authority or compulsorily sterilised shall only receive present use value plus the 1947 development value.

I have personally never accepted this principle, and I feel bound once more to trouble my colleagues with the reasons. The differentiation which the Minister seeks to make between the two categories of landowners seems to me to be entirely inequitable; I do not believe that it could lead to a permanent settlement of this very thorny question; and I greatly fear that, though it may have the effect of modifying Socialist opposition and I even doubt this - it will be extremely unpopular with wide sections of the Conservative Party. For it is a great mistake to suppose that the ownership of land in this country is confined, nowadays, to a small body of rich territorial magnates, who are politically unimportant. It is very widely spread, and a vast quantity of the property which is likely to be compulsorily acquired or sterilised is today owned by small men. These small owners are the backbone of our party, and they may well be severely hit by this provision and bitterly resentful of the inequity involved.

2. On what basis is this differentiation made? Why should we propose (as is suggested in paragraph 25 of the White Paper) that "the Government should pay compensation for loss of development value created in the past - up to the time the 1947 axe fell - but not for the loss of development value created in the future?" The Minister states very fairly the arguments against his own proposal in paragraph 27. He admits that there is hardship. But, he adds, such hardship is already inherent in the Act of 1947. He seems to assume that this is an entire justification of his scheme. But I cannot accept his assumption. After all, the 1947 Act was introduced, not by a Conservative Government, but by a Socialist Government, and it is admittedly full of injustices. Indeed, one of the main purposes of the proposed Bill is to remove these. Why then perpetuate one of the most glaring? Why should Mr. A., who may be very poor, receive only the 1947 development value for his land, which is acquired by a public body or sterilised, whereas Mr. B, who may be very rich, is to get the whole present day market value, merely because he is fortunate enough to be allowed to sell his land to a private developer. There seems no rhyme or reason in it. The Minister defends the
proposal by broad references to what he describes as "the general principle
of good neighbourliness and public interest", and, in paragraph 32, by the
more specific argument that "if public authorities were required to pay full
market value for land needed for public purposes they would, in many cases,
have to pay a price enhanced by public improvements made at public expense".
But that is equally true of nearly all private development. It has indeed often
been argued in the past that all value is created by the community, and that
only the community should benefit by its development. But that is a contention
that has never been accepted by the Conservative Party. In this particular
case, the Minister does accept it in a modified form, and his conclusion is
that a certain measure of confiscation is therefore justifiable. That seems
to me an extremely dangerous principle for the Conservative Party to adopt.
Moreover, his argument is, to my mind, seriously weakened by his
complementary proposal, in paragraph 34, that public authorities should be both
empowered and encouraged to buy compulsorily land which is earmarked in their
plans for early development, not only for public purposes but "in order to
make it available to private developers on easy terms". They are to be able
to buy in the lowest market and sell at whatever price they like. The assumption
running through the whole paper is that public authorities are always generous
and humane and private owners are extortionate ruffians. That is strange
doctrine for the Conservative Party, and I do not believe that there is any basis
for it in fact. Indeed, I have seen examples within recent times which lead to
exactly the opposite conclusion. Nor do I accept his argument that though,
in his proposal, there may indeed not be equality as between landowner and
landowner, "it is an illusion to suppose that equality is synonymous with equity".
In this particular instance, I should have thought that the two were entirely
synonymous.

3. It may seem from my argument that I am in favour of limiting the
development rights of all landowners, whether they sell to private or public
developers - or are precluded from developing at all - to the 1947 value; and
indeed I do feel that that would be far more equitable than the Minister's present
plan. But the real difficulty in pursuing that course is that, as he himself
frankly recognises, it is likely to be impossible, with the passage of time, to
maintain that position. People who want land badly enough will pay more than the
1947 value for it, and no one will be able to stop them. That is already happening
today on a large scale. What I should like therefore to suggest is that the
standard value for all land that is bought and sold after the passing of the new
Act shall be the present market value, whether it is acquired by a public or
private buyer. In the vast majority of cases, this will easily be agreed, as I
know from personal experience: for the ordinary private owner, I would
repeat is not extortionate. Provision must however of course be made for the
cases where the owner stands out for an unduly high price from a public body.
In such cases, I suggest that the matter should be referred to an independent
body of experts for arbitration, the decision of that body being final. This
should be an entirely effective deterrent against the extortion of an excessive
price by an anti-social owner: and, in practice, I believe that the cases referred
to the arbitral body would be few, since the actual presentation of the seller's
case before it would be expensive and he would only refer to it on occasions
when he felt that he was being really hardly treated.

4. I submit this alternative proposal with all deference to my colleagues.
It is, I know, always an invidious and ungrateful task in these days to put the
case for landowners. They are not, politically, a popular body. But they are
as entitled to justice as other sections of the community, and they are nowadays,
I would repeat, not a very restricted and immensely rich class: they include
innumerable small owners, many of whom have invested the savings of a lifetime
in land or houses. If they are not to get protection from the Conservative Party,
to whom are they to look for it? Under the Minister of Housing's proposals, many of them will be even worse treated by us than by the Socialist Government. Then, they would at any rate have got, immediately, their share of the £300 millions. Now, they will not even get that. Nor will they get (see paragraph 30) compensation for refusal to permit change of user, though the present user may give the owner no adequate return on his investment, and the prospect of a redevelopment of his property involving change of user may have been the sole reason why he originally bought it. They will have to wait until their land is acquired or sterilised, and even then - it may be years hence, when conditions may have entirely changed - many of them will only get the 1947 development value.

5. I cannot believe that by a sacrifice of our principles to political expediency such as seems to be envisaged in these proposals, we shall enhance our credit or authority either with our own supporters or with the country as a whole.

S.

Commonwealth Relations Office, S.W.1.
30th SEPTEMBER, 1952.
CABINET

The attached paper will be considered at the meeting of the Cabinet today - Tuesday, 30th September, at 5 p.m.

Cabinet Office, S.W.1.
30th September, 1952.
KOREA: ARMISTICE TALKS

Memorandum by the Secretary of State for Foreign Affairs.

I circulate to my colleagues the following note on the present situation in the Korean Armistice talks.

2. The United Nations Command's Proposals

On 28th September, at Panmunjom, the United Nations Command negotiators proposed to the Communists that, after the conclusion of an armistice:

(i) all prisoners should be taken in groups to a mutually agreed place in the demilitarised zone and there be given the free choice of going north or south, if desired under the supervision of the International Committee of the Red Cross, joint Red Cross teams, or military observers from both sides; or

(ii) those prisoners refusing repatriation should be taken to the demilitarised zone, freed from military restraint and interviewed individually by representatives of neutral countries, under observation similar to that in (i) above; or

(iii) all prisoners should be taken to the demilitarised zone where they would be checked against lists, it being understood that, when this had been done, all obligation to release and repatriate them would be considered to have been fulfilled.

3. These proposals are in fact variations on a suggestion which Sardar Panikker, the then Indian Ambassador in Peking, reported that Chou En-Lai had made to him in June this year, but which the Chinese later specifically disowned as unacceptable. The initial Communist reaction to them has not been encouraging. The truce talks have now been adjourned until the 8th October.


The United States Government considered putting forward, simultaneously with the proposals outlined above, another proposal of a quite different type, which was to have been as follows: that both sides should carry out all the articles of the armistice agreement already agreed on between them (i.e. the complete armistice agreement except for the prisoner of war article); that the United Nations would return 83,000 prisoners (i.e. all those willing to
go) to Communist control; that the Communists would return 12,000-odd prisoners (i.e., all the United Nations prisoners) to United Nations control; that there should then be an immediate cease-fire and armistice in Korea; and that the question of what to do with prisoners whose status remained in dispute after the cease-fire should be the subject of later negotiations. In fact an armistice would then be secured by the two sides agreeing to differ on the disposal of prisoners of war refusing repatriation.

5. This proposal derived from one which had been put by us to the State Department at an earlier date. Although in practice it probably would have had little chance of acceptance by the Communists, at least it represented a fresh approach to the deadlock on prisoners of war and its rejection by the Communists would have been a further propaganda point in our favour.

6. The United States Government, however, finally decided not to put the proposal forward, for the following reason. Unless the Communists accepted it in the clear knowledge that they were in effect abandoning their insistence on forcible repatriation there would be, in the American view (particularly in the view of the United States military), a serious risk that after the armistice had been signed it might eventually be violated by the Communists. The United States Government recognised that this risk exists in any case and that the Communists might violate an armistice over an issue such as withdrawal of all foreign forces from Korea. They nevertheless considered that it would be highly dangerous to give the Communists an additional important pretext for breaking the armistice by leaving such a delicate issue hanging over unresolved.

7. This argument rests on the assumption that the Communists might accept the proposal in the genuine belief that the United Nations Command had abandoned the principle of voluntary repatriation. It would, however, be perfectly feasible, in putting the proposal forward, to make it clear to the Communists that this was not the case. On such a basis, the proposal, admittedly, would be unlikely to appeal to the Communists. It would, however, be at least more likely to do so than the proposals now put forward, the principle of which has already been rejected by the Communists. It would also have the advantages set out in paragraph 5 above.

8. I should be glad of the views of my colleagues on the question whether, if the Communists confirm their rejection of the latest proposals by the United Nations Command, we should again urge upon the United States and old Commonwealth Governments the desirability of putting forward a proposal on the lines of that discussed in paragraph 4 above, explaining to the United States Government why we have not been convinced by their objections to it.

A.E.

Foreign Office, S.W.1,
30th September, 1952.
CABINET

THE PALEY COMMISSION

NOTE BY THE CHANCELLOR OF THE DUCHY OF LANCASTER


A fuller summary of the Report has been prepared for the Commonwealth Economic Conference and is available.

SWINTON.

Ministry of Materials, S.W. 1,
30th September, 1952.

THE REPORT OF THE PALEY COMMISSION

1. The Ministry of Materials have been examining the important Report of the Commission appointed by the President of the United States (the Paley Commission) on the long-term materials situation likely to face the United States and the rest of the free world. What follows is a summary of the Report and some reflections on its importance to the United Kingdom.

General Assumptions

2. The Report starts from the general assumption that over the next 25 years the total output of goods and services in the United States and the rest of the free world will approximately double. As the United States is in the throes of another industrial revolution and has an economy with a high rate of capital formation, the Ministry think that the general picture of the future shape of its economy is not unreasonable, although it seems doubtful whether the rest of the free world together will progress economically at the same general rate as the United States over the next 25 years.

Supply Prospects of Industrial Materials

3. Having laid down its fundamental economic assumptions, the Report proceeds to estimate the possible supply/demand situation in the long-term of the major industrial materials, although certain important materials for the United Kingdom and the Commonwealth are not specifically considered (e.g., wool, cotton, jute). Attached, as an appendix, are Table I, which shows the estimated long-term demands for the materials of greatest interest to the United Kingdom and the Commonwealth as estimated by the Paley Commission, and Table II, which shows an estimate, necessarily tentative, made by the Ministry of Materials of what might be the amount and value, at present prices, of the Sterling Area's share in meeting the increase in American requirements.

42973
4. From Table I emerges the importance attached to the non-ferrous metals group as a whole. Indeed, the Report in its examination of the supply prospects of non-ferrous metals stresses the need for increased vigorous exploration and development of new ore reserves and the use of low-grade ores owing to the exhaustion of the easily accessible high-grade deposits.

5. It should not, however, be assumed from the Paley Report that any vast expansion in Sterling Area dollar earnings is likely, even over the long-term, through increased exports of industrial materials to the United States. Table II suggests that by 1975 there might be increased earnings of £150 million a year on the twelve main materials considered in the Report (which, however, do not include wool and jute, at present among the biggest dollar-earners). This is a sizeable sum, but it would represent an annual growth of only some £6 million a year. Whether even these figures could be achieved would depend largely upon two things:

(a) The long-term possibility of converting the Sterling Area as a copper producer from the present position of production approximately balancing consumption to one of a substantial net exporter to the United States. Although Northern Rhodesia has made great strides as a copper producer over the last twenty years, its long-term future as a copper producer is not yet certain.

(b) The future output of the United States' synthetic rubber industry in the event of a substantially rising long-term demand for rubber. United States officials have commented, in the recent discussions of the Rubber Study Group concerning a possible Rubber Commodity Agreement, that any shortage of rubber developing in the late 1950's or early 1960's could technically be met by a rapid expansion of synthetic rubber production, especially if production is in the hands of private enterprise. If an initial shortage of natural rubber developed, and it were so met, the prospect of additional natural rubber imports in the longer run would be remote.

6. On the other hand, the prospective increase in the demands of the United States for raw materials is not without serious dangers for the United Kingdom. If the expansion of supplies fails to keep pace, the superior purchasing power of the United States is likely to force up prices and suck in supplies largely at our expense. The damage done to us would be greatest in commodities, such as sulphur, molybdenum, and perhaps timber, where we now draw supplies largely from the United States and other parts of the dollar area. But even in the case of commodities of which the Sterling Area is a net exporter and consequently would benefit as a whole from the increased prices, there would be a deterioration in the terms of trade of the United Kingdom and a rise in our cost of living.

Policy Recommendations

7. The Report makes certain policy recommendations, particularly on foreign trade questions. Those of particular importance are briefly:

(a) inter-governmental agreements with raw material-producing countries to encourage and protect the investment needed for new raw materials production against violent fluctuations in prices;

(b) encouragement for United Nations technical assistance in geological surveying and mineral exploration;

(c) the establishment of a permanent agency to follow Defense Material Procurement Agency and other emergency agencies to make long-term purchase contracts with foreign producers with price guarantees and to make loans for production;

(d) agency contracts by the Government for foreign materials expansion;

(e) permanent powers to reduce or abolish import duties on scarce materials and the repeal of the “Buy America” Act;

(f) consideration of multilateral contracts on the model of the wheat agreement and of buffer stock arrangements for a few commodities without restrictive provisions in order to reduce market instability;

(g) changes in United States tax laws to encourage United States private investment in foreign countries;

(h) the use of stockpiling as a permanent instrument of national materials policy.
8. These policy recommendations constitute a significant materials policy. But, while there are already abundant signs in the United States Press and elsewhere of the interest which the Report has evoked, we cannot expect it to have an immediate influence on the new Administration and the new Congress: though the very fact that the Report has been made and has obtained wide publicity is bound to have its impact.

Technology
9. The report places considerable stress on the role of technology in overcoming particular problems and in developing new materials. Indeed United States technology will obviously determine in a large measure the actual shape of the United States materials position by 1975. The attention of the Office of the Lord President of the Council, of the Ministry of Works and the Ministry of Fuel and Power might be drawn, we suggest, to Volume IV of the Report, "The Promise of Technology," in the belief that it will repay detailed study.

Implications for United Kingdom Policy
10. Given that the Report of the Paley Commission may be expected to have formative effects on American public opinion and policy, which may show themselves in action after the Presidential Election, how can we take advantage of these?

1. The interest indicated in international commodity arrangements gives an opportunity for serious consideration of agreements in cases, of which rubber is the current example, where a suitable agreement would be to the advantage of the Commonwealth and the Sterling Area. The Americans will, however, look to us to produce the ideas and to show willingness in initiating stabilisation plans for commodities of which the Commonwealth is the main producer.

2. American opinion may become more favourable to the establishment of some permanent International Organisation—whether growing from the International Materials Conference or otherwise—to keep an eye on raw materials generally and to stimulate more speedy action to deal with emergencies in particular commodities. This would be to our interest, and we should press it on Americans as opportunity arises.

3. Present United States Government policies for the provision of capital for development in under-developed countries are likely to be strengthened, but also canalised more towards projects which will directly improve supplies of particular materials. We are considering these matters in preparation for the Commonwealth Economic Conference.

4. The emphasis on domestic stock-piling by the United States could have disturbing results: we should use the other recommendations when necessary to impress upon the United States Government the need for regulating stock and de-stocking operations so that they do not upset the normal market.

5. American private investment in materials production may also be stimulated by the Report. We should try to see that taxation and concession rules in Colonial territories are not deterrent to it; and we should reduce the disincentives in our own taxation to the expansion of mining and other development by British Companies.

6. We should press on more actively with geological and other survey work in the Colonial territories. More money spent on this could bring a big return in the attraction of American capital as well as profitable investment for our own.
APPENDIX

### TABLE I.—PALEY COMMISSION'S ESTIMATES OF DEMAND FOR RAW MATERIALS

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Unit</th>
<th>United States demand</th>
<th>Rest of free world demand</th>
<th>Total demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper</td>
<td>Short tons</td>
<td>1,255,000</td>
<td>43</td>
<td>1,343,000</td>
</tr>
<tr>
<td>Lead</td>
<td>Short tons</td>
<td>784,000</td>
<td>53</td>
<td>544,000</td>
</tr>
<tr>
<td>Zinc</td>
<td>Short tons</td>
<td>1,081,000</td>
<td>39</td>
<td>1,001,000</td>
</tr>
<tr>
<td>Aluminium</td>
<td>Long tons</td>
<td>920,000</td>
<td>291</td>
<td>1,465,000</td>
</tr>
<tr>
<td>Tin</td>
<td>Long tons</td>
<td>71,000</td>
<td>18</td>
<td>72,600</td>
</tr>
<tr>
<td>Antimony</td>
<td>Short tons</td>
<td>15,500</td>
<td>81</td>
<td>25,000</td>
</tr>
<tr>
<td>Cadmium</td>
<td>Million lb.</td>
<td>4,800</td>
<td>150</td>
<td>1,200</td>
</tr>
<tr>
<td>Bismuth</td>
<td>Million lb.</td>
<td>1,000</td>
<td>75</td>
<td>375</td>
</tr>
<tr>
<td>Beryl (ore)</td>
<td>Million lb.</td>
<td>3,145</td>
<td>138</td>
<td>1,000</td>
</tr>
<tr>
<td>Chromite (ore)</td>
<td>Long tons</td>
<td>875,000</td>
<td>100</td>
<td>540,000</td>
</tr>
<tr>
<td>Nickel</td>
<td>Short tons</td>
<td>100,000</td>
<td>100</td>
<td>32,000</td>
</tr>
<tr>
<td>Molybdenum</td>
<td>Million lb.</td>
<td>13,000</td>
<td>170</td>
<td>5,000</td>
</tr>
<tr>
<td>Cobalt</td>
<td>Million lb.</td>
<td>4,500</td>
<td>340</td>
<td>3,000</td>
</tr>
<tr>
<td>Tin</td>
<td>Million lb.</td>
<td>3,000</td>
<td>150</td>
<td>11,000</td>
</tr>
<tr>
<td>Fluorspar (100% calcium fluoride equivalent)</td>
<td>Million lb.</td>
<td>369,000</td>
<td>187</td>
<td>159,000</td>
</tr>
<tr>
<td>Sulphur (from all sources new and recovered)</td>
<td>Long tons</td>
<td>4,806,000</td>
<td>110</td>
<td>6,700,000</td>
</tr>
<tr>
<td>Rubber (natural and synthetic)</td>
<td>Long tons</td>
<td>1,320,000</td>
<td>89</td>
<td>825,000</td>
</tr>
<tr>
<td>Manganese ore (46%)</td>
<td>Short tons</td>
<td>1,500,000</td>
<td>50</td>
<td>1,400,000</td>
</tr>
<tr>
<td>Iron ore (50%)</td>
<td>Short tons</td>
<td>130,000,000</td>
<td>54</td>
<td>105,000,000</td>
</tr>
</tbody>
</table>

### TABLE II.—POSSIBLE STERLING AREA SHARE IN MEETING UNITED STATES DEMAND

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Additional United States imports required by 1975</th>
<th>Likely Sterling Area share in the addition</th>
<th>Value of (1) at present prices £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>Copper</td>
<td>552,000</td>
<td>200,000</td>
<td>47.9</td>
</tr>
<tr>
<td>Lead</td>
<td>335,000</td>
<td>100,000</td>
<td>11.4</td>
</tr>
<tr>
<td>Zinc</td>
<td>438,000</td>
<td>140,000</td>
<td>14.0</td>
</tr>
<tr>
<td>Tin</td>
<td>13,000</td>
<td>8,000</td>
<td>7.9</td>
</tr>
<tr>
<td>Manganese ore (46%)</td>
<td>1,000,000</td>
<td>900,000</td>
<td>9.0</td>
</tr>
<tr>
<td>Chromite (46%)</td>
<td>800,000</td>
<td>650,000</td>
<td>4.7</td>
</tr>
<tr>
<td>Cobalt</td>
<td>26</td>
<td>4</td>
<td>1.8</td>
</tr>
<tr>
<td>Tungsten</td>
<td>3</td>
<td>3</td>
<td>2.6</td>
</tr>
<tr>
<td>Niobium</td>
<td>15,000,000</td>
<td>8,000,000</td>
<td>18.8</td>
</tr>
<tr>
<td>Bauxite</td>
<td>250,000</td>
<td>150,000</td>
<td>58.6</td>
</tr>
</tbody>
</table>

**NOTES**

1. The figures in column 2 are reached by assuming that the additional United States imports are supplied by the Sterling Area and by the rest of the free world in proportions corresponding to actual output in 1950 or to the size of known reserves (whichever appears the better guide to future output in individual cases). They assume a sufficient rise is output to meet the expanding demand of the rest of the world as well as the United States.

2. Bauxite imports are for United States and Canada together, and assume a joint 1975 output of 5,000 tons of aluminium, requiring 20 million tons bauxite, compared with 1950 output of 1-1 million tons. Natural rubber assumes that total 1975 United States demand of 2-5 million tons will be met by 1-0 million natural, 1-5 million synthetic. Rest of free world demand would be met 1-3 million natural, 1-2 million synthetic. The Paley Report puts maximum output of natural at 2-5 million, of which 200,000 may go to non-free world. An average value of $4.6 per lb. is taken.
30th SEPTEMBER, 1952.

CABINET

INTERNATIONAL OIL INDUSTRY:
FEDERAL GRAND JURY PROCEEDINGS IN THE
UNITED STATES OF AMERICA.

Memorandum by the Secretary of State
for Foreign Affairs.

As I informed my colleagues on the 4th September, the United States Attorney-General recently convened a Federal Grand Jury and instructed them to consider whether the activities of the international oil industry constituted a breach of the United States Anti-Trust laws (C.C.(52) 78th Conclusions, Minute 5). The scope of these proceedings is very wide and has provoked great indignation on the part of both British and American oil companies, a number of which have been served with sub-poens requiring the production of books, records and correspondence over twenty years or more. It is in fact a test case, since these are the first anti-trust proceedings aimed exclusively at companies' activities outside the United States of America.

2. Apart from the big five United States companies (Standard New Jersey, Gulf, Socony-Vacuum, Texas Oil Company, Standard California), Anglo-Iranian Oil Company (A.I.O.C.) have been sub-poena'd through their office in New York, and Asiatic Petroleum Corporation (A.P.C. - an American subsidiary of Shell) have also been sub-poena'd. Personal sub-poenas have been served on Mr. H. Wilkinson, a director of Shell Transport and Trading, in his capacity as President of A.P.C., and on three other officers of the Corporation.

3. On the instructions of the Ministers concerned, certain action has already been taken, designed to stiffen the State Department in their efforts to mitigate the harmful effects of these proceedings. Informal representations at diplomatic level, emphasising the harmful effect public indictment of the oil companies will have in third countries, especially in the Middle East, have already been made to the State Department. We have asked the Dutch and French Governments to do likewise. It was also agreed that, after consultation with the British companies and the State Department, we should take such action as may be possible to prevent the production of certain documents on grounds of national interest. A decision on this point is now urgent since the motions by A.I.O.C. and the United States companies in the United States of America Courts, challenging their sub-poena's, will be heard on the 1st October, and since the postponement A.I.O.C. secured for production of documents expires on the 3rd October.

4. The General Issue

It is for consideration whether Her Majesty's Government should oppose, for all trading companies (i.e. not confining it to the oil industry), and on
broad national grounds, the attempted application of the United States Anti-Trust laws to activities of non-American companies outside the United States of America. In its simplest terms, to accept such application would mean that a British company having some association with an American company, and having a subsidiary company, office or other property in the United States, could at any time be subjected to penal proceedings before a United States Court for breach of the United States Anti-Trust laws, even though the acts complained of were done outside the U.S.A, and were not a breach of British law or of the law of the place in which they were done. This raises the general question of the propriety of a country instituting penal proceedings in connection with things done outside that country by persons who are not nationals or residents of that country. Legal consideration at the highest level should be given to this question, to decide what, if any, steps can be taken. Unless we take a stand on this wider constitutional issue, British companies may well be deterred from entering into trading association with American companies or even having business premises in the U.S.A. and this at a time when both we and the Americans wish that dollar business should be developed. Moreover other foreign countries might be encouraged to adopt similar legislation to compel British overseas corporations to disclose details of their business throughout the world. Consideration of this broader principle and of its implications will, however, take time. In view of the time limits mentioned at paragraph 3 above, other more immediate action is desirable.

5. The Immediate Issue

The indictment of British oil companies in the United States Courts is a very serious matter. Not only is the oil industry of major economic, strategic and political importance, but the disclosure of key documents, e.g., confidential agreements between the companies and foreign governments, correspondence between the companies and Her Majesty's Government, could be extremely prejudicial to the national interest. Moreover to allow production of such documents may assist the United States Courts to issue orders to break up inter-company arrangements on which depend the flow of oil to the free world. In view of the fact that British companies have been enjoined to produce company records and correspondence from their British archives on or about the 3rd October, it is essential that these companies should be told by Her Majesty's Government that any documents or information likely to prejudice the national interest should be withheld. It is also essential that they should not be subjected to charges of contempt of court if they do not produce these records - as they have no wish to do.

6. Discussions have taken place with the British oil companies and the Treasury Solicitor on possible immediate protective action to be taken by Her Majesty's Government and it is considered that the sending of a letter by Her Majesty's Government to all British oil companies likely to be involved, on the lines of the draft at Annex A, would provide a certain measure of protection ad interim. The letter has been drafted in such a way as to make clear both grounds of objection i.e. legal and strategic, to the United States Administration, in the hope that this will have a salutary effect. The object of this letter is:

(i) to indicate Her Majesty's Government's general concern at attempts to expand United States jurisdiction under the Sherman Act to embrace activities of British companies outside the U.S.A.

(ii) to make it clear that production of certain documents by British companies could endanger not only British interests but those of the Western Powers.

(iii) to protect British nationals under personal sub-poena (e.g. Shell's Directors).
The letter is not however a legal document in the sense that any legal action can be taken if United States Courts reject it. In that event, such recourse as we have would be through diplomatic channels.

7. As drafted, the letter at Annex A in effect places on the companies the onus of deciding what documents to submit, as they will have to decide whether release of a given document would prejudice or endanger the economic, strategic or political interests of Her Majesty's Government or of the Western Powers. The companies have been informed that Her Majesty's Government would be willing to advise them.

8. The draft has been shown to the Netherlands Embassy who welcome it as being in line with their own thinking in respect of Shell's Dutch interests. Her Majesty's Embassy, Washington, has also been consulted. They have no comments but are consulting the State Department. The latter have promised their views as soon as possible but, judging by the personal views expressed by State Department officials now in London, they are unlikely to want to express any opinion.

9. In view of the time element therefore I would invite my colleagues' agreement to:

(i) authorising the despatch forthwith of the draft letter at Annex A to all British oil companies who may be involved in the United States Anti-Trust proceedings,

(ii) taking legal advice on the wider constitutional issue as described at paragraph 4 above.

A.E.

Foreign Office, S.W.1.
30th September, 1952.

ANNEX A

The claim by any foreign state to have the right to institute legal proceedings in connection with things done outside that state by persons who are British nationals or by British corporations is a matter of concern to Her Majesty's Government.

Her Majesty's Government understand that in connection with proceedings in the United States under the Anti-Trust Laws of the United States you have been or may be required or requested to produce documents and your officers have been or may be required or requested to give information relating to the conduct of your business outside the United States.

Her Majesty's Government consider it contrary to the national interest that, in response to such requirements or requests, you or your officers should produce any documents, papers or other information relating to the conduct of the business of your company outside the United States, the disclosure of which may prejudice or endanger the economic, strategic or political interests of Her Majesty's Government or the Western Powers.

For the above reasons, any documents, papers or other information, falling within these categories, should not be provided.
CABINET

THE DEFENCE PROGRAMME

MEMORANDUM BY THE MINISTER OF DEFENCE

On 22nd July, 1952, I circulated a memorandum to the Cabinet (C. (52) 253) in which I set out the estimated expenditure over the next three financial years required to give effect to the policy set out in the Chiefs of Staff Review of Defence Policy and Global Strategy (D. (52) 26). On 23rd July, the Cabinet asked me to examine the effects of adopting lower figures both for annual expenditure and for the load thrown by the rearmament programme on the metal-using industry (C.C. (52) 72nd Conclusions, Minute 5). In subsequent discussion with the Chancellor of the Exchequer he and I agreed on certain alternative figures as a basis for this further examination, which has now been carried out. The results, with the comments of the Chiefs of Staff, have been circulated in D. (52) 41. The Annex to that paper contains a careful and detailed analysis of the ways in which the programme devised to give effect to the Chiefs of Staff’s Strategic Review would have to be modified if either of the alternative lower figures (Exercises I and II—see Table I of the Report) had to be accepted. A defence programme is a highly complex affair and it is not easy from a study of a mass of detail to derive a clear picture of the general effect of different levels of expenditure. I want in this paper to help my colleagues to realise clearly what is at stake, and to state my own conclusions on the proper size of the programme for the next three years.

2. In my previous memorandum (C. (52) 253) I drew the attention of the Cabinet to the importance of the Chiefs of Staff’s Review, which they completed in July of this year. For the first time since the beginning of the rearmament programme we had a full and careful assessment of our world-wide tasks and obligations made in the light of the rapid development of atomic weapons and of the United States’ strategic air power, and taking account of the economic situation of the country. That Review and the Foreign Secretary’s memorandum on British Overseas Obligations (C. (52) 202), both of which were generally endorsed by the Defence Committee, set before us a coherent basis for our defence planning. The Chiefs of Staff, in their new report, once more emphasise that any marked departure from the programme worked out from their Strategic Review would be attended by unacceptable military risks. They point out that they did everything they could to confine their rearmament proposals within the limits imposed by economic necessity. The resultant programme did not by any means build up completely equipped forces in three or four years. Far from it. Re-equipment with new weapons under that programme would have reached a reasonably satisfactory level by 1958, but much would have remained to be done even after that date in all three Services if they were to be fully prepared for war. This must be borne in mind in considering any further reduction of the programme.
3. Our defence plans have to cover the current needs of forces of a certain size, the build-up of the forces where they are clearly insufficient, and a re-equipment programme for providing them with modern equipment where this is necessary, and for building up war reserves to a minimum level. With regard to the size of the forces and the build-up that is planned, the position is quite simple. No increase or decrease is planned in the size of the active Army, the whole of which is committed in the Cold War, and only four of our reserve divisions are to be equipped for war. There will be some decline in the active strength of the Navy, though it is intended to build up the number of anti-submarine craft and minesweepers—the additional ships would be mainly in reserve—in which our deficiencies are most serious, and to proceed with the modernisation of old ships to fit them for the conditions of modern warfare. The whole of the programme will be carried out at a slower pace than previously intended. The Royal Air Force is to be expanded from its present dangerously low level in order to strengthen the defences of this country against air attack and to contribute to the deterrent forces of the Atlantic Alliance. The expansion is, however, much smaller than that to which we have been working since January 1951. Our contributions to N.A.T.O. will generally fall far below those which we accepted at Lisbon; this applies especially to bomber and tactical air forces.

4. The main issue on the re-equipment programme is how rapidly we should introduce modern equipment to replace the old, and how quickly we should build up the small war reserves for which the new strategic concept calls. The programme recommended by the Chiefs of Staff already moves uncomfortably slowly. To reduce it much further would increase the danger that should war come the forces we should have to commit would be gravely underequipped and outmatched by the enemy. If we are to have a rearmament programme at all, we must spend enough on it to make it effective; nothing would be more uneconomical than to spend considerable sums over many years without increasing the effectiveness of our armed power.

5. Given our strategic commitments, our obligations to our Allies, and our general tasks in the Cold War, our right course would be to accept the programme which the Chiefs of Staff have recommended. However, in assessing what is needed to carry out a given policy, there is room for argument about the precise composition of the programme, and about how far we should go in discounting the possibility of war in the next three or four years. There is also room for discussion about the degree of obsolescence that can be accepted in some types of equipment.

6. I have, therefore, in accordance with the policy which I have consistently followed since I took up office, and in full consciousness of our grave economic problems, felt it my duty to examine most carefully the programmes of the three Services to see whether expenditure could be reduced without irreparable damage to the main structure of the rearmament plan. In consultation with the Service Ministers and the Chiefs of Staff, I have personally scrutinised in detail the programme of each Service.

7. The result has been to confirm the validity of the recommendations made by the Chiefs of Staff and to demonstrate that they are not making any excessive demands.

8. I have, nevertheless, investigated certain further economies, which while they would be most undesirable and extremely painful, would not destroy the whole basis of the programme, though they would materially set back our readiness for war.

9. These further economies cover a wide range, but the following brief account will, I hope, serve to indicate their general nature. In the Army's programme, the main change would be a cut of more than three-quarters in the number of tanks with the 120-mm. gun to be delivered in the three-year period. This would severely reduce the fighting power of our divisions on the Continent, but the number of tanks left in the programme would be sufficient to keep the production line going at minimum level and to put enough tanks into the front line to act as a wholesome deterrent. In the Royal Air Force, the completion of the build-up of the night fighter force in Fighter Command would be delayed from the end of 1953 to the end of 1954; the creation of the mobile reserve of fighters would be slowed down; and expansion of Bomber Command planned to take place by the end of 1955 would be greatly
reduced. This would mean taking the Washingtons (B.29s) completely out of service. In the Navy, our own programme of minesweepers would be reduced by 40, and the ships would be offered to the United States as an off-shore purchase for allocation to N.A.T.O. countries, so that they would still go to reduce the general deficiencies of minesweepers. For all three Services, the vehicle programmes would be cut, the accumulation of war reserves of warlike stores in several important categories, as well as of general stores and clothing, would be delayed; all further stockpiling of oil fuel would cease, except for aviation fuels, our stocks of which are far too low, and stocks would be run down to some extent. Further reductions would be made in works programmes and staffs would be reduced wherever possible. The numbers of Z reservists called up for training would be substantially cut, and there would be some reduction in the refresher training of reserve pilots.

10. If all these economies were forced upon us, the saving during the three years would be about £250 million.

11. I can summarise the position as follows. The original costing of the Chiefs of Staff Review gave the following figures:

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</thead>
<tbody>
<tr>
<td>£M. (actual)</td>
<td>1,462</td>
<td>1,759</td>
<td>1,857</td>
<td>1,867</td>
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A revised and more accurate costing of the programme has since been worked out, making better allowances for shortfalls in production, giving the following figures:

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>£M. (actual)</td>
<td>1,462</td>
<td>1,719</td>
<td>1,777</td>
<td>1,790</td>
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</table>

The figures that would result from the Chiefs of Staff Review, if the savings mentioned in paragraphs 9 and 10 were made in full, would be:

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>£M. (actual)</td>
<td>1,462</td>
<td>1,645</td>
<td>1,688</td>
<td>1,698</td>
</tr>
</tbody>
</table>

12. In comparing the figures of future expenditure with the provision for the current year, it should be remembered that they include, as pointed out in paragraphs 5 and 6 of the Annex to D. (52) 41, substantial amounts for services for which either no provision, or much smaller provision, had to be made this year. In considering these amounts, the following factors should be borne in mind:

(a) Germany

It has been assumed that from July 1953 the local costs of United Kingdom forces in Germany will be met in full by the United Kingdom Exchequer. We have maintained that we cannot accept this additional burden on our balance of payments. The Americans are well aware of this. There is also likely to be some delay in raising the first German forces. Against this background I suggest that it would be reasonable to assume that our local costs after July 1953 will not have to be borne in full by the United Kingdom Exchequer, but that they will be offset from Germany or from American aid in a substantial degree, which I should estimate at possibly £30 million in 1953-54 and £35 million in each of the two succeeding years.
(b) G.P.O. Charges
Under a recent Cabinet ruling the cost of G.P.O. expenditure on defence account is now being recovered from defence votes, and thus forms part of the defence budget though not an additional charge on the Exchequer.

(c) Expenditure in Malaya
Again under a recent Cabinet ruling the extra cost of preserving internal security in Malaya has been transferred from the Colonial and Middle Eastern Services Vote to Defence Votes, with no extra charge to the Exchequer.

(d) Petrol Duty
The figures include about £40 million a year for petrol duty, which returns immediately to the Exchequer. This amount has been greatly increased, to the extent of no less than £35 million a year in comparison with previous years, by increased duty and because jet aircraft now use dutiable fuel. Clearly this expenditure is no burden on the Exchequer.

13. The sums concerned in these four items are:

<table>
<thead>
<tr>
<th></th>
<th>1953–54</th>
<th>1954–5</th>
<th>1955–56</th>
<th>Total</th>
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<tbody>
<tr>
<td></td>
<td>£M.</td>
<td>£M.</td>
<td>£M.</td>
<td>£M.</td>
</tr>
<tr>
<td>Germany</td>
<td>30</td>
<td>35</td>
<td>35</td>
<td>100</td>
</tr>
<tr>
<td>G.P.O. Services</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>33</td>
</tr>
<tr>
<td>Malaya</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td>Petrol Duty</td>
<td>39</td>
<td>38</td>
<td>40</td>
<td>117</td>
</tr>
<tr>
<td></td>
<td>87</td>
<td>92</td>
<td>96</td>
<td>275</td>
</tr>
</tbody>
</table>

Full allowance must be made for this additional burden on the defence budget in any comparison between current and future estimates.

Metal-Using Industries

14. If the further economies mentioned in paragraphs 9 and 10 above were made in full, the load imposed on the metal-using industries by the defence programme would be reduced:

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<thead>
<tr>
<th></th>
<th>1953</th>
<th>1954</th>
<th>1955</th>
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<tbody>
<tr>
<td></td>
<td>£M.</td>
<td>£M.</td>
<td>£M.</td>
</tr>
<tr>
<td>From</td>
<td>515</td>
<td>580</td>
<td>590</td>
</tr>
<tr>
<td>To</td>
<td>485</td>
<td>540</td>
<td>550</td>
</tr>
</tbody>
</table>

These figures are admittedly somewhat higher than the figures which I had suggested to the Chancellor as a basis for examination, and a good deal higher than the flat level of £450 million, which the Chancellor suggested. Metal-using production is, however, the heart and core of the rearmament programme and I am fully satisfied:

(a) that, after making every effort, all possible economies in this sphere, which are consistent with the maintenance of the rearmament programme at an adequate level, have been made;

(b) that to impose further reductions on the figures now suggested would create very serious risks;

(c) that to impose a flat level of metal-using production over the next three years at this stage of the rearmament programme is not practicable without destroying the whole basis of the programme and causing far more serious dislocation and inefficiency than that with which we are already faced.

15. I would ask my colleagues to bear in mind, too, that these calculations on metal-using production are not by any means precise and that the whole matter must be considered against the background of a total metal-using production in the country of somewhere between £3,500 million and £4,000 million annually. It
does not seem to me that for the sake of £30 million or £40 million annually we should be justified in inflicting the serious damage to the rearmament programme which would result from further reductions of this kind.

Investment Programmes

16. The investment programmes (new works and building in the United Kingdom only) corresponding to the financial estimates under Global Strategy require £118 million in the calendar year 1953. The economies which I have mentioned in paragraphs 9 and 10 would reduce this figure slightly and generally I am prepared to keep the 1953 programme within the limit of £114 million upon which the Cabinet agreed in principle at their meeting on 24th July (C.C. (52) 73rd Conclusions, Minute 8). In the years 1954 and 1955 the figures fall to £102·5 million and £98·5 million respectively, a significant reduction which should be of considerable assistance to the economy.

Prices

17. When I undertook my further study of the programme, I agreed with the Chancellor of the Exchequer that this should be in terms of real resources and not simply of money. All the figures in this memorandum and in D. (52) 41 are based on the level of costs, prices and wages prevailing in June 1952 and no allowance has been made for any increases during the next three years. The programme would thus not be susceptible of reduction to offset rises in costs. Neither, of course, could any reductions be made to accommodate any further items such as those mentioned in paragraph 12 which it may be decided in future to transfer from other votes to defence votes.

Conclusion

18. It is essential for domestic and international reasons that a broad decision on the size of our future defence programme should be reached as soon as possible, and that this decision should cover the next three years. We cannot delay any longer in deciding what figures we are to use for the N.A.T.O. Annual Review, our reply to which is already a month overdue. The further examination I have made has confirmed my view that to carry out our agreed policy we need a defence budget of the size which I recommended in my earlier paper C. (52) 253 of 22nd July, as adjusted in Table III of the Annex to D. (52) 41, i.e., £5,286 million for the three years. If, however, our economic difficulties compel us to reduce all forms of Government expenditure and use of economic resources, I should be prepared, though with great reluctance, to make further economies in order to come down to £5,031 million. I could not possibly recommend going any further than this. I recognise that we are living in times when risks must be run—political, economic and military. But the balance of risk must be evenly borne. I could not subscribe to a policy which, in a manner so familiar in the past, threw all the risks on to defence and the armed forces.

Ministry of Defence, S.W.1,
3rd October, 1952.
CABINET

ATOMIC ENERGY ORGANISATION: TRANSFER FROM MINISTRY OF SUPPLY TO A NATIONAL CORPORATION

MEMORANDUM BY THE PAYMASTER GENERAL

In my view the time has now come for us to decide to transfer the whole of the Atomic Energy Organisation from the Civil Service to a nationally-owned corporation.

History

2. During the war our atomic energy effort, which was mainly devoted to helping the Americans in critical parts of their undertaking, was kept within a small secret branch of the Department of Scientific and Industrial Research. When it became clear towards the end of the war that we would require a large organisation in this country in order to develop atomic energy, it was intended to set up a nationally-owned corporation for the purpose. This intention was not implemented by the Labour Government which decided to entrust the whole enterprise to the Ministry of Supply. The administrative change was made in the autumn of 1945 and embodied in the Atomic Energy Act of November 1946.

3. Seven years after the end of the war we have still to test our first atomic weapon. We hope to do this shortly but even then it will be some time before we have a stock of weapons. The Russians, starting in 1945 with vastly less knowledge of the problem or of the wartime American undertaking—though unfortunately possessing more information than we then suspected—tested their first weapon in 1949, and certainly now have a not inconsiderable stock.

4. This distressing comparison reflects no discredit on the many scientists, engineers and administrators who have done their utmost to build up our undertaking. It is partly no doubt a result of the ruthless priorities which are only possible in a dictatorship. But we could never have fallen so far behind if our organisation had been more equal to its task. The time we have lost is the sum of thousands of little delays all due to the application of Civil Service rules and conditions.

5. The Conservative Party was at first reluctant to criticise the organisation adopted by the Labour Government. We wished to keep the project out of party strife and we watched with hope and anxiety the great efforts of the first Controller of Atomic Energy, Lord Portal of Hungerford, to overcome the many difficulties and frustrations with which he was confronted. But when Lord Portal resigned and when it became clear that our slow progress was leading to widespread dissatisfaction, both among those engaged within the project and outside, I moved, on 5th July, 1951, in the House of Lords, “That this House regrets the slow progress made in this country in developing atomic energy for peaceful and for warlike purposes and calls upon His Majesty’s Government, whilst maintaining broad general control, to transfer work on this subject from the Ministry of Supply to a special organisation more flexible than the normal Civil Service system under the direct control of the head of the Government.” This was an official party motion and I had every reason to believe that it embodied a policy on which our party was resolved.
6. Immediately on the formation of the present Government the Prime Minister stated in the House of Commons that he was considering what adjustments should be made in the existing statutory responsibilities of the Minister of Supply for atomic energy questions and referred to the possibility of an amending Act (15th November, 1951). In the press of business which confronted the new Government, and amid our preoccupations with the dangerous economic situation which we had inherited, it was at first difficult to devote sufficient attention to this problem. In discussions between officials the proposal for a national corporation was criticised, as might have been expected, by those who considered that no expenditure of Government money should be exempted from detailed Treasury control and by those who were afraid to make a big change at this particular time. Certain compromises were examined, including a proposal to set up a semi-Government agency on the lines of the Medical Research Council and also, at the Prime Minister’s direction, the possibility of a transfer to the Ministry of Defence. For one reason or another these proposals were all turned down and the Prime Minister announced on 24th March in the House of Commons that “in view of the fact that important experiments are to be made in the autumn of this year” no radical change would be made “for the present.”

7. Subsequently, with misgiving, I accepted, within the existing organisation, the responsibilities placed upon me by C. 52 119. My experience since then has confirmed my view that the existing organisation is unsatisfactory and that a clean break is required.

Defects of the Present Organisation

8. The exploitation of atomic energy is the most important step taken by man in the mastery of nature since the discovery of fire. In civil life it offers us the prospect of supplementing, during the next few decades, our straitened coal resources. Less than 100 tons of uranium yearly may generate the whole of the nation’s electricity. In the military sphere it will soon dwarf all other weapons and perhaps effect changes in international relations as great as those once wrought by gunpowder in the political structure of Europe.

9. Such an enterprise requires all the imagination and drive which we, as a nation, can furnish. It wants vision, elasticity and rapidity of decision: qualities of mind and outlook which we may hope to find in those who control large and growing industrial enterprises. We alone among the competing nations have chosen to put our atomic undertaking under the control of an ordinary Government department. We have subjected it to the same rules as the collection of customs; it has the same pattern inside the Ministry of Supply as have the Royal Ordnance Factories whose job is the routine production of standardised weapons.

10. We have indeed made the worst possible choice. The Civil Service, for all its great merits, was never designed to handle work of this nature. Rapid progress in matters of this sort can only be expected if the people in charge are given a reasonably free hand. It cannot be made if every decision is necessarily inhibited by precedent and bedevilled by consideration of parities throughout the whole range of the Government service. Full control by Treasury rules is essential to the ordinary processes of departmental administration; it is fatal to the conduct of a high pressure industrial undertaking employing a host of wholly novel techniques whose development is in turn dependent on physical and chemical research being currently pursued on the frontiers of knowledge.

11. One of the most unfortunate results of Civil Service control is the rigidity of salaries and conditions of employment. There is little complaint to be made about the application of Civil Service salary levels to the great majority of employees, i.e., up to the £1,000 to £1,200 a year class, though even here delays occur owing to the need to observe Civil Service Commission formalities in making urgent if junior appointments. It is in the top levels that the main difficulties arise. Here it is frequently essential to fix a personal salary which will attract a particular man for whom industry may be competing. This is barred by Civil Service rules and a difference of a few hundred pounds a year results in a loss of momentum to the project which may cost hundreds of times as much. It has recently proved impossible to obtain a Deputy Controller in the Production Division, though he was willing to come at a salary less than he was receiving in industry. We have since looked in vain for an engineer with his unique qualifications. A similar situation may, at any time, arise in either the research or weapons branches; in neither of these branches has the Director an adequate deputy.
12. Partly as a result of the level of salaries there is a frightening rate of loss of key staff. In the vital weapons division, which is at the very heart of our national security, there is an annual loss which varies between 5 per cent. and 10 per cent. I have corresponded with the Chancellor of the Exchequer to find out whether he could agree to any special forms of contract to improve this alarming situation; and I have been quite properly told that any action of this sort would be an embarrassing precedent elsewhere in the Civil Service.

13. Apart from this special aspect, the general security position is still unsatisfactory. The safeguards rightly devised to protect Government staff as a whole are not appropriate in a special and vital project. The introduction of "positive vetting," though it has apparently satisfied the Americans for a time, has led to little real improvement. Power is required to make suitable arrangements so that employees can be suspended or dismissed even though definite proof of misconduct is lacking. But this is quite rightly impossible while the project is in the Civil Service.

The Organisation Proposed

14. For these reasons, I am satisfied that the whole organisation should be taken right outside the Civil Service. I now therefore seek the agreement of my colleagues to the setting up of a national corporation, which would take over all atomic research and production from the Ministry of Supply, together with the necessary ancillary services. I contemplate that the corporation would have a small executive Board. Members of the Board would be appointed by the Prime Minister, who would answer for it in the House of Commons. The corporation would be financed by a grant-in-aid and its budget and investment programme would be settled annually in advance in consultation with the Treasury. Within its approved budget, and subject to directions which might at any time be given to it, the corporation would have complete freedom. Jealous as Parliament has shown itself of proposals for grants-in-aid, I believe that an overwhelming case could be made in public for this proposal.

Timing of the Change of Organisation

15. I believe that the critical time at which to decide upon, and announce, the change of organisation will be shortly after the forthcoming test of the United Kingdom atomic weapon at Monte Bello. In the first place, as I have already mentioned, the Prime Minister's statement in the House of Commons on 24th March indicated that no change would be made until after the test. If nothing is said then, it would be held to imply that we had finally decided to continue the present arrangements.

16. Secondly, the size, and to some extent the character, of the atomic energy project is about to change. Its size will increase owing to the switch-over from experimental to production weapons, to the demands of the Chiefs of Staff for increased output of fissile material, and to the new programme for industrial power reactors. All these will mean that the present straitjacket will soon cramp the enterprise even worse than hitherto.

17. The character of the project will be changed by increasing co-operation with industry. Hitherto—although, of course, industry has provided the organisation with a wide range of its requirements on sub-contract—there has been little consultation with industry, and industry has borne no responsibility for any part of the work. This will soon have to be changed. It will not be long before the sheer size of the undertaking will probably force us to entrust some part of the development and management of nuclear plants to industry. In doing so we shall of course only be doing what the Americans have done for the greater part of their programme from the outset. But more particularly, as interest shifts from weapons to power production, it is essential that industry should be brought in—unless the Government wishes to seek to monopolise the production and distribution of electricity and perhaps of heat just because it happens to be generated by nuclear machines. I foresee many obstacles to this most desirable development if the atomic project remains embedded in a Government department. The smooth transfer and loan of individuals between the project and industry will be impeded and the whole process of co-operation will be rendered unnecessarily stiff and vexatious. This is so important a feature of the problem before us that I believe that it should be stressed in public explanations of the reasons for the change.
Indeed, it may be found that this aspect of the matter would even appeal to the Opposition, whose hostility to a change such as I advocate has only developed in the last year.

Interim Proposals

18. I realise, however, that even if the decision to make a change is reached forthwith, it would hardly be possible to get a Bill establishing the Board through Parliament until the 1953-54 Session and that this means that it will be at best two years before a Board can be established and the vesting date fixed. After careful consideration, I suggest therefore that a separate Ministry should be created forthwith, by a short Act (or if possible by Order in Council), charged with the responsibility of establishing an integrated enterprise which can be handed over to the future Board, of preparing the no doubt complex details of the permanent legislation required, and of carrying on the undertaking in the interval.

19. I emphasise that this proposal for a separate Ministry is an interim proposal only. As I have been at pains to point out, my major objections are to Civil Service control as such and no mere shift of departmental management would provide a satisfactory alternative. Nevertheless, I see some immediate advantages in having for a limited period a separate Ministry which would be able to concentrate its attention on the needs of the atomic undertaking, free from the countless other preoccupations of the Ministry of Supply. Quite apart from the general issue, it is desirable that an independent Ministry should undertake the unscrambling of the project from the Ministry of Supply: a task which involves separating out those elements in the Ministry's "common services" which are engaged on work for the atomic project. Given goodwill I do not anticipate any great difficulty in doing this.

Conclusion

20. In conclusion, I would beg my colleagues to face the requirements of the dawning age of nuclear power. The present makeshift arrangement should not be allowed to continue. We need an organisation such as I have described which would be able to use its unhampered initiative in the full development of its resources, which would be able to work in close co-operation with industry and which, incidentally, would certainly find it much easier to work with the similarly constituted American Atomic Energy Commission. If my proposals are accepted, I am convinced that we shall be able to make far quicker progress than heretofore and regain the place in nuclear development to which the outstanding achievements of our scientists entitle us. If these proposals are rejected, and the status quo maintained, the new Industrial and Military Revolutions will pass us by. Quietly and imperceptibly we shall lose our place among the nations of the earth.

C.

Paymaster General's Office, S.W.1, 30th September, 1952.
CABINET

TRANSPORT BILL: THE TRANSPORT LEVY

MEMORANDUM BY THE SECRETARY OF STATE FOR THE CO-ORDINATION OF TRANSPORT, FUEL AND POWER

One of the principal features of the Transport Bill which the Cabinet approved on 3rd July (C. (52) 65th Conclusions, Minute 4) is the transport levy on all but small road haulage vehicles. This can be regarded as falling into two parts, according to the purposes for which the money is to be applied:

Part one.—To compensate the British Transport Commission for any loss arising out of the disposal of the Road Haulage Executive’s undertaking.
Part two.—To make good to the Commission future losses of net revenue due to future transfers of traffic from rail to road so far as it is not practicable to offset them by compensating economies.

2. Part one of the levy is generally accepted as necessary and just. But part two, ever since the publication of the White Paper on Transport Policy (Cmd. 8538) in May last, has met with widespread hostility. At recent meetings of the Transport Policy Committee we have considered whether some change should be made and, since we are almost equally divided, we find it necessary to submit the question for decision to the Cabinet. It is urgent because we must have a clear line of policy before transport is considered by the Party Conference on 9th October.

Arguments against Part Two of the Levy

3. These are both political and economic. The political argument is briefly that hostility to part two of the levy is so strong even on our own side that it will not survive debate in Parliament. If that is accepted, there would be merit in taking the initiative of dropping part two of the levy and the Government need not necessarily lose prestige by doing so, having announced before the Recess that they wished to use the interval to get as wide a measure of agreement as possible. A further political argument is that the levy might be used by a subsequent Labour Government as a precedent for levies to equalise the competitive position of other industries—e.g., cotton and rayon, in quite different circumstances.

4. The economic argument against part two of the levy is that it is wrong to "featherbed" the railways by increasing the burden on road haulage, which is already very heavily taxed as it is. (It must be pointed out, however, that railway losses in the long run are featherbedded by the Exchequer.)

5. Part two of the levy also involves practical and administrative disadvantages. Many senior railway officials have expressed their dislike of it to the Minister of Transport. It is said that it will poison relations between road and rail, that it will provide continuing irritation to road hauliers and to trade and industry and that it will be difficult to assess, becoming progressively more so with the passage of time. Further it is said that, if the railways can rely on an automatic subsidy from the levy, there is little incentive to them to make either their railway or road services economical and efficient. The levy is naturally opposed by industry,
which want to use the cheapest form of transport without having to pay for the upkeep of the railways which they nevertheless expect always to be available when needed. The road haulier objects to a charge which may reduce his competitive advantage.

6. The Transport Policy Committee have considered whether opposition to part two of the levy could be mitigated by imposing a ceiling to prevent excessive growth; but the Committee have decided not to recommend such a course.

Arguments in Favour of Part Two of the Levy

7. Part two of the levy was originally accepted in principle, and is still regarded by those of us who believe in it, as the essential feature of the Bill. The Transport Act, 1947, was an attempt to make the whole of transport self-supporting by means of financial and organisational integration. The Act has failed to produce the right results and the levy is a free-enterprise solution to the same problem. It leaves transport users free to choose the form of transport they prefer but it ensures that, if transport users prefer the cheapness and convenience of private-enterprise road haulage, they shall still pay their share of maintaining the railways which the country as a whole must still keep going and whose services all transport users need from time to time. On this view, part two of the levy is a semi-automatic balancing factor which will ensure that transport as a whole pays for itself—or rather is paid for by the users of transport—while individual transport users are given freedom of choice. Its supporters think that the railways cannot successfully compete with road—experience in all countries points to this conclusion—and that the attempt to do so will involve among other undesirable factors higher charges for traffic tied to rail (such as coal). We cannot be satisfied with arrangements which, while failing to enable the railways to make both ends meet, make no other provision for covering their losses and thus leave a potentially unlimited burden to be borne by the Exchequer.

8. The political argument against dropping part two of the levy is that, if we do so, the Opposition will be able to hold the Bill up to obloquy as going further towards “selling out” the railways and the railwaymen to the road haulage interests.

Possible Alternatives to the Levy

9. Those of us who wish to give up part two of the levy realise that we cannot do so without putting something else in its place. Otherwise the railways will simply be exposed to the full blast of competition from almost unrestricted private-enterprise road haulage. The Bill already goes some way to put the railways in a more favourable position. Some greater freedom in the matter of charges is conferred by the Bill. In addition the railways—or rather the British Transport Commission—are to be allowed to keep all the railways’ feeder road services and also the railways’ pre-war interests in road haulage, plus the increase in those interests which it is estimated would have taken place if transport had not been nationalised. It will be open to the Commission, as to any other transport operator, to apply to the licensing authorities for the right to run additional lorries and new services. Finally, it seems possible that private purchasers will not be found for the whole of the Road Haulage Executive assets, any part of which remaining unsold must continue to be operated by the Commission. The proposals for allowing the railways to retain limited road haulage interests were intended to reduce the amount falling to be met by the levy but, if this part of the levy goes altogether, other measures are necessary to provide any prospect that the railways, even with their ancillary road services and their interests in road transport, shall be self-supporting. These are as follows:

(a) Even greater freedom in the matter of charges.—The railways are hampered by numerous restrictions on special and competitive quoting, most of which date from the time when the railways had a monopoly of transport and had to be restrained from exploiting it. Negotiations are going on between the Commission and a committee representative of trade and industry. If this committee were to realise that placing the railways in a position to charge competitively would make part two of the levy unnecessary, they might well reach an agreement with the Commission. It should, however, be clear to them that the greater freedom contemplated for the Commission must be expected to result in higher charges for non-competitive traffics such as coal, iron and steel, other minerals, &c.
(b) Decentralisation.—The Bill provides that the Commission are to submit to
the Minister of Transport a scheme for decentralising the railways. The
decentralisation will need to be drastic and to apply to the railways' road interests
as well. The effect should be much greater flexibility of administration and
consequently much greater competitive power.

(c) Capital.—The Commission have to provide £35 million a year towards the
service of British Transport stock. Of this sum the Commission regard some
£28 million as the proper contribution of the railways. Unlike the pre-nationalisa­
tion holders of railway shares, the holders of British Transport stock have their
interest guaranteed. It would greatly increase the freedom of the railways to devise
rates fully competitive with road transport if, while still being expected to make a
substantial contribution, they could be relieved of a substantial part of the liability
to meet fixed interest charges. It must be realised that the only possible source
from which to meet the balance is the Exchequer, and that, once this possibility
had been accepted, there would be no point at which pressure for higher railway
wages, better services and lower charges could be resisted short of the complete
transfer of these fixed interest charges to the Exchequer. On the other hand, some
of us argue that, with decentralisation and greater freedom of charging, the balance
of fixed interest charges falling on the Exchequer would not be unduly large and
might in the long run disappear.

10. It is the belief of those who favour that course that, if part two of the
levy were dropped and if the measures set out in the preceding paragraph were
adopted, the present hostility towards the Bill of trade and industry and independent
opinion would disappear, and that a lasting solution of the country's transport
problem would have been found. Some of us, however, anticipate serious opposition
from trade and industry if increased freedom in charging is accorded to the railways,
though some of us believe in the possibilities of a large measure of agreement
between the Commission and trade and industry, especially if, as a concession to
the latter, part two of the levy is dropped.

Conclusion

11. All members of the Committee see great force in the political arguments
against part two of the levy; and most might be prepared to abandon it if some
other means of attaining the same end could be found. But those of us who favour
part two of the levy do so because it attempts to provide a constructive solution of
the road-rail problem, based on consumers' choice but ensuring that transport as a
whole pays for itself and does not become a burden on the Exchequer. They cannot
believe that the alternatives suggested are sufficient to enable the railways to pay
their way or that the relaxations proposed in control over railway charges will
escape serious opposition by trade and industry. Their view is that there must be
a limit, for instance, to the extent to which the railways could discriminate between
customers. There must also be a limit to the extent to which failure by the railways
to make ends meet throws additional burdens on the Exchequer. Being, as I have
said, almost equally divided, the Committee must refer the matter to the Cabinet.
I ask my colleagues to decide whether:

(a) The Bill to be introduced into Parliament at the beginning of the next
Session, and to be defended at the Party Conference on 9th October
next, should be substantially in the form now before the House,
including part two of the transport levy; or

(b) The Bill should be amended by dropping part two of the levy and by
adding provisions, in respect of the railways' powers in the matter of
charges, designed to enable nationalised transport, after the disposal of
the Road Haulage Executive, to make ends meet without assistance from
other forms of transport.

L.

Great George Street, S.W. 1,
2nd October, 1952.
CABINET

TRANSPORT BILL: PART TWO OF THE LEVY

Note by the Chancellor of the Duchy of Lancaster

My colleagues on the Transport Policy Committee invited me to circulate to the Cabinet the attached notes in which I advocate abandoning part two of the levy.

SWINTON

Office of the Chancellor of the Duchy of Lancaster, W.C.2.,

2ND OCTOBER, 1952.

I think part two of the levy should be dropped for the following reasons:

1. I do not believe it will survive debate in the House of Commons. If so we should get the merit of dropping it ourselves.

2. We do not lose prestige by dropping it. We have said that in Steel and Transport we wished to use the interval to get as wide a measure of agreement as possible.

3. Not only is the levy universally unpopular, Government supporters as well as Government critics strongly believe it is wrong.

4. The only justification is that so much traffic will pass from railway to road, that road must compensate, i.e. subsidise railways. But the answer to this is to allow the Transport Commission to compete on the roads. That we are now doing. The Commission will have a lot of road traffic. It will have -

   (a) Its pre-war number of lorries plus the estimated increase which would have taken place, if transport had not been nationalised.

   (b) All the feeder road services.
(c) The vehicles we cannot sell.

(d) The right to apply to the Licensing Authority for the right to run additional lorries and new services.

5. We are therefore doing the right thing in giving the nationalised transport the power to develop wherever it can give the best service.

This policy which we have introduced into the Bill is right; but it is inconsistent with the levy.

6. One main object of the Bill is to sell lorries. It is doubtful how many we can sell. We shall certainly sell fewer, if they carry the levy.

7. We can no longer argue that road services do not contribute to the permanent way. They pay three or four times as much in petrol tax, as the railways pay to maintain the permanent way.

8. Whatever we say, everyone else will say (and believe) the levy is a featherbed subsidy and a disincentive to the railways to be more efficient, and economical. The Transport Commission themselves take this view.

9. It will be impossible in practice to assess the subsidy and levy. You can say by how much railway traffic has diminished and road traffic increased. But who can say how much less the railways would have lost if their operation had been more competent, if restrictive practices had been reduced, if economies had been made, if their road services had been more progressive and efficient?

10. A limit on the amount of the levy is no answer; and the figure suggested will merely increase opposition.

11. The levy is certainly no deterrent to renationalisation. The only answer to that is a Bill which is popular and workable; which people will believe is an unprejudiced attempt to give the best service without ideologies and which works well when it is in operation.
The circulation of this paper has been strictly limited. It is issued for the personal use of...

TOP SECRET

C. (52) 320
3rd October, 1952

CABINET

DEFENCE AND ECONOMIC POLICY

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

Introduction

We were all agreed when we took office that the defence programme which we inherited was beyond the nation’s means. It was based on assumptions about American aid and the strength of our economy which have since been proved false. The programme would have involved a defence budget of £1,650 million in 1952–53. We cut this back to £1,462 million, and within this total we limited expenditure on metal goods to £460 million.

2. These reductions were not enough. In the Spring we directed Departments to adjust the programme, so as to contribute £40 million to the balance of payments in 1952–53, by liberating steel and diverting armaments to export. As long ago as May we decided to review the further stages of the defence programme, both to make more metal goods available for export and to reduce overseas expenditure.

3. These efforts to deal with the situation this year have necessarily been piecemeal. They have not produced the results which we hoped for:

(a) Some Defence Departments are finding it difficult to keep within their voted provision: we may be asked to consider at least one substantial Supplementary.

(b) Defence production of metal goods has increased by rather more than total metal-goods production: the load is now likely to reach an annual rate of £500 million towards the end of the year.

(c) Service Departments estimates of military expenditure overseas in 1953–54 show an increase of roughly £30 million (about 40 per cent.). This includes £30 million for Germany.

4. In the Economic Debate at the end of July, the Prime Minister and I, with the agreement of the Cabinet, assured the House that it would be possible to limit the demands made by defence on the engineering industry so as to set free a valuable part of its capacity for the expansion of our civil exports. I have framed my conclusions in paragraphs 14–16 below after re-reading the speeches we made on that occasion.

Minister of Defence’s Proposals

5. The Minister of Defence was good enough to discuss his Paper (C (52) 316) with me before he put forward his proposals. I recognise the very thorough and careful examination which he has given to the subject, and the grounds on which he feels compelled to propose a Defence Budget of no less than £1,645 million in 1953–54 rising to £1,688 million in 1954–55, and rising yet again to £1,698 million in 1955–56. The corresponding metal-using loads are £485 million, £540 million and £550 million.

43005
6. These figures do not include the defence efforts of the Civil Departments. These will add a further £65 million to £70 million a year (including £20 million further load on the metal-using industries) or £200 million over the three years. There is nothing included here for shelters. Most of the items are of great direct importance to the defence effort, e.g., the communications network for Rotor (the Control and Reporting System), emergency port and oil installations, measures to safeguard essential services, fire-fighting equipments, emergency hospital services, &c. The Minister of Defence’s figures also exclude Ministry of Supply assistance to industry and expenditure on nuclear research and stockpiling.

The Budgetary Problem

7. It is my duty to look at defence expenditure not in isolation but in relation to our whole economic position. Already in the first half-year the Exchequer Account shows a larger deficit than usual. We are spending more than we expected this year, and, with rising expenditure, we shall start next year with a considerable risk of inflation. The indications so far for next year are unfavourable, with debt interest rising, capital for local authorities outrunning the estimates, and further large rises in social service expenditure threatened in departmental forecasts. This will in itself present a serious problem and if in addition, there is a substantial increase in defence expenditure, we shall only be able to avoid inflation by making substantial reductions, involving major decisions of policy over the field of public expenditure as a whole. The alternative of a heavy increase in taxation, the bulk of which would have to be found from income tax, would be a reversal of policy which we ought not to contemplate. To find the extra money asked for by the Minister of Defence even in 1953 would mean, if we were wholly by way of income tax, another 1s. in the £. I need not dwell upon the atrophying effects of taxation even at its present level. It stifles the very virtues—enterprise, initiative, thrift—on which we must rely for rescue from our perils.

8. I am again forced to the conclusion which I have repeatedly consistently to my colleagues since we took office, and particularly in the papers which I circulated last May (C (52) 166, 172 and 173) that in total we are trying to do far more than our resources permit. If my colleagues are convinced that we must carry on the defence programme at its present level, then there must be adequate reductions in our efforts in other directions. If, to go further, they are convinced that nothing less than the Minister of Defence’s proposals will meet the situation, then, of course, the reductions in other directions must be so much the more severe. (In other words, if, as regards defence, we go partly over to a war effort, then, on the rest of the field, we must go partly over to a war economy.

Balance of Payments

9. The gravity of the aggregate defence load on the balance of payments (over £700 million a year) is described in the Appendix.

10. In the last twelve months there has been a marked improvement in our balance of payments. This is mainly due to the vigorous measures we have taken, such as the import cuts, but it is also thanks to the improvement in the terms of trade and to the aid which we have received from America. These helpful factors cannot be relied on indefinitely. In particular, unless there is some change in the American outlook under the new administration, we are unlikely to receive aid from that quarter on the same scale and in the same form as has benefited our economy hitherto. It is, moreover, only in the last half of 1952 that we expect to be in balance with the non-sterling world on current account and it is only from this point that we can start building our reserves. Failure to maintain a strong exchange position will jeopardise the whole economy. Our defence efforts will then be undermined. Moreover, we shall be unable to fulfil our commitments to the Commonwealth and we shall thus forfeit the opportunity to give them the moral leadership for which they are entitled to look to us.

11. An expensive solution of our balance of payments problem depends upon increasing our exports. That means, more than anything else, increased exports by the metal-using industry. Although, as the Minister of Defence points out in paragraph 15 of his paper, total metal goods output is £3,500 to £4,000 million a year, over £1,600 million of this consists of spare parts and consumer goods. A defence load of £485 million in 1953-54 will be about one-quarter of the residue. This residue is the heavier sectors of the engineering industry which provide our
best exports and essential home investment requirements. I concluded in C. (52) 173 that we could not safely devote to defence in 1953 and 1954 more than about £400 million worth of metal goods at the prices then ruling. I then made certain assumptions about production and exports which subsequent events have shown to be in general by no means too pessimistic. Certain adverse developments such as a lower export performance by some non-metal goods, and even by some classes of metal consumer goods, look like making us even more dependent on the heavier sectors of the engineering industry for our exports.

12. I can therefore find no ground for altering the broad conclusion that any rising level of defence production would impede exports by that sector of engineering with the best continuing export prospects. We cannot abandon our export target at the first sign of sales difficulties, particularly at a time when the Commonwealth Conference is considering proposals which would increase our commitments to finance development in the Commonwealth. Apart from any new commitments, it is necessary for us to pay our way by consistently exporting more than we import, so that a balance on current account is available to meet our existing liabilities.

Germany

13. As the Minister of Defence points out, we have maintained and continue to maintain publicly that the United Kingdom Budget and Balance of Payments are in no condition to accept any additional load in respect of Germany: and there is certainly no authority from the Cabinet to accept it, or any part of it. I agree, however, that it is realistic in our defence planning to make some provision against the contingency of our not succeeding in getting the whole of our costs in Germany met from outside sources. I agree to take £30 million in 1953-54 and £35 million in each of the two subsequent years as planning figures for this purpose. I feel that this course is justified by the consideration that Germany, though it may constitute a fresh financial commitment, is not a fresh military one. Any additional expenditure on Germany which we may be forced to accept over and above these figures must not only be covered within the total of the defence budget but balanced either by further savings in other overseas military expenditure or by further limitation of the load of defence on the metal-using industries.

Conclusions

14. As I have indicated in paragraph 8 above it will be necessary, if the defence effort is to be sustained at its present level, let alone increased, to secure retrenchment in other sectors of Government expenditure. Provided my colleagues are prepared to accept the implications of this, I consider that we could face the financial consequences of allowing defence expenditure in 1953-54 to continue at the present level. But planning must clearly proceed on the basis that this is the maximum, not only for 1953-54, but for the two subsequent financial years of the period now under review. I refer to costs in the next paragraph. I agree that the figure should be adjusted upwards to take account of the new impositions on Service Votes which the Minister of Defence mentions and which do not involve any real increase in the defence burden. These additions amount to £57 million in 1953-54. With the additional £30 million for Germany mentioned in paragraph 13 above I reach a total figure for 1953-54 of £1,549 million, say £1,550 million.

15. I recognise that a defence total of £1,550 million in 1953-54 and the two subsequent years might have to be adjusted to take account of variations in costs, upwards and downwards, as time goes on. But such adjustments cannot be automatic and should be considered on their merits in the circumstances at the time and having regard to the causes underlying the variations. I can go thus far as regards possible adjustments of the total, but I cannot entertain the suggestion made in the Working Party's Report (not, however, repeated in the Minister's covering Paper) that the Defence Budget should be increased to take account of expenditure by the Services on equipment which will not now be completed or will be surplus to requirements.

16. As regards the metal-using load, I consider that £400 million is the most we ought to afford. I am prepared to risk £450 million (£470 million with the inclusion of civil defence requirements), though this must hamper the export drive.
To the extent that we go above this level, it will be necessary to make compensating adjustments elsewhere in the economy—particularly in the import programme—to off-set the loss of exports of engineering goods.

Summary

17. (a) Decisions are overdue. The right ones must be taken immediately if they are not to be too late.

(b) We are attempting to do too much. If the Defence Programme is to be sustained at its present level, there must be retrenchment in other expenditure of national resources.

(c) On the understanding that the necessary compensatory adjustments are made, the Defence Budget can remain at its present level, with certain book-keeping additions and an extra £30 million to take account of Germany. That is, £1,550 million in all.

(d) Within a Defence Budget of £1,550 million, defence claims on the metal-using industries must be limited to £450 million (£470 million including civil defence); and every effort must be made to reduce military expenditure abroad.

(e) We must not plan now for any greater burden of defence in 1954-55 and 1955-56.

(f) The most that can be allowed, even as a planning assumption, for Germany is about £30 million. Any excess over this must be covered, within the Defence Budget, by savings on other expenditure directly affecting the balance of payments.

(g) Anything more than the current level of expenditure means moving towards a war economy, with radical revision of our social and economic policies.

Treasury Chambers, S.W. 1,
3rd October, 1952.

R. A. B.

APPENDIX

LOAD OF DEFENCE ON THE BALANCE OF PAYMENTS

1. My colleagues should be aware of how much of the Defence Budget impacts on our balance of payments. This may be seen from the following Table.

2. (£ million)

<table>
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<tr>
<th></th>
<th>1951</th>
<th>Estimate</th>
<th>1952</th>
<th>Estimate</th>
<th>1953</th>
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<td>Metal goods for Defence</td>
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<td>450</td>
<td>450*</td>
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<tr>
<td>Imports of machinery and manufactures</td>
<td>28</td>
<td>82</td>
<td>33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct overseas military expenditures</td>
<td>122</td>
<td>143</td>
<td>178†</td>
<td></td>
<td></td>
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<tr>
<td>Defence Budget financial years</td>
<td>450</td>
<td>675</td>
<td>661</td>
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</tr>
</tbody>
</table>

1951-52 1952-53 1953-54

* At March 1952 prices.
† Includes £20 million only for Germany in calendar year 1953.

This does not represent the full cost of defence to our balance of payments. There are other items, such as, strategic stockpiling, oil for Forces in the United Kingdom and imports of raw materials for manufacture of defence non-metal goods.

3. Even on the foregoing figures (which are based on the lower levels of expenditure indicated in paragraphs 14-16 of the Paper and not the full amounts for which the Minister of Defence asks) the load of defence on our balance of payments would be in the region of £700 million in 1953. This would be roughly the equivalent of 70 per cent. of the total imports by the Ministry of Food or about 25 per cent. of our total visible exports.

4. Even on these reduced figures we will be taking serious risks with our economic policy objective of paying our way in the world.
I cannot any longer delay bringing before my colleagues the question of the salaries of Judges of the High Court. It is a question which has caused me increasing anxiety during the past year and I have refrained from bringing it up before only because I hoped from month to month that a more auspicious occasion might arise. Such a hope has proved, and is likely to prove, illusory. For, unless it is recognised that there are special reasons for an increase in the net emoluments of the Judges which do not apply to any other section of the wage-earning community, the plea will continue to be urged that a salary of £5,000 a year should not be increased so long as an extra £2 a week is denied to the engineer, an extra £1 10s. a week to the miner and so on. And the longer recognition is deferred, the more difficult it will become. The more auspicious occasion will never arise.

2. I therefore now put my case for an immediate and substantial increase in the net remuneration of Judges, for I am convinced that, if we do nothing, we stand in real danger of causing irreparable damage to the judicial fabric and consequently to one of the pillars of our Constitution.

3. I need not elaborate upon the position occupied by the Judges in our Constitution. Since the Act of Settlement their independence has been as the ark of the covenant. If they have not all reached the same high intellectual standard, yet for more than two centuries theirs has been a record of fearless integrity of which their fellow citizens, if they happen to think of it, are proud. Nor need I enlarge on the special qualities which should be possessed by Her Majesty’s Judges. It may be sufficient to point out how serious and notorious is any departure from traditional excellence.

4. These considerations were in the material sphere recognised by the wisdom of our ancestors. I set out in the Annex some details of judicial salaries which may interest my colleagues. I now only point out that as long ago as 1832 the salary of the judicial office which corresponds with that of the High Court Judge of to-day was fixed at £5,000 a year. At that figure it has remained ever since. Thus the financial position of a judge was in 1832 made secure and commensurate with the importance of the duty which he performed.

5. What is the position to-day? The relation in which a Judge receiving £5,000 a year in 1832 stood to his fellow citizens may have unduly emphasised the majesty of the law. In the year 1952, travelling in an omnibus along the Strand to the Royal Courts of Justice and perhaps hanging to a strap while the litigant and solicitor’s clerk occupy the seats in front of him, he enjoys neither the material comfort nor the prestige to which his position entitle him. This example (which is not fictitious) I give as symptomatic of the change that has taken place. I want to impress on my colleagues its seriousness. I have now had the friendship or acquaintances of a generation of Judges. They are to-day gravely dissatisfied and there is something like real unrest on the Bench. They see their position steadily deteriorating and always they are told that the time is not yet.
6. There have been prophetic warnings in the past that this state of affairs might ultimately come about. Lord Birkenhead, writing in 1922, drew attention to the difficulties with which he thought the Lord Chancellor would be faced in filling vacancies on the Bench if no steps were taken to increase judicial salaries, and went on to say: "Indeed there are not wanting signs that we may even be faced by the possibility that those already on the Bench, still in possession of their full health and vigour, may be indisposed longer to serve for an income which bears no relation to that which they might earn if they were free, and may consider the question of returning to practice at the Bar. If either of these two things happened; there would be grave reflection upon the prestige of the Bench, and a serious blow would be struck at the whole of our system of judicature."

7. Twelve years later Lord Sankey uttered a similar warning in the House of Lords. After discussing the qualities necessary for appointment to the Bench, he said: "There cannot be expected to be found at the Bar at any given moment an unlimited supply of men of the right age, of the right experience, and possessing the other qualities which I have enumerated. The position is not rendered easier by the financial circumstances of the present time. Most men at the Bar who come within the circle from which selection can be made are patriotic and willing, even at a financial sacrifice, to undertake the high calling of a Judge. But one cannot put out of one's mind the disproportion which now exists between the salary of a Judge and the income which may be earned by a King's Counsel in large, or even in moderately large, practice."

8. I shall not, I think, be guilty of any breach of confidence (particularly as an incorrect version of the facts appeared in the Press) if I report that two High Court Judges recently came to see me to discuss their position. They were seriously considering resignation with a view to resuming practice at the Bar. I vigorously dissuaded them, for it appeared to me that such a step, though it might be effective in calling public attention to the inadequacy of the judicial salary, would otherwise be deplorable. I was for the time being successful, but I am powerless to stop it if they change their minds again or others determine to take the same step. If such things happen or may happen, there must be grave risk that the quality of the Bench will not be maintained.

9. Yet that quality must be maintained. Never, I think, was it so important that it should be maintained. We no longer talk of the "separation of powers" as the basic principle of our Constitution. But it remains essentially true that a balance must be preserved between the executive and judicial authority. To-day, when there is seen a vast increase in the power of the executive, due largely to the increasing body of delegated legislation, it is of paramount importance that judicial authority should not be weakened. I would say that never since Stuart times was it so important that the Bench should be vigilant, fearless and strong. Can we be certain of retaining this quality if we do not accord to a Judge the remuneration which will at the same time relieve him of financial care and make clear to the world that he has duties and responsibilities which place him apart from his fellows? Perhaps I write pompously on this theme. If so, I ask forgiveness, recalling that I was myself for a long time a Judge and learned something of the isolated responsibility which that office brings.

10. I may be met once more by the argument that now is not the time. I am sure, that, if we delay in the hope of better days, nothing will be done by a succeeding Government of a different hue. For such action clear thinking and courage are needed, and, being as a lawyer prone to judge by precedent, I see no reason to suppose they will be found in a Socialist Government.

11. Finally, I recur to a point to which I referred at the opening of this memorandum. The sum which my plea involves is trifling in relation to our national expenditure. It would not be suggested that by itself such an addition could have any inflationary effect. But always the fear is expressed that it will have its repercussions in the whole community and that it will be more difficult to resist the claims of every wage-earner to an increase of his wages. I would deny that there may be some who will take advantage of this as of every other opportunity to preach their horrid egalitarianism. But this should not deter a Conservative Government at least from pursuing a course which they think to be right, and, though it is no doubt easy for me to make light of a task which it will fall to others to perform, I should hope that the necessary legislation would pass through the House of Commons without serious opposition, and I believe that this would reflect
the general opinion of the electorate and would be but a blunt weapon in the hands of those who would use it to urge the claims of others, whether engineer or miner or civil servant.

12. If the principle of my plea is accepted, there will be no difficulty in determining the method of increased remuneration. Admit that the position of the Judges is unique, then the fear so often expressed that the door will be open to others can be disregarded, whether the increase takes the form of a larger (a much larger) salary subject to tax or a tax-free allowance of £x in addition to the present salary. My own preference is on the whole for the latter. In either case legislation will be necessary.

13. Although I have in this memorandum dealt only with the case of the English Judges, my colleagues will be aware that similar considerations apply to the Judges of Scotland and Northern Ireland, who find themselves in the same condition as their English brethren.

SIMONDS.

Lord Chancellor's Office,
House of Lords, S.W.1,
3rd October, 1952.

ANNEX

1. When the independence of the Judges was established by the Act of Settlement in 1688, the salary of a Judge of the superior courts was £1,000 a year together with an appreciable income from fees taken from suitors in the courts. The income of the Chief Justices of the different courts was considerably more than this owing to the patronage which they enjoyed, which was particularly valuable in the case of the Chief Justice of the King's Bench. The Judges' salaries were raised in 1759 by an Act which recited that the existing salaries were "inadequate to the Dignity and Importance of their Offices." The Judges' salaries continued to be raised throughout the eighteenth century as the value of money fell and, at the end of the century, the salary of the Chief Justice of the King's Bench was £4,000, those of the Chief Justices of the two other common law courts £3,500 and of the puisne Judges £2,400, together with the income which the Judges received from fees and the exercise of patronage.

2. A series of statutes was passed in the first quarter of the nineteenth century with a view to abolishing the Judges' dependence on fees. In 1825 the salaries of the Chief Justice of the King's Bench and the Master of the Rolls were fixed at £10,000 and £7,000 a year respectively, and those of the puisne Judges at £5,500 a year. These salaries were to be in lieu of all income from fees and were expressly declared to be free of tax. A further statute passed in 1832 reduced the salaries of puisne Judges appointed after 16th November, 1828, to £5,000. The salary of the Chief Justice continued to be fixed at £10,000, but when Lord Denman was appointed Chief Justice shortly after the passing of the Act of 1832 he agreed to accept £8,000. By an Act of 1851 the salaries of the Chief Justice and the Master of the Rolls were fixed at £8,000 and £6,000 respectively. Although these salaries were still declared to be free from all taxes and deductions, this did not extend to income tax, which had been reintroduced in 1842.

3. When the old common law courts and the Court of Chancery were merged in one Supreme Court of Judicature in 1873, the salaries of the Judges were fixed at the levels at which they then stood. The salaries of the Judges of the Court of Appeal were to be, as they are to-day, the same as those of the High Court Judges, namely, £5,000 a year.

4. Lord Selborne, who was the author of the Supreme Court of Judicature Act, 1873, had intended that the new Court of Appeal created by that Act should replace the House of Lords in its judicial capacity, but this proposal had to be abandoned in view of the opposition which it aroused. When, in 1876, the creation of Lords of Appeal in Ordinary was authorised, their salaries were fixed at £6,000 a year, the figure at which they remain to-day.
4TH OCTOBER, 1952

CABINET

EAST/WEST TRADE

EXPORTS OF RUBBER TO RUSSIA AND HER EUROPEAN SATELLITES, CHINA AND NORTH KOREA

Memorandum by the Secretary of State for Foreign Affairs and the President of the Board of Trade

On the 8th May, 1952, the Cabinet considered a memorandum (C. (52) 138) which reviewed at length the strategic, political and commercial considerations governing the export of rubber to Russia and her allies. The Cabinet approved the conclusions of the memorandum, including the following (C. C. (52) 51st Conclusions, Minute 3):

"(i) Under present conditions Her Majesty's Government should maintain their present embargo on shipments of rubber to North Korea and China. This should be reviewed on any change in conditions (e.g. a truce or armistice in Korea or a general change of policy towards China).

(ii) As regards supplies of rubber to the Soviet Bloc, Her Majesty's Government should maintain their present policy - i.e. that it is for Her Majesty's Government to decide where the balance of advantage lies between security and economic considerations.

(iii) From the Security point of view it is desirable that supplies of rubber from all sources to the Soviet Bloc should not exceed the estimates of civil consumption within the Bloc. Broader considerations may justify some relaxation."

The Cabinet agreed that exports to Russia from United Kingdom controlled sources in 1952 should be limited to 80,000 tons (in addition to a carry-over of 18,000 tons from 1951). Exports to the European satellites are being licensed at the annual rate of 30,000 tons from United Kingdom controlled sources (C. C. (52) 80th Conclusions, Minute 7).

2. It is necessary now to fix the level of exports from United Kingdom controlled sources in 1953. The Russians have already bought about 20,000 tons of rubber which will arrive from Malaya for re-export from the United Kingdom in the first quarter. In order to avoid a situation in which licences have to be refused for rubber which the Russians have already bought, it is essential to inform them and the satellites as soon as possible of the maximum quantity which may be licensed in the first half of the year.
3. Recent developments. There is no reason to modify the conclusions of C. (52) 138 set out above, but certain new factors need to be taken into account in fixing the level of exports in 1953:

(a) The estimates of civil consumption during 1953 in Russia and the satellites are between 65,000 and 80,000 tons and about 50,000 tons respectively, as against the figures of 85,000 tons and 35,000 tons which were submitted to the Cabinet last May as estimates for the year 1952. (These estimates are made on the best information available which is not as complete as could be wished).

(b) Restrictions on exports from United Kingdom controlled sources have been accompanied by increases in exports to Russia and the satellites from other sources; according to the best estimates which can be made these exports have in the first eight months of 1952 been at an annual rate of about 15,000 tons to Russia and at about the same rate to the satellites.

(c) Negotiations for a new coarse grains contract have resulted in agreement on the sale by Russia of only 200,000 tons so far as compared with the 800,000 tons secured under the 1951 contract. Even for this quantity the rubber clause has had to be included in the contract terms; under this, the Russians are free to stop or curtail deliveries of grain if they cannot buy the rubber they want. They have made it clear that they are not prepared to discuss further sales until they know what they can buy with the proceeds.

(d) The price of top-grade rubber is now below two shillings a pound.

4. Attitude of United States Government

In discussions which took place in London in April, 1952 (summarised in paragraphs 6 and 7 of C. (52) 138) the United States Government urged, inter alia that our rubber exports to the Soviet Bloc should be limited to amounts necessary to obtain our essential imports, and that the Soviet Bloc’s receipts of rubber from all sources in 1952 should not exceed the levels of the previous year. In a written reply of 23rd May Her Majesty’s Government after explaining that their policy represented a balance of security and other considerations, stated that they “reserve to themselves discretion to license shipments in excess of the level set by strict security considerations where, in their view, this offers the only practicable means of obtaining essential imports or where broader political and economic considerations justify such action”. No rejoinder has been received from the United States Government. The latter are, however, under continual pressure from Congressional and public opinion to show energy in enforcing the Battle Act. While they are probably not sanguine about reducing United Kingdom rubber exports, any increase in existing levels might be expected to evoke a sharp reaction.

5. Suggested level of exports from United Kingdom controlled sources in 1953.

The application of the principles accepted by the Cabinet in May gives rise to no difficulty in the case of China and North Korea (where the embargo must be maintained).

In the case of Russia the strict application of the security criteria would point to a limit of between 50,000 and 65,000 tons on supplies from
United Kingdom controlled sources. To the extent that the assumptions upon which this figure is based are accurate, any additional supplies might be expected to go to swell the Russian stockpile estimated last May at 100,000 tons of rubber. But the Russians are certainly counting on receiving at least last year's figure of 80,000 tons. Their attitude over the coarse grains contract (paragraph 3(c) above) is significant and suggests that they are not likely to sell us more coarse grain until they are assured of continuing supplies of rubber. Our need for non-dollar coarse grains is as great as ever. Timber supplies from the Soviet Bloc this year are indeed of less importance owing to the release of stocks; but in 1953 total imports will increase and it will be important to be in a position to obtain larger quantities from Eastern Europe if we are to reduce the need for dollar supplies and keep down Finnish and Swedish prices. Moreover, the economic and political situation in Malaya makes any further reduction in permitted exports extremely difficult, particularly if, as experience in 1952 suggests, our restrictions merely divert Soviet Bloc purchases elsewhere. On these grounds the strict application of the security criteria appears unrealistic, and exports of at least 80,000 tons seem unavoidable if our essential objectives are to be secured. If this figure is approved we would propose at this stage to tell the Russians that we are prepared to license 40,000 tons in the first half of 1953, of which not more than 25,000 tons would be licensed in either quarter. (The offer of the remaining 40,000 tons would be reserved for further coarse grains negotiations.)

Seen from Washington this figure, exceeding the strict security quota by some 25 per cent, will appear to imply a change in policy. The United States Government will be aware through intelligence channels of the reassessment of civilian needs noted in paragraph 3(a) above, and of the amount of Russian imports from other sources. They also know that we have so far contracted only for 200,000 tons of coarse grains. However we should be on firm ground in defending the figure of 80,000 tons or at least 40,000 tons for the first half-year on the basis of our memorandum of 23rd May (paragraph 4 above), and the United States Government may derive some consolation from the fact that it does not exceed the 1952 level.

In the case of the satellites the security criteria would permit a level of 35,000 tons (as against 30,000 tons in 1952). We depend, however, much less on the satellites for essential supplies, and an increase in our rubber exports to them above the current rate, taken in conjunction with a substantial over-shipment of the Russian security quota might well oblige the United States Administration to align itself with public criticism of our policy, with regrettable results elsewhere. Exports to the satellites should therefore, in our view, remain at this year's figure of 30,000 tons, but the position should be reviewed later in the light of the circumstances then obtaining, including any further evidence of the level of satellite purchases from sources not controlled by the United Kingdom.

6. **Recommendations**

In the light of these considerations we recommend:

(i) that the present embargo on exports to China and North Korea should continue, subject as before to review on any change in conditions.
that exports from United Kingdom controlled sources in 1953 to Russia and the satellites should remain at 80,000 tons and 30,000 tons respectively, subject in the case of Russia to the tactics proposed in section 5 and in the case of the satellites to review in the light of purchases from other sources.

7. We ask our colleagues to approve these recommendations and to agree that the United States Government should be informed of the proposed level of exports to Russia and the satellites in 1953.

A.E.
P.T.

4TH OCTOBER, 1952.
CABINET

NATIONAL SERVICE POLICY

Memorandum by the Minister of Labour and National Service.

An adjournment motion about the call-up of agricultural workers which is to be moved soon after Parliament reassembles raises broad questions of National Service policy. I shall probably be asked to restore the complete protection of agricultural workers. It will be argued that if it is right, under the scheme recently announced, to defer the calling up of men in the engineering and shipbuilding industries engaged on important export work, it is equally right to refrain from calling up men in agriculture whose work saves food imports. A second question likely to be raised, in view of Mr. Shinwell's recent speeches, is whether the two years' period of whole-time National Service cannot now be shortened. I should like my colleagues to approve the line I propose to take on these points which is, on the first, that no further extension of deferment can be contemplated, and, on the second, that I can see no prospect of being able to shorten the period of whole-time National Service in the foreseeable future.

2. As regards deferment, the position is that only coalminers (about 10,000 per age group), merchant seamen (about 4,000) and a few hundred scientists and professional engineers working on projects of exceptional importance and urgency have their call-up deferred indefinitely and so escape call-up altogether if they stay on the work in question until they are 26. Men employed on small farms or as stockmen on larger farms can have their calling up deferred, if various conditions are satisfied, until the farmer has found a replacement or can otherwise manage without them. These agricultural deferments are running at the rate of about 8,000 per age group out of about 18,000 in the field. Many of them will probably, in practice, be renewed until the men pass out of liability. As regards engineering and shipbuilding, in order to keep the numbers who might be granted deferment in so wide a field within bounds, the arrangements recently introduced have been limited to men belonging to specified highly skilled occupations and working on super-priority defence projects or designated categories of export work. Moreover, in order to make it clear from the outset that these young men are not being granted exemption, deferment is granted for the specific period of two years, and the present intention is that, after two years, the young men should, if medically fit, be called up. The numbers who will be granted deferment under these schemes cannot be precisely estimated but may be of the order of about 3,000 out of approximately 23,000 skilled men in engineering and metal working occupations at present called up annually.

3. I regard it as imperative that National Service in peacetime should be required, as nearly as possible, of all fit young men alike. This is for two reasons:
Two years' National Service, while not without its advantages, represents for most young men a substantial and unwelcome interruption of their normal civilian lives and careers. Moreover, men called up also have a liability for 3½ years' part-time service during which they are liable for 60 days' training and to be mobilised immediately in the event of war. In my view, we shall not be able to maintain general public support for peacetime conscription - which, in some cases, involves a high degree of personal hardship - unless we make as few exceptions as possible and confine these to closely defined fields which the general public will readily accept as justified. Evidence in support of this view is found in recent leading articles in the "Manchester Guardian" and some other responsible newspapers.

Every concession made inevitably leads to demands for others for which an almost equally strong case can often be made out. But the manpower needs of the Services leave no room for any further concessions of any size. The extent to which the Services will need to draw upon National Service manpower over the next few years is not yet finally settled, but the probability is that while there may be a small surplus during the remainder of the current financial year, we shall be short of manpower to meet the requirement of the Services over the next three years. If further concessions were made the manpower needs of the Services could be met only by increasing the period of whole-time National Service for the young men who are called up. This step would not only be highly unpopular of itself, but would increase public resentment about the favoured position of the young men whose deferment made the increase necessary.

As regards agriculture, when allowance is made for medical rejects, less than half the men in the field are called up. Agriculture is already in a favoured position compared with every other industry except coalmining and the Merchant Navy and is losing only about 8,000 young men a year or 16,000 over the two years - out of some 900,000 men (including working farmers) on the land.

As regards Mr. Shinwell's suggestion, as there are not likely to be enough National Service men, even with two years' whole-time National Service, we clearly cannot contemplate shortening the period. Apart from this decisive consideration, any shorter period would be highly uneconomical as it would greatly reduce the amount of useful service the Services would obtain from young men after they had finished their military training. Moreover, owing to pledges given to Parliament as to the minimum age and training period for men sent to these theatres, it would not be practicable to send National Service men to distant places like Korea or Malaya as they would have to be sent back again only a few months after they arrived. The burden in these operational theatres would then fall even more heavily than it does at present on the Regulars with consequent ill-effects on morale.

There are other major arguments against shortening the period of whole-time service, the principal of which are these. It would mean an aggravation of the present shortage of men of longer service and experience in the Forces, and especially of junior N.C.Os., of which the National Service intake produces a considerable proportion. It would impose a further strain on the training organisations of the Services, owing to the quicker turnover of intakes. And, finally, any reduction in the two year period of whole-time service would inevitably constitute a disincentive to the large numbers of young men liable for National Service who are at the present time taking the new three and four year short service regular engagements.

The Minister of Defence concurs in the views expressed in this paper.

W.M.

Ministry of Labour and National Service.

6th October, 1952.
CABINET

CHEMICAL WARFARE POLICY

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate a copy of a minute from the Minister of Defence.

(Signed) NORMAN BROOK.

Cabinet Office, S.W.1.

7th OCTOBER, 1952.

PRIME MINISTER FROM MINISTER OF DEFENCE

MINUTE of 30th SEPTEMBER

General Ridgway has asked the Standing Group for policy direction on chemical warfare. In turn, the Standing Group have asked the Military Representatives' Committee of the North Atlantic Treaty Organisation (N.A.T.O.) to approve a directive to General Ridgway as follows:

"The policy on gas warfare is:

(a) To be prepared to defend against possible enemy employment of such agents against Allied forces and their installations.

(b) To be prepared in the event of enemy employment to retaliate on the orders of higher N.A.T.O. authority."

2. All the military representatives, except the Canadian, have approved this directive. The views of the Canadian Government, which have been represented to the Foreign Office, are:

(i) That a directive to General Ridgway at the present time, envisaging the use of chemical warfare in retaliation, might leak and so provide fuel for Soviet propaganda.

(ii) That the directive should make clear that the decision to retaliate in the event of enemy employment of chemical warfare should be a Governmental one; the phrase "on the orders of higher N.A.T.O. authority" is, in their opinion, too vague.

3. The Chiefs of Staff consider that, on military grounds, the Standing Group should be authorised to issue the directive in order that General
Ridgway can implement Allied policy. They recognise that this may involve the accumulation of stocks of chemical warfare weapons, but these would be held by national forces and made available for use by General Ridgway when required and when authorised by "higher N.A.T.O. authority". In this way a measure of national control over the stocks would remain.

4. Moreover, the Chiefs of Staff consider that the proposed directive to General Ridgway is in line with the Defence Committee decision on 9th July, that:

"The Allies should not take up a position which would deprive them of their ability to use chemical and bacteriological warfare in retaliation, if this were to their advantage",

and that the authorisation to stock chemical weapons is a necessary consequence of this decision by Her Majesty's Government.

5. The following further points are relevant to the two Canadian objections:

(i) As regards the fear of leakage, our emergency planning cannot be based on the assumption that messages from the Standing Group to General Ridgway are liable to leak. All our most secret planning passes through this channel, and the request for a directive on chemical warfare has already passed up it in the reverse direction.

(ii) As regards the responsibility for authorising retaliation, it has now been made clear in the Military Representatives' Committee that the authority responsible for taking such a decision would have to be a political one. To specify that the decision to retaliate must be approved by the N.A.T.O. Council implies that this body will in fact be running the war, whilst reference to any other kind of Governmental approval would raise a major issue with the smaller N.A.T.O. Powers. The phrase "on the orders of higher N.A.T.O. authority" exactly fits the meaning which we wish to convey.

6. The Chiefs of Staff consider that Sir William Elliot should be instructed to support the issue of the directive. I agree with their views. The Foreign Secretary and the Secretary of State for Commonwealth Relations have been consulted. The latter has intimated that he concurs with the views of the Chiefs of Staff, though he recognises that there is some force in the Canadian contentions. The Foreign Secretary is prepared to approve the directive to General Ridgway, but only on the understanding that the phrase "on the orders of higher N.A.T.O. authority" would, in fact, mean that the Commander could not act without the approval of Her Majesty's Government.

7. The Foreign Secretary and I feel that you should endorse these instructions before we inform the Canadians and Sir William Elliot. I am sending a copy of this minute to the Foreign Secretary.
CABINET DEVELOPMENT CHARGE.

Memorandum by the Secretary of State for Foreign Affairs.

After the Cabinet's meeting on 1st October the Prime Minister asked me to discuss this question with the Ministers principally concerned. This I have done. We are now agreed on the following points:-

(i) The £300 millions should not be distributed next year.

(ii) We could not advance the proposition that all land should in future be bought and sold at its current market value (C. (52) 312) without reviving all the old political controversies over land values. It would not be possible to revive these now - especially as we, in Opposition, supported the principles of the 1947 Act and challenged only the arbitrary figure of £300 millions.

(iii) Compensation for land compulsorily acquired or compulsorily sterilised should be paid, as and when each case arises, at existing use value plus the 1947 claim.

(iv) Development Charge should not be payable in full on land for which planning permission to develop is granted.

2. The sole remaining issue for decision by the Cabinet is whether Development Charge should be abolished altogether or whether it should be reduced. If it is merely to be reduced, we consider that it should be reduced to 50%. The alternatives are:-

(i) to adopt the proposals put forward by the Minister of Housing (C. (52) 304) including the abolition of Development Charge; or

(ii) to introduce legislation providing for (i) and (iii) of the preceding paragraph, and to reduce Development Charge by regulation to 50%.

3. The arguments on either side have been fully stated in the earlier discussions. We invite the Cabinet to decide which of these alternatives is preferable.

A.E.

Foreign Office, S.W.1.

8th OCTOBER, 1952.
CABINET

NORTH ATLANTIC TREATY ORGANISATION: UNITED STATES AIR BASES IN DENMARK

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

Problem

The Danish Ambassador told me on 29th September that the Danish Government were considering a proposal that United States fighter bases should be established in Denmark and that they were disposed to agree. I had already heard about this proposal from the Danish Minister for Foreign Affairs, who visited London at the end of June. M. Kraft told me then that there would be two such bases, on each of which a wing of American fighter aircraft would be stationed. The air-fields are not likely to be completed before the end of 1953, but, in order that the cost of their construction can be paid for out of N.A.T.O. funds, the Danish Government are required to give an undertaking that fighters can be stationed on them in peace time.

2. Count Reventlow stated that his Government were anxious for the views of Her Majesty’s Government and I told him that I could not give a definite reply without consulting my colleagues. Speaking personally, however, I felt sure that Her Majesty’s Government would not want to discourage the Danish Government from agreeing to this proposal. It seemed to me, moreover, that it might be possible to argue that it was less provocative to have American fighters in Denmark than American strategic bombing forces in the United Kingdom.

Argument

3. The Soviet Government have shown themselves sensitive to the establishment of N.A.T.O. forces in Scandinavia. They addressed notes of protest to the Danish and Norwegian Governments when those countries signed the North Atlantic Treaty and obtained from the Norwegian Government (though not from the Danish Government) an undertaking that no foreign bases would be established on their territory in time of peace.

4. The latest development is that, according to an agency report, the Soviet Government has protested to the Danish Minister in Moscow in a note stating that the intention of allowing bases to forces of the Atlantic alliance “could be interpreted as a violation of the assurances given by the Danish Government in its note of 4th May, 1949, in which Denmark said that she had no intention of joining any aggressive policy directed at Russia.” The Danish Government was reminded of the promise made by its mission in Moscow in March 1946 that it would establish its own administration without foreign troops at Bornholm. The note continued that the intention of lending military bases on Danish territory to foreign troops “must be considered as endangering the security of the Soviet Union and of other countries in the Baltic region.” The Danish Foreign Minister is reported as having...
stated that Denmark has made no decision regarding the stationing of foreign forces in the country and that no decision would be taken until Parliament had discussed the matter.

5. We do not want any action taken which would lead to a worsening of our relations with the Soviet Government and a fortiori which would convince them that war was inevitable. At the same time it would be an error to do anything which would lend support to the Soviet thesis that the Baltic Sea is the exclusive preserve of the adjacent States and give Norway and Denmark (and for that matter Sweden) the impression that we were weakening in our determination to resist aggression in that area.

6. The Danish Government themselves would be glad of the greater defence security which the presence of American fighter aircraft would provide, but Danish public opinion still views the N.A.T.O. with some suspicion and is always reluctant to accept commitments which have not been accepted by Norway. Danish Ministers, who have undertaken that they will not proceed without Parliamentary approval, have been working to educate their public opinion in favour of the project. They have been meeting with considerable success, but Her Majesty's Ambassador at Copenhagen has reported that the decision that only Danish and Norwegian naval forces should enter the Baltic in connexion with the recent operation "Mainbrace" has had a depressing effect in Danish Service circles.

7. Denmark incurred criticism early this year in the United States for the inadequacy of her defence preparations, and last July the United States Government made a strong protest to the Danish Government in connexion with the delivery to the Soviet Union of a large tanker which had been constructed in a Danish shipyard. The Danish Government would certainly incur further criticism in the United States if it adopted an unhelpful attitude towards the construction of N.A.T.O. bases in Denmark, as also would Her Majesty's Government if it became known that the Danish attitude had our support.

Recommendation

While the stationing of bombers on Danish territory could be regarded as a potential threat to the Soviet Union and would require careful consideration, I recommend that, in view of the fact that it is only proposed to station fighters in the projected bases, I should be authorised to reply to the Danish Government that Her Majesty's Government are in agreement with the United States proposal.

A. E.

*Foreign Office, S.W. 1,*  
*8th October, 1952.*
POLITICAL ACTIVITIES OF CIVIL SERVANTS

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

My colleagues will know that for some time past discussions have been proceeding about the rules governing the political activities of civil servants. I now submit proposals for amending those rules. But I must first explain what has happened in recent years.

Pre-war Position

2. Up to 1950 the position was as follows, and had been so for over twenty years:

Non-industrial Civil Servants

(i) Under an Order in Council of 1927, non-industrial civil servants were forbidden to stand for Parliament unless they first resigned;
(ii) There was a Treasury rule of long standing that civil servants were "expected to maintain at all times a reserve in political matters and not to put themselves forward prominently on one side or the other."

It was left to Departments to decide what activities came within this general ban. The Post Office, alone of the Departments, had rules which defined the sort of activity which was banned or permitted.
(iii) As regards local government it was left to the Head of each Department to determine if, and on what conditions, "an officer of his Department may become a candidate for, or serve on any local Council, provided that the duties involved . . . shall not conflict with the officer's performance of the duties of his Department."

Industrial Civil Servants

In certain Departments, in particular the Service Departments, industrial civil servants were subject to no restrictions whatever and were even allowed to stand for Parliament; but other industrial civil servants, while not free to stand for Parliament unless they resigned, were subject to no other restrictions.

Masterman Committee

3. After World War II the Staff Side of the Civil Service National Whitley Council pressed strongly for a review of the restrictions on the political activities of civil servants. In April 1948 the late Government appointed a strong Committee under the chairmanship of Mr. J. C. Masterman, the Provost of Worcester College, Oxford.

4. In evidence before this Committee the Staff Side suggested that all the rules limiting the political activities on the part of civil servants should be abolished and that reliance should be placed solely on the discretion of individuals. The Masterman Committee in their Report rejected this suggestion. Broadly speaking they recommended that the Civil Service should continue to be divided into two groups consisting on the one hand of grades of which the members should be completely free to exercise whatever political activities they like, and on the other
hand, grades which should maintain a reserve in political matters and abstain from any public manifestation of views which might associate them with any political party.

5. The Committee did, however, recommend two very important changes. In the first place they proposed a substantial widening of the area of the Civil Service which should enjoy complete freedom. That area should, they said, include not only all the industrialists (over half of whom were already free) but also all the manipulative grades in the Post Office (numbering some 200,000) and also a number of minor grades such as messengers, &c. This was a proposal to give complete freedom to some 650,000 civil servants, of whom some 400,000 are industrial and some 250,000 non-industrial.

6. In the second place the Masterman Committee recommended that there should be more definition of the type of action which was to be regarded as covered by the ban on political activities. The ban should be defined as covering not only parliamentary candidature but also the holding of office in a party political organisation; speaking in public on matters of party political controversy; writing letters to the press setting out views on party political matters; or engaging in canvassing, &c., of political candidatures. On Local Government, however, the Committee recommended that permission to take part should be granted to the maximum extent possible consistent with maintenance of the Civil Service’s reputation for political impartiality.

Events following the publication of the Masterman Report

7. In June 1949, the Government published the Committee’s Report (Cmd. 7718) and at the same time announced that it accepted its recommendations. This provoked strong protest from the Staff Side on two grounds. The first was that the Government had not discussed the terms of the Report with them before coming to a decision on it. This was a deliberate act on the part of the late Government, who took the view that the extent to which civil servants might take part in political activities was a matter of high State policy and inappropriate for negotiation on the National Whitley Council in the manner usual with matters of domestic concern to the Civil Service.

8. The second reason for the Staff Side’s dislike of the Report was that besides recommending the maintenance of rules limiting the freedom of civil servants, it in some ways, by defining them more closely, increased the existing restrictions.

9. There followed a period of agitation in Parliament and in November 1949 the Government decided:

(i) that effect should be given to the recommendations of the Masterman Report in so far as they freed all industrials and minor and manipulative grades from restrictions on their political activities;
(ii) that, before a final decision was taken on the rules appropriate to the rest of the Service, there should be discussions through the machinery of the National Whitley Council to see whether, without departing from the general principles of the Masterman Report, some modification of the proposals, acceptable to both sides of the Council, might be found for submission for the consideration of Ministers;
(iii) that meanwhile for the grades concerned in (ii) the practice which had prevailed before the Report was published should be maintained.

The Report of the Whitley Committee

10. In accordance with 9 (ii) a Committee of the National Whitley Council was set up under the chairmanship of Sir Edward Bridges, including on the official side the Permanent Secretaries of some of the largest Departments.

After months of very difficult discussion the Committee has succeeded in producing what amounts to an agreed scheme ad referendum to Ministers, subject to reservations on two relatively minor points. It is this scheme, set out in the annexed Report, which I submit for the consideration of my colleagues.

11. The essence of the scheme is as follows. It recommends the retention of the conception underlying the Masterman Report that there should be in the Civil Service—

(a) on the one hand certain grades which should have complete political freedom;
Moreover, it accepts in general the recommendations of the Masterman Committee for definition of the restrictions to be maintained in force.

12. The new conception introduced by the Whitley Committee is the creation of a third group of civil servants intermediate between these two categories and called, for want of a better name, "the grey class." The members of this class would be neither completely and automatically free like, say, postmen, nor subject to the same restrictions as, say, administrative officers; instead, they would be eligible for partial, but quite considerable freedom, permission to exercise this freedom being granted or withheld by Departments mainly according to the degree to which the individual civil servant's work brought him into contact with the public.

13. Permission to engage in political activities would be given to individuals in this intermediate class on the understanding that they would be subject to certain limitations on the extent to which they might express views on Government policy and national political activities. Subject to this limitation the permission would extend to all activities allowed to the completely free except that actual Parliamentary candidacy would still be barred — on the ground that Parliamentary candidates could not be subjected to restraint on their expression of political views.

14. The intermediate group would consist chiefly of typists, clerical assistants, clerical officers and parallel grades, amounting in all to nearly 300,000 staff. The Committee estimated that only one-third of those included in this group would, in practice, be likely to be denied the full freedom open to the group, should they seek it. And even they would be allowed to take part in local Government activities to the extent to which the circumstances of their Department permitted, subject again to the observation of a certain discretion in their public utterances.

Matters for Decision

15. The main point for decision by the Cabinet is whether to accept this scheme. In considering this issue they will want to be sure that the scheme does nothing which might undermine the tradition of a non-political, non-partisan public service. To-day the Civil Service is a very large and diversified organisation. It reaches into every town and touches the lives of the people at many points. Although many of the staffs engaged in these local offices are employed upon duties of a fairly routine nature, it is nevertheless as essential to safeguard public confidence in the political impartiality of civil servants who come into contact with the public in local offices, as it is to ensure the continued confidence in the impartiality of higher civil servants who advise Ministers in Headquarters Offices.

16. At the same time it is fair to point out that there are very large numbers of civil servants in the clerical and analogous grades whose duties involve a very small element of discretion, if any, and that it is contrary to the traditions of this country to impose restrictions on the political activities of citizens unless those restrictions are clearly necessary in the public interest.

17. The extent to which officers in the clerical and analogous grades of the Civil Service can be allowed political freedom without bringing into jeopardy the reputation of the Service for political impartiality depends, therefore, on the extent to which they come into contact with the public as responsible agents of the central government, and it is for this reason that any scheme which is to extend still further the additional freedom contemplated in the Masterman Report must be drawn up in such a way as to have regard to the circumstances of particular Departments.

18. After full consideration I have come to the conclusion that the report of the National Whitley Council provides a sound solution of a difficult question and that it can be accepted without any damage to the interest of the State or the reputation of the Civil Service for political impartiality. I recommend my colleagues to adopt it.

19. If my colleagues accept this view, decisions are called for on two subsidiary matters. As stated in paragraph 10 above, the Report of the Joint Committee is an agreed one with the exception of two reservations to which the
Staff Side attach much importance, but which the Official Side did not feel able to recommend to Ministers to accept. These were:—

(i) that the Junior Executive Officer grade and analogous grades be included in the intermediate category;

(ii) that canvassing should be excluded from the political activities debarred to the higher grades and allowable to members of the intermediate class only by permission of the Department. Thus the Staff Side proposed that all civil servants should be free to canvass in support of candidates for Parliament or local government should they so wish, subject only to their personal judgment of the fitness of so doing.

20. I gave the Staff Side an opportunity to come and see me and elaborate their views on these reservations. But having considered what they said I am not disposed to agree with them on either point. I agree with the objections to these two Staff Side proposals as they are expressed in paragraph 4 of Annex 4 and paragraph 5 of Annex 3 to the Whitley Report (see pages 19, 20, 16 and 17 below).

Summary

I recommend to the Cabinet—

(i) That we should accept the scheme embodied in the report from the Civil Service National Whitley Council and summarised in paragraphs 11 to 14 above.

(ii) That we should reject the proposals made by the Staff Side about—

(a) the inclusion of the junior executive grades and analogous grades in the intermediate category, and

(b) canvassing.

(iii) That in view of the importance of the issue involved the Government's decision should be announced in a White Paper, to be laid before Parliament. No legislation will be needed to give effect to the decision.

(iv) That the Opposition should be informed of the position privately before the White Paper is laid—though as the scheme is in the main agreed with Staff representatives I do not expect the Opposition to raise objection.

R. A. B.

Treasury Chambers, S.W. 1,
9th October, 1952.
CIVIL SERVICE NATIONAL WHITLEY COUNCIL

REPORT OF A JOINT COMMITTEE SET UP TO CONSIDER CERTAIN ASPECTS OF THE GENERAL QUESTION OF THE POLITICAL ACTIVITIES OF CIVIL SERVANTS

Terms of Reference

1. On 15th November, 1949, the then Financial Secretary to the Treasury stated in the House of Commons the view of His Majesty's Government that before final decisions were reached on the extent to which, within the general principles of the Report of the Masterman Committee on the Political Activities of civil servants (Command 7718) civil servants could be free to take part in political activities, it would be appropriate that there should be joint discussions through the machinery of the National Whitley Council. We were appointed a Committee to be the medium of those discussions. It has been our task to explore the possibility of producing, for the consideration of the Government, proposals acceptable to both Sides of the Council for the modification of the recommendations of the Masterman Report.

2. All our discussions have been “within the general principles of the Masterman Report.” That is, we have started from the propositions that all non-industrial civil servants cannot be free to take overt part in national political activities; that the non-industrial Civil Service has therefore to be divided between those who are so free and those who are not; that the dividing line is one to be settled by rule and not at the discretion of the individual. The Staff Side do not admit the validity of these propositions, but they have accepted them for the purpose of these discussions. Our primary object has been to consider whether the complete freedom from restrictions proposed by the Masterman Committee for certain categories of civil servant (and put into effect in January 1950) might be extended to other categories.

The Masterman Recommendations

3. The Masterman Committee recommended that complete freedom to take part in political activities and in local government activities should be accorded to the industrial grades not already enjoying it and to the minor and manipulative grades. The application of this recommendation released about 450,000 from all restrictions, and now some 650,000 civil servants are completely free, even to the extent of being allowed, while still civil servants, to be adopted as candidates for Parliamentary elections. (They must resign before Nomination Day, but if not elected are reinstated.)

For the rest of the Civil Service—some 400,000 people—the Committee recommended that they should maintain a reserve in political matters and abstain from any public manifestation of views which might associate them prominently with a political party. In particular, they were not to hold any office, such as president, chairman, secretary, in any party political organisation; speak in public on matters of party political controversy; write letters to the press setting forth their views on party political matters; or engage in canvassing in support of political candidatures. So far as local government activities were concerned, however, permission to take part should be granted to the maximum extent possible consistently with the maintenance of the Civil Service’s reputation for political impartiality.

Thus, the Masterman plan would divide the non-industrial Civil Service into the Completely Free and the Restricted. The dividing line is pretty clearly defined, with two large groups on the one side of it, and all the rest on the other.

The Staff Side’s Proposals

4. The Staff Side, accepting for the purpose of these discussions that there must be such a line, proposed that the area of complete freedom should be extended to include not only industrial staff and minor and manipulative non-industrial staff, as at present, but also certainly:—

(a)—(i) all typists and other sub-clerical staff;
   (ii) all clerical staff and parallel staffs;
   (iii) all junior executive officers (and parallel staffs);
and possibly—

(b) some higher grades.

This then was the proposal which we had before us at the beginning of our discussions.

5. The Official Side were quite unable to accept this proposition, even so far as the staff in (a) (i) and (ii) were concerned. This was primarily because of their conviction that, whatever might be the position in some Departments and some types of office, very serious harm would be done to the Civil Service's reputation for impartiality if clerical or sub-clerical staff in the local offices of Departments such as the Ministry of Labour, Ministry of National Insurance, National Assistance Board, and Inland Revenue, were free to identify themselves with party politics—and to do so unreservedly and right up to the extreme stage of Parliamentary candidature. The staff in such local offices are in direct personal contact with individual members of the public and, or seem to the public to have discretion to take, decisions affecting their personal well-being. To the Official Side it was unthinkable that such staff could within the principles of the Masterman Report be given complete political freedom. They may be remote from policy-making and many of them may have little, if any, actual discretion in individual cases. But to many members of the community, they nevertheless represent "the Civil Service," being the point at which the governmental machine most obviously touches their personal lives. In this respect the local office staff of these Departments are in a very different position from the Post Office counter clerk, for whom the Masterman Committee recommended complete freedom.

6. The Staff Side argued that the Official Side's apprehensions sprang from an altogether distorted view of the situation; that by under-estimating the sense of responsibility and discretion of the staffs concerned as greatly as they over-estimated the importance which these staffs were in the eyes of the public, they had conjured up dangers which did not exist; that these dangers, if they had existed, would have been revealed already since there was reason to believe that quite a number of the staffs under discussion, including some above the clerical level, had been engaged in political activities, with discretion and without embarrassment to their departments, for years past and particularly during the two General Elections since the Masterman Report was issued; that it was not to be believed that such activities on the part of typists, clerical assistants or even clerical officers would lead any reasonable members of the public to doubt their integrity in the performance of their official duties; that the Official Side's undiscriminating taboo was its own condemnation, and that within whatever line of division might be agreed for application generally in the Service the same confidence should be shown in the staffs of these local offices as in the staffs of other offices until experience proved it to be misplaced.

7. Considerable discussion failed, however, to shake the Official Side from their view. They did not deny that there are in the area of restriction some, indeed many, individuals employed on work which is such that they could in practice be given political freedom without endangering the primary principle of the necessity for having a line at all. But if a line is to be drawn, it must be both broadly intelligible and administratively workable. And that being so, it seemed impossible to the Official Side to put the line between the Completely Free and the Restricted in any significantly different place from that in which the Masterman Committee put it.

Disagreement on the Staff Side's Proposals

8. The Committee were therefore unable to agree on a plan for the simple redrawing of the Masterman line. But from our very considerable discussions on this point there emerged the idea of the scheme which it is the main purpose of this Report to present.

Alternative Proposal

9. Even if the Masterman line had to remain where it was, leaving untouched the area of complete freedom, was it possible, consistently with the general principles of the Masterman Report, and without producing acute administrative difficulties, to draw another line through those to whom the Report denied complete freedom
in national political activities, dividing these in their turn into the “Restricted” and the “Less Restricted”. In other words, could the Service be divided not into two categories as envisaged in the Masterman Report, but into three as follows:—

(a) classes completely free (on the Masterman plan);
(b) classes subject to restrictions;
(c) a category intermediate between (a) and (b), of classes whose members might be partially free by permission; this category being a new conception.

10. We think it can. Both Official and Staff Sides are agreed that a category (c) could be created, and for want of a better name we shall, for convenience, refer to it as the grey class. The main features of this class would be as follows:—

The Grey Class

11. Civil Servants of the grey class would be eligible for permission to engage in all national political activities except Parliamentary candidature.

12. The granting of permission would depend on the acceptance of a code of discretion, putting certain limitations on the extent to which, and the manner in which, the civil servant could express views on Governmental policy and national political issues generally. (Hence, the exclusion of Parliamentary candidature from permissible activity; it would be impracticable to demand discretion of this sort from a would-be Member of Parliament.) A draft code of discretion is attached as Annex I.

13. In deciding which of their grey class staff should be allowed this degree of freedom Departments would be influenced mainly by the criterion of remoteness of contact with the public and anonymity.

14. The grades to be included in the grey class would be settled centrally. This having been done, each Department would divide its grey class staff as follows:—

(a) those to be covered by what might be called an open general licence to take part in all the national political activities open to the grey class, this open general licence being given to cover whole blocks of staff, so far as possible;
(b) those who must individually seek permission, which would be granted on the merits of the individual case according to the criterion indicated in paragraph 12 above.

The detailed arrangements would be discussed with the departmental staff representatives, but within the machinery centrally laid down the decision would rest with the Department.

15. Subject to certain special rules for those Departments (the Ministries of Housing and Local Government, Education, Health and Transport) in close official contact with local authorities, grey class staff with an open general licence for national political activities would be allowed to take part in local government and in political activities in the local field (that is, political activities in relation to local government) subject to:—

(a) the observance of the code of discretion referred to in paragraph 12 above;
(b) the notification to their Department of election to a local authority.

Grey class staff not covered by open general licence could seek permission to take part in local government activities and in political activities in the local field. Generally speaking, those to whom permission would be given to take part in national political activities would be given permission to take part in local government, activities subject to the code of discretion referred to in paragraph 12 above. Those not allowed to take part in national political activities would nevertheless, in as many cases as possible, be given permission to take part in local government and in political activities in the local field. This permission, which would be subject to a code of discretion requiring them to act with moderation, particularly in matters affecting their own Department—see Annex 2—would cover freedom to hold local party political office, such as Ward Secretary, impinging only or primarily on local government activity, but not any office impinging only or primarily on party politics in the national field.
16. Staff who were neither in the grey class nor in the area of complete freedom would not be allowed to take overt part in national political activities. But (subject to what is said in paragraph 15 about the special position of certain Departments) they would be eligible to seek permission to take part in local government activities and in political activities in the local field. This permission would be given to the maximum extent which the circumstances permitted, subject to the observance of the code of discretion (Annex 2).

17. Apart from a difference of opinion on the Staff Side's proposition that canvassing, in a Parliamentary or a local election, is not such a public manifestation of party political views that it need be forbidden to anyone (a matter which is dealt with in Annex 3), the two Sides are in agreement on this conception of the grey class.

18. The question then is, what grades should be included in this class? The two Sides are agreed that it should include the following:

(a) typists, clerical assistants, clerical officers and their analogues—general Service and departmental;

(b) grades parallel to those in (a)—i.e., grades of roughly the same status, whether general Service or departmental, e.g., Assistants (scientific);

(c) departmental grades known as the intermediate clerical grades (a very small group);

(d) grades parallel to the general Service grade of junior executive officer, i.e., grades which, not being in an executive class, either general Service or departmental, or in a class analogous thereto (e.g., the information officer class) are of roughly the same status, e.g., draughtsmen, leading draughtsmen, assistant experimental officer, experimental officer, technical grades 2 and 3;

(e) Post Office manipulative supervising officers who, not being within the area of freedom as recommended in the Masterman Report, have salary scales whose maximum is not higher than, or not much higher than the maximum of the junior executive officer scale.

19. So constituted, the grey class would include about 290,000 staff. Of these it is estimated that some 185,000 would be given an open general licence (see paragraph 14). Of the 100,000 or so who would have individually to seek permission to take part in national political activities, probably about 45,000 would get it. The great majority of those who would not get it would be in local offices of the Ministry of Labour and National Service, the Ministry of National Insurance, the Inland Revenue, and the National Assistance Board. Those not allowed to take part in national political activities would be given permission to take part in local government activities to the maximum extent which the circumstances of the particular case permitted.

20. There are roughly a million civil servants, industrial and non-industrial, established and unestablished. If the arrangements envisaged were put into force, the general position would be that about 62 per cent. of them would be completely free; another 22 per cent., say, would, subject to the code of discretion, be free to take part in all political activities except Parliamentary candidature, and some 16 per cent. would not be free to take part in national political activities but would be given permission, in as many cases as possible, to take part in local government and political activities in the local field.

21. In addition, we are agreed that the existing Post Office rule permitting canvassing by Post Office staff, except where “obviously incompatible with their official position,” should be maintained.

22. We are also agreed that a few individuals who now hold certain types of local party political office which would not be allowed to other members of their grades should continue to be free to hold them.

23. In recommending for the consideration of Ministers the institution of a grey class, and in effect the extension of a very real measure of freedom to over 200,000 civil servants whom the Masterman Committee put outside the area of freedom altogether, we have, we think, achieved a not inconsiderable measure of agreement. It has been reached only after much thought on both sides and a great deal of joint discussion, and would have been impossible without a real effort on each side to understand the other's point of view and to meet it so far as fundamental conviction would permit.
24. But there nevertheless remain two major aspects of the problem on which, having been unable to reach agreement, we can only record the respective points of view of the two Sides. These unresolved questions are: —

(i) Should canvassing be excluded from the political activities for which permission is necessary, i.e., should all civil servants be free to canvass in support of candidates for Parliament or local government, should they so wish, subject only to their personal judgment as to the fitness of so doing?

(2) Should the junior executive officer grade and analogous grades be included in the grey class?

25. In spite of much discussion we have been unable to reach an agreed conclusion on these two questions: to both of them the Staff Side would say "yes" and the Official Side "no." This Report can therefore do no more than record for the consideration of Ministers the respective views of each side on each matter. Annex 3 sets out the opposing points of view on canvassing. Annex 4 sets out the opposing points of view on the inclusion in the grey class of the junior executive grade, &c.

Conclusion

26. As we said in paragraph 1, our task has been to explore the possibility of producing for the consideration of the Government proposals acceptable to both Sides of the Council for the modification of the recommendations of the Masterman Committee.

We have succeeded in this task by producing the scheme for a class of civil servant, intermediate between the two envisaged by the Masterman Committee, that is, between those who as a class have complete freedom, and those who, as a class are forbidden to engage in any activities associating them publicly with a political party. This new class, which we have called the grey class, and which we have described in detail in paragraphs 10 to 16, would be eligible for partial but still considerable freedom. We submit this proposal for consideration.

27. If it is accepted, as we hope it will be, decisions will be called for on the two subsidiary—but nevertheless important—matters dealt with in detail in Annexes 3 and 4: —

(a) Should officers who would not be allowed to engage in national or local political activities generally (whether they are within the grey class or outside it) be forbidden to engage in canvassing, on the grounds that it involves prominent public manifestation of party political views and a real risk that for them to engage in it would give rise to public concern?

(b) Is the grey class to include the junior executive officer and analogous grades?

Signed on behalf of the Staff Side:
A. J. T. DAY.

Signed on behalf of the Official Side:
EDWARD BRIDGES.

April, 1952.

ANNEX 1

CODES OF DISCRETION

Code of Discretion for those who, though not completely free politically, are allowed to take part in both national political activities and local government and political activities in the local field

A certain discretion is required of those civil servants who, not being within the area of complete political freedom, are nevertheless given permission to take part in national political activities (other than Parliamentary candidature) and in local government and local political activities. All such staff should bear in mind that they are servants of the public, working under the direction of Her Majesty's Ministers forming the Government of the day. While they are not debarred from
advocating or criticising the policy of any political party, comment should be expressed with moderation (particularly in relation to matters for which their own Minister is responsible) and should avoid personal attacks. They should use every care to avoid the embarrassment to Ministers or to their Department which could result, whether by inadventure or not, from the actions of a person known to be a civil servant who brings himself prominently to public notice in party political controversy.

ANNEX 2

Code of Discretion for those who though not allowed to take part in national political activities are allowed to participate in local government and political activities in the local field

The permission to participate in local government and in political activities in the local field granted to civil servants not free to participate in national political activities is subject to the condition that they act with moderation and discretion, particularly in matters affecting their own Department and that they take care not to involve themselves in matters of political controversy which are of national rather than local significance.

ANNEX 3

CANVASSING

1. The two Sides are agreed that the political activities for which permission should be necessary are the holding of office in party political organisations, speaking in public on matters of party political controversy and expressing views on such matters in letters to the Press, books, articles or leaflets.

2. The Official Side would add canvassing, on the grounds that, like these other activities, it is a prominent public manifestation of party political views and that knowledge that a civil servant was engaging in it could spread widely enough to give rise to public concern.

3. The Staff Side strongly contest the Official Side’s attitude and for several reasons. Their main argument is that canvassing does not satisfy the two conditions in the previous paragraph which, not separately but only when combined, can be held by the Official Side to justify the denial of freedom to a large number of civil servants. The task of the canvasser nowadays is not to persuade people to vote in any particular way but to find out how they intend to vote. His specific instructions, in one party at any rate, are to that effect. His object being research, not propaganda, he need not engage in argument or express his own political views, although it is true that by canvassing for a particular party he does identify himself with it. But not prominently, nor, in any reasonable meaning of the word, publicly, since canvassing is, in its nature, a series of private interrogations of individual citizens. Canvassing cannot, therefore, be said to involve a “prominent public manifestation of party political views.” Nor, in general—turning to the second condition—need it expose the civil servant to the risk of being widely identified as such. Even if he canvassed voters in the immediate neighbourhood of his own home, those who knew him by conversation, common talk, &c., to be a civil servant might in the same way, and without any sort of public manifestation on his part, already know him to be a supporter of this party of that and his appearance as a canvasser on its behalf would be no new revelation. But in practice it would generally be easy to arrange for civil servants to canvass in parts of the constituency, away from the immediate neighbourhood of their own homes, where, unless for some reason not connected with politics they were already public figures, they would be fleeting callers at every door, unidentified either by name or by occupation. This being so, the Staff Side cannot see what real danger to the reputation of the Service for the politically impartial discharge of its duties—the Official Side’s sole or main justification for imposing any restriction—can be apprehended to warrant the formal withdrawal of this particular right of the ordinary citizen from any civil servant, though they would expect that in exceptional cases (e.g., where a civil servant in one of the higher grades was already, for some reason, generally known as such throughout the constituency) the right would not be exercised.
4. Their view is supported by actual experience. Staff rules in the Post Office have for many years specifically permitted canvassing, without restriction as to grades but with the proviso that the Postmaster-General might have to impose one if the use of the open licence ever proved embarrassing. As it has never done so, it is to be inferred that no untoward consequences—or none worth mentioning—have resulted from the general permission to canvass. Nor have any such consequences followed from the canvassing in which civil servants, not only of the lowest grades, in other departments have considered themselves free to engage in view of the specific permission given in the Post Office rules and the absence of any specific prohibition in their own. Now to designate canvassing as the sort of political activity which should be denied to those not allowed to engage in political activities generally would, therefore, be to impose a new restriction for which there is no demonstrable justification from the Official Side's own point of view as the Staff Side understand it.

5. The Official Side find it extremely difficult to accept these arguments. It may be that the modern canvasser is usually instructed not to seek to persuade or to indulge in argument. This is not, of course, a matter on which the Official Side are well qualified to express a view. Nevertheless, a canvasser canvasses on behalf of a particular candidate and on behalf of a party: he may even wear a badge on his lapel showing which party he is not only supporting but is working for. To the Official Side this seems undeniably to be putting oneself forward prominently in association with a political party. It also seems to them undeniably to be putting oneself forward publicly in association with a political party. The "publicity" may be different from that involved in, say, addressing a meeting but it is nevertheless there, and in the Official Side's view no less inconsistent with the general principles within which the Committee is working. Moreover, and more importantly, the Official Side think that this is how the matter would strike the public.

As to the present rules, it is true that, outside the Post Office, departmental rules make no mention of canvassing. But they are couched in very general terms. For example, in several Departments the rule says: “Civil servants are expected to maintain at all times a reserve in political matters and not put themselves forward prominently on one side or the other.” In another Department the rule says: “It is a well understood rule that civil servants should refrain from taking an overt part in public political affairs.” In another Department the rule says that “civil servants should refrain from taking an active share in party politics.” To the Official Side it is inconceivable that the general run of the staff could seriously have believed that to canvass was compatible with rules worded in this way. The fact that the Post Office's rule was different would, in the Official Side's view, prove very little: the Post Office is far from being a typical Department.

As to past practice, the Official Side are not aware that staff generally have in fact canvassed either to a small or large extent. Had permission to do so been asked, it would certainly have been refused. But even if some civil servants, who in future may not be free to do so, have in the past canvassed, and canvassed without doing noticeable harm to the Civil Service's reputation for impartiality, that does not necessarily lead to the conclusion that openly to declare that all civil servants are free to canvass would do no harm. And to omit canvassing from the list of political activities for which permission must be given, which must inevitably be published, would be tantamount to such a declaration.

ANNEX 4

THE SCOPE OF THE GREY CLASS

1. The Staff Side propose that the grey class should include the junior executive officer grade and the analogous grades. There are some 40,000 people in these grades.

2. For this proposal the Staff Side advance the following reasons. The arguments for complete restriction apply in their full force to the extreme case of the administrative class and, in the view of those who believe in them, diminish in effect as they are extended downwards. Conversely, the arguments for complete freedom, to be used with individual discretion, are weightiest at the bottom level of industrial, minor and manipulative and analogous grades and may be held to
lose some of their force as they are extended upwards. Where can the two sets of arguments reasonably be said to meet and balance? Not, in the Staff Side’s view as low down, in a graded Service ranging in terms from, say £4 a week to £5,000 a year, as a grade which at its maximum receives only £700 a year. At that level the arguments for allowing ordinary citizen rights unless their denial is demonstrably necessary to the preservation of public confidence in the Service have by no means lost their force or been outweighed by the converse arguments for withholding these rights in case an incident should occur to bring into question the impartiality of an individual civil servant as such. To allow freedom in any context is to take a risk, and while the Staff Side, though not sharing it, can understand the Official Side’s reluctance to take any risk at all by granting political freedom to, say, Assistant Secretaries rising to £2,000 a year, they feel bound to say that to view junior executive officers and their like in the same light, to consider the reputation of the Service to be as vulnerable through them as through the much higher grade, to want the same absolute assurance against risk in the one case as in the other, and to deny freedom to all members of the junior executive grades, however and wherever employed, equally with all members of the higher grades of the administrative class, is to carry an arguable caution to the verge of timidity.

3. The Staff Side can well believe that as about a quarter of the grey class, if constituted as in paragraph 18 of the Report, would be entirely restricted, the proportion of junior executive officers who would be similarly restricted if included in that class would be higher still. Those allowed to engage in political activities might indeed be only the minority. But it is a serious matter, tending to be overlooked when dealing with civil servants in the mass, to deprive a single individual of any of that freedom of speech and lawful action in political matters for which revolutions have been started, and the Staff Side take the view that, as they believe to be the case, an appreciable number of junior executive officers could, with discretion, and without any real risk to the repute of the Service, engage in political activities, they ought not to be deprived of the opportunity of doing so on a theory that this is the level of the Service where the arguments against the grades as a whole override the arguments in favour of certain of the individuals in them. The Staff Side would not even agree that this could be said at the higher executive level. But as, for the purpose of achieving an agreed settlement, the gap between the two Sides has been narrowed to the junior executive case, the Staff Side do not press their point of view beyond that, but confine themselves to it in the belief that, up to that level at any rate, the balance of argument is clearly in their favour.

4. The Official Side are unable to accept the Staff Side’s proposal to include junior executive officers, &c., in the grey class because, in their view, we are at this level that one enters the lower reaches of that part of the Civil Service of whose political impartiality it is essential that there should be no doubt in the public mind. Members of the higher grades of the general Service executive class not infrequently work in close association with the administrative class in framing policy. Many of its members in all grades are engaged in the day-to-day working out and amplification of the detail of that policy. Others are in responsible positions in local offices. Mutatis mutandis, the same is true of the analogous classes in Departments such as the Ministry of Labour, Inland Revenue and Customs and Excise. The Official Side appreciate that the Staff Side propose the inclusion in the grey class only of the basic grades of the executive classes, and obviously the responsibilities of these junior grades should not be over-estimated: there are junior executive officers employed on work—for example, in the Post Office Savings Department and in the museums—far removed from policy-making and remote from contact with the public. They realise, too, that the Staff Side for their part appreciate that, given the conception of the grey class, the freedom permitted within it would have to be denied to very many junior executive officers and their analogous colleagues, were they included in it. But nevertheless the Official Side are unable to persuade themselves that it would be right to recommend the inclusion of these grades in the area of possible freedom. They see that it is possible reasonably to draw a line above the clerical officer or thereabouts. But above that line, the atmosphere and responsibilities are, generally speaking, radically different from what they are below it. It was only after much hesitation that the Official Side agreed to recommend the inclusion in the grey class of the technical grades parallel with the junior executive officer, and therefore of higher status than clerical officer. In so recommending they have gone to what they regard as the farthest limit consistent with the general principles of the Masterman Report.
CABINET

METHODS OF BORROWING BY LOCAL AUTHORITIES

Memorandum by the Chancellor of the Exchequer

The Proposal

I shall be glad if my colleagues will consider the case for a change in the present system of providing the local authorities with their capital finance. My proposal is that the law requiring the authorities to borrow from the Exchequer through the Local Loans Fund should not be renewed when it expires in December 1952, and that in 1953 the amount they borrow from the Exchequer should be limited to such provision as we make for that purpose in the Budget, leaving them to raise the balance of their requirements by mortgage loans and issues of stock.

The Present System

2. The present system is governed by Section 1 of the Local Authorities Loans Act, 1945 - which Section will expire on 31st December 1952 unless renewed by inclusion in the Expiring Laws Continuance Bill. Under it, local authorities must borrow from the Exchequer through the Local Loans Fund unless authorised by the Treasury to do otherwise. In practice the authorities are authorised to borrow on private mortgage within limits that have permitted them in recent years to raise some 20 per cent of their loans each year from sources other than the Local Loans Fund. But there have been no stock issues in the market by local authorities since the war except conversion issues, and the last of these was in 1948. As long as the authorities are obliged to borrow from the Local Loans Fund, there is a corresponding obligation on the part of the Government to lend them whatever sums they require to raise in order to meet approved commitments. For each year after 1948-49 the actual loans by the Government required under this commitment have substantially exceeded the provision made below-the-line in the Budget.

3. The provision in this year's Budget is £360 millions. The best estimate that can be made, based on the figures of advances so far made to local authorities, suggests that there may well be an excess over the Budget figure of the order of £75 millions.

Limited Objective

4. The proposal has a limited objective. It is not a proposal to use the market to control the volume of local authority borrowing. Local authorities borrow to meet commitments already approved by the responsible Departments and covered by the appropriate sanctions. I am not suggesting that we should throw the local authorities on to the market to stop them borrowing altogether or to reduce their borrowing by forcing them to bid
for capital in the market at penal rates of interest. On the contrary, I am clear that as long as local authorities incur capital expenditure under Government authority, they are entitled to an assurance that in order to finance that expenditure they will be given access either to the Exchequer or to the market and, if the latter, that the terms will be appropriate to their standing as public authorities.

5. It would be wrong, therefore, to regard the new system proposed as a substitute for control over the volume of capital expenditure by local authorities. But I believe it would provide a useful support for that control. I have said that the authorities must be given a general assurance of access to the market on appropriate terms. But the knowledge that certain authorities in due course will have to come to terms with the market should have a restrictive and sobering effect upon them when they plan their capital expenditure. It might also make them more careful on their current expenditure.

Advantages

6. The following advantages would result from the change.

7. First, it would have a healthy effect on public opinion both at home and abroad. At home, we shall find that the plans of the local authorities are framed in a more realistic way. Abroad, the published figures of Exchequer issues under the present system have done damage to Government credit and to confidence. The change will not in itself reduce the volume of local authority borrowing. Nor, given outstanding commitments, will it reduce the rate of Exchequer lending for a considerable time. But the announcement of the change would be regarded as a step in the right direction.

8. Secondly, we avoid the necessity for re-enacting the statutory provision obliging local authorities to borrow from the Local Loans Fund. This obligation is provided in Section I of the Local Authorities Loans Act, 1945. As originally enacted, the provision was limited in duration to five years and should have lapsed on 31st December, 1950, but it has twice been prolonged for a year at a time, by the Expiring Laws Continuance Acts of 1950 and 1951. The local authorities are on record as wanting Section I of the 1945 Act to lapse so that they regain their freedom. If we continue the present system we have to justify the legislation to Parliament; and before we provide for it in the next Expiring Laws Bill, we shall have to negotiate with the authorities about the terms on which we prolong their obligation to borrow from the Exchequer. This means an extension of the present practice under which they are left free within wide limits to borrow from the Exchequer or outside, as they like, while the Government must lend them whatever they require. If Section I of the 1945 Act lapses we are relieved of the need to legislate, for we shall still have all the control over the form of local authority borrowing that we require - because they, like other borrowers, are subject to the provision for capital issues control in the Borrowing Act, 1946. On the other hand, the Government would regain discretion to lend from the Local Loans Fund such amounts as we may decide on grounds of Government policy.

9. Thirdly, we need the change in order to avoid the embarrassment to the Budget resulting from the existing system under which the provision for loans to local authorities is an open figure not capable of restriction to the estimate. We have already seen this year what
happens when issues to local authorities substantially outrun the estimate. The figures published weekly have done damage to Government credit, and to confidence. The Exchequer has been obliged to meet the deficit by adding to the floating debt, and the consequent increase in the liquidity of the banks weakens our monetary policy and endangers our control over credit. The issues to local authorities represent the lion's share of provision for expenditure below-the-line in the Budget ( £360 millions out of a total below-the-line of £612 millions in 1952/3). We must regain control over this item as part of our new monetary technique.

Objections

10. I appreciate that we shall encounter some criticism both in Parliament and from some local authorities. Most of the objection will spring from the fallacy that we intend to penalise some of the authorities by leaving them to the mercy of a stringent stock market. The answer is twofold. First, authorities which cannot be accommodated by the Local Loans Fund will be given access to the market to borrow to meet approved commitments on terms appropriate to their standing; and secondly, this does not mean that we are discriminating against the authorities who go to the market, since we already charge the full market rate on loans from the Local Loans Fund and shall continue to do so.

Negotiations with Local Authorities

11. Once the decision of principle is taken to limit the issues from the Local Loans Fund to the amount provided in the Budget we shall need to negotiate with the local authorities on the arrangements for sharing out the limited sum. It will probably be necessary to meet the whole of the requirements of the smaller authorities from the Local Loans Fund. The requirements of the larger authorities will then be covered if the resources of the Local Loans Fund are supplemented by mortgage borrowing and by arranging for a small number of substantial stock issues by the London County Council and a few other large authorities of recognised credit standing. I recognise that these arrangements will depend upon the future provision in the Local Loans Fund being enough to reduce the balance to be found by stock issues to manageable proportions. It is, of course, too early to decide on the figure for loans to local authorities in next year's Budget; but if the system is changed as I suggest, I shall take care that the provision for local loans is sufficient to keep the balance to be found by stock issues to manageable proportions.

Recommendation

11. I ask my colleagues to agree:

(a) to allow Section 1 of the Local Authorities Loans Act, 1945 to lapse on 31st December, 1952 by omitting it from the forthcoming Expiring Laws Bill;

(b) to announce this decision when the Expiring Laws Bill is published early in November, coupled with the Government's intention in future (starting in the financial year 1953/54) to limit issues from the Local Loans Fund to the provision in the Budget;

(c) to inform the local authorities immediately of this decision and to open negotiations with them on future arrangements, with the object of settling the arrangements in time to indicate them in outline when the decision is announced in early November.

Treasury Chambers, S.W.1. R.A.B.
10th October, 1952.
Cabinet

German Request for the Return of their Captured Archives

Memorandum by the Secretary of State for Foreign Affairs.

At the end of the last war a great mass of German documents fell into Allied hands. They included the archives of the German Army, Navy and Air Force, of the German Foreign Ministry, and many technical and scientific documents. Possession of them was divided by agreement between the United States and British Governments but they were to be held for the most part in joint custody. The principle of mutual consultation between the British and United States Governments, to which the Departments of Her Majesty's Government concerned attach great importance, on all questions relating to these papers, was agreed and has been generally observed.

2. On 17th June, 1950, the Chancellor of the German Federal Republic, Dr. Adenauer, quoting a resolution passed by the Bundestag on 11th May, 1950, wrote to the Allied High Commission requesting the return of the captured German documents. During the recent negotiations for the Contractual Agreement the question was raised again, and it was agreed that an exchange of letters should take place under which the Allied Governments would agree to discuss this question with the Federal German Government. This exchange of letters has been effected, and the Germans have notified the Allied High Commission of the names of their representatives in the discussions, and have requested that discussions should begin at an early date.

3. The German Foreign Ministry archives have always been treated separately from the military and technical collections. From an early date after the war the State Department and the Foreign Office adopted the view that they were custodians of these documents for a future German Government and that, when the requirements of the historians engaged on publishing selections from them in the series Documents on German Foreign Policy had been satisfied, they would ultimately return the whole collection to the Germans. As a consequence of this view, with which the French Government as a partner in the publication project concurred, and in response to the Federal Chancellor's request, the Allied High Commission made an offer to the Germans about these documents on 6th July, 1951. This included (1) the loan to the Federal Government of all microfilms made and to be made; (2) a liaison officer in this country with free access to the documents; (3) a German Editor to be associated with the British, American and French Editors; (4) the return of certain categories of documents including the personnel files of the former German Foreign Ministry - these have since been returned - and (5) the return of the pre-1914 papers. To this offer no direct reply has been received from the Federal Government but it is proposed that negotiations should be opened with them in the near future on the basis of the offer and the United States and French Governments have already agreed to this course.
4. The question of the return of the military and scientific and technical documents presents much greater difficulty. These documents are not only important for the official War Historians but there are serious security reasons against returning many categories of them, including some categories of technical and scientific documents. The question has been considered by the interested Departments and their agreed proposals were given general approval by the Chiefs of Staff Committee on 4th September.

5. For their part the Departments concerned would have preferred to make no concessions to the German request, but they have agreed to offer certain concessions to meet the view presented by the Foreign Office that it is of considerable importance politically to grant such concessions to the Germans on this matter as may be possible. Their proposals therefore lay down that whilst there are certain categories of material which, for security or other reasons, cannot be returned to the Germans "within any foreseeable time", the great bulk of the documents could be returned in due course.

6. The Departments therefore considered that the general principle that the captured archives should ultimately be returned to their country of origin could be conceded, but that, in discussion with the Germans, this principle should be expressed merely as an intention to return them when they are no longer being used for defence or historical purposes. A definite guarantee of return, unaccompanied by a time limit, would merely invite charges of breach of faith, if the documents were withheld beyond a period which is regarded by the Germans as reasonable. On the other hand, it is not possible to set an arbitrary limit to the period within which they, or any substantial part of them, will cease to be of practical value to us. Moreover, the documents, which reveal German strategy and tactics during the war in comprehensive detail, could not fail for many years to come to be of great assistance to any potential enemy of the Western Powers and in particular of this country, and their retention in this country or in the United States, even when their value for purposes of study and research has been exhausted, may under the conditions prevailing at the time be a wise and necessary precaution. It seems important, for this reason alone, that the right to retain them should not be relinquished.

7. On this point the Chiefs of Staff Committee stated at the meeting referred to in paragraph 4 above that "the question of return of Captured Archives to a defeated enemy country was one of principle for which there was no known precedent. It was therefore most desirable that Ministerial approval should be obtained to this principle". The principle can be defended on the ground that such records contain the basic history of the country's past and that without them its history cannot be written. Moreover permanent deprivation of the national archives would create a permanent grievance.

8. It is evident that, before discussions with the Germans are opened, discussions should take place with the United States and French Governments to arrive at a common policy, and a proposal for such discussions has already been made to the United States Government. It was suggested in this proposal that the discussions should be held either in London or Washington, preferably the former, and that the host government should invite the French Government to take part in them. The Departments of Her Majesty's Government interested in this question are most anxious to maintain the principle of joint consultation with the United States Government. It is also in the highest degree necessary to determine as precisely as possible, before discussions with the Germans begin, the specific categories of documents which must be excepted from the principle of return and to secure agreement with the other two Governments on these exceptions.
I therefore recommend:

(1) that negotiations for the return of the German Foreign Ministry Archives should be opened as proposed in paragraph 3 above;

(2) that German military, scientific and technical documents should be dealt with as proposed in paragraphs 7 and 8.

A.E.

Foreign Office, S.W.1.

10th October, 1952.
CABINET

CALL-UP OF YOUNG AGRICULTURAL WORKERS

Memorandum by the Minister of Agriculture and Fisheries.

The Minister of Labour's paper, C. (52) 323, has forestalled me in taking up with him, and with my colleagues, the serious labour situation in agriculture.

2. The facts are these.

(i) Up to 1949 an encouraging build-up of regular workers in agriculture.

(ii) In 1950 a rough balance between supply and demand.

(iii) This was held to justify the last Government's decision to remove exemption from call-up in 1951, which agricultural workers had had since February, 1946. Even this had to be deferred till November, 1951, to ensure the gathering of that year's corn and root harvest.

(iv) The favourable trend up to 1949 has since been reversed most seriously. In three years there has been a net loss in Great Britain of 54,000 regular farm workers out of 573,000. The rate is increasing - in annual figures, June to June, it has been 10,000, 21,000 and 23,000.

(v) At this rate of loss we shall next year have less regular workers in agriculture than we had in 1939, although we are producing far more food.

(vi) The call-up accounts for some 9,000 of the net loss of 23,000 in 1951/52. There will be a similar loss in 1952/53 if there is no alteration in call-up arrangements.

(vii) Although after that the men first called up should be coming back, there is very serious doubt whether anything like the number called up will return to the farms.

3. These losses will have a serious effect on our food production plans for increasing output to at least 60 per cent above pre-war by 1956, compared with about 44 per cent today. On reasonable but optimistic assumptions about continuing increase in output per man, there will be a gap in the next two years of around 15,000 men between the minimum requirement for the programme and the probable labour supply on current trends.
4. It is the skilled regular workers, for whom there is no substitute, that we are losing - particularly men under 30.

The present deferment arrangements make no provision for the young men on the larger farms with experience of tractors and modern machinery; a lot of our food production depends on these farms and these men.

6. Again, we are trying hard to give the people more British meat. Men are essential to tend and provide feed for the increasing numbers of cattle, sheep and pigs. More machines are not the answer. But no provision is made for deferment of stockmen unless they are full-time.

7. In this situation farmers cannot understand how we can allow the call-up to go on when we are pressing them to increase their output. They are convinced the men could not possibly be mobilised in event of war and they feel unable to do their job without them now. They say that ploughing grants and calf subsidies without labour do not make sense. It is one of my hardest jobs to convince them that the Government are in earnest.

8. The agricultural need could be met without granting exemption.

This could be done by allowing all those working in agriculture to be eligible for consideration of deferment, whatever the size of the farm and whatever the job done. This should include men working for agricultural contractors.

The grant of deferment would then depend on recommendations of the agricultural advisory panels after taking account of the effect on food production, and possibilities of rearrangement of work and of substitution, as under present arrangements.

9. The case for relaxation of call-up in agriculture is:

(i) We must reduce the fall in our regular agricultural labour force.

(ii) We have to persuade farmers that we are in earnest about more food production.

10. The case against is:

(i) Agriculture should make its contribution to national service.

(ii) Others will ask for similar concessions.

(iii) The Services cannot afford the loss to them.

11. My answers are:

(i) Agriculture would still be making a contribution, even though small; but the special deferment arrangements would ensure that those really needed for food production are kept back.

(ii) Agriculture and coal mining needed special treatment in 1946 to 1951, and so they do today; this will be generally recognised.

(iii) I realise that we must balance agriculture's need against that of the Services. But food is as necessary for our national existence as the Armed Forces; and I am sure that agriculture cannot afford to lose the experience and skill of the relatively few young men concerned.
12. I must ask therefore that the scope for deferment of call-up of young agricultural workers shall now be extended as proposed in 8 above.

An early announcement to this effect would do a power of good to the food production drive.

T.L.D.

Ministry of Agriculture and Fisheries, S.W.1.

11th OCTOBER, 1952.
13th OCTOBER, 1952.

CABINET

SUPER-PRIORITY FOR CIVIL AIRCRAFT

Memorandum by the Minister of Supply

The American civil aircraft manufacturers are becoming increasingly alive to the challenge from Britain and are intensifying their efforts to shorten the technical lead which our industry has established.

2. If we are not to lose the advantage we now possess, everything possible must be done to accelerate production and so advance the delivery dates which can be offered.

3. With this object, I ask that Super-Priority be granted to the most promising British types, namely to the Comet (Marks II and III), the Britannia and the Viscount.

D.S.

Ministry of Supply, W.C.2.

13th OCTOBER, 1952.
C. (52) 332

13th October, 1952.

CABINET

SITUATION IN KENYA

Memorandum by the Secretary of State for the Colonies

I attach copies of two telegrams which I have just received from the Governor. He proposes to declare a state of Emergency and detain those who are regarded as the real leaders of Mau Mau. I propose to approve the action which he recommends, but before doing so I should like to have the concurrence of my colleagues.

The Governor expects that the arrests will lead to some violence and I think it important to give him the military support which he and the General Officer Commanding think necessary. I accordingly seek approval for the despatch of a British battalion from the Middle East to Nairobi.

O.L.

Colonial Office, S.W.1.

13th October, 1952.
INWARD TELEGRAM.
TO THE SECRETARY OF STATE FOR THE COLONIES.

FROM KENYA (Sir E. Baring)

GYpher (O.T.P.)  D. 10th October, 1952.
R. 10th  "    "  07.50 hrs.

IMMEDIATE
TOP SECRET
No. 616.

Following information gained during a short tour of the most troubled areas of Kilcuyuland, both reserves and farms, and recent sharp increase of tempo of crime, I have regretfully come to the following conclusions:

1. Quite apart from their political views, most Kenya African union leaders, including Kenyatta, are planners of the Mau Mau movement, an organised conspiracy exists and Mau Mau crimes committed are either the result of direct instigation by Kenya African union leaders at Nairobi or arising indirectly from the initiative of local Africans and inflamed against loyal Africans and Europeans by speeches and messages from these leaders.

2. The main reasons for holding this view are:

(i) there has been a regular pattern of events at most places in the trouble areas (e.g. the Fort Hall and Nyeri reserves and Timau and Thompson's Falls farms). First, speeches by Kenyatta and other Kenya African union leaders, next a shuttle service of emissaries from Nairobi and local men returning there for instructions: then widespread Mau Mau oath taking; finally murder, assault, boycott. All this has happened in areas which, before the speeches mentioned, were quiet (e.g. Thompson's Falls farms) or were areas of mild oath taking ceremonies (e.g. in Fort Hall attendances at these ceremonies arose from an average of about twenty to several thousands after the speeches).

(ii) when he chooses, Kenyatta has induced Kikuyu to obey him. He practically stopped the drinking of European beer by Africans in Nairobi. Yet his denunciation of Mau Mau crimes has been ineffective and has often, I am told by Kikuyus, been accompanied by sayings and gestures making clear to his audience that he did not mean what he said.

(iii) Kikuyu chiefs and headmen, African administrative officers, Kikuyu teachers, both European and Kikuyu missionaries of the three denominations predominant (i.e. Catholic, Church of Scotland and American Independent Mission) in Kikuyuland, as well as European Government officers and farmers, unanimously and with emphasis told me that:

(a) the Kenya African union leaders, and particularly Kenyatta, were at the back of the Mau Mau movement and violent crime and

(b) without their removal, no other measures would succeed in checking the increasing rate of deterioration of the position.
(iv) Kenyatta has allowed his name to be inserted blasphemously in hymns and prayers as part of strongly anti-Christian movement which has gone a long way in some areas to empty the mission schools in favour of the Kikuyu Independent schools and churches in favour of the Mau Mau religion.

3. I conclude, therefore, that we must remove Kenyatta and several of his henchmen during the next few weeks. If we do not

(i) the chiefs, headmen, Government servants and missionaries among the Kikuyu who still support us will cease their support and may well be killed;

(ii) the trouble will spread to other tribes who are more war-like than the Kikuyu and who provide men for Kenya Police. Already attempts are being made to infiltrate into Nyenanza Province and Wakamba area.

(iii) there will be reprisals by Europeans. Attacks have been first on loyal Africans, headmen and informers, twenty-six of them have been murdered, next on European property, and finally on leading Africans and on Europeans. During the last few days the killing of Chief Waruhiu (perhaps one of the three leading Africans in Kenya) and two murderous attacks on Europeans have produced a temper bound to lead to reprisals and then almost to civil war, unless leaders of the Mau Mau movement are removed during the next few weeks.

4. If we do remove them, I believe indoctrination of tribes other than the Kikuyu will cease and, even among the Kikuyu, there are

(a) sufficient centres of resistance and

(b) so many followers of Mau Mau who have joined from fear alone, that position can be regained.

5. I am informed by all my advisers that the arrest of Kenyatta may well be followed by much violence. Greatest danger at the moment is that this may lead to European reprisals. Following Timau outrage, attacks on Europeans and Waruhiu murder, situation has so much worsened since the visit of Whyatt and Davies that, if we proceeded against Kenyatta under new Special District Ordinance, the violence I anticipate would develop during the fourteen days' grace. If, alternatively, we could obtain sufficient evidence to use the deportation (Immigrant British Subjects) Ordinance the same violence would develop during the judicial enquiry at Nairobi. Our information is that this violence would start from the moment hands are laid on Kenyatta, there would be reprisals, loss of life, and it would then become necessary to declare a state of emergency.

6. The most likely way of avoiding bloodshed would be to declare an emergency and then immediately remove Kenyatta and his followers by executive action under the Emergency Regulations. I would propose to proceed under the Emergency Powers Order-in-Council 1939 rather than under the Local Emergency Powers Ordinance '48; Rogers' secret letter of
INWARD TELEGRAM.
TO THE SECRETARY OF STATE FOR THE COLONIES.

15th June 1950 and your secret circular despatch of 18th February 1950 refer.

7. If this operation was staged for about 23rd October we would have time to build up adequate police and military forces. I believe the risk of trouble is very great and we should be too strong rather than too weak. For this reason I have asked the local military authorities to communicate with C.O.C.-in-C. Middle East Land Forces about sending to Nairobi British battalion allocated for this purpose and I trust you will agree.

3. We would be most grateful for loan of a Special Branch police officer to remain here for about a year to overhaul our security machine. This is a vital and urgent need.

9. I much regret having to recommend such strong action so soon. I have very much in mind need for a positive as well as a negative policy. Members of the Government have already agreed to work towards abolishing the rules by which Africans in senior posts draw (omission) fifths of the European pay and arrangements are being made for promotion of certain Africans from grade C to grade B. More money is being allocated to African housing and education. With one farmers' meeting I have frankly discussed a minimum agricultural wage. Letter follows.

Distribution:

H. L53
Secretary of State
Sir T. Lloyd
P.S. to Parliamentary U/S
Sir G. Jeffries
Sir H. Peyton
Mr. K.H. Davies
Mr. T.H. Parsons
Mr. Gorell Barnes
Mr. P. Rogers
Mr. H.F. Hall
INWARD TELEGRAM.

TO THE SECRETARY OF STATE FOR THE COLONIES.

FROM KENYA (Sir E. Baring)

CYPHER (O.T.P.) D. 13th October, 1952.
R. 13th " 08.45 hrs.

IMMEDIATE
TOP SECRET AND PERSONAL
No. 620.

From Baring for Lloyd. Begins.

Your telegram No. 651.

I am most grateful for your telegram and realise that decision of this importance requires most careful consideration. Unfortunately the situation here continues to deteriorate, and since my telegram No. 616 was sent there has been another serious attack on two elderly Europeans in the Kiambu area, where farms and the Kikuyu Reserve are intermingled.

2. Emergency Regulations will give power to detain where the Governor is satisfied that it is necessary to exercise control over any person for the purpose of maintaining public order. In addition, they will confer power to prohibit the carrying of weapons of offence such as "pangas" in disturbed areas, and the power to maintain food supplies and essential services if, as my Advisers consider almost certain, such supplies and services are disrupted by general strike or disturbed by conditions following upon the detention of Kenyatta and his henchmen.

3. I entirely appreciate the political desirability of being ready on or about 23rd October. Planning is almost complete, and, provided suitable arrangements concerning British battalion are made, we think we can keep to approximately this date. I believe that Fenner Brockway may be the guest of Chief Koinange at his home in Kiambu. You should know that the Criminal Investigation Department are strongly of the opinion that ex-Chief Koinange and his two sons are implicated in the murder of Waruhui. Investigations are still proceeding.

4. In my view, and in that of my Advisers, presence of a British battalion before (repeat before) Kenyatta and his main followers are detained under the Emergency Regulations may well be the decisive factor in preventing outbursts of violence by Kikuyu, followed probably by reprisals by Europeans with resulting bloodshed. G.O.C. and I both believe the situation might then become so serious that it would be necessary to call on the Middle East for more than one battalion. Moreover, apart from preventive effect, conditions in Kenya, with its scattered European population, will make necessary so great a dispersal of military and police forces that without British battalion a very weak reserve (of only two companies) would be left. For these reasons and especially for the psychological and preventive effect, I would be most grateful for help in obtaining battalion.
5. Timing presents a difficulty. On our present information from M.E.L.P., eight full days will be required from receipt of order until concentration at Nairobi, since aircraft are only available to lift half a battalion in one operation. For fly-in to be completed by 23rd or 24th, it would therefore be necessary for Her Majesty's Government's decision to be communicated to me and to M.E.L.P. on the 14th or 15th. If this is not possible, I am afraid we will have to postpone detentions to Monday 27th October since, if detentions take place during the week-end when the town Kikuyu are not at work, trouble is far more likely.

6. I will certainly bear in mind your point concerning Executive Council meetings.

7. Presume you have by now received my letter of 9th October amplifying my telegram No. 616.

Distribution:

H. 453
Secretary of State
Sir T. Lloyd
P.S. to Parliamentary U/S
Sir C. Jeffries
Sir H. Poynton
Mr. H.H. Davies
Mr. T.R. Parsons
Mr. Gorell Barnes
Mr. P. Rogers
Mr. H.P. Hall
Mr. Trafford Smith

War Office (D.M.O.) - Gen. McLeod

Disturbances Distribution sent.
13th OCTOBER, 1952.

CABINET

PERSIA

Note by the Secretary of State for Foreign Affairs

In connection with recent developments in Persia my colleagues may be interested to read the attached text of a letter, dated 6th October, from Her Majesty's Chargé d'Affaires at Teheran to the Foreign Office.

A.E.

Foreign Office, S.W.1.

13th October, 1952.

LETTER DATED 6TH OCTOBER FROM HER MAJESTY'S CHARGE D'AFFAIRES AT TEHERAN TO THE FOREIGN OFFICE.

As you will have realised from my telegrams, the United States Ambassador and I presented our respective messages to Musaddiq separately. Henderson felt that it would be exceeding his instructions if we were to have a joint interview with Musaddiq and in any case he considered that we should each have a better opportunity of discussion if we were alone with Musaddiq. In view of the time factor I could not consult you and therefore accepted Henderson's view.

With reference to the last sentence of paragraph 4 of Washington telegram 1883 of the 3rd October, I know for a certainty that it is not Henderson's view that if Musaddiq goes the change must necessarily be for the worse. We both fear that as things are it is only too likely that Musaddiq would be succeeded by Kashani or a stooge of the latter, which would indeed be a change for the worse. But we both still hope that some alternative prime minister may yet be found, possibly a Bushiri, a Zahidi or even a Makki, who might be more amenable to reason. We both agree too that the longer Musaddiq stays in power the greater will become the hold of the Tudeh Party on the country. Perhaps Acheson was speaking strongly for the sake of argument. But I am sure that his views as expressed in the Washington telegram would not have the unqualified endorsement of the American Ambassador here.

I am sorry that we had to abandon the detailed refutation contained in your telegram No. 4135 of the 2nd October to Washington. In this case again Henderson told me that he could see no harm in our making known our legitimate point of view. If matters are brought to a crisis and Musaddiq decided to break off diplomatic relations, I hope that we may yet be able to use the
refutation. I suggest that, mutatis mutandis, I might be allowed to issue it as a personal statement before leaving.

In the twenty-four hours since the message was published there has been no discernible reaction from the Persians. As I have reported by telegram, moderate opinion considers that the door is still open. But we are still waiting to hear from the extremists and I fear that anti-British agitation is inevitable. If it becomes too strong, Musaddiq may find himself forced to make the break.
CONFIDENTIAL

C.(52) 334

COPY NO. 68

14TH OCTOBER, 1952

CABINET

JUDGES' SALARIES

Memorandum by the Chancellor of the Exchequer

Here are my views on the method of giving any increase in the remuneration of the judges as proposed by the Lord Chancellor (C. (52) 321). The choice between a large salary increase or a smaller tax-free allowance is not so easy as paragraph 12 of the Lord Chancellor’s memorandum suggests.

2. I do not question the special position of the judges or their need to maintain some state and dignity. But we have to remember that a "red robe" judge on circuit already receives an untaxed allowance of £7.10s. a day to enable him to do this. If we must nevertheless recognise the special position of the judges when not on circuit - and many of them never go on circuit - I believe, for the reasons that follow, that we have no real alternative to doing so by improving their salaries themselves, though I admit that the tax-free allowance has the great attraction that it would look better because the amount would be much smaller. At present rates of taxation we should have to increase the judges' salaries by some £2,000 to give (to a judge with no income beyond his salary) the equivalent of a tax-free payment of £450.

3. The judges are entitled by existing law, like all other salary earners, to relief from tax in respect of expenses incurred "wholly, exclusively and necessarily in the performance" of their duties. This gives them relief in respect of the upkeep of robes, a personal library, etc. But this relief is small, the maximum relief being tax on £110 a year. And we cannot, in my view, give them within the existing law either further relief from tax on their present salaries or any material additional allowance which will not in many cases attract tax. We could of course give them actual cash in respect of the expenses at present relieved from tax; but that would only improve their position by a quite trivial sum. I think it is likely that without legislation we could also give them an allowance of some hundreds of pounds to give them greater privacy of travel, either by the use of taxis or to help them to provide themselves with a car. But in all those cases - which might be numerous - in which the judges used neither taxis nor a car of their own in connection with their duties, we should be in difficulty in justifying the charge of such an allowance to Votes, and, more important, the Inland Revenue would be in great difficulty in exempting it from tax. For the judges are the last people for whom we should connive at a lax or dubious application of the law. In a proportion of cases therefore - even if we risked the Parliamentary difficulty - we should have failed in our object of giving substantial additional resources to the judges.
4. This leaves us only one method of materially improving the position of all the judges by a means other than a plain increase in salary. That method would be a specific change in the law which would either give them an added payment which was specifically exempted from tax, or a special exemption for a part of their existing salaries beyond their present expenses allowance. To do this would I believe be a mistake. It would mean that their income would be treated in a quite different way from that of all the rest of the community. They alone would have two sorts of income: one subject to tax, the other not. The necessary legislation would have to provide quite expressly that the ordinary income tax law did not apply to a specified part of their income; for we should not, by describing any additional payment in the legislation as "an allowance for expenses", confer on it any automatic exemption from tax within the present law.

5. The consequences of giving the judges the privilege of having part of their income exempt from the ordinary income tax law might be very far-reaching. I am assuming that we are dealing with the 77 men who are Judges of the High Court or are of parallel or higher status. I recognise that these men have a special position in the community. But I have no confidence that once the quite unique privilege of exemption from the universal income tax law had been conferred on anyone, we should be able to stop at that for long. The discrimination in this matter between them and the lower judiciary and other semi-judicial officers might soon become a bone of contention. And other public figures of high status – including Ministers themselves – could present a strong case for a similar exemption. I have been under strong pressure to exempt from tax the over-time pay of miners and other key workers. Once we break the principle that all, without any exception, are subject to the general law we have started on a very dangerous process. I urge my colleagues most strongly not to make this exception.

6. To sum up: Income tax exemptions are intended to cover types of expenditure which a man has to incur wholly, exclusively, and necessarily in pursuance of his duties. So far as the judges are concerned there are no expenses which can be so defined other than those already allowed, with the possible exception of a concession on transport.

The real trouble about the judges is that their total net salary is too small. The proper way to deal with this (failing a general reduction of income tax) is not to give an exemption from income tax on a proportion of their official income, but to put up their gross remuneration. Or to put it in another way, although the judges occupy a special position, that special position is not reflected in their having to incur specific items of expenditure which can properly be freed from tax: it is rather that their special position justifies a larger net total reward than they now receive.

R.A.B.

Treasury Chambers, S.W.1.,

14TH OCTOBER, 1952.
CONFIDENTIAL

C. (52) 335

COPY NO. 28

14TH OCTOBER, 1952

CABINET

GEORGE BUNDOCK

Memorandum by the Secretary of State for Foreign Affairs

George Bundock was employed as a storeman at H. M. Embassy at Moscow. In March, 1948, he was accused before a Soviet Court of having infected a Soviet girl with venereal disease. (There is reason to think that he may have done so, though not knowingly.) Mr. Bevin, who was Foreign Secretary at the time, was concerned at the effect on the morale of the Embassy staff if Bundock was surrendered and convicted and instructed him not to appear before the Soviet Court. He was condemned in absentia to eighteen months' imprisonment and a fine which Her Majesty's Government have said they are ready to pay.

2. Soviet law does not accord diplomatic immunity to junior Embassy personnel. The practice of States in this respect is not uniform and we cannot say that the Soviet practice is contrary to an established rule of international law.

3. Bundock is now thirty years old. He has been a prisoner in the Embassy compound for more than four years. During that time his case has been taken up personally by Mr. Bevin with Mr. Vyshinsky and also by successive Ambassadors in Moscow. The Soviet Government have been uncompromising in their insistence that Bundock must surrender to the Soviet Court and in their refusal to give any undertaking that, if he did so, he would be paroled or expelled. On my instructions H. M. Ambassador recently made a further attempt with Mr. Vyshinsky: not only did he not meet with any success, but Mr. Vyshinsky stated that Bundock was guilty of contempt of court in not having surrendered earlier, and it is conceivable that this might result in some increase of the original sentence.

4. I see no prospect of arranging an exchange for Bundock and the alternatives seem to be between his remaining indefinitely inside the Embassy compound, or surrendering to the Soviet Court. I propose to instruct H. M. Ambassador to advise him that the latter course may be in his best interest while making it clear that, if he chooses to do so, he is free to remain on at the Embassy. If Bundock surrenders, I shall instruct H. M. Ambassador to make an immediate appeal for clemency and in support of Bundock's own appeal to do all he can to persuade the Soviet authorities to release him.

5. I recognise that Her Majesty's Government will incur criticism as the result of their failure to protect Bundock but however distasteful this may be, I consider that in his interests the course I am recommending is the only right one.

A. E.

Foreign Office, S. W. 1,
14TH OCTOBER, 1952.
CABINET

SALE OF RUBBER TO THE
UNITED STATES GOVERNMENT

Memorandum by the Chancellor of the Duchy of Lancaster

I am pleased to be able to inform the Cabinet of the satisfactory financial outcome of the agreement made with the United States Government in January last under which we contracted to sell them 25,000 tons of rubber from our stockpile, with an option to supply a further 2,500 tons.

2. Shipment of the whole 27,500 tons was completed in the early part of the year. Receipts in dollars amount to $26.6 millions.

3. A comparison of what the rubber cost us with our receipts, shows a favourable balance of about £57,000. In addition we expect to be credited with about £50,000, representing claims for insurance, allowances etc. not yet settled.

4. Shortly after the conclusion of our agreement with the United States Government, rubber prices fell sharply. We have therefore been able to replace the rubber in our stockpile for approximately £1.8 millions less than we sold it for.

SWINTON.

Ministry of Materials, S.W.1.
15th OCTOBER, 1952.
CONFIDENTIAL

C. (52) 33 7

14TH OCTOBER, 1952

CABINET

TURKISH ARMAMENTS CREDITS

Memorandum by the Secretary of State for Foreign Affairs

As my colleagues are aware, the Turkish Prime Minister and Minister for Foreign Affairs are paying an official visit to London this week. I am confident that this visit will prove a success, but there is one long-standing point of friction between Her Majesty's Government and the Turkish Government which disturbs me, namely the dispute over the repayment of the armaments credits which Her Majesty's Government made available to the Turkish Government in 1938 and 1939. I am very anxious to dispose of this question without delay because I fear that, if it is left unsettled, it will become a lasting source of irritation and will impair the collaboration between the two Governments on issues of major international importance.

BACKGROUND

2. The total sums received by the Turks under the armaments credits in 1938 and 1939 amounted to approximately £39,300,000. Until they defaulted in July, 1951, they had repaid £8,900,000 of the capital and had paid interest amounting to £7,700,000. According to the terms under which the credits were negotiated, all payments are made in Turkish liras, which are used to finance Turkish exports to the United Kingdom. Since the Turkish default there have been various attempts to negotiate a settlement, but it has been impossible to reach agreement. The present position is that Her Majesty's Government have said that they will accept nothing less than £16 millions, while the Turks have offered only £2½ millions. This offer, although disappointing, is at least a considerable advance on the £100,000 token payment which the Turks originally offered. H. M. Ambassador at Ankara considers that, if matters are not clinched in London this week, the prospect of a settlement in the foreseeable future will be dim. He has proposed that in accepting payment over a period of years in freely utilizable Turkish liras Her Majesty's Government should request the Turkish Government to agree to the use of a whole or part of the annuities, not on purchases of Turkish produce, but for British official expenditure in Turkey. This is running at a little over 5 million Turkish liras annually (7. 84 T. liras = £1).

CONSIDERATIONS

3. The political and strategic arguments for compounding with the Turks are strong. The Turks themselves argue with some force that the original credits were extended for political and strategic reasons in the interests of common defence that they have already paid more than £16 millions and that account should be taken of the very heavy military expenditure which they are now incurring for the common cause. They are sure to press these arguments very strongly. In considering them I am bound to take account of the fact that in all first-class international issues they have shown themselves sound and staunch allies.
They have become an important element in the North Atlantic Treaty Organisation and we need more than ever their support in the Middle East. It would be tragic if co-operation on these important issues were poisoned indefinitely by the question of the debt.

4. The Turkish Ministers will also no doubt represent to me the serious deterioration in the Turkish economic position. Turkey is in heavy deficit (§216 millions) with the European Payments Union and I understand that the British share of this amounts to about £20 millions. Turkey is also very heavily in deficit with the United Kingdom: in the period January-August, 1952, Turkish exports to the United Kingdom totalled £4.9 millions and her imports from the United Kingdom £25.4 millions. As it is unlikely that we can do much to increase our imports from Turkey, I shall be under even heavier pressure to let the Turks off lightly over the armaments debt.

RECOMMENDATION

5. In these circumstances I ask my colleagues to authorise me to make an effort to reach a settlement with the Turkish Ministers during their present visit. I see no possible hope of inducing the Turks to pay £16 millions or even £10 millions. I would propose to aim for £5 millions and to make the utmost effort to get it. But in the last resort I should like authority to close for £3 millions.

6. I realise that financially this will be a disappointing result. But, as I see it, the only alternative to compounding for a low figure would be to abandon all hope of any repayment in the foreseeable future, as well as to accept the continued existence of an irritant in Anglo-Turkish relations at a time when it is imperative for relations to be maintained and improved.

A.E.

Foreign Office, S. W. 1.,

14TH OCTOBER, 1952.
15TH OCTOBER, 1952

CABINET

TURKISH ARMAMENTS CREDITS

Memorandum by the Chancellor of the Exchequer

The Foreign Secretary's memorandum sets out the history of the dispute between Her Majesty's Government and the Turkish Government over the repayment of the 1938 and 1939 Armaments Credits. These credits were granted to the Turkish Government under an Agreement dated 27th May, 1938, and under the Treaty of Mutual Assistance of the 19th October, 1939, the proceeds being destined for the purchase of war material necessary for the defence of Turkey.

2. In October, 1950, the Turkish Government, without warning, addressed a note to Her Majesty's Government asking for complete cancellation of the credits. They were informed that this request could not be granted but that Her Majesty's Government were ready to consider any "serious proposals" for lightening the burden. The Turkish reply was a restatement of the demand for cancellation, and default. Since that time they have treated all efforts to reach a reasonable settlement with disdain.

3. At the time of the default the amount owing to Her Majesty's Government was £32.5 millions, exclusive of military supplies, etc., aggregating about £6.2 millions (which claim the Turks have consistently refused to recognise) and the best offer which they have made has been £2.5 millions which has been rejected as completely unacceptable. The Foreign Secretary now asks for authority to accept £5 millions with discretion to close for £3 millions if needs be.

4. While I would be prepared, if the Turks showed real signs of being willing to arrive at a fair settlement, to accept rather less than £15 millions, it seems to me that a settlement at a figure of between £3 millions and £5 millions (and that over a period of years) would be worse than no settlement at all, and would set a very undesirable precedent.

5. I recognise the political importance of reaching a settlement and I share the Foreign Secretary's desire to avoid a deterioration in Anglo-Turkish relations, but the Turks can be under no illusions as to the sort of settlement Her Majesty's Government have all along had in mind and, in my view, they can have no legitimate cause for grievance if Her Majesty's Government refuse to entertain what is little better than a token offer.

6. I recognise, too, that these credits were granted for the purpose of common defence and that Turkey shouldered a heavy burden during the war; but their country was spared the ravages of physical destruction and their sacrifices cannot possibly be compared with our own. Their burdens in relation to the strength of their economy are nothing compared to ours.
7. I am advised that a settlement would not require legislation but the proprieties undoubtedly require that a report should be made to the House. I think it would be very difficult to defend a settlement on the lines proposed in view of the position in which we find ourselves. I do not see how the Commonwealth would understand how we are able to forego our just claims.

8. Unless, therefore, the Turks are prepared to make a considerable advance on their offer, or we are to be relieved of our ever increasing commitments, I would prefer to leave the matter in suspense for the time being.

R.A.B.

Treasury Chambers, S.W.1.,

15TH OCTOBER, 1952.
CABINET

THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

NOTE BY THE CHANCELLOR OF THE EXCHEQUER

I circulate herewith, for the consideration of the Cabinet, a draft of The Queen's Speech on the Prorogation of Parliament.

R. A. B.

Treasury Chambers, S.W. 1,
17th October, 1952
DRAFT OF THE QUEEN'S SPEECH ON THE PROROGATION
OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. My thoughts turn first to My beloved Father whose death was so deeply mourned throughout the Commonwealth and beyond. The countless expressions of devotion to Him have moved Me deeply and encourage Me in My resolute determination to prove worthy of a sacred trust.

2. My Ministers have continued to give the fullest support to the United Nations Organisation in its efforts to promote international co-operation and to maintain peace.

3. My forces are playing their full part in collective resistance to aggression in Korea and have enhanced their high reputation for efficiency and for readiness to carry out whatever task is demanded of them by land, at sea or in the air. I mourn the loss of gallant lives which has brought sorrow to many homes. My Governments in the United Kingdom and in the other countries of the Commonwealth have worked ceaselessly to achieve an armistice agreement in conformity with the principles for which the United Nations stand.

4. In Malaya My forces and the civil administration are successfully carrying out a difficult task with patience and determination. In spite of great loss and suffering all communities are playing an ever more active part in the defence of their freedom.

5. My Government, in close association with our Allies, have shared in the steady development of the North Atlantic Treaty Organisation. They have welcomed the notable contribution which the people of the United States of America have made to the strengthening of the Organisation and of its member countries. I have watched with hope and confidence the measures which these countries, now happily joined by Turkey and Greece, have taken to secure themselves against the threat of armed aggression. The continued strengthening of My forces has contributed to the growing power of the free world to deter aggression and so to preserve peace.

6. My Government have worked for the promotion of unity and prosperity in Europe and are now taking a leading part in the work of the Organisation for European Economic Co-operation. They have also appointed a permanent delegation to the High Authority of the European Coal and Steel Community.

7. A treaty of mutual assistance has been concluded between the United Kingdom and the members of the European Defence Community and My Government have joined with the Governments of the United States of America and France in reaffirming their guarantee to Berlin. It is their confident hope that these and other related measures will contribute powerfully to the stability of Western Europe and of the democratic world.

8. My Ministers have supported the inclusion of the German Federal Republic in the European community and by ratifying the Bonn conventions have forged a new relationship between the United Kingdom and Germany. I regret, however, that prolonged exchanges between My Government and the Soviet Government have not yet ended in agreement upon the unification of Germany in conditions of freedom and that the efforts of My Government to conclude an Austrian State Treaty have not yet been successful.

9. The Japanese Peace Treaty has been ratified and legislation has been passed to give effect to certain of its provisions.

10. My Government, with the help of other Commonwealth Governments and of the Sterling Area as a whole, have taken drastic steps to stop the drain on our reserves and thereby to redress the balance of payments and to maintain the strength of sterling as an international currency.
MEMBERS OF THE HOUSE OF COMMONS

11. I thank you for the provisions which you have made for the public services.

12. I thank you for the provision you have made for the honour and dignity of the Crown.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

13. My Ministers have continued to develop the organisation of civil defence both as a responsibility of local authorities and in industry and commerce.

14. An Act has been passed to establish the Home Guard.

15. My Ministers have taken fiscal measures to aid the textile industries and have brought forward a number of Government contracts to help these industries over their immediate difficulties.

16. My Government have called special attention to the need to increase the numbers of skilled workers and have set up a Committee to advise on the provision of opportunities for the employment of older men and women. An Act has been passed for the better organisation of miners' welfare.

17. All engaged in the agricultural industry have rallied to My Government's call for increased food production. Measures have been passed to provide grants to increase the acreage under the plough and to pay subsidies on calves and fertilisers.

18. The welfare of the fishing industry has engaged the attention of My Ministers. The white fish subsidy and other measures of assistance have been continued.

19. My Ministers have vigorously carried out the expansion of the housing programme and the production of building materials necessary to sustain it. Housing Bills have been passed together with measures to encourage town development in County districts and to make financial provision for the building of New Towns.

20. Additional Ministers have been appointed to ensure ever closer attention to Scottish affairs. A Royal Commission on Scottish Affairs has begun its deliberations.

21. Ministers have also been appointed with special responsibilities for the affairs of Wales.

22. Legislation of much benefit to My people has been passed. Family allowances, National Insurance payments and certain State pensions have been increased, and the National Assistance scales have been raised.

23. Consolidation of the laws relating to Customs and Excise and to Income Tax has been accomplished.

I pray that the blessing of Almighty God may attend you.
CABINET

THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

NOTE BY THE CHANCELLOR OF THE EXCHEQUER

I circulate herewith, for the consideration of the Cabinet, a draft of The Queen's Speech on the Opening of Parliament.

R. A. B.

Treasury Chambers, S.W. 1,
17th October, 1952.
DRAFT OF THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. On this first occasion when I address you as your Queen I gratefully acknowledge the sympathy which has been extended to Me and My Family from every part of the Commonwealth. By His selfless devotion to His duties as your Sovereign My Father set an example which it will be My constant endeavour to follow. I am well assured that My peoples everywhere will accord Me that same loyalty and understanding which ever supported Him in the service of His peoples.

2. I look forward with deep pleasure to fulfilling at the end of next year My long cherished hopes of visiting, in company with My dear Husband, My peoples in Australia, New Zealand and Ceylon.

3. I earnestly pray that in Korea an early armistice will be arranged. Until this is accomplished the continued participation of My Forces in the struggle will be clear proof of My Government's whole-hearted attachment to the ideals of the United Nations.

4. My Ministers will continue to take their full share in the work of the North Atlantic Treaty Organisation as the bulwark of western defence and the embodiment of the common aspirations of the Atlantic Community. Within that Community they will seek to maintain the closest and most friendly relations with the Government and people of the United States of America, who are bearing so large a share of the heavy expenses of mutual defence.

5. It will be My Government's aim to help to strengthen the unity of Europe. They will work in close association with our neighbours in Western Europe and give all possible support to their efforts to forge closer links with one another.

6. My Ministers will continue to work for the conclusion of an Austrian State Treaty and for the opening of negotiations with the Soviet Government on Germany.

7. My Government intend to take active measures to strengthen the long-standing ties of friendship and the links of mutual trade between the United Kingdom and the countries of Latin America.

8. My Ministers are determined to make ever closer that co-operation with the other Members of the Commonwealth and with the Colonial Empire which must be the keystone of our policy. To this end they have invited Commonwealth Prime Ministers to meet together this month to confer on the problems of finance, commerce and economic policy which are vital to all My peoples.

9. My Government will pursue their consideration of the draft scheme for federation in Central Africa, and have for this purpose invited the three Central African Governments to a further conference in London in January.

10. My Ministers will ensure that the strengthening and rearmament of My Forces will continue, with due regard to the need for maintaining economic strength and stability.

11. My Government will proceed with the development and expansion of the Civil Defence organisation.

MEMBERS OF THE HOUSE OF COMMONS

12. The estimates for public services will be laid before you in due course.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

13. My Government will proceed resolutely with the task of placing the national economy on a sound and enduring basis. This object will continue to rank foremost in the deliberations of My Ministers. They will not hesitate to take any further steps necessary to maintain and improve upon the more favourable position now reached in our overseas payments.
14. To achieve this end every encouragement will be given to those who work on the farms, in the mines and in the factories to increase production of what is needed at home and to stimulate our vital export trade.

15. My Ministers will encourage co-operation between all parties in industry to increase productive efficiency and thus secure greater production at lower costs.

16. In the interests of maintaining employment and the standard of living of My people, My Government will continue their policies already designed to curb inflation and rising costs, and to reduce the heavy load of Government expenditure.

17. My Government’s housing drive will go forward at a steadily increasing rate.

18. A Bill will be laid before you for the reorganisation of the iron and steel industry.

19. A Bill will also be laid before you to provide for changes in the organisation of the transport industry.

20. Further measures will be promoted relating to the Town and Country Planning Acts of 1947, to Local Government superannuation and to the date for depositing new rating valuation lists.

21. Legislation will be proposed to amend the law relating to the supply of electricity in Scotland.

22. My Ministers will introduce a Bill to make certain changes in the law affecting voluntary schools within the framework of the Education Acts.

23. My Government will continue to give every encouragement to the fishing industry. A Bill will be laid before you to provide financial help for the building of fishing vessels.

24. Proposals will be made to you for improving the maternity benefits of the National Insurance Scheme and also for the further amendment of the National Insurance (Industrial Injuries) Act.

25. Legislation will be proposed to enable grants to be made towards the preservation of historic buildings.

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

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

PERSIA: INTERNAL POLITICAL SITUATION

NOTE BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

My colleagues may be interested to read the attached letter, dated 13th October, from Her Majesty's Chargé d'Affaires at Tehran to the Foreign Office. It gives a picture of the internal political situation in Persia.

A. E.

Foreign Office, S.W. 1.
17th October, 1952.

This has been a week of suspense and uncertainty with all Persians anxiously awaiting our reply to Musaddiq's latest note. The main events have been reported separately; the following are, therefore, a few general observations.

2. It is generally agreed among Persians that Musaddiq's position has weakened considerably since he was granted full powers. It is now becoming clear, even to the ignorant people, that Mussadiq is incapable of constructive action. He has remained in office through a combination of factors, namely, fear, the lack of an effective opponent and hope of an oil settlement. These factors no longer play as great a part as they did immediately after Qavam's fall. The voice of opposition was heard during Muharram from the preacher and Deputy, Rashid, and Vahidi, a member of the Fidayan-i-Islam, and there is no longer the extreme fear of expressing an opinion unfavourable to the Government that was apparent two months ago.

3. General Zahidi, whose supporters number such diverse elements as Ha'irizadeh, Baqa'i and the old Right-wing Opposition, has established himself as the only alternative Prime Minister in sight. His chances of success depend largely on the progress he makes in wooing Kashani. The latter is reported to be favourably disposed towards the general, whom he would like to use to further his own ends, but he is proceeding with caution. Musaddiq has to-day attempted to discredit Zahidi by associating him with an alleged "plot."

4. There is now a feeling of some pessimism about an oil settlement and if it becomes quite clear in the near future that Musaddiq is unable to achieve results, either with ourselves or the Americans, his already uncertain position will be seriously shaken.

5. Dr. Baqa'i resigned yesterday from leadership of the Toilers’ Party (Hizbi-Zahmatkishan). His resignation is said to be due to differences with Khalil Maliki, the organiser of the party since its inception, who is accused of forming groups in opposition to Dr. Baqa'i. This accusation was first made at meetings of the Toilers’ Party more than two months ago when, after a tour in America, Baqa'i had discovered a plot, said to have been engineered by Maliki, to undermine
his authority as a leader of the party. At one of these meetings Maliki was accused by Dr. Baqa'i of dividing the party on an ideological basis, also of being in close contact with the British. On both these points Maliki defended himself by declaring that he had always opposed any suggestion of linking with the Tudeh, and that only in his decision to fight the Communists had he done anything which could be construed as helping the British. Maliki's ideology is best described as Titoist.

6. Relationships within the Toilers' Party were adversely affected by the open conflict between Baqa'i and Maliki, as a result of which Baqa'i's popularity has declined to such an extent that he could not hope to retain the leadership while his opponent, a much more clever tactician, remained predominant with overwhelming support from the rank-and-file members of the party. Baqa'i's position having therefore become untenable, it is fairly certain that he had no alternative but to relinquish the leadership. Nevertheless, Baqa'i's supporters are now trying to bring him back.

7. It is too early to forecast the political significance of Dr. Baqa'i's withdrawal from the Toilers' Party. Dr. Baqa'i himself has said that the members are now free to follow their own desires. This may result in the extremists deciding to transfer their allegiance to other crypto-Communist organisations while others may continue to follow Baqa'i, whose future intentions cannot at present be anything but a matter of conjecture. In any case the split is bound to be unhelpful to Dr. Musaddiq and the National Front, for both Maliki and Baqa'i, despite their differences and conflicting personal ambitions, have both been loyal supporters of the present régime, although Baqa'i has recently been expressing in private considerable dissatisfaction with Musaddiq.

8. The importance of Dr. Baqa'i's resignation should not be overemphasised. Baqa'i is an alcoholic and no great personality in his own right.

9. The general state of the country remains confused and disordered. There have been minor disturbances in various parts, but the most important was the railway strike. This was a display of workers' solidarity protesting against failure to pay increments, and an appeal from Kashani was treated roughly. The Government claims that the situation is now under control.
17TH OCTOBER, 1952

CABINET

THE PRESERVATION OF HISTORIC BUILDINGS

Memorandum by the Minister of Works:

The Home Affairs Committee at its meeting on 16th October (H.A.(52) 27th Meeting, Minute 5) approved a proposal that I should introduce a short Bill next session giving powers to the Minister of Works to make grants for the preservation of historic buildings. The Committee considered that a reference to the Bill in the Queen’s Speech on the opening of Parliament would give general satisfaction.

2. The public has long recognised and is now keenly anxious that the Government should follow up the recommendations of the Committee under the Chairmanship of Sir Ernest Gowers who were appointed by Sir Stafford Cripps to consider how the owners of outstanding houses of historic importance should be helped to keep the buildings in a proper condition. Two main questions were considered by the Gowers Committee:

(a) the form in which assistance should be given, and

(b) how the Act should be administered.

The Home Affairs Committee supported the view of the Chancellor of the Exchequer, which I share, that assistance should not be by way of tax remissions. The Committee preferred grants to be made from the annual sum of £250,000 to £300,000 which the Chancellor is prepared to make available for maintenance. In addition the Chancellor has agreed that the Land Fund should be used for purchases up to a total of £500,000 in the next five years.

We do not want to set up a new and expensive machine to handle this comparatively small sum of money. The Committee approved my proposal that our Bill should give the Ministry of Works power either to make a grant itself to a building or to make a grant to the National Trust in England and Wales to act on its behalf. I propose as a general principle that the Ministry of Works should look after those houses for which no private occupier can be found, e.g. houses that become museums or are occupied by some Government Department, and that the National Trust should act in respect of privately inhabited houses.

3. The Bill would provide for an Advisory Council which would designate the houses of outstanding importance. Any house on this list would be eligible for a grant. The arrangements made would in all cases be voluntary, and no compulsory powers would be needed.

4. This scheme applies to England and Wales: I am discussing arrangements for Scotland with the Secretary of State.

5. The Treasury have indicated that they would be prepared to extend the provision which permits buildings to be taken in place of death duties to cover
the contents of houses. In this way it is hoped to help owners to leave to the nation both an historic building and chattels which greatly add to its public interest.

6. There are certain powers of listing buildings with artistic or historic importance exercised under the Town and Country Planning Acts, 1947, by the Minister of Housing and Local Government and by the Secretary of State for Scotland. These powers overlap those exercised by the Ministry of Works under the Ancient Monuments Act. It is thought that an attempt to tidy up this position in the Bill next session would make the measure controversial and take up too much time. I shall discuss with the Minister of Housing and Local Government and Secretary of State for Scotland how, without legislation, we can improve our administrative arrangements.

7. I therefore ask my colleagues to approve a short Bill which will

(a) extend the powers of the Minister of Works so as to enable him to make grants for inhabited buildings;

(b) empower the Minister of Works to make purchases out of the Land Fund up to a total of £500,000 in the next five years;

(c) set up an Advisory Council to designate the buildings to which grants should be given;

(d) allow the Treasury to accept in approved cases chattels in place of death duties.

D.E.

Ministry of Works, S. E. 1.,

17TH OCTOBER, 1952.
SECRET
C.(52) 343

20TH OCTOBER, 1952
CABINET

HORTICULTURAL TARIFFS

APPLICATION FOR INCREASES BY THE NATIONAL FARMERS' UNIONS

Memorandum by the President of the Board of Trade

As my colleagues are aware, I have under examination applications by the National Farmers' Unions (N.F.U.) for increased import duties on horticultural products. The group of officials appointed to advise the Board of Trade on the domestic merits of tariff applications have now reported on the main part of the case; and their recommendations have been approved in principle by the Economic Policy Committee, subject to one or two points of detail which have now been settled with the Ministers concerned. These recommendations involve straight increases in duty in a number of cases and in certain other cases changes in the form of duty which will effectively result in increases. The items affected are listed in Annex A.

2. There is, however, a major obstacle in the way of implementing most of these proposals, namely, the conflict between our Ottawa commitments and commitments we have undertaken in the General Agreement on Tariffs and Trade (G.A.T.T.). This arises, of course, from the fact that in order to comply with the G.A.T.T. "no-new-preference" rule we must match any increase in the rate of duty applying to foreign goods by such duties on Commonwealth and Colonial goods as will leave the margins of preference unchanged: yet, as a result of our Ottawa free-entry undertakings to the Commonwealth we are prohibited by law from imposing duties on the majority of goods imported from other parts of the Commonwealth; and even if we had powers we could only impose such duties by consent.

3. The whole question of the G.A.T.T. preference rules will of course be among the subjects to be discussed at the Commonwealth Prime Ministers' Conference, and it is impossible to say at this stage what the final outcome will be. Meanwhile we cannot avoid making some statement on the N.F.U. case. The pressure for such a statement continues to grow. What we have now to decide, therefore, is how we should deal with the case, pending the outcome of the Conference and any discussions with other countries which may result from it.

4. My own view, which is shared by my colleagues in the Economic Policy Committee, is that the right course is to explain the difficulty frankly to the N.F.U. and to assure them of our intention to implement decisions on their application as soon as freedom to do so can be secured; and subsequently to make a statement to this effect in the House of Commons. The Economic Policy Committee felt that any such statement should stress the Government's intention to find a means of implementing decisions on tariff applications but should not, in advance of the Commonwealth Prime Ministers' Conference, commit the Government to taking any particular course of action to obtain the necessary freedom. I have set out in Annex B a form of words which might serve as the basis for the explanation to the N.F.U. and for a statement in the House.
5. Action on these lines will inevitably expose us to many difficulties. The N. F. U., will feel that they might have been warned earlier of the major obstacle in the way of implementing decisions on their case. (The reason for not warning them earlier is that it has not been thought desirable to expose our dilemma until there was a concrete case for increasing duties). Industry generally is also likely to express alarm when they grasp the full significance of the "no-new-preference" rule in relation to the United Kingdom tariff. There will, no doubt, be renewed pressure for the denunciation of the G.A.T.T.; and the admission that we cannot for the present provide increased tariff protection is likely to intensify the pressure for protection by import licensing restrictions - a development which I should deplore.

6. Nevertheless, I frankly do not see any alternative to the course of action proposed in paragraph 4. The N. F. U., are aware that the examination of the main part of their case is complete and we cannot, therefore, assert that we are still considering it. Equally, there is no way of implementing our decisions which would not expose us to even greater difficulties. There are strong political objections to taking powers to enable duties to be imposed on Commonwealth goods; and, even if this were not so, such an arrangement would not provide a complete solution to our present problem since we should be unlikely to get Commonwealth consent in all cases. We clearly cannot flout our G.A.T.T., obligations. Equally it would be a mistake to prejudice future negotiations on the "no-new-preference" rule by trying to get a waiver from the G.A.T.T., Contracting Parties to enable us to deal with the N. F. U., case. I do not think, therefore, there is any escape from the conclusion that the course proposed, though objectionable, is less objectionable than any other alternative.

7. There is one further point to which I should draw my colleagues' attention. On nine of the items on which increased duties are recommended we are free, in the main, owing to the way in which the "no-new-preference" rule operates, to bring the higher rates of duty into operation without imposing duties on Commonwealth products. The items affected are shown by asterisk in Annex A. On these the Economic Policy Committee agreed that the question whether or not we should take action to alter the rates should be discussed with the N. F. U., and decided in the light of their reactions. If in the event it is decided to take action in these particular cases it would be desirable to lay the Order effecting the changes of duty, together with a White Paper explaining the reasons for these changes, at the same time as the general statement is made in the House.

8. Discussions with the N. F. U., and with such organisations as the Federation of British Industries (to whom I should think it desirable to give advance warning of this problem) are bound to take a little time and I should not expect to be ready to make a statement in the House until about mid-November; if an Order had to be made in respect of those items where we are free to take action this might delay things for a day or two. This means that the statement will be made shortly before the Prime Ministers' Conference starts.

9. I seek authority to proceed on the basis outlined in paragraph 4, namely

(i) to explain our dilemma to the N. F. U. and other leading trade organisations on the lines indicated in Annex B;

(ii) to make a statement in the House broadly on the lines set out in Annex B when these discussions have been completed.

P. T.

Board of Trade, S. W. 1,
20TH OCTOBER, 1952.
ANNEX A
RECOMMENDED INCREASES

Fresh Fruit:
- Cherries
- Currants
- Gooseberries
- Grapes (hothouse)
- Plums
- Raspberries and Loganberries
- Strawberries

Fresh vegetables:
- Asparagus
- Broccoli and Cauliflowers
- Carrots
- Cucumbers (other than gherkins)
- Green Beans
- Green Peas (a) Unshelled
- (b) Shelled
- (a) Lettuce and Endive
- (b) Chicory (Salad)
- Mushrooms
- Tomatoes
- Turnips
- Dry Bulb Onions and Shallots

Preserved fruit - unsweetened (including fruit pulps)
- Dried peas, whole, other than peas of the varieties commonly known as maple peas, dun peas and yellow and white peas.

Vegetables preserved in salt or brine:
- Cauliflowers in brine
- Chicory
- Raw or kiln dried
- Roasted or ground.
With your permission, Mr. Speaker, and that of the House I propose to make a statement about the United Kingdom protective tariff and in particular about import duties on horticultural products.

As the House will be aware, the National Farmers' Unions submitted a comprehensive application for the revision of the tariff on horticultural products, and this was accepted for examination by the previous Government. The examination of the main part of the application, relating to certain fresh and preserved fruit and vegetables, has now been concluded. All interested parties have been given full opportunity to make known to my Department their views upon the application, and full account has been taken of the representations received.

Her Majesty's Government have been impressed by the strength of the evidence in favour of the revision of some of these duties and they have decided, therefore, that in those cases the existing import duties should be increased.

Subject to certain exceptions which I shall mention presently, it is however impossible to give effect to these decisions at the present time. The reason for this difficulty is the conflict between our Ottawa commitments, and our commitments under the General Agreement on Tariffs and Trade. This arises from the fact that, owing to the rule in the General Agreement which prohibits new or increased preferences, we are obliged to match any increase in the rate of duty on foreign goods by such duties on Commonwealth (including Colonial) goods as will leave the margin of preference unchanged. But we are unable to comply with this obligation since our Ottawa commitments, and our legislation fulfilling those commitments, require us to accord free entry into this country for the majority of Commonwealth products.

This problem does not apply, of course, solely to the horticultural tariff. It applies to virtually the whole of our protective tariff and means that we cannot increase duties on foreign goods even in those cases where we have not undertaken specific commitments to other countries on particular rates of duty. It is perhaps unnecessary for me to emphasise the gravity of this situation. In effect it means that agreements have been entered into which virtually freeze the whole of the United Kingdom tariff. I doubt if any major trading nation has ever been placed in such a situation.

We do not intend to let the matter rest here. As has been made clear on a number of occasions Her Majesty's Government regard the tariff as the proper method of providing protection and it is a basic assumption of our policy that where a clear case for protection has been established it should be provided by means of the tariff. There can be no question but that we must recover the right of the United Kingdom to increase rates of duties in the tariff save to the extent that such duties are limited by specific international commitments given in respect of particular goods or classes.
of goods in return for what must have appeared at the time as valuable consideration. This particular effect of the no-new-preference rule has not been noticeable until now since it has been, and remains, our policy not to increase protective tariffs unless the need is established beyond doubt, and there has hitherto been no case of proved need since the war. But we have now a proved case to increase certain protective duties. In such circumstances I can assure the House that Her Majesty's Government are determined to secure a solution to this problem, and to give effect to their decisions on the horticultural tariff as soon as they are free to do so. This problem is clearly closely linked with our whole Commonwealth commercial policy and we intend to discuss it at the forthcoming meeting of Commonwealth Prime Ministers.

In the particular case of the horticultural tariff, there are nine items on which we are free under the G.A.T.T. to raise the rates of duty to some extent in certain periods. I will not trouble the House at this stage with details of these cases. I have recommended that these revised rates should be put into effect immediately. The Chancellor of the Exchequer has accepted this recommendation and an Order giving effect to these decisions has been laid before the House to-day. The House may wish to know that a White Paper has also been published to-day and is available in the Vote Office giving further information about these cases.

As the House will be aware, arrangements were made some time ago for the seasonal withdrawal of certain Open General Licences for fruit and vegetables as a special measure, pending decisions on the tariff application. Such of these arrangements as have remained in force up to the present will come to an end in the periods in respect of which the tariff has been adjusted; and in these cases import licensing arrangements will in future be determined solely by balance of payments considerations.
EMERGENCY LAWS (MISCELLANEOUS PROVISIONS) BILL

EMPLOYMENT OF MEMBERS OF THE ARMED FORCES ON URGENT WORK OF NATIONAL IMPORTANCE

Memorandum by the Home Secretary

I desire to bring to the attention of my colleagues a difference of opinion which has arisen between the Minister of Labour and myself on the provisions of the Emergency Laws (Miscellaneous Provisions) Bill. It was considered by the Home Affairs Committee on 16th October and there were also differences of opinion in that Committee. The Bill which was prepared by the Emergency Legislation Committee under my Chairmanship was approved by the Home Affairs Committee, subject to the submission to the Cabinet of the point which is in dispute (H.A. (52) 27th Meeting, Minute 1).

2. Paragraph 5 of the first schedule to the Emergency Laws (Miscellaneous Provisions) Bill would make permanent the provisions of Regulation 6 of the Defence (Armed Forces) Regulations which authorise the Admiralty, the Army Council and the Air Council to employ Service personnel on agricultural work or other urgent work of national importance. Without these provisions there would be no authority for employing Servicemen to assist in maintaining essential supplies and services in emergencies, including those arising from industrial disputes, unless there was a formal Proclamation of an Emergency under the Emergency Powers Act, 1920. It has been found by experience since the war that there are occasions where it is essential to use troops but where it would not be expedient to proclaim a formal emergency. The Departments concerned with maintaining essential supplies consider it necessary to maintain these provisions in force, and the Minister of Labour agrees that they must be continued for the present and may well be required permanently. The difference between us is as to the footing on which they should be continued after 10th December next.

3. The Regulation in question, which is continued under the Supplies and Services Acts, will expire after 10th December unless continued in some form or other. It has in recent years been continued from year to year by Order in Council under the Supplies and Services Acts, and the Minister of Labour suggests that that procedure should be followed again on this occasion. My view is that, since it is clear that these provisions will be required for as far ahead as we can see, they should be included in the Emergency Laws (Miscellaneous Provisions) Bill. This would mean that while the Defence Regulation would be continued temporarily by Order in Council from 10th December next it would be replaced by the provisions of the Emergency Laws (Miscellaneous Provisions) Bill when the latter became law and the provisions would then have permanent effect.

4. The Minister of Labour considers that in view of the present situation in industry it would be a mistake to introduce provisions to make this Regulation permanent. He thinks that they might well be contentious and that
the occasion would certainly provide an opportunity for making political
capital. In my view no better opportunity for making these Regulations
permanent is likely to arise. As my colleagues will be aware, the Emergency
Legislation Committee have been endeavouring in accordance with our public
promises, to clear up the tangle of emergency laws and regulations by
ensuring that those for which a strong case cannot be made out are dropped
and that those which are required permanently are given statutory form.
The only Regulations which we intend to continue in their present form are
those which are residual and would without doubt cease to be required in the
not distant future and those representing the basis of the main economic
controls which we intend to have replaced by Statutes renewable annually
when the difficulties of drafting such Statutes have been overcome and a place
has been found for the Bills in the legislative programme. Regulation 6
of the Defence (Armed Forces) Regulations clearly falls into the category
of those which would be required permanently and in accordance with the
principles set out above its provisions should be included in the Emergency
Laws (Miscellaneous Provisions) Bill, which is to make permanent those
Regulations for which there is a continuing need.

5. I appreciate that there may be contention and that the opportunity
may be taken to make political capital. I cannot think, however, that there is
more risk of such trouble on this occasion than there is likely to be in future,
and if we defer tackling this problem so that it has to be faced on a later
occasion we shall probably increase the risk of trouble. Making the Regulation
permanent now can be represented as part of the clearing-up process; if it
were dealt with in isolation later on it would be more open to attack on
political grounds and possibly less easy to defend. The use of troops for
maintaining essential supplies and services under this Regulation was resorted
to by the Labour Administration on a number of occasions with almost
universal approval and it will therefore not be easy for them to criticise
the proposal. Furthermore, it should not be overlooked that these powers
enable troops to be used not only on occasions where there is an industrial
dispute but on other urgent work of national importance, including occasions
of civil emergency caused by natural disasters, such as those, for instance,
occaisioned by floods. In the absence of these special powers it would not be
possible to require troops to perform such functions which are outside the
scope of their military duties.

6. I hope therefore that my colleagues will agree that we should proceed
with the proposal to make these provisions permanent in the Emergency
Laws (Miscellaneous Provisions) Bill.

D. M. F.

Home Office, S. W. 1.,

18TH OCTOBER, 1952.
CONFIDENTIAL

C. (52) 345

17TH OCTOBER, 1952.

CABINET

JUDGES' SALARIES

Memorandum by the Lord Chancellor

I welcome the statement by the Chancellor of the Exchequer (C. (52) 334) that he does not question the special position of the Judges or their need to maintain some state and dignity. I do not think that the fact that a certain allowance is paid to Judges on circuit to meet the altogether exceptional expenditure which they then incur affects the question.

2. I agree that under the existing law no adequate provision can be made. There must be legislation which recognises the special position.

3. If so, how is it to be recognised? The alternatives are:

   (1) An increase of gross salary.

   (2) A tax-free allowance on top of the present gross salary; or

   (3) A provision that a part of the present gross salary shall be tax-free.

4. The Chancellor of the Exchequer advocates the first course. The objection to this course is that the amount of increase of gross salary is disproportionate to the benefit received. As he points out, under present taxation an increase of £2,000 gross is required to provide even a net increase of £450. I do not think that this is an adequate net increase; a larger one produces a greater disproportion.

5. The objection to the other courses is stressed by the Chancellor of the Exchequer. I agree with him and have always recognised that either of them involves discrimination in favour of the Judges and that "it would mean that their income would be treated in a quite different way from that of all the rest of the community". Where I venture to disagree with him is in his contention that if there is discrimination and if "we break the principle that all without any exception are subject to the general law we have started on a very dangerous slope". It is just because the Judges have a "special position in the community" that I urge and welcome discrimination. It is no recognition of their special position in the community to give them a gross salary which is equalled or surpassed by that of scores of men in industry and commerce. But it is a proper and striking recognition if they are given a tax-free allowance which is given to no one else.
The Chancellor of the Exchequer fears the slippery slope and by way of example indicates the direction from which danger may come. He suggests first that discrimination between them and the lower judiciary and other semi-judicial officers might soon become a bone of contention. I, on the other hand, am confident that these persons would never on their own behalf claim the same privileges as Judges of the High Court, and I am sure that if they did they would not receive the support of the present or any other Lord Chancellor. He next refers to "other public figures of high status including ministers themselves". I prefer to say nothing about ministers and for the rest I do not know what public figures are intended. Is there any public figure who would pass the vital test that Parliament would think fit to discriminate in his favour? I know of none. Of course if the Judges themselves do not pass that test there is an end of the matter.

Finally, the Chancellor of the Exchequer refers to overtime pay of miners and other key workers. This is surely not a valid comparison. I will not repeat the arguments which perhaps at too great length I urged in my first memorandum.

6. I ask my colleagues to reject the slippery slope argument and to determine that the simple and commonsense way of providing for persons holding a special position in the community is to give them what other persons do not get. I see no difficulty or danger in providing either a tax-free allowance on top of their salary of at least £750 per annum or for a sufficient part of their salary being free of tax to reach the same net result. As I said before, legislation would be necessary and I hope that it may be introduced.

SIMONDS

Lord Chancellor's Office, S. W. 1.

17TH OCTOBER, 1952.
20TH OCTOBER, 1952

CABINET

TRANSPORT BILL

Memorandum by the Secretary of State for Co-ordination of Transport, Fuel and Power

The Transport Policy Committee have been giving further consideration to the provisions of the Transport Bill and expect shortly to propose substantial amendments in it.

The object of this note is to put before my colleagues some considerations which they may wish to have in mind when coming to a decision on such proposals.

2. If Part II of the levy (i.e. the part of it which depends upon future transfers of traffic from rail to road) has to be dropped owing to lack of public support and active opposition by trade and industry, the main possible courses of action seem to be as follows:

(a) To proceed with the Bill without Part II of the levy

This would have to be defended on the ground that the reorganised railways, given wide freedom in charges, could hold their own against road transport.

The Bill if so amended would probably be criticised on the following grounds:

(i) that the idea of integration had been abandoned and nothing constructive put in its place;

(ii) that while there was something to be said for the proposition that trade and industry as a whole should pay the reasonable cost of the transport services, both road and rail, which they require, including the cost to the Commission of returning its road haulage undertaking to private enterprise as part of the new system, it is indefensible to ask the C Licencee to bear the great bulk of the cost of this return as an isolated project;

(iii) that if the Government believe that rail could hold its own against road they cannot expect offers for road transport units to be readily forthcoming. If on the other hand the railways (as many believe) will not be able to compete successfully with road even with wider freedom to vary their charges, letting the hauliers loose would result in the railways getting into financial difficulties from which they could be extricated only by State assistance or by excessive charges for those traffics which must go by rail.
(iv) that shorn of inessentials the Bill as so amended would amount to little more than the forced sale of public assets to private enterprise at a very considerable loss which in the main would have to be met by the L. Licencee. (The railways could be reorganised without a Bill. The scheme making powers of the Commission in regard to road passenger transport and trade harbours are moribund already and even the increased freedom of charge for the railways could have been allowed by the Transport Tribunal under a charges scheme if they thought it justified.)

(b) To drop Part II of the levy and to dispose of only a fixed fraction of the Commission's road haulage undertaking

It would be impossible to find a reasonable basis for determining the content of the fraction. What the Commission would want to sell hauliers would not want to buy and vice versa. No impartial body could fairly be asked to carve out such a fraction.

Apart from the practical difficulties there seem to be insufficient grounds for defending such a proposition.

(c) To leave the Road Haulage Executive's undertaking with the Commission, drop both parts of the levy and remove the 25 mile limit immediately

On this basis the railways would still get their increased freedom of charge and the proposed relaxation of the licensing system for hauliers' vehicles would remain.

This could be defended on the ground -

(i) that the railways will in future be able to hold their own against road (see (a) above);

(ii) that those who believe in nationalisation should not shrink from exposing the Road Haulage Executive to competition from private enterprise, especially as they now have a long start so far as traffic beyond the 25 mile limit is concerned;

(iii) that the Road Haulage Executive would not be put under any obligation that did not apply to the private haulier.

Proposals on these lines might well commend themselves to trade and industry, the hauliers and a considerable section of public opinion. It has however to be borne in mind that a possible course of events if they were adopted would be -

(i) neither the railways nor the Road Haulage Executive would be able to stand up to competition from the free hauliers;
in this connection the Chairman of the Commission in a letter to the Minister of 16th October dealing with the charging powers of the railways makes the following statement:-

"... However this may be, the Commission wish to make it clear that, in their view, so long as uncontrolled private road hauliers remain free to pick and choose what they will carry, and to leave to the railways the responsibility of providing a public service which will meet all demands at all times, the consequences are bound to fall on other users of the services or, alternatively and in the last resort, on the Exchequer through the operation of the guarantee. Even the proposed alleviation of railway disabilities, the value of which the Commission do not underrate, does not remove this fundamental inequality."

(ii) the Road Haulage Executive would run at an increasing loss and get into financial and perhaps operating difficulties. (So much so that it would probably be desirable to provide that the Commission should have powers to dispose of parts of their road haulage undertaking if they considered this expedient);

(iii) any future Labour Government might be tempted to reimpose the 25 mile limit (and at the same time to restrict the freedom of the C Licencee). On the other hand proposals on these lines would involve a minimum of interference with the nationalized undertaking set up by the 1947 Act and would to that extent make it easier for the opposition to accept it (although not in public) as a compromise which they would not upset unless on genuine grounds of public interest.

3. The course of action outlined in paragraph 2(c) above may in present circumstances be the best one to adopt.

L.

Great George Street, S.W.1.

20TH OCTOBER, 1952.
CABINET

ERITREA—BRITISH WITHDRAWAL

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

My colleagues will be aware that the British Administration in Eritrea transferred its powers to the local authorities at midnight on 15th-16th September, and withdrew from the country immediately thereafter accompanied by the small British garrison. Her Majesty's Government are thus relieved of the last of the three former Italian Colonies in Africa: Somalia, Libya and Eritrea.

2. In accordance with resolutions of the United Nations, Somalia was handed over to Italian Trusteeship on 1st April, 1950; Libya became independent on 24th December, 1951; and Eritrea has now become federated with Ethiopia as a locally autonomous unit under the Ethiopian Crown.

3. The Eritrean settlement prescribed in a United Nations resolution of December 1950, was in some ways the most difficult to negotiate. The Ethiopians wanted to annex the territory while the Italians wanted it to become an independent State; and both we as administrators, and the United Nations Commissioner for Eritrea, have had to hold a difficult middle course.

4. The first task of the British Chief Administrator, after the adoption of the United Nations Resolution, was to put down the serious banditry which threatened to impede all progress. It was then possible for the United Nations Commissioner to sound Eritrean opinion and to produce the Constitution of this new autonomous unit in the Ethiopian Empire. Meanwhile the British Administration conducted the first general elections in the territory, leading to the establishment this spring of the Eritrean Representative Assembly, which approved the Constitution in July and appointed a temporary Executive Committee to take over from the British Administration such urgent tasks as the engagement of staff and placing of contracts for the future Eritrean Government. The British Administration meanwhile completed their disposal of State assets between the future Federal and Eritrean authorities in accordance with a United Nations Resolution of January 1952, which again struck a compromise between Italian and Ethiopian interests. Throughout these operations there was fortunately a minimum of friction between Christian and Moslem Eritreans, and the Government of the territory (under a Christian Chief Executive who is persona grata to the Emperor of Ethiopia), represents most of the Eritrean parties, creeds and regional interests.

5. The seal was set on these arrangements by the Emperor's ratification of the Eritrean Constitution on 11th August, and his ratification on 11th September of the Act of Federation which safeguards the limited autonomy of Eritrea in the terms of the United Nations Resolution of 1950.

6. It is our hope that we have left an Eritrea which will remain stable, and whose disposal the United Nations General Assembly will note with approval when it considers the reports of the United Nations Commissioner and Her Majesty's Government this autumn.
7. Eritrea has not been able to exist as a stable and well-run country without financial assistance from Her Majesty's Government, which, (on civil votes alone) has cost some £2,600,000 since the occupation in 1941 at an annual rate in recent years of about £350,000. This has been spent in preserving the internal security of the country, maintaining its communications and public utilities, and improving its education and medical services which had been disorganised by the war. It has been possible, however, to obtain some recompense from the Ethiopian Government, who have also made themselves responsible for Eritrean solvency in the future. They have undertaken to pay to Her Majesty's Government the sum of £950,000 over the next year, and have indemnified us against any financial claims.

8. The Department of the Foreign Office responsible for the administrative aspects of the work, the Foreign Office Administration of African Territories, has now completed the task for which it was set up in 1949, and will wind up its affairs by the end of the year.

A. E.

Foreign Office, S.W. 1.
20th October, 1952.
CABINET

AGRICULTURAL MARKETING BOARDS AND THE MONOPOLIES COMMISSION

MEMORANDUM BY THE MINISTER OF AGRICULTURE AND FISHERIES

The Government should support producer marketing boards because—
(a) it is pledged to do so;
(b) they can stimulate efficiency in agricultural production and marketing;
(c) the agricultural industry believes in them and their existence will promote confidence and so help the production drive.

2. There is a point in dispute between the President of the Board of Trade and myself which I must refer to my colleagues, viz., whether marketing boards should be within the scope of the Monopolies Commission. Postponement of the Monopolies Bill has not enabled me to postpone this issue, as urgent decisions must be taken on agricultural marketing.

3. Boards can have wide powers of control, and agricultural products are of vital importance. It is accepted that powerful safeguards for the public interest are necessary and indeed existed pre-war. To these, Ministerial powers to serve directions were added in 1949.

4. These safeguards only operate effectively after the event. I therefore propose yet further safeguards: (a) Prior notice of certain proposed restrictive actions (e.g., price fixing; regulations of supplies); and (b) the setting up of an independent Marketing Council to advise Ministers; to enable views of all concerned to be heard; and to help to avoid political pressure. The Council could also advise on wider marketing problems such as the desirability of new schemes. If proposed actions were against the public interest, Agriculture Ministers could, if necessary use their powers of direction under the 1949 Act.

5. I am discussing with the Minister of Food this general idea and its application to particular schemes, three of which have been before us since we took office. The Minister of Food is doubtful whether the safeguards proposed are adequate for Boards handling basic commodities such as milk, but I think we shall be ready to give the promoters our agreed views on at least one of these schemes (apples and pears) in two or three weeks.

6. In spite of the safeguards I propose the President of the Board of Trade considers that Marketing Boards should also be subject to the Monopolies Commission. I understand his difficulties to be:
(i) The Government's announced intention of bringing nationalised industries within the scope of the monopolies legislation rests on the principle that no monopoly should enjoy a privileged status under the legislation merely because it has a statutory basis. Whatever the merits of any existing or new safeguards in the agricultural marketing field, it would be unfortunate as a matter of political presentation if the Government were to appear to be proposing an exception to this principle in the case of producer-controlled marketing boards. This would probably lead to demands for a similar exemption for the nationalised industries and the whole principle of bringing statutory monopolies within the Commission's purview might be jeopardised.
(ii) He may want to refer to the Commission general issues such as the restriction of persons through whom products may be sold, which cannot be fully considered without covering the field of agricultural marketing.

(iii) He cannot see that the producers' interests would have any valid ground for objecting to formal consistency of treatment. The power to refer to the Monopolies Commission would never be used without the agreement of Agriculture Ministers (or the sanction of Ministers collectively) and any remedial action following a report of the Commission would be a matter for Agriculture Ministers.

7. On the other hand the Agriculture Ministers and the Minister of Food consider that:—

(a) Boards need more safeguards than the Monopolies Commission (which would operate in a general way after the event) can provide. My proposals provide for specific action before the event.

(b) My proposals would meet the President of the Board of Trade's requirement under 6(iii) above because any independent body under my proposals would work in close contact and I hope have overlapping membership with the Monopolies Commission. Further in considering any general reference of the kind mentioned the Monopolies Commission would be entitled and expected to enlist the help of the independent body.

(c) On the President's points at 6(i) above we have to reconcile our policies on monopolies and agriculture. The Agriculture Ministers are deeply committed to support all agricultural marketing boards. It will be difficult enough to get agreement to our proposals for additional safeguards though I have reason to think that we shall get it. I am satisfied that we should never get it for them and for the Monopolies Commission as well, and that the farmers' representatives would not be content to accept the formal consistency agreement advanced in 6(iii).

(d) In reply to any Opposition criticism the President can argue that the former Government did not consider it desirable in providing additional safeguards in the Agricultural Marketing Act of 1949 to make marketing boards subject to the Monopolies Commission.

8. I invite my colleagues' authority to proceed with discussions with the farmers' representatives on establishment or revival of marketing boards on the understanding that such additional safeguards as may be agreed beforehand with the Minister of Food will take the place of direct subjection of Agricultural Marketing Boards to the Monopolies Commission.

T. L. D.

Ministry of Agriculture and Fisheries, S.W. 1.
20th October, 1952.
21st OCTOBER, 1952.

CABINET

EGYPT: REQUEST FOR JET AIRCRAFT

Memorandum by the Secretary of State for Foreign Affairs.

On 17th September the Egyptians made a formal request to us for the release of 65 jet aircraft which were ordered in 1950. The value of these aircraft is over £2 millions, and the Egyptians have paid a 20% deposit on this sum. The following is a list of the aircraft in question:

- 3 Meteor Mark 7 Trainers
- 24 Meteor Mark 8 Fighters
- 16 Vampire D.H. 113 Night Fighters
- 22 Vampire Mark 52 Day Fighters together with 18 sets of components.

2. The supply of these aircraft was interrupted in 1950 on account of the increased needs of our own and Western defence forces, and the embargo was maintained in view of the unsatisfactory attitude of the Wafd Government in Egypt and successive Governments. The supply position is now such that we can afford to sell jet aircraft to Middle Eastern states; indeed, I understand that, from the point of view of the aircraft industry, it is desirable that we should supply at any rate Meteors in the near future. In fact we have just agreed to supply 14 jet aircraft each to Iraq, Syria and The Lebanon and 14 to Israel. So far as the Egyptian request is concerned, we have merely replied that we are considering the matter in the light of the present Anglo-Egyptian relations. Meanwhile, however, we have taken the preliminary step of clearing with the Near East Arms Co-ordinating Committee in Washington a proposal to release 3 Meteor Mark 7 Trainers and 12 Meteor Mark 8 Fighters. The way is now therefore clear for us to release these 15 Meteor aircraft if we wish.

3. Apart from supply considerations, the arguments in favour of releasing these 15 aircraft now would appear to be that:

   (a) The new regime in Egypt may be more willing to take a realistic view of our defence requirements than previous Egyptian Governments. The release of these aircraft would be regarded in Egypt as a rather spectacular gesture on our part and might encourage the moderate elements in the new regime. H.M. Ambassador at Cairo has strongly recommended that we should release as many of these jet aircraft as possible.

   (b) Conversely the Egyptians are bound to be upset when they learn of our recent decision to sell jet aircraft to other Arab countries and to Israel if we do not let them have jets as well.

   (c) If we do not release these aircraft, it is probable that the Egyptians will try to get them elsewhere, possibly from the Americans or the French. It might even be that a refusal by us will determine the Egyptian Air Force to turn to American equipment as a general
practice. It is estimated that it would take them at least two years to rebuild their Air Force on American equipment, and apart from everything else, this enforced delay would probably embitter them. In any event, if we are going to allow the Egyptian Air Force to revive, it would be preferable that such a revival should be an Anglo-Egyptian operation, since this would fit in with our ideas for the ultimate establishment of a joint Anglo-Egyptian air defence organisation as part of our defence arrangements with Egypt.

The Arguments against releasing the aircraft are that -

(a) We have as yet nothing definite to show how the new regime's policy towards us is going to develop. The internal situation in Egypt is still uncertain and the day may come when for one reason or another the new Egyptian Government may find it convenient to revive the old anti-British and Imperialist slogans. We do not wish to give the Egyptian Government the impression that they have only to make demands upon us for us to give way.

(b) The Israelis have already protested against the provision of jet aircraft to other Arab countries, and H.M. Ambassador at Tel Aviv has warned us that the effect in Israel will be very bad if we release these aircraft to Egypt unless we can at the same time induce the Egyptian Government to state that they would be prepared to start peace negotiations with Israel.

(c) We have with some difficulty maintained a general embargo on the supply of arms to Egypt from other countries. There is little doubt that, whatever arguments we may use, we shall be unable to maintain this embargo in being if we release these aircraft. We shall thus be weakening, and probably ultimately destroying, one of our strongest bargaining levers with the Egyptians.

4. I do not think that we need worry unduly about the risk that the Egyptian Air Force might use these jet aircraft against us at some future date. The Egyptian Air Force is not comparable with a modern Air Force in its standards of training, its equipment or its general effectiveness. The supply of these aircraft would not change this state of affairs.

5. I have considered carefully whether we should not try to obtain some quid pro quo from Egypt in return for the release of jet aircraft. In my view a suitable return would be Egyptian agreement to lift the restrictions at present in force upon the traffic of Israel-bound cargoes through the Suez Canal, or an Egyptian declaration of readiness to make peace with Israel. But I am advised that the chances of our securing such undertakings from Egypt are very small. The United States Government are unwilling to join us in an approach to the Egyptian Government on these lines at present. H.M. Ambassador at Cairo considers that if we try to link the release of these aircraft with such undertakings, we shall simply throw away any advantage which this gesture would otherwise have given us. He thinks that the most we should ask for should be a statement by General Neguib that the strengthening of the Egyptian armed forces was a purely defensive measure, with no specific mention of Israel at this stage. H.M. Ambassador at Tel Aviv has, however, advised that such a guarantee would be totally inadequate.
6. On balance I recommend as follows:

(a) We should decide to release to Egypt the 15 Mark 7 and Mark 8 Meteors now.

(b) H.M. Ambassador at Cairo should be instructed so to inform General Neguib, and to add that this is intended as an indication of confidence on the part of Her Majesty's Government. He should make it clear at the same time that the release of any more jet aircraft will depend upon how Egyptian policy develops. If, for example, the Egyptians were to make a contribution to the stability of the Middle East by taking some definite step towards settling their differences with Israel, such as an intimation of their readiness to make peace, or by joining in due course with the Western Powers in a defence organisation for the Middle East, this would obviously make it easier for us to supply more jet aircraft in the future. At the very least, the Egyptian Government should state publicly, as soon as the news becomes known, that these aircraft are required purely for training and that the Egyptian Government have no intention of using them for any aggressive purposes.

(c) We should give the best assurances we can to the Israeli Government, in the light of anything that General Neguib may say to H.M. Ambassador at Cairo.

(d) We should decide about the release of the remainder of the 65 jet aircraft to Egypt in the light of the Egyptian response to our offer of 15.

(e) We should inform the North Atlantic Treaty Organisation and other European countries interested of the position at the same time as we make the offer to Egypt.

A.E.

Foreign Office, S. W. 1.

21ST OCTOBER, 1952.
CABINET

INVESTMENT IN 1953: RECONSTRUCTION OF BLITZED CITY CENTRES

MEMORANDUM BY THE MINISTER OF HOUSING AND LOCAL GOVERNMENT

It's "Tommy this, an' Tommy that," an'
"chuck 'im out, the brute ",
But it's "Saviour of 'is country," when
the guns begin to shoot!
(R. Kipling.)

"Of course, we must first concentrate, as we are doing,
all available building labour on those parts of our
cities which have suffered most . . . ."
(Mr. Churchill, Central Hall,
Westminster, 15th March, 1945.)

1. This is the story of the blitzed cities.

2. Excluding London, there are 18 which suffered severe and concentrated war damage. Since 1949 successive Ministers for Planning have contrived to get an "investment allocation" to enable some reconstruction to be done in these 18 cities.

3. Work has been carried out each year to the following value:—
   1949 and 1950: £2.3 million.
   1951: £3.5 million.
   1952: £4.5 million (estimated).

4. This work is almost entirely financed by private developers, and consists mainly of shops to replace those destroyed in the central shopping areas. Encouraged by promises made during the war, the Local Authorities bought the devastated land in order to provide convenient plots for rebuilding. As soon as building is allowed, rents and rates are paid to the Authority. At the moment the Authorities are incurring heavy expenditure (by way of loan charges) on idle land; so is the Exchequer, which pays a high rate of grant.

5. The Chancellor of the Exchequer does not feel able, however, to allocate more than £2.5 million in 1953 to reconstruction. Completion of works in progress will take up to £2 million in 1953 and £700,000 in 1954. Therefore there will be only £1.5 million to allocate (among 18 cities) to new work in 1953.

6. The rebuilding programmes are already running down. With only £1.5 million to pump in, most of them will come to a complete stop early next year.

7. I have got to announce the allocation; Local Authorities and their Members are already clamouring for it. When it is known, there will be a bitter outcry and much agitation—questions, adjournment motions, deputations and press campaign.
8. There are 68 Parliamentary seats in these cities; 40 are held by the Opposition, who will lose no opportunity to attack and embarrass the 28 Government supporters who hold the other seats.

9. Up to now we have been able to blame the steel shortage: this, people can understand. But that cock won't fight much longer. Everyone knows we can use reinforced concrete or, in some cases, load-bearing walls. Besides, a lot of jobs either do not require new steel or require very little because the firms have it already in hand from salvage or from stock.

10. Nor can we argue that labour freed from blitz reconstruction can be diverted to other more important work, except in a heavily over-loaded area like Coventry. It is admitted that in most of the eighteen cities the building labour for a modest reconstruction programme can be provided without interfering with other building programmes. In certain cities, such as Plymouth there is no other building work in need of labour. Housing cannot absorb them all. So the men drift out of the building industry, or go on the dole.

11. The best way out would be to authorise "in principle" the starting of new work in 1953 to the value of a further £2 million; i.e., a total "programme" for the year of £4.5 million. But where any project was to be, and when it was to start, would be settled by the Minister of Works, through the machinery of the Regional Building Committee (representing all Ministries concerned). The Committee would only allow new work where it would not interfere with the progress of defence projects, industry, housing, schools; they would have special regard to the labour situation in each locality.

12. If we do this we can meet the local outcry even if the starting dates have to be put off from month to month.

13. In view of all the promises made to the blitzed cities I think we must recognise that there is a moral as well as a material problem. There is also a political problem.

14. I must point out that most of these developers are still willing to spend their own money. They ask for no subvention, subsidy, or assistance; indeed they are prepared to reduce the burden of public expenditure. If we put them off too long, we may put them off altogether.

H. M.

Ministry of Housing and Local Government, S.W. 1,
20th October, 1952.