101 - Road Haulage Disposals. Memorandum by the Minister of Transport and Civil Aviation.

102 - Colonial Immigrants. Note by the Secretary of State for the Home Department and Minister for Welsh Affairs.

105 - Japan: Trade and Payments Negotiations. Note by the Chancellor of the Exchequer.

106 - Japan: Trade and Payments Negotiations. Memorandum by the Minister of State, Board of Trade.

105 - German Investments in the Irish Republic. Memorandum by the Minister of State, Board of Trade.

105 - The Economic Situation. Memorandum by the Lord President of the Council.

107 - Disarmament. Note by the Secretary of the Cabinet.


110 - Disarmament. Note by the Secretary of State for Foreign Affairs.

112 - Bechuanaland Protectorate: Bamangwato Succession. Memorandum by the Secretary of State for Commonwealth Relations.

113 - Colonial Immigrants. Memorandum by the Secretary of State for Commonwealth Relations.

114 - Japan: Trade and Payments Negotiations. Note by the Chancellor of the Exchequer.

115 - Cyprus. Memorandum by the Minister of State for Colonial Affairs.

116 - Economic Situation: Housing Policy. Memorandum by the Chancellor of the Exchequer.

117 - Cyprus. Memorandum by the Secretary of State for Foreign Affairs.

116 - The Economic Situation. Memorandum by the President of the Board of Trade.

119 - Redistribution of Seats. Memorandum by the Attorney-General.

120 - RETAINED BY DEPARTMENT UNDER SECTION 3(4).

121 - Malta. Memorandum by the Lord Chancellor.

122 - Security Controls on East/West Trade. Memorandum by the Minister of Defence.

123 - Industrial Relations. Note by the Prime Minister.
PUBLIC RECORD OFFICE

Reference

CAP 129 77

ALL ODD NUMBERS BETWEEN
FOLIOS 3-9

ARE BLANK AND HAVE NOT BEEN COPIED
124 - Admission of New Members to the United Nations. Memorandum by the Secretary of State for Foreign Affairs.

125 - National Service. Memorandum by the Minister of Defence.

126 - Signature of the Protocols of Amendments to the General Agreement on Tariffs and Trade. Memorandum by the President of the Board of Trade.

127 - Palestine. Memorandum by the Secretary of State for Foreign Affairs.

128 - Housing Subsidies. Memorandum by the Minister of Housing and Local Government.

129 - Imports of United States Fruit. Note by the Financial Secretary, Treasury.

130 - National Service: Deferment for Agricultural Workers. Memorandum by the Minister of Labour and National Service.

131 - Capital Finance for Local Authorities. Memorandum by the Chancellor of the Exchequer.

132 - Local Authorities Capital Expenditure. Memorandum by the Chancellor of the Exchequer.

133 - Smaller Colonial Territories. Memorandum by the Secretary of State for the Colonies.

134 - National Assistance, National Insurance and the Cost of Living. Memorandum by the Minister of Pensions and National Insurance.

135 - Road Passenger Transport. Memorandum by the Lord Chancellor.

136 - Relations with the Independent Television Authority. Note by the Postmaster-General.

137 - Constitutional Changes in Zanzibar. Memorandum by the Secretary of State for the Colonies.

138 - Teachers' Superannuation. Memorandum by the Secretary of State for Scotland and the Minister of Education.

139 - Aerial Advertising. Memorandum by the Minister of Transport and Civil Aviation.

140 - London Traffic Congestion: Park Lane Scheme. Memorandum by the Minister of Transport and Civil Aviation.

141 - London Traffic Congestion: Park Lane Scheme. Memorandum by the Minister of Works.

142 - Japan: Trade and Payments Negotiations. Note by the Chancellor of the Exchequer.

143 - New Hebrides. Memorandum by the Secretary of State for Foreign Affairs and the Secretary of State for the Colonies.

144 - Colonial Policy Committee. Note by the Secretary of the Cabinet.

G.P.(56) 146 - Post Office Finance. Memorandum by the Postmaster-General.

147 - Spain. Note by the Secretary of State for Foreign Affairs.

148 - Royal Commission on Capital Punishment. Memorandum by the Secretary of State for the Home Department and Minister for Welsh Affairs and the Secretary of State for Scotland.

149 - National Service: Effects on Education and Employment. Note by the Minister of Labour and National Service.

150 - Summer Time. Memorandum by the Secretary of State for the Home Department and Minister for Welsh Affairs.
10th August, 1955

CABINET

ROAD HAULAGE DISPOSALS

Memorandum by the Minister of Transport
and Civil Aviation

I have now received from Sir Malcolm Trustram Eve, the Chairman of the Disposals Board, his advice on the number of vehicles which British Road Services will need to retain to avoid breaking up the trunk services.

2. His advice is that 7,750 vehicles will be required to operate the trunk services. Under the Act of 1953, the Commission already retains 2,341 general haulage vehicles so that the legislation which we shall promote in the autumn will involve increasing the number of such vehicles by 5,400.

3. As, under the 1953 Act, the Commission retains 3,500 vehicles of all sorts, this would involve a total retention of a little under 9,000.

4. These figures are somewhat higher than the figures - 4,500 extra and 8,000 in all - which I gave to the House as a general indication, subject to Sir Malcolm's report, of the order of magnitude involved.

5. 9,000 is a little higher than, for political reasons, I should have liked, and may involve, when we come to the Bill, some compensating re-adjustments of the Commission's fleet.

6. I have, however, no doubt that we ought to accept, and to announce that we have accepted, Sir Malcolm Trustram Eve's advice. I have consulted the Prime Minister who agrees but has directed that the information be circulated to the Cabinet.

7. The next list of vehicles for sale (1,500 in all) has been drawn up and will be advertised on 17th August. It is most important that potential buyers should then know what further vehicles will be available for disposal. It is also desirable to carry through the remaining disposals as quickly as possible. It is, therefore, very urgent to announce Sir Malcolm Trustram Eve's advice and the Government's decision on it and, subject to the views of my colleagues, I would propose to do that on or about 16th August.

J.A.B.-C.

Ministry of Transport and Civil Aviation, W.1.

9th August, 1955.
CABINET

COLONIAL IMMIGRANTS

NOTE BY THE SECRETARY OF STATE FOR THE HOME DEPARTMENT AND MINISTER FOR WELSH AFFAIRS

The Cabinet invited me on 14th June to set up an inter-departmental committee of officials to prepare, in a form suitable for publication, a report on the growing influx into the United Kingdom of coloured workers from other Commonwealth countries and of the social and economic problems to which this was giving rise. (C.M. (55) 14th Conclusions, Minute 4).

2. I attach, for the consideration of my colleagues, a copy of the Report of which the Appendix is in a form suitable for publication.

G.LL.-G.

Home Office, S.W. 1,
18th August, 1955.
REPORT OF THE COMMITTEE ON THE SOCIAL AND ECONOMIC PROBLEMS ARISING FROM THE GROWING INFLUX INTO THE UNITED KINGDOM OF COLOURED WORKERS FROM OTHER COMMONWEALTH COUNTRIES

The Committee were instructed to report—

(a) Whether any, and if so what, economic and social problems arise from the immigration into the United Kingdom of persons from other parts of the Commonwealth and the Republic of Ireland.

(b) What administrative measures would be feasible if any control over the entry and settlement of such persons were thought necessary.

(c) What interference with the traditional ties between this country and other parts of the Commonwealth would be involved in any such measures.

The Committee understand that they are to present a statement on the subject in a form suitable for publication, and on that understanding they have prepared the draft appended hereto. They have drafted this statement in such a form as to avoid creating difficulties for Ministers in carrying through any policy on which they may later decide. They would also draw attention to the following points.

2. The Committee have included nothing in this statement which they do not think can be supported by evidence if need be. They have refrained from mentioning matters which are based on suspicion or which, while they may have potential importance, are of slight statistical importance at present. For instance, there is some suggestion that there is a high incidence of venereal disease among West Indians but no statement to that effect could be supported by figures. On the other hand, figures could, if necessary, be given to support the statements in paragraph 3. The omission of reference to problems which are so far only potential might be taken to imply that such problems do not exist and it is recognised that the statement may in some respects give the impression that the position is less serious than it is likely to become.

3. It will be observed that, while paragraphs 1 to 3 of the statement deal with general considerations, a transition is made in paragraph 4 to the problem in terms of the influx of coloured people, and that, apart from the incidental references, the rest of the statement deals only with that aspect of the matter. (Ministers may take the view that the reactions, e.g., in India or elsewhere, to a statement in terms of "coloured people" are likely to be much greater than to one in terms of West Indians alone but a discussion in terms of West Indians alone would be inadequate.) There are no figures which would give an idea of the extent of immigration into the United Kingdom of people from the "Old Dominions," but such immigration whatever its extent has never given rise to difficulties. Citizens of the Irish Republic are mentioned in the Committee's terms of reference but there is no evidence readily available on which the Committee could give a balanced statement of the economic and social consequences of the immigration of such people into Great Britain. Considerable enquiry would have to be set in hand before such a statement could be provided and the Committee have been asked to submit this report as a matter of urgency. It is common knowledge that the Irish influx into Great Britain has been very heavy since the war. The Roman Catholic Church Authorities have stated that it has totalled at least 750,000, and we know that during the twelve months ended 30th June, 1955, 58,700 Irish from the Republic entered into insurance for the first time. There has always been some tendency for the Irish to congregate in certain quarters of big cities, but there is no reason to suppose that a high proportion of the Irish who have come here since the war have concentrated in such areas. Many of the Irish are accustomed to living in their own country in conditions which English people would not normally tolerate and are accordingly less discriminating in their choice of accommodation here. There have been a number of complaints from local authorities that they live in condemned premises and by so doing establish a prior claim on the local authorities' resources of accommodation. When all this has been said, however, it cannot be held that the same difficulties arise in the case of the Irish as in the case of the coloured people. For instance, an Irishman looking for lodging is, generally speaking, not likely to have any more difficulty than an Englishman, whereas the coloured man is often turned away. In fact, the outstanding difference is that the Irish are not—whether
they like it or not—a different race from the ordinary inhabitants of Great Britain, and indeed one of the difficulties in any attempt to estimate the economic and social consequences of the influx from the Republic would be to define who are the Irish.

4. The Committee have assumed that it would not be thought proper to deal in a published document with all the political aspects or with the details of the legislation which would be necessary—more particularly since the terms of the necessary legislation have not been settled—or of the administrative problems. They feel, however, that they ought not to omit from this report a reference to the following points which have been dealt with in previous reports:

(a) A case for legislation giving power to restrict immigration can be made out on general grounds, and the absence of such a power in a world in which countries with similar or better standards of living universally exercise such powers places the inhabitants of this country in a position of disadvantage which is hard to defend. On the other hand, the introduction of any such legislation at the present time would be criticised by some as amounting to colour discrimination, since it would be said that it was the fact that the immigrating West Indians are coloured which had led to the introduction of the legislation. It might be suggested that this would be contrary to the spirit of international declarations to which successive United Kingdom Governments have subscribed. Some play would be made of the point that restriction could not be justified on employment grounds at this time.

(b) The Commonwealth Relations Office fear that, if legislation on this subject applied to the entry of all British subjects, either British subjects whose entry it is not desired to prevent would be excluded, or the administration would be subject to criticism for discriminating between different categories of British subjects. The Home Office and the Colonial Office do not think that insuperable difficulties will arise on this score.

(c) If, after restrictive legislation had been introduced, large numbers of coloured people persisted in coming to the country, there would be much additional work for the Immigration Service and also for the Home Office and Ministry of Labour. There would in any case be a considerable increase of work for United Kingdom passport offices in other Commonwealth countries.

(d) It would be very desirable to give Commonwealth and possibly some Colonial Governments prior notice of any statement such as is proposed, together with as much reassuring explanation as the circumstances permit.

(e) No approach has been made to the local authorities as regards housing problems although some of the local authorities affected have made representations to the Government. Paragraphs 10 and 11 of the draft statement are based partly on these representations and partly on published material. With regard to the suggestion in paragraph 16 of the draft statement that a prospective immigrant might if necessary be required to show that he had suitable accommodation to go to before he was allowed to enter, officers of the Local Authority Associations in England and Wales who have been consulted privately have expressed the view that local authorities would probably be prepared to co-operate to prevent further housing difficulties arising although they have naturally emphasised that they were speaking in a personal capacity. Accommodation which a local authority would be prepared to certify as suitable would be very difficult to find in the areas in which the present difficulties exist. Many prospective immigrants who could obtain the offer of specific jobs in the present employment situation would, therefore, probably fail to obtain certificates of suitable accommodation and in consequence considerable pressure might be brought to bear on local authorities who might weaken in their administration. Employers anxious to import coloured workers might in any case take special measures to provide accommodation for immigrants on arrival, e.g., in hostels, an arrangement which might well be used in such a way as to facilitate evasion of the controls, which it would be impossible to prevent unless there was an efficient follow-up scheme. Any such scheme requiring
immigrants to continue in certified accommodation would be difficult to administer and local authorities would not in the opinion of the Ministry of Housing and Local Government and the Department of Health for Scotland be suitable or possible agents for the purpose.

(f) Citizens of the Irish Republic present a very difficult problem in that their exclusion from the scope of a Bill applying restrictions to the entry of British subjects would be open to obvious criticism on political grounds. However, the Irish not only provide much-needed labour, but have always done so, and any restoration of the immigration control on the traffic between Great Britain and Ireland would be tiresome to the hundreds of thousands of passengers who travel each way during the year and would mean a considerable increase of the Immigration Service and the carrying of passports or other identity documents by citizens of Northern Ireland who would much resent it. The Working Party have previously pointed out that the only way out of this dilemma would appear to be to argue boldly along the lines that the population of the whole British Isles is for historical and geographical reasons essentially one and, except during the special circumstances of the war when Eire was a neutral state though still within the Commonwealth, has always been treated as such, and that there is every reason on grounds of common sense and expediency for not departing from that principle in the present connection. Under the terms of the Bill which has been drafted but not yet submitted to Ministers the control would not have applied to the Irish normally resident in Ireland. The Irish resident abroad or in other parts of the Commonwealth would have been subject to control equally with British subjects from overseas.

(Signed) W. H. CORNISH,
Chairman.

Home Office,
3rd August, 1955.
APPENDIX

DRAFT STATEMENT ON COLONIAL IMMIGRANTS

Reports of the arrival in this country of thousands of immigrants from the West Indies have given rise to public concern about the immigration of British subjects into the United Kingdom from other parts of the Commonwealth. All British subjects are free to come to this country and there is no power in United Kingdom law, and never has been, to prevent them from entering or to require them to leave. This is in contrast with the position in most independent Commonwealth countries and all British dependent territories, which have for many years controlled the entry into their territories not only of aliens but also of British subjects as it has always been accepted that it is the right of a receiving territory to do. That the United Kingdom has not hitherto seen fit to exercise this right may be taken as reflecting the special position in the Commonwealth which she occupies but it must be remembered that until lately the pattern of migration within the Commonwealth has not been such as to raise for serious consideration the question of restricting the immigration of British subjects to the United Kingdom.

2. There are no official statistics which distinguish between categories of British subjects arriving in or leaving this country. Moreover the pattern of movement is naturally a complex one. British subjects entering the country from overseas may be genuinely temporary visitors or may be contemplating prolonged but not necessarily permanent residence, or may be persons whose associations are essentially with the United Kingdom, returning after a period of residence overseas. In the circumstances it is impossible to reflect in statistics the extent of the immigration of British subjects into the United Kingdom. But some idea of the background against which recent trends can be considered may be derived from the following figures.

3. At the 1951 Census some 347,000 persons were enumerated as resident in Great Britain but born in other Commonwealth territories, as compared with some 237,000 in 1931. The main elements in the 1951 figures were 137,000 born in the Indian sub-continent or Ceylon; some 129,000 born in Canada, Australia, New Zealand and the Union of South Africa; some 35,000 in the Mediterranean colonies; some 7,000 in African territories other than the Union of South Africa; some 15,000 in Asian territories other than the Indian sub-continent and Ceylon; and some 16,000 in the West Indies. The Census figures do not take account of race or colour but it may be assumed that a large number of the 347,000 recorded as born in the Commonwealth overseas were of United Kingdom descent and in particular the figure of 137,000 born in the Indian sub-continent or Ceylon must have contained a high proportion of such persons. The recent influx of coloured persons from the West Indies, which may amount to 20,000 in 1955, is clearly a new development.

4. An estimate of the number of coloured British subjects in the country was made in 1953 and it then appeared that a conservative figure would be something over 40,000, of whom about one-fifth were students, compared with a figure of about 7,000 before the war. Some of this increase could be attributed to the continued residence in the United Kingdom of coloured people who came to this country during the war, many to the Armed Forces or as merchant seamen, but it was evident that a steady increase of the coloured population was taking place by immigration, estimated to be then proceeding at the rate of about 3,000 a year. Since then there has been a rapid increase. The comparable figure for 1954 was about 10,000. The number of coloured immigrants to the United Kingdom from other parts of the Commonwealth in 1955 will probably amount to some 30,000 if there is no diminution in the number of Indians and Pakistanis settling here which has in recent months been at the rate of 8,000 a year.

5. British subjects from overseas are eligible for social service benefits in Great Britain on the same terms as United Kingdom residents and there is no kind of local discrimination against them and no hindrance to their taking work and
accommodation in this country if they can get it. In the conditions of full employment which have prevailed in recent years coloured workers have had little difficulty in finding work. Even the large number who have come in recent months appear to have found jobs easily and to have made a useful contribution to our manpower resources. A recent check at employment exchanges showed that there were less than 2,900 coloured British subjects unemployed at the time of the check, most of whom had been out of work for a short period only. It should be added that the job which an immigrant has obtained may not always have been the type of work which he hoped to find, or for which he regarded himself as qualified, when he left home. It would appear that some workers classified as "skilled" in their own territories would not necessarily be regarded as equally skilled by the standards of this country, and they may have been unacceptable here in their former occupations for that reason. In some cases prejudice, real or imagined, on the part of white workers may have led an employer to refuse to employ a coloured worker.

6. There is no evidence that coloured people are making undue demands on National Assistance. The local offices of the National Assistance Board do not keep regular records of coloured recipients of assistance but a check made in July showed that about 500 of them were receiving national assistance grants at employment exchanges: these were men and women who were fit enough to be required to register for employment. Some others, believed to be very few, will have had to be assisted because of old age or sickness. In addition coloured men are occasionally put up at reception centres for persons without a settled way of living, i.e., vagrants. In 1952 the London County Council, as the Board's agent, set up a small reception centre at Stepney to cater specially for destitute coloured men arriving in London in search of work and accommodation. This centre was closed in January 1955, the Council's Welfare Committee having represented that it had outlived its usefulness.

7. So far as the National Health Service is concerned there is insufficient evidence to suggest that coloured immigrants are a greater problem than some other groups.

8. The immigrants from overseas are for the most part law-abiding, though there is evidence that coloured men play a large part in the illicit traffic in Indian hemp, which is the type of illicit drug traffic at present giving rise to most concern in this country, and they account for a disproportionate number of the convictions in London for living on the immoral earnings of women.

9. While there have been examples of colour prejudice—and there is no doubt that it exists—some coloured workers have made a favourable impression on the public, for example in the transport industry. It cannot be said that the coloured immigrants have been assimilated, but apart from one or two isolated incidents there has been no evidence of what might be described as racial tension.

10. The most serious problem arising at present from coloured immigration is undoubtedly in the field of housing. The bulk of the coloured immigrants have congregated in relatively few areas, mainly in London and the Midlands, where there is already an acute housing shortage. The existence of a big demand for unskilled labour naturally attracts the immigrants and they seek accommodation in districts where friends or relatives are already living. Once begun the process is a continuing spiral. Coloured workers often find it difficult to get accommodation in houses occupied by white people and there appears to have been considerable exploitation of this situation by landlords, frequently coloured immigrants themselves, who have bought or leased defective property and let it off in single rooms, in conditions of scandalous overcrowding, several single people or even families sharing the one room. This has created a grave problem for the housing authorities concerned. Their resources are quite insufficient to enable them to undertake rehousing on the scale required and they would in any case be seriously embarrassed by having to give priority on the basis of need to these newcomers over long-term residents who have had their names on the housing list for many years.

11. To some degree this problem arises in respect of all immigrants from overseas, e.g., citizens of the Irish Republic, but it is much aggravated in the case of coloured people who may at home have been accustomed to standards of accommodation which would not be considered adequate in this country. That is not to say that they do not resent the grossly overcrowded conditions which may be all that is obtained here but that, bad as those conditions are, they may not...
appear relatively so intolerable as they would to immigrants with a different background. Apart from the spiral process by which one worker introduces others, account must also be taken of the fact that so far most immigrants are believed to have come alone, though a few have had their families join them since. Many more are, however, known to have family commitments and to be hoping to arrange for their families to join them in due course. Should any large-scale influx of families take place, over and above the entry of workers arriving by themselves, the situation, already sufficiently grave in the areas concerned, might quickly become critical.

12. As long as the present prosperity continues it seems unlikely that there will be any significant change in the situation described in the preceding paragraphs as far as the general economic aspects of the problem are concerned. It is, of course, impossible to pronounce about the future with any confidence. There are indications that organised workers are concerned as to the prospects if the employment situation should deteriorate. It may be that rather than racial prejudice has been responsible for some of the objections which have been raised to the employment of coloured people in certain industries and services, and if a situation should arise in which it is necessary to lay off large numbers of workers there might be very strong pressure that the first to be discharged should be immigrants.

13. It is also questionable whether race relations would not deteriorate if there were a significant increase in the coloured population. A considerable natural increase in that population must be expected in the not distant future, quite apart from any further increase by immigration. There appears to be no reason to suppose that the present rate of immigration will drop in the foreseeable future. It may be that the tendency of coloured people to congregate in certain areas helps to reduce causes of friction, but a further significant influx into areas of unsatisfactory housing might well lead to developments in which it would be difficult to avoid racial problems arising.

14. As has been mentioned, there is no power to prevent any British subject, whatever his origin, from entering the United Kingdom, and no power to require him to leave, however he may misconduct himself. It is therefore not possible to impose any control on the entry and settlement of British subjects from overseas by administrative action alone. To make such control possible an amendment of the law would be required.

15. The basis of any such legislation would be the right which any country must claim, and which most other Commonwealth countries exercise, to control immigration from outside in the interests of its own citizens. The theoretical case for taking such powers to protect the inhabitants of this densely populated island is obvious. Legislation for this purpose could be drafted (a) so as to bring within its scope without exception all British subjects not belonging to the United Kingdom, including citizens of Commonwealth countries, inhabitants of British Colonial territories, British protected persons and also citizens of the Irish Republic who are not British subjects but who are by our law to be treated as such; or (b) so as to apply only to certain specified categories. It would not, of course, discriminate between persons or categories on grounds of race or colour.

16. Whichever form of legislation were adopted it would presumably be applied so as not to interfere with the genuine temporary visitor from the Commonwealth but so as to restrict immigration for permanent residence to those whose settlement here was most likely to be beneficial to the country. There would presumably be some form of control of entry for employment by a system of employment permits, to some extent on the lines of that applying to aliens, and also a control designed to prevent aggravation of the housing difficulties which have already arisen. There would be little difficulty in administering a scheme concerned only with restricting eligibility to enter for employment to those who have specific jobs awaiting them, and if local authorities were prepared to co-operate arrangements could be made under which a prospective immigrant could if necessary be required to show that he had suitable accommodation to which to go. It would appear, however, that such controls would not be fully effective unless supported by powers, which it might be very difficult to operate in practice, to make continuance in approved employment or continued residence in suitable accommodation a condition of continuing stay.
17. Enforcement of any system of control of entry could be carried out by the Immigration Service, though some enlargement of the Service would be necessary. Even so, a control would involve some additional delay for British travellers at ports, though the degree of this would depend to some extent on the scheme of control adopted.

18. If it were thought desirable to institute any control over the entry of British subjects not belonging to the United Kingdom, it would no doubt be thought right to give power as already exists in the case of aliens to bar entry to those known to have criminal records and to those whose entry would be undesirable on medical grounds, and also to provide for the deportation of undesirables.

19. Some measure of regulation and control of migration within the Commonwealth need not prejudice the widespread practice among peoples of all parts of the Commonwealth of visiting this country for study, business and recreation. Nor need it be inconsistent with a policy of encouraging two-way migration between the United Kingdom and other Commonwealth countries. The United Kingdom is in a special position in that many Commonwealth citizens, including numbers of persons not of European descent, feel a strong personal attachment to Britain. This is one of the strongest bonds of our Commonwealth association, and it might well be weakened unless an assurance could be given that legislation of the nature described in paragraphs 15 to 18 above would not in practice affect it. Such an assurance could, however, be given without prejudice to the essential objects of legislation designed not to exclude British subjects from overseas, but, in their own interests and that of this country, to regulate their entry for permanent settlement.
Note by the Chancellor of the Exchequer

I circulate, for the consideration of my colleagues, a report by officials on the present state of our negotiations with Japan for a new trade and payments agreement.

2. These negotiations were adjourned to enable the United Kingdom representative to seek fresh instructions. The issues involved are set out in paragraph 26 of the report.

R.A.B.

Treasury Chambers, S.W.1.,

Reference

CAB 129/77

All odd numbers between folios 19 - 65 are blank and have not been copied.
A United Kingdom Delegation, led by an Under Secretary of the Board of Trade (Mr. A.E. Percival), opened negotiations in Tokyo on 23rd June for a new agreement on trade and payments between Japan and the Sterling Area. These negotiations were adjourned at the request of the United Kingdom Delegation, acting on Ministerial instructions, on Tuesday, 2nd August, in order to enable the Board of Trade and Treasury representatives to return to London to report and to seek fresh instructions. This report describes the position reached and seeks the instructions of Ministers on the main issues outstanding.

Japan's balance of payments with the Sterling Area

2. Hitherto our policy has been to conduct our commercial and financial arrangements with Japan in bilateral negotiation on the basis of a broad balance of receipts and payments at the highest possible level. But, in practice, this balance has been subject to wide fluctuations. In 1953, Japan was in heavy sterling deficit. In the course of 1954 Japan went over into surplus and her sterling balances began to rise steeply. This caused anxiety and it was on this account that our negotiators were instructed inter alia to seek arrangements which will produce an increase in Japanese payments to the Sterling Area, sufficient to eliminate, or at least substantially to reduce, Japan's expected surplus with the Sterling Area. In 1955 current transactions have so far been in balance (and Japan's sterling balances are actually falling and may continue to do so, but this is because Japan is repaying credit). We have no assurance that the present balance will be maintained. Indeed, Japan's receipts are expected to rise and it is vital to us to secure some corresponding increase in Japanese payments to the Sterling Area.

Overall Sterling Commitment

3. Our objective under this head was to secure an assurance that in the first year of the Agreement Japan would spend £210 millions in sterling on visible trade with the Sterling Area. This, together with about £40 millions worth of invisible payments, would bring Japan's total sterling commitment up to about £250 millions, exclusive of payments made in sterling to non-sterling countries. On this basis we calculated that Japan's sterling payments and receipts would balance, or at least that the Japanese sterling surplus would not exceed, say, £10–£20 millions in a full year. Our intention was that any assurances we could secure in regard to the provision of sterling for imports should be backed up by the removal of discrimination against sterling exports, and by such general assurances as we could obtain about the adoption of proper commercial policies.

The form of commitment required

4. Our negotiators report that while Japan may well be willing in principle to reaffirm her readiness to spend as much sterling as she earns, it would be a major departure from existing practice for Japan to commit herself to make sterling available for Sterling Area imports up to a stated figure. There are, besides the United Kingdom,
other Sterling Area countries, such as Australia, which discriminate against Japan, and others again, like Pakistan, which drive hard bilateral bargains. The Japanese are certain, therefore, to insist on safeguarding words which will leave them free in their trade negotiations with other independent Sterling Area countries. Subject to this, our negotiators think it may be possible, though difficult, to secure a specific commitment of the kind we require. Such a commitment might take the form of an undertaking by Japan to make a sum of the order of £105 millions available for visible sterling trade in the winter budget (in which the Japanese allocate the foreign exchange at their disposal for meeting import requirements over the six months beginning 1st October); and to consult with us early in 1956 about the size of the following summer budget.

5. In this connection there are three desiderata which we should continue to press for —

(a) A general statement of intention by Japan to facilitate imports, visible and invisible, from the Sterling Area to the amount of Japan's total earnings from the Area.

(b) A more specific commitment that Japan will make available for spending in the Sterling Area in the coming year - preferably in the year beginning July, 1955, but failing that, October, 1955 - as much sterling as she has earned in the Sterling Area in the preceding twelve months.

(c) Finally, a concrete undertaking that the winter budget will provide not less than £105 millions for visible sterling area imports, i.e., excluding oil and imports from third (i.e. non-sterling) countries.

Of these three desiderata, (a) should not present any major difficulty. The Japanese have already indicated that they do not intend to accumulate sterling from the Sterling Area in excess of their needs; (they contend that their existing holdings of sterling are no more than a reasonable working balance). But (a) by itself is not enough. It is therefore recommended that we should seek to translate this general statement of intention into concrete terms on the lines of (b) or (c) above.

The price of agreement

6. Our negotiators advise, however, that it will not be possible to get the Japanese to accept a specific commitment about the amount of sterling they will make available for imports unless we tell them that -

(i) we intend, in default of such a commitment, to ask the Colonies to limit their imports from Japan; and

(ii) we are prepared, in return for such a commitment, to undertake for our part to allow the Colonies to import from Japan up to the amount of their stated requirements.

7. Certain points of timing arise in connection with these assurances. As regards (i), the latest time at which the Colonial territories could in practice be asked to limit import licences for the first half of 1956 is
September, 1955. As regards (ii), if it were decided to give an undertaking in respect of colonial imports in return for a Japanese commitment on the winter budget, it is proposed that the two undertakings should cover the same period, i.e., October 1955 to March 1956 inclusive. If, however, it were subsequently decided to cut back colonial imports, the restrictions would not then become operative until the second half of 1956. If the Japanese assurance took the form of 5(b) above, both their assurance and ours would be subject to review in February 1956.

8. As regards (i), the Committee are agreed that, having regard to our worsening balance of payments position, we should be justified in asking the non-entrepot colonies to limit their imports from Japan, unless the Japanese were willing to enter into specific commitments of the kind in paragraph 5 above, since otherwise there is a risk of the Japanese continuing to accumulate sterling and increasing our balance of payments difficulties.

9. As regards (ii), the Committee are not agreed in their recommendation. The majority, with the Board of Trade dissenting, feel that we should give the undertaking on (ii) in return for the Japanese commitment, provided always that the agreement as a whole can be regarded as reasonably satisfactory. Those who hold this view consider that what would constitute an acceptable agreement must be a matter for judgment after the Japanese have declared their attitude to our requests and offers on the terms of the new approach. We should certainly expect some evidence that they were prepared to follow trade policies which would give opportunity to Sterling Area exporters to earn the amount of sterling made available. Such evidence would take tangible form in assurances of removal of discriminatory practices and provision of quotas in accordance with the objectives discussed in paragraphs 13-17 below. In the view of the majority of the Committee the decision whether to accept an agreement without resort to limitation of Japanese imports into the Colonies would depend on the prospects (in the light of the undertakings received) of Japan accumulating sterling from her trade with the Sterling Area to an extent which would represent a real threat to sterling.

The Board of Trade view

10. The Board of Trade dissent from the majority of the Committee in this matter. They consider that the proposed Japanese commitments (at whatever the figures finally agreed) would be an inadequate guarantee that Japan would not continue to accumulate sterling. They further consider that the Japanese assurances on non-discrimination and on the United Kingdom quotas and other matters will not in any event show Japan to be responding adequately to her strong sterling position. The Board of Trade therefore, think that, having regard to our overall balance of payments Ministers should decide forthwith that the non-entrepot Colonies should be asked to limit their licences for imports from Japan in 1956 to the amounts licensed in 1955, subject only to some increase in the case of East Africa to take account of the greater degree of restriction maintained by East Africa in that year. Logically, this limitation should involve only a reduction of £14 millions in the estimate of Japan's earnings in 1956 and a corresponding reduction in the amount we should ask Japan to undertake to make available in the winter budget. No doubt the limitation would also have a chilling effect on the negotiations generally and increase the difficulty of securing some of the further concessions we wish to obtain from Japan; but the
Board of Trade feel strongly that an undertaking to permit increased Japanese trade in the Colonies could be justified only by the most demonstrably concrete assurances, which in their view Japan is both unable and unwilling to give, that she is going to increase her imports from the sterling area to the full extent of her earnings.

The majority view

11. The rest of the Committee disagree with the Board of Trade view for the following reasons:

(a) A restrictive agreement would be inconsistent with our general trade and financial policies. Such an agreement may in the end prove to be necessary but should be accepted only as a last resort. We have not yet reached in negotiation the point of seeing that a restrictive agreement is the only alternative open to us.

(b) Everything depends on how the Japanese carry out the agreement. Even at a lower level of trade, we could not be sure that the Japanese would live up to their assurances. Indeed, since a restrictive agreement would probably be unpopular with the Japanese, they would be the less inclined to implement it to our advantage.

(c) To ask the Colonies to restrict imports from Japan would be a serious step which should be taken only if:

(i) it were clearly necessary in the interests of our balance of payments position;

(ii) it could be convincingly presented as such to the Colonies.

These conditions would only be fulfilled if our negotiations with Japan had led to the conclusion that the Japanese behaviour in trade was such as to constitute a special threat to sterling.

(d) Restrictions imposed for general balance of payments reasons would have to be lifted as soon as these reasons no longer applied; but once Ministers had taken restrictive measures they would be under strong political pressure to maintain them for protectionist reasons.

The measures proposed by the Board of Trade would be in conflict with our general policies, might well give rise to political difficulties between the United Kingdom and the Colonies and should not be decided upon at this stage of the negotiations.

12. Ministers are asked to decide between these conflicting points of view.
Trade Provisions

Non-discrimination

13. We set out to secure the removal of as many as possible of Japan's discriminatory practices against the sterling area. The Japanese have refused to give us any general assurances on the grounds that this is a matter for the General Agreement on Tariffs and Trade (G.A.T.T.) or a commercial treaty. We are, however, pressing for assurances on two specific subjects where there has been flagrant discrimination - namely, encouragement of barter deals in oil and collateral deposits on import licences. (Here the deposits required are lower in the case of certain favoured countries such as Indonesia than they are in the case of sterling import licences.)

Quotas

14. Japan has not yet offered concessions on United Kingdom exports sufficient to compensate for the continuation of the United Kingdom import quotas for Japanese cotton grey cloth, apparel, toys, pottery, etc. which were originally negotiated in January, 1954; at that time we gave Japan favourable treatment because of her poor sterling position. Our delegation has striven to obtain offers from Japan in return for our agreeing, on our part -

(a) to maintain existing quotas;
(b) to open new ones for some minor items; and
(c) to increase the canned salmon quota from £2.2 millions (c.i.f.) to £3.3 millions (c.i.f.).

15. The Japanese have avoided making any offer on this basis. They have offered an ostensible increase of between £2 millions and £3 millions in quotas, provided we make substantial further concessions including a large global quota for canned salmon. But our delegation believe that the Japanese can be brought to offer adequate quotas incorporating substantial new concessions in order both to compensate us fully for the maintenance of our 1954 United Kingdom concessions and also in order to give us adequate counter concessions for a large global quota for canned salmon.

16. The offer of a substantial increase in the quota for canned salmon is of major importance if we are to obtain a substantial improvement in the treatment of United Kingdom exports to Japan. The Japanese have asked for a global quota of £10 millions. In the year July, 1954 to June, 1955, United Kingdom import quotas for canned salmon were £2.75 millions (c.i.f.) for North America, £2.2 millions (c.i.f.) for Japan and £1.1 millions (c.i.f.) for Russia. The amount of imports of canned salmon from Russia is directly related to the amount of our exports to Russia of, e.g., herring, and for this reason the Russian quota should be kept out of any new global arrangement. It is suggested that, provided that really equivalent and worthwhile counter concessions for United Kingdom trade can be obtained, our negotiators be authorised to offer the Japanese a global quota for...
imports of canned salmon from North America and Japan of up to £9 millions (c.i.f.). The Japanese would be prepared to pay more for such a quota than they would be for a quota of, say, £5.5 millions (c.i.f.) for Japan only. It would not, however, be possible to give Japan a reserved quota of £5.5 millions without increasing the North American quota to at least £3.5 millions. It is most improbable that dollar imports in 1955/56 under such a global quota could exceed £3.5 millions (c.i.f.) since we understand that the total North American supplies available for export are of this order. The Canadians (who have by far the major interest in the North American quota) would not be in any danger of losing all their exports to Japanese competitors since it is our intention that £1,375 millions of licences which are in the course of being issued for North American salmon only should in fact be issued and that these should count against the global quota; we think that with this advantage the Canadians should obtain a reasonable share of the "global" imports. It is proposed to inform the Canadian Government in confidence of the global quota arrangement, if it is approved, before we become committed to it in our negotiations with Japan.

17. Ministers have agreed that we should be prepared as part of a satisfactory agreement to extend open general licence treatment to imports from Japan of a wide range of "non-sensitive" goods we have already liberalised for Western Europe and similar areas. The bargaining power of this concession is very limited and it is proposed not to offer it until a very late stage in the negotiations when it might be the means of obtaining final concessions from Japan.

Colonial quotas

18. As far as Colonial exports are concerned, the Japanese have accepted all that we have asked for, except in the case of purchases of salt on which our negotiators will continue to press.

Invisibles

Oil

19. We have not secured our main objective which was to persuade the Japanese to open the trade to free competition. The Japanese undoubtedly have real political difficulties over this and their present arrangements for allotting currency for oil - which were agreed with us in January, 1954 - do at least largely protect the United Kingdom oil companies from Japanese discrimination. On the other hand, the way the Japanese seem to be operating these arrangements has laid us open to accusations of market sharing by the American companies; moreover, the United Kingdom companies are prevented from increasing their share of the market as they might do under free competition. The Committee consider that we must continue to press the Japanese to alter their system, but we may have to be content with assurances -

(a) that the method of determining and allocating quotas to oil importers shall be fair;

(b) that within the limit of their quotas sterling shall be freely allocated for purchases and from United Kingdom-controlled companies upon application by the importers.
Films

20. Our main objectives on films were to secure -

(i) the release of blocked earnings;

(ii) increased remittances for film earnings;

(iii) increased quotas for British films.

The Japanese have given us no encouragement. On (i) they are negotiating with the Americans about the use of their blocked earnings and have indicated that it would therefore be difficult for them to release earnings in respect of British films. On (ii) they have said that it would be difficult even to continue the existing discrimination in favour of British films and they cannot do more. On (iii) they have pointed out that, on the basis of consumer preference, which is their normal criteria, United Kingdom films have been treated favourably.

It is suggested that a reasonable concession on films, as an important constituent of a satisfactory agreement, should be one of the main aims of our negotiators.

Other Invisibles

21. Our negotiators were instructed to seek the fullest possible facilities for our invisible earnings (including oil and films) and in particular to ask for a satisfactory and regular procedure for examining applications for remittances, so as to encourage British business to take a long-term interest in Japan.

22. So far the Japanese have indicated a willingness to embark tentatively on some measure of liberalising the control of remittances of various kinds but have been reluctant to formulate any general procedure. They have not made any concessions on passenger fares, insurance business, or tourist allowances. They are apparently discriminating against British banks in Japan.

23. A good deal of further discussion on these matters will be necessary and it will have to be done within the framework of the payments talks, since we have insufficient bargaining power to obtain adequate concessions through the negotiations for a commercial treaty. Whilst, therefore, the Committee do not recommend that the refusal of concessions on these invisibles should be a breaking point they consider that we should continue to press the Japanese for better offers on remittances (including passenger fares and insurance) and for improved treatment of British banks.

24. It is not possible to put an exact figure on the cash value of these concessions though we would be content with an upper limit of £5 millions this year. Invisibles (other than oil) constitute the largest item in Japanese payments to the United Kingdom (£18 millions in 1954). Thus it is a major United Kingdom interest in any negotiations with Japan to protect and develop this source of income.
Shipping

25. The British shipowners have recently made strong representations to the Minister of Transport that an agreement should not be concluded with Japan while the Japanese Government persist in their policy of subsidising the uneconomic expansion of their merchant marine. This matter was raised at an early stage in the negotiations. It is being pursued separately through diplomatic channels, and it is not intended to raise it again in the negotiations.

Conclusions

Overall sterling commitments

26. Ministers are asked -

(a) to decide whether, as the majority of Departments recommend, a further effort should be made to secure agreement on the lines outlined in paragraphs 4 and 5 with authority both to use the threat and give the assurance indicated in paragraph 6; or whether, as the Board of Trade think, the non-entrepot Colonies should be asked forthwith to limit their licences for imports from Japan for 1956 to the amounts licensed in 1955 (subject only to some increase in the case of East Africa) and the consequences of this step for the level of trade with Japan should be accepted.

Trade provisions and invisible transactions

Ministers are further asked to agree -

(b) that we should accept that our negotiators are unlikely to obtain any general assurances on the removal of discriminatory practices, but that they should press for assurances on the two most flagrant practices in that field - oil barter deals and collateral deposits on import licences;

(c) that an agreement would not be acceptable unless it contained satisfactory quotas for United Kingdom exports and that to obtain these our negotiators should be authorised to offer, as part of a generally satisfactory settlement, a global quota for imports of canned salmon of up to £9 millions (c.i.f.);

(d) that, on oil, our negotiators should press the Japanese to open the trade to free competition;

(e) that our negotiators should press strongly for some concessions on films; and

(f) that our negotiators should strive for better treatment for our invisible trade in general.
13th August, 1955

CABINET

JAPAN: TRADE AND PAYMENTS NEGOTIATIONS

Memorandum by the Minister of State, Board of Trade

With one exception I agree with the proposals in the report by officials which the Chancellor of the Exchequer circulated (C.P.(55) 103). The exception concerns the assurance that we should give to the Japanese about the level of colonial imports from Japan. In my view — and the same view has been expressed by the President of the Board of Trade — the undertakings we can expect to get from Japan in relation to expenditure of sterling, non-discrimination and trade quotas do not justify a promise by us to allow an increase in colonial imports, particularly in the present balance of payments situation. I, therefore, propose that our assurance to the Japanese in this connection should be confined to a statement that the Colonies will be free to import in 1956 up to the level of their 1955 imports.

2. The report of the Overseas Negotiations Committee proposes that we should give up our earlier hopes of securing an undertaking from Japan not to discriminate against sterling imports, of securing adequate assurances that Japan's total expenditure on visible trade with the sterling area will be at least £210 millions next year and of securing comprehensive alterations in the Japanese import arrangements on oil. In addition it is proposed that we for our part should give the Japanese opportunity for substantially increased exports to the United Kingdom of canned salmon, provided we get payment £ for £ in worthwhile concessions to us. I agree with all these proposals, but they collectively represent a substantial retreat from our earlier stand.

3. The sum total of the advantages we shall be seen to have secured from Japan in such an agreement will be as follows:

(a) Some improved quotas for United Kingdom and colonial exports which will still be less than the value of Japan's exports to these markets.

(b) Certain relatively small increased payments to the United Kingdom for invisibles.

(c) Removal of the discriminatory deposits which have to be made by applicants for sterling import licences and the removal of one of the factors which operate against sterling oil. (But in general we shall still be exposed to discrimination against the United Kingdom and other sterling area countries).
(d) A statement of intention (not an undertaking) that Japan will spend what she earns in the sterling area. This assurance was given in the existing Agreement and experience has shown that it is not of great value.

(e) An undertaking by Japan to make a stated amount of sterling available for imports from the sterling area.

All this does not amount to anything we could describe as an effective guarantee by Japan to increase imports from the sterling area to balance increased exports to the sterling area. There is nothing there which would help us, when we are defending the Agreement in public, to justify an increase in Japanese imports into the colonial territories.

4. Increased imports of Japanese textiles into the Colonies have certainly hit Lancashire a serious blow. This was one of the main points of criticism against the 1954 Agreement, which allowed for an annual increase of about £4 million of Japanese textile imports into the Colonies. It would very much add to our difficulties with Lancashire now if we were to make another Agreement with Japan further increasing these imports by about £7 million. In fact Lancashire is looking for a reduction in view of the reported Japanese surplus in sterling. We would need very strong arguments demonstrable from the Agreement itself to justify any increases in colonial imports of this kind; and in my opinion those arguments are not there.

5. As such, the proposal to limit the Colonies' imports is not opposed by the Committee. The question is in what circumstances it would be justified. In their paragraph 8 the Committee recognise unanimously that we should be justified in asking the Colonies to limit their imports from Japan in present circumstances, if the Japanese were not willing to enter into the specific commitments proposed, to which I have referred in paragraphs 2 and 3 above, and which I consider inadequate. If, however, our negotiators were to find (unexpectedly) that the Japanese were prepared to give general assurances against discrimination, as we originally asked, then I agree it would be right to maintain our offer of free access to the Colonies.

6. I therefore hope my colleagues will agree -

(a) that our negotiators should, immediately negotiations restart, make one final offer of free access to the Colonies in return for an undertaking by Japan not to discriminate against sterling area imports;

(b) that if, as we expect, this undertaking is not given, the Japanese should be told that we cannot undertake to allow the Colonies to import more from Japan in 1956 than they imported in 1955;

(c) that in all other respects our negotiators act as recommended in C.P.(55) 103.

A.R.W.L.

Board of Trade, S.W.1.

12th August, 1955,
13th August, 1955

CABINET

GERMAN INVESTMENTS IN THE IRISH REPUBLIC

Memorandum by the Minister of State, Board of Trade

Mr. Norton, Deputy Prime Minister and Minister of Industry and Commerce in the Irish Republic, said last week in Bonn that his Government plan to encourage the establishment of German industries in the Irish Republic and he specifically mentioned, among the inducements available, the fact that German production in the Irish Republic would get the advantages of duty-free entry into the United Kingdom and also preferential treatment in other Commonwealth countries. This statement attracted considerable comment in our Press. Later he added that his Government would be making similar approaches to industrialists in other countries, notably Sweden and the U.S.A.; and that investment by United Kingdom firms would also be welcomed. I have been enquiring about the trade implications of these statements.

2. The policy of encouraging industrial development and attracting foreign investment in order to stem the tide of emigration is not a new policy for the Irish Republic. Foreign investment has also been encouraged in the United Kingdom and in other parts of the Commonwealth. Foreign firms who establish manufacture in the United Kingdom are certainly influenced in part by the fact that goods produced here enjoy preferences in other parts of the Commonwealth, and indeed in the Irish Republic itself. Foreign firms establishing manufacture in other parts of the Commonwealth, for example in Canada, have been influenced by the advantages they will enjoy in the United Kingdom market and in other parts of the Commonwealth. It has been our view that foreign investment of this kind in the Commonwealth and the Sterling Area adds to the general strength and purchasing power of the Commonwealth as a whole.

3. Our tariff commitments to the Irish Republic under the Trade Agreements of 1938 and 1948 relate to goods "grown, produced or manufactured in and consigned from the Irish Republic". In general, these commitments involve us in giving the Irish Republic Commonwealth treatment on preferences and free entry. No distinction is made, or could be made, between goods produced by foreign subsidiaries and goods produced by indigenous firms. Imports of Irish goods into the United Kingdom are given duty-free entry or, if the duties applicable are revenue duties or special duties, preferential rates, so long as they satisfy the conditions relating to the granting of imperial preference. These conditions would normally ensure that goods consisting mainly of foreign parts assembled within the Irish Republic would not qualify for duty-free entry or preference. If we wished to alter this, we should have to re-negotiate the Trade Agreements of 1938 and 1948 during which we should have to forego some of the preferences we enjoy in the Irish Republic. Our exports amounted in value to £105 millions in 1954.
4. Other Commonwealth countries accord preferential treatment to Irish Republican goods whether produced by foreign subsidiaries or indigenous firms.

5. It seems doubtful whether Mr. Norton's attempts to attract foreign capital to the Irish Republic on a significant scale will meet with success. We know that approaches were made to the Germans in January, 1953 and again at the end of 1954 and that the German attitude was discouraging. Our Embassy in Bonn have reported this week that Mr. Norton's recent statements have aroused very little interest in Germany, perhaps because many other countries are clamouring for German investment. Moreover, if Germans want to set up manufacture within the Imperial Preference area, they might prefer to get more assured positions within the United Kingdom, perhaps in Northern Ireland.

6. The question of the continued maintenance of duty-free entry for goods imported from the Irish Republic is coming before my colleagues later in the year when they will be considering the general question of Commonwealth duty-free entry.

7. Taking separately the question of duty-free entry of Irish goods, I appreciate that it gives rise to special political considerations particularly when coupled with Germany. It is not for me to comment on the political considerations which led to the Irish Trade Agreement of 1948 or on the advisability of telling the Irish Government now that the Commonwealth concessions in that Treaty were intended for Irishmen and not for Germans. But I must stress that any re-negotiation of that 1948 Agreement would put at risk important preferences which we now enjoy for export trade of an annual value of more than £100 millions.

A.R.W.L.

Board of Trade, S.W.1.

THE ECONOMIC SITUATION

Memorandum by the Lord President of the Council

All my colleagues must have read with great interest the paper C.P. (55) 98, which has been circulated by the Chancellor of the Duchy of Lancaster. At the same time, I would make bold to put an alternative point of view – of which I gave the Cabinet some indication at their last meeting (C.M. (55) 28th Conclusions, Minute 2) – to the general policy put forward by the Chancellor of the Duchy of Lancaster in that paper. He speaks with such authority on the subjects on which he writes in his paper, that it is with the greatest diffidence that I question anything he says. But, although I fully recognise the importance of reducing the excessive demand for labour and materials – which is the essence of the Chancellor of the Duchy’s argument – I must confess to doubts as to the means by which he proposed to do it. He advocates, as I understand it, obtaining the necessary reduction of the national overload, in part, by temporarily slowing down the provision of capital equipment essential for our industry – particularly railways and roads.

2. I cannot feel that this would be right or wise. No doubt, any Government faced with a situation like the present has to try and strike a balance between what is desirable from the internal and the external point of view – and these points of view are not always identical. But I should have thought that our external trade must always be the most important of the two. For it is by that that we exist at all. And especially is this so at the present time. For we are moving into an era when, with the new discoveries of science, international competition is going to be more intense than ever before. Surely, at a time like that, we ought to be stepping up, rather than slowing down – as may happen through the “credit squeeze” – the capital equipment of our industries. This principle should in my view be applied equally to such basic industrial services as means of transport which, if antiquated and inefficient, are bound to lead to increases in industry’s costs.

3. If we are to accept the Chancellor of the Duchy’s thesis, when are our means of transportation ever to be improved? For many years we were told that we could not spend money on our railways and our roads because times were too bad. Now we are told that we cannot spend money on them because times are too good. When shall we achieve that exact balance between good and bad times that will justify us in embarking on such programmes as are already far advanced in almost every other country? Nor can I share the Chancellor of the Duchy’s optimism as to the length of the period during which these
measures of restraint will be necessary. Why one year? Why not two, or five, or more? And, in the meantime, our roads and railways will be getting more and more out of date. And the same, in greater or lesser degree, may well happen to many of our industries if their rate of capital development is slowed down.

4. I cannot but feel that it would be far wiser for us to consider as an alternative approach to this problem a policy which operates not primarily against expenditure on capital goods but frankly against expenditure on consumption goods. If what we want is to discourage the British people from blueing their money, surely a policy of selective taxation in the form, say, of purchase taxes carefully graded to produce the results we want (e.g. increased purchase tax on cars), will be far more effective in curbing internal demand and far less deleterious to our power to compete in the markets of the world.

5. Such a policy could moreover be combined with one of further encouraging savings which is, after all, by far the healthiest method of absorbing surplus demand. I know that savings have not the appeal that they used to have for the general public. The steady fall in the value of money does not encourage people to put their money by for the future; nor, in these days of the welfare State, is it so necessary that they should. But the amount that is still being saved by the small man is very considerable; and it might surely further be stimulated.

6. These are all elementary suggestions. I only put them forward because I feel very conscious of the dangers which are likely to flow from the policy suggested by the Chancellor of the Duchy of Lancaster, and to which the Government seem to be getting to some extent committed.

S.

Privy Council Office, S. W. 1.

22nd August, 1955.
C.P.(55) 107
23rd August, 1955

CABINET

DISARMAMENT

Note by the Secretary of the Cabinet

By the Prime Minister's direction I circulate, for the consideration of the Cabinet, a report by a committee of officials on the extent to which it is thought practicable to devise an effective system of inspection and supervision of disarmament.

(Signed) NORMAN BROOK

Cabinet Office, S.W.1.

23rd August, 1955.
INSPECTION AND SUPERVISION OF DISARMAMENT

GENERAL REMARKS

No control system can ever be a complete substitute for good faith. Control is made necessary by the lack of mutual trust but unless there is some goodwill the necessary conditions for disarmament do not exist.

2. The problems of inspection and concealment are of quite different orders of magnitude in the case of:

(a) nuclear weapons, of which only a few, borne by a few carriers, would be sufficient to impose an unacceptable military risk; and

(b) conventional weapons, of which large numbers are necessary to wage a global war.

NUCLEAR WEAPONS AND THEIR MEANS OF DELIVERY

Past production and stocks

3. We are advised that it would be quite impossible to detect the clandestine retention by the Soviet Union of sufficient past production of materials to fabricate a number of megaton weapons which may be as high as 50 and is certainly as high as 10. We believe that the retention of such a clandestine stock would give a quite unacceptable military risk if the Western nations had no nuclear weapons.

Future production

4. If all plants were operated throughout by an international authority we believe that future production could be controlled with a very limited risk. We consider, however, that it is quite unrealistic to assume that agreement can be reached on placing all plants under an international authority, since nuclear reactors will provide an increasing proportion of power production in all countries, and whoever controls the power production controls the country concerned.

5. Apart from international operation, we are advised that no system of inspection could be devised which would guarantee to prevent the clandestine accumulation of enough material for the Soviet Union to make about 10 ten-megaton weapons a year.

Means of delivery

6. It has been suggested that if nuclear weapons cannot be eliminated, it might be possible to control the means of delivering them. Existing methods of delivery are probably limited to manned aircraft, but these do not necessarily have to be very large to carry smaller megaton weapons from Soviet bases to the United Kingdom. Large weapons of ten to twenty-megatons would, no doubt, require large aircraft of which suitable types exist already in the United Kingdom, United States and U.S.S.R. Ballistic rockets of sufficient range to reach the United Kingdom from Soviet bases and carrying megaton war heads may
well be available by 1960 although the inter-continental ballistic rocket (i.e. U.S.S.R. to United States direct) will not be ready until about 1965. Supervision of the production and of the launching sites of rockets might present difficulties; while supervision of test-firing and trials would be comparatively easy. Since very few megaton weapons, if properly delivered against a country incapable of retaliating in kind, would have a decisive result, fully effective control of the methods of delivery would have to be able to account for every flight (or proposed flight) of suitable aircraft and the location of every ballistic missile. Such a level of control would demand almost complete integration of officers of control in the armed forces of all the countries concerned, and this is impossible.

7. An alternative might be to prohibit all aircraft or rockets capable of carrying nuclear weapons. However, civil aircraft and rockets developed for peaceful purposes (e.g. investigation of "outer space") might be adaptable to carry nuclear weapons or warheads. It may be possible to achieve a degree of control over the means of delivery which would be acceptable if only conventional weapons were used, but it would not be possible to guarantee that a small number of aircraft or rockets were not retained. For the reasons already given, even a smaller number would be an unacceptable risk.

8. Apart from aerial methods of delivery, the possibility exists of clandestine delivery of megaton weapons by an apparently harmless merchant ship, or by a specially designed "sneak" naval craft. It would be impossible to control such attacks.

9. We conclude, that so far as nuclear weapons are concerned we could not devise a system of inspection which (in the absence of absolute good faith and if we had given up all our nuclear weapons), could give an acceptable degree of control.

Partial Control Possibilities

10. But if it were decided that the "nuclear" powers should retain by agreement a sufficient number of megaton weapons and their means of delivery to constitute a valid deterrent against aggression, certain degrees of control can be suggested which would go some way towards reducing the risk in the absence of absolute good faith and which would be a positive contribution to building up goodwill. A system of partial control which would give a reasonably satisfactory check on future production would be by means of an "audit" of fissile material in all plants. (The word "audit" is used here in the sense of checking the production of materials and not in the sense of financial control).

11. Such a system would be based on the fact that all existing plants in the United Kingdom and United States carry out a detailed "audit" of the flow of fissile material. This is done for safety reasons; failure to account for the whereabouts of all nuclear material might result in a serious accident involving the contamination of part of the plant and injury to those working in it. The Russians will be faced with the same problems and it is certain that they also must have some kind of production control. If all documents used by the "auditors" of the plants themselves were sent weekly (but not less frequently) to a control organ, we believe it could guarantee what use was being made of fissile material within a margin of error of a few per cent, which would still permit clandestine production of a number of nuclear weapons. The foundation of this belief is that if the suspicion of the auditors were not to be aroused, the documents would be so numerous and would have to dovetail so...
well that, in practice, it would be impossible to forge them. If the documents given to the control organ were so inadequate that the auditors felt the safety of the plant was endangered, they could point to this discrepancy and ask for an explanation. To ensure the greatest efficiency from this type of control, the control officers in charge of the audit should also have the right to make physical tests in the plants whenever they could demonstrate that the information supplied was contradictory or inadequate for ensuring the safety of the plant. For a system of this sort a staff of about twenty inspectors, including both scientists and accountants, could cover each major plant.

12. Another more modest approach (which could not, of course, provide a degree of control comparable to that achieved through auditing) would be to devise some mechanism by which international confidence in the nuclear field may be built up. Its main feature might be some kind of "bonded store" into which a substantial part of the existing stocks of fissile material and the whole of the future production of each country would be placed. The object of this bonded store would be to provide a method of acquiring information about a country's nuclear industry without at the same time asking it to give up ultimate control over any of its fissile material. Each country would store its stock on its own territory, and each country would have the right to use any part of its stocks in the store at any time. If the idea of the bonded store is to be effective, however, the inspector in charge would have to be given time to check that the material was required for peaceful purposes.

Undeclared plants

13. It is necessary also to consider the problem of undeclared plants. All plants for the production of fissile material that have so far been constructed have been fairly conspicuous, either because of their size, or because they produce radioactive effluent, or because they make large demands on the country's electric power resources. It is unlikely, if inspectors were given freedom of movement within a country, that any plant producing fissile material on a significant scale could escape detection, even in a country the size of the Soviet Union.

Nuclear industries in other countries

14. The arguments above apply at present only to the United Kingdom, the United States and the U.S.S.R. — but they would also apply when other states develop nuclear industries. It is difficult to see that such states could be persuaded to accept any more extensive degree of international control than the three Powers which at present produce nuclear weapons. The problem is however one of the future rather than the present because the only processing plants yet in operation are in the United States, the Soviet Union and the United Kingdom. To meet the dangers involved in the existence of fissile material as distinct from nuclear industries in other countries (e.g. in reactors), some system of supervision involving limitations on the degree of enrichment of nuclear material might be practical. It might also be possible to apply some technical safeguards to the reactors to ensure that the fissile material was not secretly withdrawn.
15. In the past it was hoped that fissile material could be "denatured" i.e. treated in such a way that the mixture was of no use in nuclear weapons but was of use for power production. We are now advised that this cannot be relied upon as a system of control.

16. Nor is there any hope of being able to control, with any degree of accuracy, the output of uranium and thorium ores necessary for the production of fissile material. Any such control would be impractical because it would involve so many states which possess sources of raw material but no nuclear industries.

CONVENTIONAL ARMAMENTS AND ARMED FORCES

Categories of Information Required

17. For an effective system of supervision States must at the outset provide extensive information - and must then keep it up to date - on the following subjects:

(1) overall armed forces, present levels of armaments, and all military installations, including all naval vessels and merchant vessels above an agreed speed and size which are already built, under construction, or about to be built, with dimension, displacement, horse power, speed, armaments, etc.;

(2) all plants capable of making explosives, propellants and possibly one or two particular chemical products; factories in which armaments (including aircraft) can be manufactured or assembled, or in which essential components can be manufactured, or which are readily capable of future adaption to such purposes; certain aspects of the steel industry;

(3) relevant Departmental estimates, supplemented by supporting information indicating in more detail how the figures had been arrived at.

(Note: The information for factories mentioned in (2) would be examined; a very much smaller number of factories would then be "listed" for systematic inspection.)

Methods of inspection of conventional armaments

18. Different techniques and intensities of inspection are appropriate to the different categories listed in paragraph 20 above.

Inspection at Strategic Points

19. Inspection posts at rail junctions, ports, highways and airfields, though not assisting disarmament, would be able to check effectively any large movements of men and armaments. A relatively small number of control officers would be adequate to guarantee against any dangerous concentration of land or sea forces moving westwards from the Soviet Union. Such observation posts would, however, provide no guarantee that a surprise aerial nuclear attack could not be launched against a disarmed West.
Photographic Reconnaissance

20. Use of photographic reconnaissance would be an invaluable basis for the whole control system. It would be specially useful in checking undisclosed plants of all kinds and large items of equipment. It is, moreover, relatively simple to carry out. It is estimated, for example, that fifty Canberra-type aircraft, based in the Soviet Union, could provide the necessary cover for that country, but a large processing and interpreting staff would also be required. About one year would be needed for the basic cover, but thereafter photographic reconnaissance would become increasingly useful as experience grew.

Inspection of Man-power and Warlike Stores

21. Periodical visits by inspecting teams to military units and establishments, (and the subsequent analysis of their reports by a central agency) would be a satisfactory means of checking armed forces and armaments against the State's declared order of battle and equipment rolls. This work would not require a large staff. Units and establishments under inspection would be required to produce documents comparable to our arms and ammunition ledgers, account cards, transfer and receipt vouchers, pay rolls, ration returns etc. The supervision of reserve man-power strengths and para-military formations would be done indirectly by checking the volume of equipment and armaments.

Inspection of Conventional Armaments Production (including Aircraft)

22. In general the field from which would be selected the "listed" factories mentioned in paragraph 20 above would have to be limited to those which form an essential stage in production and which would be easy to inspect (such as assembly plants for major armaments, explosives factories); those making major components (such as turret for tanks, aero engines, guidance systems for guided weapons); those which are readily capable of adoption to such purposes (such as civil aircraft assembly plants, tractor plants).

23. The "listed" factories would be required to submit periodically fairly detailed returns covering, for instance, future production plans, contracts placed, labour employed, expenditure, materials used and physical output. In a few cases resident inspectors might have to be posted; but in most cases periodic visits would be adequate.

24. Given that the necessary inspecting staff could be found, and co-operation on the part of the government concerned, then it should be possible to supervise the production of conventional weapons in most, if not all, of the "listed" factories. The difficulty of detection of clandestine production in factories not listed would vary greatly - from those readily identifiable such as aircraft assembly and explosives production plants, to, at the other extreme, plants producing certain electronic components in which detection would be difficult.

25. The prevention of the building up of stocks of completed armaments from future production (additional to those issued to the services) would require follow-up action, e.g. analysis by a central agency.
Inspection of Ships

26. The construction of both war ships and merchant ships is complex and costly, and successful inspection, provided it began at the design stage, should be possible. Inspectors should have powers of access to shipyards and allied works at frequent intervals, although the same arrangement of an initial general inspection followed by periodic visits could be applied here as in armament industries. There would need to be close liaison with the department of the control organ supervising armaments and engineering. As merchant ships over a certain speed and size have a potential war use, it would be necessary to inspect them on the same principle as civil aircraft.

Major Contributing Industries

27. Control of the steel chemical and electronic industries (apart from those categories in paragraph 20 above), and of other industries of importance in war, even if theoretically desirable on security grounds, appears to be unattainable. They are too closely connected with states' legitimate industrial activities.

Budgetary Control

28. Budgetary control of itself is not an effective instrument for the supervision of disarmament but the examination of budgetary figures by an international control organ could provide a valuable cross-check on the armed forces and conventional armaments maintained by a state. With such supervision, it would be extremely difficult to cheat on a large scale. As the system would not give precise results, it would have little relevance in the nuclear field.

29. A system based on the audit of past expenditure would be perhaps as much as eighteen months out of date. A system based on budgetary commitments would be difficult to operate as these tend to cover periods of several years and are in any case limited to certain types of expenditure. The system would therefore have to be based on forecasts of expenditure. Under the United Kingdom system such forecasts are given in Departmental estimates which cover any one year ahead. The control organ would thus have to rely upon the published estimates, supplemented by supporting information indicating in more detail how the figures had been made up. After examination by financial experts it would be necessary for inspectors with experience of economic statistics, plus some scientists, to compare the figures disclosed with the information about armed forces and armaments found by inspection on the ground or from the air.

CHEMICAL AND BIOLOGICAL WEAPONS

Production

30. The materials, plant, and processes for war gases are in many cases similar to those employed in the manufacture of several important chemicals used commercially. Some in fact form the basis of modern insecticides. For safety the factories would usually be fairly isolated. This is relatively simple to arrange as the plant makes no special demands on power or communications. The final products would probably be stored below ground and could be preserved for several years.
31. The materials involved in biological warfare would be produced in plants closely resembling those used for commercial anti-biotics, e.g. penicillin. But, as with chemical weapons, one would expect the plants to be isolated. Stocks need to be stored under carefully controlled conditions and would probably be kept below ground. The material would have a relatively short storage life.

**Inspection and control**

32. Given qualified staff, suitable records, and freedom of access there should be no great difficulty in checking the type and quantity of product of both chemical and biological weapons being made or stored at declared plants or stockpiles. It would probably be difficult to detect undeclared plants or stockpiles.

**RESEARCH AND DEVELOPMENT PROGRAMME**

33. We consider that whatever may be the merits of controlling and inspecting current levels of forces on current production of armaments, no complete security in disarmament can be obtained without adequate knowledge of the defence research and development programmes. It is these programmes which may conceivably lead to a scientific or technical advantage which, in the future, can unbalance the agreed military potential, whatever that might be in terms of weapons and equipments now known to exist.

34. The required knowledge at the research stage could only be obtained by participation of scientists, particularly at policy making level, in the defence scientific organisations, and a permissive clause for examination of any laboratory, or any expenditure, or any commercial contract, would be essential. Such arrangements would have such far-reaching effects, particularly upon commercial technical advantages, that they would not be acceptable to any highly industrialised country. However, although it is impossible to control laboratory research, any weapon requiring large-scale field trials should be discoverable at that stage if the control systems recommended in this paper are in force.

**ORGANISATION OF THE CONTROL SYSTEM**

**Problems of personnel and administration**

35. In considering what systems of supervision might be applied to each type of armament, we reviewed past experiences of international control. We considered that the Allied Commissions set up to control German demilitarisation after 1918 and after 1945, the control system supervising the Korean Armistice and that supervising the settlement in Indo China were established in quite different circumstances to those in which a disarmament control organ would be established. Nevertheless, we concluded from the experiences of these control organs that:

(a) members of inspection teams working under any effective control organ must be impartial and must not be hamstrung by the veto power of any one of their members;

(b) the disarmament control organ's staff should probably therefore be international agents, operating under conditions yet to be determined, rather than national representatives.
the control organ must have the right to make full use of the postal, telegraphic and transport system of the state which it is inspecting and must also possess suitable transport of its own and a secure and independent communication channel.

36. We assumed that the control organ would be composed of a central authority with headquarters in all countries (or groups of small countries) which would be linked to regional centres with posts and roving teams attached to them as required.

37. We considered that serious difficulties would be encountered in recruiting adequate numbers of control agents of suitable quality. This applies especially to scientists with the necessary knowledge to make their work effective. We must therefore seek to concentrate on methods of control which economise on personnel while still retaining the necessary degree of efficiency.

Rights of the control organ

38. We considered that any control organ should have unrestricted rights of freedom of movement by air, land and water to, from and within all states parties to the treaty. The control organ's teams should have a right of access to all declared installations and routine visits should normally take place at least at a day's notice to enable documents and equipment to be ready for inspection. As for surprise visits, it is recognised that they might provoke much ill will and should therefore be strictly limited. However, it is essential to reserve the control organ's right to make surprise visits at any time to any of the declared installations in order to investigate suspicious activities.

39. In order to detect illegal activities in undeclared installations, it would also seem essential for the control organ to possess powers to inspect - under conditions yet to be determined - any establishment or installation in any territory of any state party to the treaty. It must also have the right to use all necessary technical devices which may aid supervision and detection.

PROBLEMS OF INDUSTRIAL SECRECY AND DOMESTIC LEGISLATION

40. International inspection in shipyards and factories would raise many legal problems and delicate questions of patents and commercial secrecy. The latter would become increasingly difficult of solution as inspection moved from the production into the research and development fields. We did not have time to go into these problems although they may in fact be a most serious stumbling block to a system of control that demands inspection of factory processes.

CONCLUSIONS

41. Our conclusions are:

Nuclear Weapons

(i) We could not devise a system of inspection which, in the absence of absolute good faith and if we ourselves had no nuclear weapons, could give an acceptable degree of control.

(ii) Complete nuclear disarmament would therefore be an unacceptable risk.
(iii) If a level of nuclear armaments could be agreed internationally, a system of plant production control and record checking could be devised which would limit the possible diversion of material from future production to a few per cent of total production. This might help to build up trust and goodwill but it would still permit clandestine production of a number of nuclear weapons.

Conventional Armaments

(iv) A system of supervision and inspection of conventional armaments and armed forces can be devised which, given reasonable goodwill, could give a satisfactory degree of control.

(v) Such a system would have to rely on a combination of the following methods of control:

1. photographic reconnaissance as a basis of the whole system;
2. inspection and analysis of varying degrees of intensity, of man-power levels, armaments and armament production;
3. inspection at strategic points;
4. budgetary control as a general cross check.

General

(vi) In the absence of any scientific developments of revolutionary significance, the system of control described above should remain effective for as far ahead as it is reasonable to look at present; it should indeed become more effective as goodwill grows.

(vii) Control over research is impracticable but the development of all new weapons requiring large-scale field trials could be checked through such a system as is visualised above.

(viii) The effective working of any system of supervision would depend on securing adequate numbers of trained and impartial personnel with adequate rights of movement and access and on co-operation from governments so that difficulties over industrial secrecy etc., would not obstruct necessary inspection.
CABINET

JAPAN: TRADE AND PAYMENTS NEGOTIATIONS

Memorandum by the Chancellor of the Exchequer

In the Cabinet discussion on 15th August (C.M.(55) 28th Conclusions, Minute 7) I think there may have been some misunderstanding of the present state of the negotiations and of our objectives. I should therefore like to put before my colleagues the position as I see it.

2. There was I think an impression that:

(a) the negotiations have already been carried to a point where it is clear that the Japanese are unwilling to conclude a satisfactory agreement;

(b) the majority recommendation of officials in C.P.(55) 103 meant that we should be prepared to settle for much less than our original objectives, while at the same time allowing colonial imports of Japanese goods to continue unrestricted;

(c) the proposal by the Minister of State, Board of Trade, in C.P.(55) 104 to limit colonial imports would enable an agreement to be concluded which would involve a correspondingly lower level of trade on both sides but which in other respects would be no worse than if we did not restrict colonial imports.

3. As for (a) above, the fact is that the Japanese have so far taken advantage of the fact that our negotiators had insufficient bargaining power. If, however, the majority recommendation of officials is accepted, a new situation will be created, and the Japanese will be forced to reconsider their attitude to our requests when they see that we mean business.

As for (b), the recommendation in C.P.(55) 103 does not, in my view, represent a significant reduction in our original demands. In any case there is no question of our negotiators bargaining away additional colonial imports or other concessions to Japan before Ministers have a further opportunity to decide whether the terms on which the Japanese eventually show themselves ready to conclude an agreement are acceptable.

As for (c), Ministers decided in June (E.P.(55) 2nd Meeting, Item 2) that our negotiators should seek an agreement on trade at a high level, and the discussions have so far proceeded on this basis, including...
the assumption that, as part of a satisfactory agreement, the Colonies would continue to import from Japan up to their stated requirements. If we now refuse to continue negotiations on that basis, the Japanese may feel that they have little or nothing more to lose, and our chances of securing our objectives (other than quotas for which we pay with United Kingdom quotas) and of avoiding still worse discrimination against our interests would be greatly weakened.

4. The question of restricting colonial imports must be considered in the light of our general economic policies and our responsibilities to the Colonies. In refusing G.A.T.T. relations with Japan we have declared our intention to maintain the established policy of using the periodic trade and payments negotiations to work for the maintenance of a high level of trade and to work towards the gradual removal of discrimination on both sides. The Minister of State's proposal that we should offer Japan free access to the Colonies in return for an undertaking by Japan not to discriminate at all against Sterling Area imports would be to go further than the decision in June to seek the removal of certain specified discriminatory practices and is something which it is scarcely reasonable for us to demand from Japan, having regard to our own refusal to grant non-discriminatory treatment to her. As regards our responsibilities to the Colonies, we have always recognised that it is difficult to ask them to restrict their imports, contrary to their own wishes and interests unless we could give them good reason on balance of payments grounds. This general line is consistent with the statements by Treasury and Board of Trade Ministers in the debate on Japan in the House in January, 1954. While I agree that we should be prepared to restrict colonial imports, if it becomes clear that Japanese behaviour in trade is such as to constitute a special threat to sterling (and to tell the Japanese so at once), I do not think that we have yet reached this point, or that a refusal by Japan of a general undertaking in regard to non-discrimination need by itself constitute such a threat.

5. The final judgment would have to take account of the specific undertakings which the Japanese were prepared to offer and of the general assessment by our negotiators of the Japanese readiness to carry through the policies implied in the bargain to be struck. I will now restate the objectives set out in C.P.103, as follows:

(a) An undertaking with regard to sterling payments as proposed in C.P.103. But the Winter Budget figure of £105 millions should be broken down into commodities and values in a way which would satisfy us that real opportunities existed for our trade.

(b) A satisfactory agreement on United Kingdom quotas. I understand that in return for increased import facilities for Japanese canned salmon the Board of Trade consider that satisfactory United Kingdom quotas should be negotiable.

(c) Import arrangements for oil which give our companies adequate opportunities to maintain and increase their sales of oil to Japan.

(d) A definite move by Japan in the liberalisation of invisible payments to the Sterling Area, such as insurance, passenger fares, films, the remittance of business profits generally, and the treatment of British banks in Japan.
(c) The removal of discrimination in regard to collateral deposits on import licences.

(The question of shipping is dealt with in a separate note by the Foreign Secretary - C.P.(55) 107).

6. These terms are broadly consistent with the original instructions which Ministers approved in June. If negotiations on this basis were successfully concluded, I believe that we should have obtained considerable advantages for British interests, and would have a reasonable case for explaining why we had not felt justified in asking the Colonies to restrict their imports. Any such agreement would be subject to review at the end of six months in the light of actual Japanese performance during that period.

R.A.B.

Treasury Chambers, S.W.1.

JAPAN: TRADE AND PAYMENTS NEGOTIATIONS

Memorandum by the Secretary of State for Foreign Affairs

In their discussion on 15th August of the Chancellor of the Exchequer's note C.P.(55) 103 the Cabinet asked me to reconsider the decision that the shipping question should not be raised again in the course of the negotiations for a new Trade and Payments Agreement (C.M.(55) 28th Conclusions, Minute 7). Officials were accordingly asked to look at the problem again in the light of recent developments. The following are their views with which I agree.

2. The factors we must take into account are:

(a) Our aim is to get Japan to stop subsidising the operation of her shipping services and not to build up her merchant fleet to an uneconomic extent. This is a long-term problem. Shipping is a vital national interest to Japan. We are not going to be able to get satisfactory long-term assurances from her in the context of a short-term agreement unless we are ready to make the question a breaking point or indeed to go further.

(b) For if we break and do nothing further, the United Kingdom will suffer more than Japan. Our object in the present negotiations is to persuade the Japanese to spend more in the sterling area and to reduce her present discrimination against imports from the sterling area. If we were to confine our action to breaking off negotiations the Japanese would be free to discriminate even more heavily against sterling area imports while the sterling area continued to import from Japan at the present level. Her sterling balances would increase rapidly and we should have failed to benefit United Kingdom and sterling area trade which is our object in these talks.

(c) We should thus be pushed to impose restrictions on Japanese exports. If these were limited to exports to the United Kingdom the extent to which we could hurt Japan's trade without damaging our own economy (perhaps £10 millions a year) would not be enough to make Japan change her mind and moreover would be certain to incur retaliation against our own exports.
If we were prepared to threaten the imposition of severe restrictions on colonial imports from Japan (roughly £100 millions a year) this might indeed be decisive. But this would involve the use - or the threat - of import restrictions on the Colonies for other than balance of payments reasons which would be contrary to established policy. Moreover, it seems very unlikely that the Colonies principally involved would agree, in the interests of British shipping, to do without imports which they need.

Thus we might find ourselves not only without a trade and payments agreement, which we need more than the Japanese, but further drawn into a kind of trade war with the Japanese and on an issue which they could represent as interference with their domestic policies. Economically this could do both sides great harm and politically it would be calamitous. We already discriminate against Japan; we have invoked Article XXXV of the General Agreement on Tariffs and Trade against her: if we now pick a quarrel with the Japanese on the shipping issue the Japanese may well conclude that we are irreconcilably hostile to them and determined not to let them re-establish themselves. We would be pushing them into the hands of the Communists. And we should not succeed in helping our shipping interests.

Ministers agreed last month (on individual submissions) that our representations on shipping should be made through the diplomatic channel by H.M. Ambassador in Tokyo in a formal Note and that in the trade talks, while the delegation should refer to this Note and stress the importance of the shipping question, they should state that these questions would not be further pursued in the trade and payments negotiations. Action was taken accordingly. It would be embarrassing to go back on it while we are awaiting the Japanese reply. To postpone the resumption of negotiations until the Japanese have replied to our Note would gain us nothing unless we were prepared to do without an agreement if the reply was not fully satisfactory.

Conclusions

We could not effectively negotiate on the shipping issue in these trade talks without making it a breaking point and to make it a breaking point would have the grave economic and political consequences set out above.

Recommendation

I recommend that the shipping issue should not be raised further in the course of these negotiations but should be pursued separately through the diplomatic channel and on other suitable occasions.

H. M.

Foreign Office, S.W.1.

CABINET

DISARMAMENT

Note by the Secretary of State for Foreign Affairs

I circulate to my colleagues a memorandum representing the views of the Official Committee on Disarmament on Mr. Stassen's proposal that the United Nations Disarmament Sub-Committee should appoint a Technical Panel to consider typical or sample installations of types which would have to be covered by an effective system of inspection.

H.M.

Foreign Office, S. W. 1.

Mr. Stassen has now informed us (Washington telegram No. 1974, paragraph 4) that the United States plans to suggest to the United Nations Disarmament Sub-Committee next week that it should appoint a Technical Panel composed of representatives from each of the five countries represented on it, to visit each country and "to consider typical or sample installations of types which would have to be covered by an effective system of inspection". The findings of the Panel would be without prejudice to the Sub-Committee's later discussions on inspection and control but the scheme would give the Sub-Committee experience of the practical problems involved.

2. It is difficult to reach a final view on this suggestion so long as it is not clear what exactly the Americans mean by the word "consider" (which may mean inspect) and "installations" (which may mean nuclear plants as well as conventional armaments plants). We also do not know who the Americans think should choose the samples. These points will only be cleared up when the Minister of State has spoken to the Americans in New York.

3. Indeed, the object of this proposal is obscure. It may be meant sincerely, as an experiment which will produce useful knowledge and induce confidence. Or it may be a tactical move in the expectation that the Soviet Union will reject it because it dislikes any form of inspection. Or again it may be designed to hold the position in the Sub-Committee while the Americans continue their studies and pursue bilaterally the proposal which President Eisenhower made at Geneva for aerial surveys of the United States and Soviet Union.

4. Although only limited gains may come from this scheme, it is submitted that Mr. Nutting should give it the general support of Her Majesty's Government, subject to the conditions mentioned below. This support could be used as a lever to enlist American support on other matters, notably on the Prime Minister's plan for inspection of the forces in Europe, which the French have come out against. If carried out, Mr. Stassen's suggestion might add to our knowledge and would be a pilot scheme which might build up confidence as a supplement to the Prime Minister's plan.

5. Much will depend on the types of installation chosen. These could include barracks, ports, airfields, armaments factories, aircraft factories, shipyards and nuclear production plants. Certain of these are extremely sensitive. We do not know whether the Americans intend to include nuclear plants. If they do, it must be clearly understood that, if the scheme to fulfill the object of giving "some experience of the practical problems involved" in control, this would entail revealing secrets about technical processes and quantities which we have not yet disclosed to anyone. Similar considerations apply to other plants (e.g. Rolls Royce aero-engine factories) which might be included.

6. We should therefore attach the following conditions to our support:

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(1) The types of "installation" to be visited should be defined by the Disarmament Sub-Committee. It would be unwise to include nuclear production plants.

(2) The host country should choose the individual installations to be inspected so that the visit by the Panel could be unrestricted and not a waste of time or an embarrassment. Installations where important processes or advanced types of weapons are to be found should therefore not be selected.

(3) The questioning by the Panel should be confined to persons nominated by the host country.

(4) There should be agreement that two or even three of the countries represented on the Sub-Committee should be visited simultaneously in order to avoid the awkward problem of deciding which country should be inspected first.

(5) The composition of the Panel would be dependent on the list of installations to be visited but should be as small as possible.

(6) The Panel should conduct its work as expeditiously as possible.
THE ECONOMIC SITUATION

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

Some days ago I sent the memorandum below to the Prime Minister and the Chancellor of the Exchequer.

At their suggestion, I am circulating it to my Cabinet colleagues.

H. M.

Foreign Office, S.W. 1,
DIZZY WITH SUCCESS

Our trouble is that there is too much money bidding for the labour available. This applies in the production both of capital goods and of consumption goods. The result is to push up the price of labour unduly. Employers cannot help themselves. The effect on discipline and output is bad. It is not so marked in factory production or repetition work (where the character of the plant sets the tempo) as in building, civil engineering, and the like, where each job is an individual and not a repetition task.

2. I do not believe that the margin is very great. We are not 50 per cent. overloaded—more like 5 per cent.—10 per cent. But this makes all the difference.

3. There are two ways of dealing with this situation. The first, (as in war, siege or socialism) is to restore physical controls, especially on imports, and regulate all production by a Government plan. We tried this in 1945–51 and, if we want it again, the Socialists had better do it. For they like it, since they really regard expansion and increase in wealth as rather immoral. (Socialists are economic puritans. It is part of their doctrine to use taxation as an economic instrument to control inflation—i.e., take much more in taxes than you need as revenue, in order to cream off excessive purchasing power.)

4. The second way (which as Conservatives we must adopt) is to use a variety of methods (recognising that growth is healthy in itself) calculated to prevent rank and excessive expansion. All that is wrong to-day is that the pace is a bit too hot.

(i) Monetary

To reduce the basis of credit, as the Chancellor is already doing. But the Bank Rate could be increased, if not at once, at the right moment. Open market operations could be pressed further.

(ii) Administration

(a) Do not subsidise consumption, which is already too high (i.e., abolish the bread subsidy).

(b) Do not prevent anybody producing capital goods with his own money (like building a house) but do not subsidise such investment. (Cut off housing subsidy, except for slum clearance.)

(c) Since Government financed or supported schemes of capital development, especially in the fields of engineering, civil engineering, and construction, are already pressing too heavily on an overloaded market,

(i) postpone what will inevitably add to the jam (e.g., roads) and thus result in further competitive bidding for labour;

(ii) reduce and retard schemes, however desirable, which have the same effect: (e.g., hospitals, public buildings, Government offices, and the like). Nationalised industries should be included in the scrutiny, especially as to their methods and designs which are usually wasteful.

(iii) Defence

(a) Consider seriously cutting service to 18 months. This could not be undertaken before the election, because the Socialists would merely have raised the bidding and promised 1 year. It may well be possible now.

(b) Make a complete review of types of weapons and abandon those which may be obsolete or obsolescent, by land, sea and air in new conditions, (e.g., fighter aeroplanes, mine sweepers and other defensive weapons). Any reductions will give us men, for the workshops; metal; and factory space. (The mere fact that, at the end of your defence economies, the financial costs may be almost as high, must not depress us unduly, so long as we obtain a real economy of effort, both of man and machine power, and of materials used.)
(iv) Fiscal

(a) To encourage Production

This should be by reduction of taxation, not by increase.

(i) Reduce or remit income tax on another range of income tax payers—and raise earned income limits to encourage the managerial and entrepreneur class.

(ii) Reduce purchase tax in order to lower cost of living on articles which are of general use.

(b) To stimulate Saving

(i) Increase tax on distributed profits—reduce (or abolish) tax on undistributed profits.

(ii) Consider all schemes for making saving more attractive, e.g., can the public be given an opportunity of subscribing to a loan with some speculative or equity interest (e.g., for colonial development)? Or what about tax-free loans? Or increase in allowances for insurance payments?

(v) Tariffs

Since we have turned our back on controlling imports through physical controls, can we do something through higher and even, in certain cases, prohibitive tariffs? Now that quotas, &c., are not respectable, must we not revert to tariffs?

Exchange

5. Convertibility is the logical end of our policy since 1951. I have never been very happy about it, because I have always had sneaking doubts about the whole “free trade” policy which we have followed. However, it has certainly worked out pretty well and I am not unduly alarmed by the inflationary situation. I believe it is marginal and can be checked by some, or all, of the means already described. But, with full employment and an expanding economy, there must be some “give” somewhere. In the years between the wars, we took it on the level of employment. We can’t do that again, and survive politically. Our currency (having freed commodity markets and decided to support transferable sterling) is virtually convertible—if you know how, and a lot of people do know how.

6. Having done, or shown that we intend to do, some or all of the things set out in (i)–(v) above, we might well take the plunge. At present, we are in the absurd position that no foreigner will buy sterling against his future commitments until he needs it, because of the fixed rate. Since he doubts whether we can maintain the $2.80 rate, he holds off. He can’t lose by doing so, and he may gain. But do not devalue, to a fixed rate. You won’t be able to hold it. Get some flexibility.
CABINET

BECHUANALAND PROTECTORATE: BAMANGWATO SUCCESSION

MEMORANDUM BY THE SECRETARY OF STATE FOR COMMONWEALTH RELATIONS

Since my predecessor reported in May, 1953 (C. (53) 150) on Bamangwato affairs, there has been no pronounced change in the situation. Seretse is still in this country. The Tribe have not yet brought themselves to designate a new chief, but Rasebolai, who is acting as "Native Authority" to fill the gap so far as possible, is still in process of establishing his position.

2. At the Labour Party Conference in September, 1954, the National Executive was urged to give an undertaking that the next Labour Government would put right the "gross denial of human rights" caused by Seretse's "banishment for life." This was ridden off by Mr. James Griffiths, who gave an assurance that the National Executive of the Labour Party would review the whole of the circumstances under which Seretse was excluded from the Protectorate and would consider what action should be taken by a future Labour Government.

3. In May, 1955, the Labour Party sent one of their officials, Mr. Hatch, to Bechuanaland to make enquiries locally. After his return, the National Executive of the Labour Party approved (and published) a resolution in favour of a plan for inviting leaders of the Bamangwato Tribe to visit London and have discussions with Seretse. The Secretary of the Labour Party informed me of this resolution in a letter which he also asked me to receive a deputation. A copy of his letter is attached (Annex A).

4. In reply, I agreed to receive the deputation, but said I could hold out no prospect that we could agree to the proposed discussions. I gave the substance of my letter to the Press, as it was important to steady opinion in Africa. A copy of my reply is attached (Annex B).

5. I received the Labour Party deputation, led by Mr. James Griffiths, on 9th August. I attach a summary of the discussion (Annex C). I made it clear that there can be no change of policy, and that we cannot agree to call a conference of Tribal representatives for talks with Seretse.

6. As the matter will probably be raised again at the next Labour Party Conference, I have written to Mr. Griffiths, reiterating that we could not agree to any such talks as he had proposed which could do no good but might do much harm. To make clear that our attitude is not wholly negative, I pointed out that when a new Chief has established himself we will sympathetically consider the possibility of Seretse's return to the Bamangwato Reserve as a private citizen; if Seretse were to renounce unconditionally all pretensions to the Chieftainship, that would itself contribute to the establishment of the new Chief. I hope that the letter may lead the Opposition to use their influence to persuade Seretse to renounce his pretensions, and may also lead them to drop the idea of a conference of Tribal leaders. A copy of my letter is attached (Annex D).

7. The latest report from the High Commissioner about Rasebolai's position is encouraging. The Administration have lost no opportunity of fortifying his morale, and the High Commissioner saw him at the end of July and found him in good heart.

8. I have kept the Prime Minister informed throughout.

Commonwealth Relations Office,
Downing Street, S.W. 1,

H.

48685
ANNEX A

THE LABOUR PARTY

Transport House, Smith Square, S.W. 1,

Mr. W. Burke, M.P.,
Mr. Tom Driberg,
Mr. Percy Knight,
Mr. Sam Watson,

and I shall be glad to know if you will receive them and if your secretary can communicate with me to arrange a mutually convenient date.

The above resolution has been released for publication in to-morrow morning's papers.

Yours sincerely,

(Sgd.) MORGAN PHILLIPS,
Secretary.

ANNEX B

Dear Mr. Morgan Phillips,


I have received your letter of 27th July covering the text of a statement of the National Executive of the Labour Party on the position of Seretse Khama.

You and your colleagues are well aware of the decided and settled policy of Her Majesty's Government in this matter. As was made clear in the White Paper of March 1950, Her Majesty’s Government have a wide responsibility for the well being and good government of the Protectorate as a whole, and of the other High Commission Territories. In particular they have in this respect a duty in matters of disputed successions that they must discharge. Her Majesty’s Government have as you know decided that the good government and the well being of the Bamangwato Reserve require that Seretse should absent himself from the Protectorate until an alternative chief has been securely established with his own native administration. I am satisfied that the outcome of any discussions with tribal representatives such as you now propose would not justify any change in this policy. Indeed such discussions could only cause fresh uncertainty and by stirring
old rivalries and rekindling bitterness, do great harm. I can, therefore, hold out no prospect of Her Majesty's Government agreeing to discussions such as your resolution suggests. I shall, however, be very ready to receive your deputation and suggest a meeting at the Commonwealth Relations Office on August 9th. Since your resolution has been released to the Press I am informing them of the substance of this letter.

Yours sincerely,

(Sgd.) HOME.

Morgan Phillips, Esq.,
Secretary, The Labour Party,
Transport House, S.W.1.

ANNEX C

SECRET

Summary of discussion between Secretary of State for Commonwealth Relations and the Labour Party Delegation on 9th August

SERETSE

The Labour Party deputation urged the following considerations in support of their proposal for a conference of tribal representatives in London.

(a) The Bamangwato would continue to look forward to Seretse's return as Chief. Rasekoloa had no prospect of being designated as Chief, and unless some fresh attempt were made to achieve a final settlement the present uncertainty would continue.

(b) Hatch's discussions showed that there was a disposition on the part of the tribal leaders to try to work out a solution at such a conference.

The conference could explore the possibility of Seretse's return as Chief leaving the question of his wife's position and the succession unsettled. If no agreement were reached on this basis (and the deputation admitted that this was at least likely) the conference might then provide opportunity for decision by Seretse to withdraw his claim to the Chieftainship. Seretse could not be expected to do this without discussion with tribal representatives and would need to return to the reserve in order to make a formal renunciation there. It might be that the conference would throw up some alternative suggestion which would contribute to a solution.

I told the deputation that it was necessary to face the fact that Seretse could not go back as Chief with a white wife. This left only the alternative solution of Seretse's renunciation. It had been made clear that once a Chief was securely established Her Majesty's Government would consider arrangements for his return as private citizen. He had been told that renunciation of his claim to the Chieftainship would bring nearer the time when this might be possible. I told the deputation categorically that there was no question of a change of policy and that the communiqué to be issued after the meeting must make it clear that I stood firm on the decision conveyed to the Labour Party in the letter of 28th July.

ANNEX D

SECRET

Letter to the Rt. Hon. J. Griffiths, M.P., dated 22nd August, 1955

Since receiving your Deputation on 9th August, I have again carefully considered the views expressed by them. But in the result I am confirmed in the conclusion which I intimated to the Deputation. Her Majesty's Government cannot relinquish their responsibility for the peace and good government of the Bechuanaland Protectorate, and they could not agree to a conference of the kind proposed. As the deputation recognised, not only the specific alternatives they
mentioned, but any others that might be put forward, would be open to
discussion. In the view of Her Majesty's Government the effect would be to throw
open the whole Bamangwato issue with little likelihood of any generally acceptable
outcome, and with the certain prospect of causing great unsettlement in the reserve
and damage to the Bamangwato tribe and the people of Bechuanaland. As you
yourself said during our discussion, if the conference failed to reach agreement,
the end would be worse than the beginning.

As I made clear to the Deputation, there is no question of the permanent
banishment of Seretse Khama, and that is no part of Her Majesty's Government's
policy. As has frequently been stated, and as I repeated in my letter of 28th July
to the Secretary of the Labour Party, Her Majesty's Government have decided
that Seretse should absent himself from the Protectorate until an alternative chief
has been securely established with his own native administration. When a chief
has been so established Her Majesty's Government will be very ready to give
sympathetic consideration to the possibility of Seretse's return to the Bamangwato
reserve as a private citizen.

There can of course be no question of "abdication," since Seretse Khama is
not, and never has been, recognised as chief. But Her Majesty's Government agree
with the deputation that his unconditional renunciation of all claim to the
chieftainship would contribute to the establishment of a new chief, and so would
hasten the day when his return as a private citizen could become possible. If
Seretse were prepared to take this step, which in our view would be for the good
of the tribe, I am sure that authoritative means could be worked out for conveying
his decision to the tribal elders and to the Bamangwato generally without any need
for his prior return to the reserve. I must tell you frankly that I do not believe
Seretse is prevented from renouncing his claim to the chieftainship by his inability
to discuss this with representatives of the tribe. I believe the only reason which
prevents him from doing this is the hope that there will be a change of policy which
will permit him to go back as chief. The conference which you propose would in
my view encourage him in this hope rather than the reverse.

I am grateful to you for the thought which you and the Labour Party Executive
Committee have given to this problem, and I appreciate your concern to promote
the unity and well-being of the tribe. But for the reasons which I have explained
I must again make it clear that the view of Her Majesty's Government is as I have
described it above.
CABINET

COLONIAL IMMIGRANTS

MEMORANDUM BY THE SECRETARY OF STATE FOR COMMONWEALTH RELATIONS

As I shall be overseas when the Home Secretary's paper on Colonial Immigrants (C.P. (55) 102) comes up for consideration by Ministers, I should like before I leave to put on record some points which seem to me of importance from the point of view of Commonwealth relations.

2. The problem faces us with a dilemma: on the one hand, it would presumably be politically impossible to legislate for a "colour bar" and any legislation would have to be non-discriminatory in form. On the other hand, we do not wish to keep out immigrants of good type from the "old" Dominions, and indeed "two-way immigration" is a policy to which we have always subscribed.

3. I understand that, in the view of the Home Office, Immigration Officers could, without giving rise to trouble or publicity, exercise such a measure of discrimination as we think desirable. But everything turns on whom the discrimination is to be against. It would probably be quite easy to discriminate in favour of white members of the "old" Commonwealth countries. But what is to be the position about immigrants from the Asian Members of the Commonwealth?

4. I myself would argue that we should not take any action which would give the impression that citizens from India, Pakistan and Ceylon are less favourably treated than citizens from the older Commonwealth countries. I am aware that there has been an increase in the last year in the number of working-class Indians coming here. This is a new development and, unless it is checked, it could become a menace. But the Government of India are genuinely ready to do what they can to stop immigration of this type. I have no doubt that the same would be true of the Government of Pakistan. There is also the political angle to be considered. Any suggestion that the United Kingdom were introducing a discrimination based on colour or race would be certain to provoke strong reactions in the Indian sub-Continent, where feeling is very sensitive. There might well be a danger of the Governments of India and Pakistan introducing retaliatory restrictions against the entry or residence of members of the British business community (who already have their troubles). The British communities in the sub-Continent are not large but they are of vital economic importance to us.

5. If this is accepted, I would much prefer that the reference to Indians and Pakistanis at the end of paragraph 4 of the Appendix to the Committee's Report attached to C.P. (55) 102 should be deleted. The statement is entirely accurate, but I fear that its inclusion in a public statement might unnecessarily start a controversy in India and Pakistan which could have awkward repercussions on the British communities there.

6. In any case, as recommended by the Committee, I should like to give Commonwealth Governments advance notice of any statement before it is issued and should wish to reassure them as far as possible about the effect of such legislation on the entry of their nationals into this country.

H.

Commonwealth Relations Office,
Downing Street,

48689
PUBLIC RECORD OFFICE

Reference
CAB 129/77

ALL ODD NUMBERS BETWEEN

FOLIOS 75-109

ARE BLANK AND HAVE NOT BEEN COPIED
Cabinet

Japan: Trade and Payments Negotiations

Note by the Chancellor of the Exchequer

I attach for my colleagues' information a copy of a minute which I submitted to the Prime Minister, summarising the conclusions reached in Ministerial discussions on the question of Japanese access to colonial markets.

The Prime Minister gave authority for the return of our negotiators to Tokyo this week-end. I now invite the Cabinet to endorse the conclusions which have been reached.

R.A.S.

Treasury Chambers, S.W.1.

2nd September, 1955.

Japan: Trade and Payments Negotiations

At Cabinet on 26th August (C,M,(55) 29th Conclusions) I was invited to discuss with the Minister of State, Colonial Office, and the Minister of State, Board of Trade, the question of Japanese access to Colonial markets, and to report further to the Cabinet at their next meeting.

2. It is already agreed that we should only be justified in asking the Colonies to restrict their imports from Japan if we could make a clear and convincing case on balance of payments grounds. In discussion between the Economic Secretary and the other Ministers concerned, it has been further agreed that it was desirable to require certain further undertakings from Japan in addition to the objectives set out in paragraph 5 of my paper C.(55) 108, as a safeguard against Japanese discrimination against sterling area exports, and in order to ensure that the Japanese quotas would not be frustrated by administrative devices. A list of these further requirements is contained in the Annex.

3. The Ministers concerned consider that these requirements are ones which we can reasonably put to Japan, and that if they are accepted it would be less difficult for the Government to defend an agreement with Japan.
which involved an increase in Japan’s exports to the Colonies. There would still undoubtedly be criticism from Lancashire, but on the other hand we could point to the advantages we should have secured for other export industries.

4. The Minister of State, Board of Trade, agrees that we should now go ahead with the negotiations on this basis and on the understanding that satisfaction on non-discrimination on the lines set out in the Annex is as fundamental as satisfaction on the other points. Final judgment on the Colonial import question would, of course, have to be taken by Ministers in the light of the Japanese reply.

5. I agree with these conclusions and propose to report to Cabinet accordingly. It is, however, becoming rather urgent to get our negotiators back to Tokyo. If you agree, I suggest that they should be authorised to travel this week-end, in the expectation that Cabinet will endorse the conclusions now reached.

6. I am sending copies of this minute to the Foreign Secretary, the Minister of State, Colonial Office, the Minister of State, Board of Trade, and the Parliamentary Under-Secretary of State, Commonwealth Relations Office.

(Signed) R.A. BUTLER

31st August, 1955.

______________________________

ANNEX

JAPAN

Additional undertakings we should require in order to strengthen our case for conceding an increase of Japan’s exports to the Colonies in 1956.

1. Colonies
   (a) Assurance of retention on Automatic Approval of the Colonial exports now on A.A.
   (b) Assurance of non-discrimination in dealing with applications for licences to import goods shipped from the Colonies.

2. United Kingdom
   (a) Assurance of retention on Automatic Approval of the United Kingdom exports now on A.A.
   (b) For goods on Automatic Approval or on global quota or non-dollar quota assurance that no exclusive quotas will be given to other countries for those goods; and that there will be no discrimination in dealing with applications to import goods in these categories from the United Kingdom.
(c) In respect of the machinery global quota an assurance that the screening Committee will be instructed to disregard the criterion in their present instructions which requires them to reject any application for machinery of a kind which is made in Japan.

(d) In respect of any listed goods for which we fail to secure any quotas whatever an assurance that if quotas for such goods are given to any other country, we shall receive non-discriminatory treatment.

3. Independent Sterling Area

Recognition by Japan that it would be inappropriate and unjustifiable that she should seek exclusive quotas for Japanese exports to the I.S.A, having regard to the state of her sterling balances and the liberal facilities for Japanese exports to the United Kingdom and Colonies provided by the Agreement.

4. Inclusion of sterling area as permitted source of supply for all goods in A.A. List or in Miscellaneous Lists.
2nd September, 1955

CABINET

CYPRUS

Memorandum by the Minister of State for Colonial Affairs

In his opening statement to the Conference on the Eastern Mediterranean and Cyprus, the Foreign Secretary indicated that we hoped that the Conference would enable us to restore the process of constitutional progress in the Colony. We must expect that at a later stage our delegation will have to explain to the Conference the kind of Constitution we have in mind.

2. It will be recalled that on the 26th July, 1954, the Cabinet approved a recommendation that the 1948 offer of a constitution should be withdrawn and a more limited type of self-governing constitution be introduced instead as soon as practicable (C.C.(54) 53rd Conclusions, Minute 5). Accordingly my statement in the House of Commons on 28th July, 1954, gave the broad outline of the Constitution then proposed as one which would provide for a legislature in which official and nominated members together would form a majority over elected members; some unofficial members of the legislature would be appointed to the Executive Council to take charge of departments. It became clear that a Constitution of this limited character would attract no support in Cyprus and in his memorandum of 6th April (C(55) 92) the Colonial Secretary proposed to modify this plan so as to provide for a majority of elected over nominated and official members in the legislature. The precise composition suggested was - 3 officials and 10 nominated unofficials, with 12 elected Greeks and 3 elected Turks. In the Secretary of State's recommendations the proposal for placing more Cypriots on the Executive Council and giving some (probably 3) the charge of executive departments remained. All members of Executive Council would be styled Ministers. The Governor has confirmed that this plan would be acceptable to the Executive Council in Cyprus. The Cabinet decided to defer a decision on the proposals in the Secretary of State for the Colonies' memorandum of 6th April.

3. One point on which the Colonial Secretary himself had not come to a decision was whether or not there should be any attempt to restrict discussion of constitutional questions, and in particular self-determination or Enosis, in the legislature. When the Colonial Secretary visited Cyprus in July he discussed this in Executive Council, when the Greek Cypriot unofficial members and the (Greek) Attorney General all considered that for political reasons no ban on freedom of discussion should be imposed, while the Turkish Cypriot representative favoured prohibition of discussion in the earlier stages of the Constitution, saying that the position could be reviewed at a later date.
4. In discussion at the Ministerial Committee on Cyprus on 17th August (GEN. 497/3rd Meeting, Minute 1), I outlined the constitutional proposals set out in paragraph 2 above in respect of which draft constitutional instruments have been prepared. In our discussion, however, the Foreign Secretary expressed doubt whether a balanced legislature of this type was likely to be acceptable to a population of European descent, and thought that a legislature of a more liberal character would be required. It was also suggested that it might be preferable to increase the number of Cypriot Ministers with portfolios.

5. It was felt too that in certain circumstances there might be considerable advantage from the point of view of tactics at the Conference if we could offer a more liberal Constitution, without proposing to go through any intermediate constitutional stage. Thus, if the Conference did not break down at an early stage and there seemed to be a prospect of an acceptable agreement, the chances of achieving this might be considerably improved by promising a fully liberal Constitution at the outset. Equally if the Conference seemed bound to fail, we should make a much better showing internationally if we had offered a really liberal Constitution.

6. The Committee realised that this involved the risk of a Communist majority and also of the appointment of some Communist Ministers. It seemed probable, however, that these risks would also be clear to the Ethnarchy, and that in view of this the Ethnarchy might decide to contest a number of seats which otherwise they would not do.

7. I thought it desirable to consult both the Governor and the Secretary of State for the Colonies on the idea of offering a more liberal constitution. The Colonial Secretary, while recognizing that it would involve risks, was quite willing to have it fully examined.

8. The Governor has made clear to me his view of the difficulty of making any constitution work in the absence of the acceptance in some form of the principle of self-determination. Even if a formula to that end were to be agreed at the present conference he would favour a constitution along lines set out in paragraph 2 in this memorandum. He believes that this offers a greater hope of keeping control of the situation in Cyprus after the Conference and that it would give us a greater freedom of manoeuvre as regards further constitutional steps and he considers that it could be put to the Cypriots in favour of such a constitution that, although as regards the composition of the legislature it does not give such a large elected majority, it does not impose a ban on discussion on the future status of the island as did the 1948 offer.

9. Nevertheless, while the offer of a liberal constitution would certainly carry with it a number of risks, these might be worth accepting if they were the price of reaching agreement at the Conference as opposed to a breakdown with all the dangerous consequences which the Governor foresees. In view, therefore, of the earlier discussion of the Ministerial Committee it may be useful for my colleagues to have a possible outline of such a liberal constitution, which is attached as an Appendix. I have not, of course, had the opportunity to show it to the Colonial Secretary and no doubt the Cabinet will wish to have his further views on his return.

H.H.

Colonial Office, S.W.1.

2nd September, 1955.
OUTLINE OF A LIBERAL CONSTITUTION FOR CYPRUS

A possible outline of a liberal constitution, drawing on the 1948 offer, consideration of constitutional proposals for Cyprus in the last twelve months and recent constitutions elsewhere, is given below:

Legislative Assembly

(a) Composition. There might be 25 elected members, of whom at least five would be representatives of the Turkish community, and three official members (Colonial Secretary, Attorney-General and Financial Secretary). The Governor might have power to nominate a limited number of representatives (say up to four) to represent racial or other special interests, e.g. Maronites, etc. A Speaker would be appointed by the Governor to preside at Sittings of the Assembly.

(b) Functions and Powers. The Assembly would be able to discuss and legislate on any matters subject to the following limitations:

(i) Except with the recommendation or consent of the Governor the Assembly shall not proceed on any Bill or Motion relating to finance, salaries or conditions of service etc. of public officers, defence (including organisation, discipline and operational control of the police and internal security) and external affairs.

(ii) The Governor will be required to reserve for Her Majesty's assent any legislation which in his opinion purports to revoke or amend any provision of the constitution or which is in any respect repugnant thereto or is harmful or unfair to a racial minority.

(iii) The Governor will have the usual reserve legislative power.

Council of Ministers (Executive Council)

The Council of Ministers might consist of the Governor as President, three ex-officio Ministers and six unofficial Ministers appointed by the Governor. The ex-officio Ministers would be the Colonial Secretary, the Attorney-General and the Financial Secretary. Of the six unofficial Ministers one would be called the "Chief Minister". He would either be chosen by the Assembly with the Governor's approval or appointed by the Governor in his discretion. Two at least of the six unofficial Ministers would be Turkish Cypriots. All departments of Government would fall under the charge of either an ex-officio Minister or of an elected Minister. External affairs, defence and internal security would be under the Chief Secretary. The unofficial Ministers would be elected members of the Legislative Assembly and apart from the Turks, who would be selected by
the Governor, those other than the Chief Minister would be appointed by
the Governor on the advice of the Chief Minister. The Governor would
be required to consult and accept the advice of the Council on all matters,
except external affairs, defence and internal security, subject to the usual
exceptions of urgency, triviality etc. He would have a reserved executive
power to disregard the advice of the Council if he considered it necessary
in any particular case to do so in the interest of public faith, public order
or good government, but this power would be exercisable (except in cases
of urgency) only with the prior approval of a Secretary of State.
CABINET

ECONOMIC SITUATION: HOUSING POLICY

Memorandum by the Chancellor of the Exchequer

I have considered housing policy carefully in the light of our discussions at last Friday’s Cabinet (C.M.(55) 29th Conclusions, Minute 1). It may be helpful if I put forward some suggestions. I have not yet discussed these with the Ministers concerned, but I plan to do so on Monday morning. At this time of year such meetings are not easily arranged; and, since Monday’s Cabinet will be the last before I leave for Istanbul, I had to circulate my views at once. My suggestions are not, I think, inconsistent with the general line of policy which the Minister of Housing was indicating last Friday.

2. I think it is common ground that we must make a major adaptation in our housing policy. This is made inevitable by the economic situation. Housing represents such a large part of our total capital investment that we must reduce the amount of effort put into it in men and materials. The scale of this effort is shown by the fact that total investment in new housing in 1954 was £636 millions (United Kingdom). The local authorities’ capital expenditure in 1954 on subsidised housing was £375 millions compared with £215 millions for all their other capital expenditure - schools, roads, water and sewerage, trading services, etc. Indeed, a significant part of this other expenditure is for the provision of services for the new housing estates built by private developers and local authorities; so that a slackening of the pace in housing at once gives extra saving elsewhere.

3. A big reduction in the housing lead is the most effective single step we could take against inflation, and we must certainly do it. But we must do this in a manner which leads constructively to the next phase in the Government’s housing policy. Indeed, many of us have been of the opinion that the time was becoming ripe in any case for a reformation of our policy. This need for a timely reassessment is particularly important because of our outstanding success so far. By the end of next year, in five years of Conservative rule, over 1½ million houses will have been built in Great Britain - compared with a million in six years by our predecessors. We have honoured our political promise precisely and without reservation. This gives us great authority in charting our course.

4. I found myself in general agreement with the Minister of Housing about the next phase in housing policy. If I understood him right, he was proposing to concentrate the subsidised effort entirely on special needs, i.e., slum clearance and the problems of the overspill towns. Outside this field of subsidised housing, there would be no building controls, and
the amount of building would depend upon normal market forces. I think we would all agree that a necessary element in this freer system is further progress in the freeing of rents. The elimination of general housing subsidies and the relaxation of rent control are very closely linked.

5. In this new freer system a Government commitment to a specific target of housing output seems hardly appropriate. The number of subsidised houses built for slum clearance etc., will depend upon the way in which the local authorities' plans develop and upon the amount of public investment which can be afforded - just the same as schools or hospitals or roads. The number of private houses built will depend upon the market. It would be inconsistent with this kind of policy for the Government to attempt to lay down a national target figure. The national target policy was right at a time when the economy was strictly controlled by physical controls, and when the pressing social need was to get more houses built, using all the devices both of planning and of freedom for doing so. But with 1½ million houses achieved, and with freedom restored to building and the subsidy concentrated on a specific social need, the national target no longer has meaning.

6. This would mean that after, say, the end of 1956 the 300,000 target would no longer govern our policy. At my colleagues' request I endorsed this target in my statement in the House of Commons on 26th July. I do not see great embarrassment here, for the 300,000 figure will, I understand, be substantially exceeded this year, and this year's "starts" will probably result in completions of the order of 300,000 in 1956.

7. In my view, the real problem is how to make a smooth transition to the new freer system. I think it is most important to introduce at once as substantial a relaxation of rent control as we can - this is sound housing policy, for it makes better use of the existing stock of houses, but it is also a valuable disinflationary measure. I agree with the Minister of Housing that it might be expedient to taper off the "general needs" housing subsidy at a much lower rate over a period of two years. But we must not by so doing prevent the big reduction which would otherwise take place in the number of "starts" of subsidised houses in 1956. It seems that about 100,000 subsidised houses a year (England and Wales) would be enough to carry out the slum clearance undertakings in our election manifesto together with the requirements of the new towns and expanded towns; I would hope that the number of "starts" in 1956 would be reduced to about this figure (compared with about 150,000 in 1955). This is where we get the vital disinflation.

8. The suggestion was made at our last meeting that the number of "starts" would fall to the required extent simply as a result of the curtailment of subsidy. This might well be so in the next year or two if the "general needs" subsidy were being abolished immediately, but I am certain that we could not rely upon it if this subsidy were being continued for a limited period, although at a substantially reduced rate. I see no compelling reason for announcing the amount of subsidised housing to be permitted in the next year or two, but I am quite certain that this, like all other capital expenditure by the local authorities and by the Government, must be controlled, although it may be that with a narrower scope of subsidy a less cumbersome technique of control might become possible.

9. It follows from this that we cannot forecast now exactly how many houses we shall build in 1957. It is also clear that if we pursue a disinflationary policy, the total number of houses to be completed in that
year will be less than 300,000. But even if so it will still be more than the total number of houses built by the Socialist Government (which was 200,000 a year in 1949, 1950 and 1951).

10. I have not been able to consult the Secretary of State for Scotland. What is said about housing policy above would generally apply to Scotland as well as to England and Wales; it would be necessary in Scotland also to concentrate the subsidised housing upon the most urgent social purposes, and to discontinue the "general needs" subsidy. But I would expect the Secretary of State for Scotland to say that it will not be possible to bring forward new subsidy legislation for Scotland until the Sorn reforms of rating and valuation have been enacted. In the meantime, the important point is to ensure that the volume of subsidised housing in Scotland continues to fall, and that the expectation of the ending of "general needs" subsidy does not lead to increased demands from local authorities to take advantage of the subsidy while it still exists.

R.A.B.

Treasury Chambers, S.W.1.

2nd September, 1955.
SECRET
C.P.(55) 117
3rd September, 1955

CABINET

CYPRUS

Memorandum by the Secretary of State for Foreign Affairs

The attached paper is circulated as a draft of a British paper to be tabled by me at the Tripartite Conference on the Eastern Mediterranean and Cyprus during the course of next week. I have undertaken to make a proposal on Tuesday and it is my hope that the delegations would be prepared, after elucidation of its meaning, to take it back for consideration by their respective Governments. I will try to explain orally the considerations which have led me to make this proposal.

H.M.

Foreign Office, S.W.1.,
2nd September, 1955.

CONFERENCE ON EASTERN MEDITERRANEAN AND CYPRUS

Proposals tabled by the British Delegation

The first stage of the Conference has shown that, despite certain important differences of opinion, all three Delegations are agreed upon the over-riding importance of maintaining their friendship and co-operation and the ties which bind them in alliance. They are also agreed in recognizing the key strategic position of Cyprus and the vital contribution of the British military headquarters and base in the island to the maintenance of peace and security in the areas of the Eastern Mediterranean and the Middle East. They also share the desire to further the welfare of the population of Cyprus, to put an end to the acts of violence which have recently been disturbing the community and to restore harmony between all sections of the population.
2. The British Delegation are convinced therefore that their colleagues will agree that it would be unthinkable that the present Conference should end in a failure, which would run counter to their common objectives and impair their friendship and alliance, which all recognize as essential in the present state of world affairs. Having made a careful analysis of the respective positions of the three Delegations as disclosed at the Conference, the British Delegation wish to offer the following observations and proposals as a basis for the common understanding which they are confident it will be possible to reach:

3. It is clear that the problem of Cyprus can itself be broken down into the following two main questions:

(A) The introduction and operation of a new Constitution leading as rapidly as possible to self-government by the Cypriot people, under the proper safeguards and guarantees required by the international situation and the protection of minority communities.

(B) The future international status of Cyprus, including the question of the exercise of self-determination by the Cypriot people.

4. With regard to the problems coming under head (A) above, the British Delegation believe that their colleagues share the opinion of Her Majesty’s Government that an essential element in the restoration of harmony in Cyprus and in the future progress of the island must be a progressive advance towards self-government, with proper regard for the rights and interests of all parties. The British Delegation are confident therefore that the way is open for the Conference to establish a large measure of agreement upon the necessary plans and procedures for attaining this end. It is the responsibility of Her Majesty’s Government to introduce the necessary constitutional measures, but in view of the close interest which the Governments of Greece and Turkey naturally take in the welfare of the communities within Cyprus of Greek and Turkish language, the British Delegation wish to put before their colleagues the following proposals and to discuss them with a view to reaching common agreement. Her Majesty’s Government would hope to obtain the expressed approval of the Greek and Turkish Governments for this programme, since it is evident that this would be of the greatest importance in securing the full co-operation of the Cypriot people.

5. The proposals of Her Majesty’s Government are intended to set Cyprus upon the normal path of democratic development. To this end Her Majesty’s Government propose the introduction of a new and liberal constitution leading to the fullest measure of internal self-government compatible with the strategic requirements of the present international situation. The constitution would provide for an Assembly with an elected majority, a proportionate quota of seats being reserved for the Turkish-speaking minority. All Departments of the Cyprus Government would be progressively transferred to Cypriot Ministers, responsible to the Assembly, with the exception of Foreign Affairs, Defence and Public Security, which would be reserved to the Governor. There would be proper safeguards for the integrity and independence of the Public Service. As part of the safeguards to be provided for the Turkish-speaking minority, a proportion of the Ministerial portfolios would be reserved for that community. A Cypriot Chief Minister to head the new Cypriot administration would be chosen by the Assembly with the approval of the Governor.
6. Her Majesty's Government propose that a special Tripartite Committee should be set up in London by the present Conference, and should be responsible to it in order to examine detailed proposals to be drawn up by Her Majesty's Government for new constitutional instruments for Cyprus. It would be the duty of this Tripartite Committee to consider the necessary system of guarantees for the minority communities in Cyprus. The Committee might investigate any suggestions for the further benefit of the Cypriot population from the point of view of the close links between Cyprus and the United Kingdom, Greece and Turkey, for example, questions concerning the status and rights of Cypriot citizens within the other three countries.

7. A further subject which the Committee might consider is the appointment and terms of reference of special representatives of the Greek and Turkish Governments to reside in Cyprus with special right of access to the Governor in order to observe the application of the new constitutional arrangements. These officials could also be given responsibility for the administration of any cultural or other technical agreements which might be concluded between Her Majesty's Government and the Greek and Turkish Governments in relation to Cyprus.

8. After completing its initial tasks the Tripartite Committee might be kept in being in order to receive reports regarding the development of self-government in Cyprus, and to act as a centre for discussing problems or differences arising out of self-government which it had not been possible to resolve locally in Cyprus.

9. With regard to the problems listed under head (B) above, a divergence of view is unfortunately apparent between the three Delegations. Briefly summarized, the position of Her Majesty's Government is that, while determined to press on towards the establishment of internal self-government in Cyprus, they cannot foresee a time when a change in the present sovereignty would be compatible with the requirements of the international situation and British responsibilities for security in the Eastern Mediterranean and the Middle East. The Greek Government, while equally recognizing the desirability of self-government in Cyprus, call for the grant to the people of Cyprus of the right to determine their future international status by a majority vote after a short period of years. For their part, the Turkish Government, while also accepting on certain conditions the establishment of self-government, are opposed to any change in the sovereignty of Cyprus, and consider that if British sovereignty were ever relinquished the island should revert to Turkey.

10. It is evident that these positions cannot at present be reconciled. But the British Delegation feel strongly that this fact should not be allowed to create an open breach between the three countries with very unfortunate and incalculable consequences to their co-operation as friends and allies in all the many fields of common endeavour. Nor should failure to settle this aspect of the problem at this time be allowed to destroy the wide measure of agreement established in regard to the other main problem of internal self-government.
11. Consequently the British Delegation propose that the Conference should record that it is unable to agree upon the problem of the future international status of Cyprus, including the question of self-determination. The Conference would at the same time agree that each Government retains the position which it has taken up at the Conference and is in no way committed by the proceedings of the Conference to change its attitude. It would in particular be expressly recognized between the three parties that the fact of their co-operation over the introduction of self-government in no way invalidated their respective attitudes over the question of sovereignty.

12. When the new constitution has come into working order in Cyprus and substantial progress has been made towards self-government, Her Majesty’s Government would be prepared to call the Conference together again for further deliberation. In the meantime the Special Tripartite Committee proposed in connection with the programme of self-government will serve as a standing instrument of consultation between the three allied Governments.
I have read the papers circulated upon this topic and wish to put certain thoughts into the pool myself. These comments are not made in contradiction to the observations of my colleagues but to emphasise certain features of especial importance to the conduct of our trade and commerce.

2. There seem to me to be three central factors in the situation—the rate of exchange at which money can be sold abroad, the rate of interest at which money can be hired at home and the level of the reserves. It may be possible to hold one or even two of these stable, but I believe it to be hard at any time and beyond the range of human ingenuity in times of over full employment to hold all three.

3. It was our main criticism of the policies pursued by Sir Stafford Cripps in the past and it remains one of our principal criticisms of Mr. Gaitskell’s policies to-day that they tend to ignore the central factors in the economy and try to operate instead through marginal and selective physical controls. We need to watch that in our natural desire to safeguard what we regard as worthwhile forms of expenditure we ourselves do not fall into the very errors which we condemn in others.

4. The basic problem at home is a degree of inflation which is at once the principal obstacle to exports, the main reason for rising imports, the foundation of the constant pressure of and yielding to wage claims and the necessary pre-requisite for the resort to capital appreciation for income purposes and the general exuberance in the field of stocks and shares. The Socialists lay emphasis on effects; we surely should aim to deal with causes.

5. Artificially to stimulate consumption or for that matter investment in the midst of an inflation is like prescribing whisky to a confirmed alcoholic. Until recently we were selling coal well below its true costs, an evil which is now ended. Yet we still subsidise bread despite the fact that imported grain places a heavy strain on our reserves, in housing we subsidise in the public sector and deliberately depress rents in the private sector and we still give investment allowances notwithstanding the increase in the bank rate, though the demand which we thus artificially create stretches our resources of men and money to the utmost.
6. What we need to do is both to deal with the inflation at its source and demonstrably to be seen to do so. The latter is necessary to inspire confidence abroad and to bring home to businessmen the necessity of adapting their actions to the policies we are pursuing. With this end in view I would propose three things:

(a) **A rise in the bank rate and supporting market operations**

   I remain firmly of the opinion that as part of any solution we adopt we should raise the bank rate to a realistic level. If a higher bank rate is said to be effective but is held in reserve it could be effective now. If it is said to be technically ineffective then why and for what purpose is it held in reserve?

(b) **Measures to reduce consumption and investment**

   I think that we should end the bread subsidy and the general subsidy on housing. In my judgment we would be wise at the same time to abolish rent control both because this would tend to a more economic use of housing resources and because I believe we should be in any event compelled to it at a later stage. Reluctantly I must also say that in present circumstances I regard initial investment allowances as inflationary and hardly consistent with the use of the bank rate which I advocate above. I would therefore recommend that we should suspend them.

(c) **Reduction in Government expenditure**

   I cannot add much to the suggestions put forward by my colleagues except to say that in my judgment investment in coal and atomic energy should not escape the general arrangements for postponement. In the general measures affecting investment many industries immediately engaged at critical points in our export drive will have to select some projects suitable for postponement and I do not think that any industry, however essential, should be exempt from this healthy exercise.

7. **What about wages?** It is said that if rents go up and bread goes up the pressure for wage concessions would prove irresistible. The pressure is already proving irresistible. The reason for the wage increases like the reason for higher dividends is the inflation, and we cannot continue to deal with the inflation on the ground that the measures necessary may themselves provoke wage claims. No amount of exhortation to trade unions or employers, nor in my judgment measures which attempt to restrict profits, will hold wages in existing circumstances. Wages will only be held when employers really take the view that they can no longer afford to pay an increase and trade unionists realise they can no longer afford to claim one and this point will not be reached until deflation has been carried further than at present. The situation which we should have clearly in our minds as necessary to achieve is when the unemployment figure has moved from under 1 per cent to somewhere between say 2 and 3 per cent.
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8. Lastly how against the background of these events should we look at the Collective Approach? Convertibility has always held its dangers both for our export trade and our reserves. In the past we have thought of it in terms of a floating rate and international agreements for the early elimination of import controls. More recently thoughts have turned, I think, towards a much greater degree of fixity in the rate supported by a continuation of discriminatory import controls. These are problems of a fundamental character. I must say frankly that I would find it difficult to reconcile convertibility with discrimination and I believe that the right course is not to go convertible until we can do so safely without these controls. The first thing is however to stop the inflation. As the Chancellor has always said internal stability is a key condition for convertibility.

9. Any effective policy would certainly be politically unpopular. I think the worst thing we could do would be to put out anything which could be represented as a dribble of half measures. Indeed if we go too far we can always manage to retreat a little whereas if we do not go far enough we shall lose the benefit of even those measures which we take. I consider therefore that the interests of our trade and commerce would be best served by the adoption of the measures advocated in paragraph 6 above.

P.T.

Board of Trade, S.W.1.

2nd September, 1955.
CABINET

REDISTRIBUTION OF SEATS

MEMORANDUM BY THE ATTORNEY-GENERAL

I am not at all happy about the proposals in paragraphs 5, 8 and 9 of the memorandum by the Home Secretary and the Secretary of State for Scotland (C.P. (55) 83).

2. The proposals in paragraph 5 are—

(a) that the Boundary Commissions should be relieved of the obligations imposed on them by Section 2(1) of the House of Commons (Redistribution of Seats) Act, 1949, and

(b) that the Boundary Commissions should only recommend changes to provide against the dismemberment of local government areas or to correct major departures from the rules in the Second Schedule.

3. I do not think that any alteration of Section 2 (1) is required. All it does is to require the Commissions to furnish reports either showing what alterations should be made to give effect to the rules or stating that no alterations are required. It does not require them to bring all constituencies into complete conformity with the Rules. Those Rules now provide for a considerable measure of flexibility and, if more flexibility is required, it should be given by amendment of the Rules, not of Section 2 (1).

4. I am afraid I do not understand what is meant by the phrase "to correct major departures from the rules as a whole." It is the words "as a whole" that puzzle me. Rule 1 fixes the number of constituencies. Rule 4 provides that "so far as is practicable" local government boundaries and constituency boundaries should coincide. Rule 5 provides that the electorate of any constituency shall be as near the electoral quota as is practicable having regard to the earlier rules. The Commissions already have, therefore, very considerable discretion. They can recommend cutting up local government areas to avoid an excessive disparity between electorates or on account of special geographical considerations, including in particular the size, shape and accessibility of a constituency. They can also, in order to give weight to these geographical considerations, depart from the strict application of Rule 5, namely, making the electorate of a constituency as near the electoral quota as is practicable.

5. I do not know whether it can be said that the Boundary Commissions have gone too far in recommending changes to bring electorates into line. If they have, then perhaps the point could be met by providing that they should not recommend changes except to avoid or reduce an excessive disparity in electorates. I am not, however, in favour of doing anything to diminish the importance to be attached to Rule 6 (departures for geographical considerations) or to the discretion given to them under Rule 5. I fear that the result of restricting the Commissions to giving
effect to Rule 4 and to correcting "major departures from the rules as a whole" might be that less importance would be attached to geographical considerations and less effect given to the Commissions' power to disregard local government areas in order to prevent an excessive disparity between electorates.

6. I do not think the change proposed in paragraph 8 of the memorandum is necessary. It would merely give express statutory sanction to action, already taken by the Commissions on two occasions, which the Court of Appeal has held to be proper under the existing law. To legislate as proposed in this paragraph would re-open the question which gave rise to so much controversy in December.

7. With regard to paragraph 9, the criticism that I have heard is that the Boundary Commissions, after making their recommendations and receiving objections to them, published revised recommendations without those affected having any opportunity of protesting against the revisions. I certainly think an opportunity should be given of making representations in relation to revised recommendations where those recommendations constitute a substantial departure from those originally put forward.

R. E. M-B.

Law Officers' Department,
2nd September, 1955.
SACEUR’S ALERT MEASURES

MEMORANDUM BY THE MINISTER OF DEFENCE

At their meeting on 26th March, 1953, the Defence Committee approved a procedure under which the two North Atlantic Treaty Organisation (N.A.T.O.) warning periods (Simple and Reinforced Alerts) could be called in the N.A.T.O. area (D. (53) 5th Meeting, Minute 5). This was subsequently endorsed by the North Atlantic Council.

2. Subsequently the Supreme Allied Commander in Europe (SACEUR) issued detailed proposals for the preparations to be made in each of the above warning periods. They are grouped under the following main headings:

(a) Administration and Personnel.
(b) Communications and Electronics.
(c) Security.
(d) Logistics.
(e) Mobilisation.
(f) Operations and Planning.

3. The preparations are of two kinds:

(a) Measures which SACEUR himself can carry out. [For example, redeployment of units; evacuation of transportation from forward areas; evacuation of dependants of members of Allied Headquarters, &c.]
(b) Measures which national authorities alone can take. [For example, Mobilisation; evacuation of Allied non-combatants, diversion of Allied or friendly shipping from certain areas, &c.]

SACEUR has asked national authorities to agree now that when an Alert is called he is automatically authorised to implement the measures at (a) and that national authorities will automatically put into force the measures under (b).

4. From the military point of view it is essential that as many as possible of the measures should come into force automatically once an Alert is called. Indeed SACEUR himself in a personal letter to the then Minister of Defence earlier this year strongly expressed his conviction that all the Alert measures must be carried out immediately and simultaneously by the countries concerned. We should, therefore, do all we can to meet SACEUR’s wishes.

5. On the other hand, there are three main difficulties in the way of achieving a militarily ideal solution. They are:

(a) Political Implications

Ministers have already agreed (D. (53) 5th Meeting, Minute 5) that some of the Alert measures will of necessity have a certain amount of
publicity but that this will have to be accepted. Nevertheless a number of the measures might, if put into effect precipitately, aggravate an already delicate political situation. The timing of these must therefore be given very careful consideration.

(b) Constitutional Obstacles

Some of the measures, for example those designed to bring the forces on the Continent up to war strength, require mobilisation and despatch of forces overseas. These steps would have profound political effects, and on these grounds alone it would be imprudent to guarantee automatic fulfilment of SACEUR’s requests. In addition, however, apart from certain limited categories, none of the Reserve Forces can at present be sent overseas without the issue of a Royal Proclamation. Powers will also have to be taken to requisition shipping and aircraft. The Service Departments are considering what further steps can be taken to streamline the process of calling up reservists, but their recommendations are not yet available and in the meantime we are bound by existing constitutional processes.

(c) Inability to Carry Out Measures Completely

Some of the measures will require for their full implementation resources in men and materials which will almost certainly not be available. In these cases SACEUR must be warned that we can only give partial effect to his proposals.

6. SACEUR’s Alert measures have been examined by an Interdepartmental Working Party who have recommended in detail the extent to which Her Majesty’s Government should undertake in advance of the outbreak of war to authorise their implementation. Their report, with certain amendments, has been accepted by the Chiefs of Staff and by the Departments concerned.

7. I do not think that I need trouble the Cabinet with all the details of this very complex matter. There is in fact a very substantial measure of agreement with SACEUR’s proposals. There are, however, certain measures on which I think it necessary for Her Majesty’s Government to reserve their position. These are:

Simple Alert

(a) Alerting (i.e., calling up) additional signal troops.
(b) Bringing assigned forces (i.e., those on the Continent) to a war footing.
(c) Placing air defence systems on war footing.
(d) Alerting (i.e., bringing to full war strength) certain non-assigned active units.
(e) Implementing war plans for logistic projects which are a national responsibility.
(f) Laying of naval minefields.
(g) Tightening control of the Iron Curtain in Germany.
(h) Enforcing stay-at-home policy and control of refugees in Germany.

Reinforced Alert

(a) Assumption by SACEUR of full authority as Supreme Commander.
(b) Control of air and water transport.

In addition, it will have to be made clear that the extent to which we can carry out certain security measures in Germany and certain logistic and operational measures is limited by the resources available and the state of our planning.

8. I propose, if the Cabinet agree, to inform SACEUR that we accept the Alert measures, in so far as they concern the United Kingdom Government, subject to the above qualifications. I also propose to assure SACEUR that even those measures on which Her Majesty’s Government’s decision must be reserved will be given the most sympathetic consideration at the time.

S. L.

Ministry of Defence, S.W. 1.
12th September, 1955.
Reference

CAB 129/77

ALL ODD NUMBERS BETWEEN

FOLIOS 113-159

ARE BLANK AND HAVE NOT BEEN COPIED
In accordance with the decision of the Cabinet at their meeting on 5th September, 1955 (C.M.(55) 30th Conclusions, Minute 5) I submit a report by the Committee on Malta, of which I am the Chairman.

Procedure

2. In answering questions in the House of Commons, the Prime Minister and the Colonial Secretary have made it clear that it will be for the Conference to determine its own procedure, and we feel that the opening meeting of the Conference should be attended by the United Kingdom members only in order to draw up rules of procedure. This will have the advantage of making it clear that the representatives of the Maltese political parties who are called into consultation will attend at the invitation of the Conference, and not by prescriptive right. It should be possible to begin taking evidence from representatives of the Maltese political parties and other Maltese witnesses on Wednesday, 21st September.

3. We agree that it will be desirable for witnesses to submit written memoranda before giving oral evidence, and I have communicated with Mr. Attlee and Mr. Clement Davies on the subject and have sent to them a list of suitable witnesses proposed by the Governor of Malta. We feel that it is important that witnesses should be heard separately and in confidence, and the leaders of the other parties agree that the verbatim transcript of evidence should be treated as confidential, though without prejudice to its possible publication at a later stage.

4. After hearing the main body of evidence in London and before reaching final conclusions, the Conference may well wish to pay a short visit or to send a delegation of its members to Malta. We are agreed that such a visit would be very desirable, both to avoid the criticism that decisions were taken without examining conditions on the spot, and also to enable evidence to be taken from approved Maltese witnesses, other than those of the main political parties, who for various reasons might be unwilling or unable to come to London to give evidence. It would also enable the Conference to meet the Governor.

5. We are agreed that it will be necessary for evidence to be given on behalf of Her Majesty's Government and that this should be done by the Secretary of State for the Colonies and the Financial Secretary, Treasury, appearing together. This raises the question of the character of the evidence to be given.
6. Obviously we must put before the Conference a statement of the present policy and commitments of Her Majesty’s Government which are briefly as follows:

(a) It has been agreed that the present Constitution in Malta requires revision.

(b) The Prime Minister in his statement on 6th July announcing the present Conference welcomed the initiative taken by the Prime Minister of Malta in putting forward proposals for a closer association between Malta and the United Kingdom.

(c) The objectives have been accepted of improving the living standards of the Maltese people by the improvement of social services and by increasing the opportunities for civil employment, and an undertaking has been given to contribute to the cost of the necessary capital works, and, in an interim period, to assist, as may prove necessary, in balancing Malta’s Budget on recurrent account.

The question, however, arises whether we should reach a conclusion before the Conference opens as to the desirability of Parliamentary representation for Malta. On the one hand, it is felt that having convened the Conference we should not seek to influence it in any specific direction, and should only make up our minds on the merits of this proposal after the Conference has reported. On the other hand, it would be desirable for me as Chairman of the Conference to know which way the Government would wish the Conference to go.

7. We have considered a Report by Officials which examines fully the implications of Parliamentary representation for Malta and alternatives to it. It is quite clear that there are substantial arguments against granting representation. These may be summarised under the following main heads:

(a) Division of Powers. There is the question how legislative authority can be divided between Parliament and the Malta Legislature (which already has self-government over a wide field) unless the Northern Ireland model is followed and Parliament retains and on occasions exercises over-riding legislative authority. Failing this the question would arise as to whether the judicature would have to adjudicate on the respective powers of Parliament and the Malta Legislature. There is also the question how the authority of Parliament could be made effective in Malta against the will of Malta Ministers.

(b) Financial Implications. The Committee are agreed that if Malta is given representation in Parliament there is a strong presumption that this will be taken both here and in Malta as a commitment that Malta should eventually have United Kingdom standards of social services and wages irrespective of her ability to pay for them. On what is known at present, it
appears extremely unlikely that Malta could ever pay herself for such services, however much is spent on development, and if she were guaranteed them she might well relax her own efforts to earn them. The United Kingdom might eventually be saddled with an additional charge amounting to some £10 millions a year or more.

(c) **Repercussions elsewhere.** While it is not thought that there would be any pressure from other small Colonies for Parliamentary representation as such, there is no doubt that if it were known that the United Kingdom had become committed to raise Malta's standards of social services and wages to United Kingdom levels other Colonies would press for this too. Much larger liabilities would then arise. Difficulties in the United Kingdom in regard to financial assistance for Scotland, Northern Ireland and Wales might well be accentuated and the demand for a separate Parliament for Wales and possibly also Scotland would be reinforced.

(d) **Parliamentary.** There is the obvious risk that in times of narrow Government majorities the Maltese Members would give their support to the Party which promised to do the most for Malta.

(e) **Opinion in Malta is strongly divided on this question.** Even if it were approved by a referendum, there might later be a Government in Malta which was opposed to Parliamentary representation.

6. Against these considerations have to be set the possibility that a striking gesture towards Malta at this juncture would change the whole political and psychological atmosphere and remove the long-standing friction between Malta and the United Kingdom over defence arrangements in Malta. To rebuff the proposals on the other hand would increase the existing friction and might stimulate united pressure from all parties for full independence.

5. The majority of the Committee feel that a final decision should not be reached until the Parliamentary Conference has reported, but I should be glad to have guidance from the Cabinet on this question. The Committee recommend that an objective statement of the various considerations should be put before the Conference in the form of a memorandum from Her Majesty's Government, and I annex a draft of this memorandum, based on the report of the Official Committee.

K.

House of Lords, S.W.1.

12th September, 1955.
MEMORANDUM BY THE UNITED KINGDOM GOVERNMENT

IMPLICATIONS OF CLOSER ASSOCIATION OF THE UNITED KINGDOM AND MALTA

Introductory

1. This memorandum describes the proposals of the two main political parties in Malta as to Malta's future relationship with the United Kingdom, and sets out the considerations which, in the view of Her Majesty's Government, have to be taken into account in reaching a conclusion upon them. The memorandum is based on the proposals of the parties as they were expounded in the course of the discussions with the Secretary of State for the Colonies which were held in London in June and July last. It may well be that in the light of these discussions, the two parties will put forward modified proposals at the present Conference.

PART I

THE BACKGROUND

2. The basis of the present economic and constitutional situation of Malta is the Island's dependence on the United Kingdom arising out of its importance as a naval, military and air base. On the economic side, a third of Malta's national income is derived directly from payments by the United Kingdom Service Departments, and a further part is indirectly so derived; 22 per cent of the working population is employed on or in connection with defence activities. Over 90 per cent of Malta's imports are paid for by expenditure of United Kingdom Departments in Malta or direct financial aid from Her Majesty's Government. On the political side, Malta's importance as a base means that decisions of vital importance to Malta are taken by Her Majesty's Government on considerations of strategy and foreign policy without the Maltese themselves having any control over those decisions. In these circumstances, the Maltese are extremely conscious of their economic and political dependence on the United Kingdom and anxious not only that the United Kingdom should accept the fullest responsibility for the welfare of Malta and the development of its economy, but also that the Maltese themselves should have greater influence over decisions which might affect their future.

3. Recent events have helped to strengthen these feelings. First, the growing political awareness of the Maltese over the past few years, and especially since the introduction of the 1947 Constitution, have made Malta's position in these respects a key issue for the local parties. Secondly, world events have made the Maltese strongly aware of the precariousness of their position. The Maltese feel that the atomic age, with the strategic revolution which it has brought in its train, may render Malta's position less important and at the same time more vulnerable. Moreover, the possibility of a relaxation in the cold war, with some degree of disarmament, has created a fear of further reductions in the size of United Kingdom establishments in Malta. With a population of 320,000, which, in spite of emigration, was rising at a rate of 1½ per cent per annum until this year, the Maltese inevitably seek some kind of assurances for the future welfare of their Island.
The Existing Constitution in Malta

4. The present constitution has operated since 1947 and is a dyarchy under which Malta has full legislative and administrative autonomy over her own affairs with the exception of "reserved matters". These matters are widely defined as "Matters touching the public safety or defence of our dominions and the general interest of our subjects not resident in Malta". Within this wide definition and without prejudice to it, defence, foreign affairs, telecommunications, nationality, coinage, control of aircraft, immigration and passports and some other less important matters are specified. The Malta legislature has power to amend the constitution except certain provisions, notably those relating to the reserved matters and the powers of the Governor which relate to them. The Governor has executive and legislative power in regard to all reserved matters. He must in general follow the advice of the Executive Council composed of Maltese Ministers in regard to all non-reserved matters, but he has the power to disregard their advice if he sees sufficient reason to do so. He must also consult a Nominated Council consisting of the three Service Chiefs in Malta and two official members in regard to matters in the reserved field, though he is not bound to follow the advice of this Council. There is provision in the Constitution for joint meetings of the two Councils under the title of the Privy Council, but this has seldom been used.

5. Successive Governors have tried to obtain the co-operation of Maltese Governments by giving them advance information of any important measures which it was proposed to take in the reserved field, but this has not prevented considerable friction between the two halves of the administration. Cases have arisen in which the Maltese Ministers have objected to acts of the Government in reserved field on the ground that they are offensive to Maltese sentiment or contrary to Maltese interests. There have been disputes as to the precise limits of the reserved field and how far it is within the authority of the Governor to order acts to be done in what normally would be the non-reserved field on the ground that they are required for reasons of Imperial defence. In some cases Ministers have declined to take action in the non-reserved field required for the implementation of decisions taken in the reserved field, or have tried to secure financial concessions in return. Disagreements have also arisen about the exemption of Service personnel and activities from Maltese taxation, and about the payments which are due from the Services in Malta for public utility services. Some of these disputes have been of a petty nature but they are accentuated by the conviction of the Maltese that their status is inferior and that they ought to have a greater opportunity to influence both policy and administration in the reserved field.

The Present Policy of the United Kingdom

6. Her Majesty's Government are advised that Malta is, and is likely to remain, an essential base, both for United Kingdom and N.A.T.O. Forces.

7. The United Kingdom Government rejected in 1953 the proposals of Dr. Borg Olivier's Government for dominion status, transfer of conduct of Maltese relations with Her Majesty's Government to the Commonwealth Relations Office, and payment for defence facilities. Instead the "Home Office offer" was made, which envisaged the transfer of Maltese affairs to the Home Office, as a mark of its unique situation but with no immediate change in the present constitutional relationship. This proposals was not accepted, and can now be regarded as withdrawn. There followed the Mintoff proposals for "integration" and the discussions between the Secretary of State for the Colonies and the leaders of the Maltese parties.
in June last. During these discussions it was again made
clear by the Secretary of State that the Malta Nationalist
Party's proposals for dominion status and transfer to the
Commonwealth Relations Office were not acceptable. The Secretary
of State however agreed that it was necessary that the existing
constitution should be revised. During these discussions the
Prime Minister announced the intention to hold an all-party
conference, and in doing so he welcomed the initiative taken
by Mr. Mintoff in putting forward proposals for closer
association. On the economic side, the two Maltese
Delegations joined with the Secretary of State for the
Colonies in issuing at the conclusion of the talks an agreed
statement (text in Annex II) which said that all parties to the
Conference "agreed that the social and economic development of
Malta is a necessity and calls for a joint and sustained effort
by both countries". The statement endorsed as objectives the
raising of the standard of social services, the increasing of
opportunities for employment outside Service Establishments and
avoiding unemployment, and Her Majesty's Government agreed to
provide financial help for these purposes as necessary.

PART II

PROPOSALS OF THE MALTA POLITICAL PARTIES

A. The Malta Nationalist Party's Proposals

8. Until recently the programme of the Malta Nationalist
Party, led by Dr. Borg Olivier, (which gained 40 per cent of
the votes at the last Maltese general election and is the
only Opposition party in the Legislative Assembly) was a claim
for "Dominion Status", coupled with a payment by Her Majesty's
Government for the use of Maltese land and facilities for
defence purposes.

9. In the talks with the Maltese leaders this summer,
Dr. Borg Olivier put forward alternative proposals which he
maintained provided "a status which will give Malta full
responsibility within the Commonwealth of Nations yet modifies
her aspirations to be a full member of the Commonwealth".
These proposals were put forward in a memorandum (text in
Annex III). The main features may be summarised as follows:-

(a) Malta should be an autonomous unit in relation to
the United Kingdom within the framework of the
Commonwealth.

(b) Responsibility for Maltese affairs should be
transferred to the Commonwealth Relations Office,
reorganised if necessary, to deal with the
affairs of Malta, and of any other territories
which might attain a similar position, as distinct
from the affairs of full Members.

(c) There should be a defence agreement and an external
affairs agreement with the United Kingdom. The
first (based on the Defence Agreement with the
Government of Ceylon) would provide that the
United Kingdom might base such forces in Malta as
were required, and maintain such installations as
were mutually agreed. The second would provide
that Malta's direct relations with the independent
Commonwealth and foreign States would be handled
by the United Kingdom and Malta jointly. Malta
would be represented by a High Commissioner in
London, and the United Kingdom by a High Commissioner
in Valetta. In place of the Governor there would be
a Governor-General.
Although the Malta Nationalist Party maintain that Malta has a juridical case for financial recompense for the use of land and facilities by the Service Departments, they would now be content if, in accordance with a series of mutually agreed development plans, Her Majesty's Government undertook to provide whatever assistance is needed to raise Malta's living standards to the level of those of the United Kingdom.

The Malta Nationalist Party are strongly opposed to representation at Westminster and integration. They may well think in the light of the July statement referred to in paragraph 6 above, that they can have all the economic benefits of integration without the political disadvantages, and that their constitutional proposals, which they admit are primarily based on considerations of prestige, are an alternative form of closer association.

10. Her Majesty's Government find difficulty in regarding the proposed arrangements as a form of closer association. Apart from the objection that the proposals may be regarded as an approach to Commonwealth status through the back door, they see a number of practical difficulties in them.

11. The crux of the Nationalist Party's proposals lies in the idea of complete local autonomy modified by the two agreements for mutual assistance in defence and partnership in the conduct of external affairs. As regards Foreign Affairs one or other Government must be responsible internationally for the affairs of Malta, and it is difficult to see how joint responsibility could be established or worked. The defence agreement is of a type which has only been concluded with independent Members of the Commonwealth or foreign countries in circumstances very different from those which exist in Malta. Such an arrangement would not provide the necessary powers in respect of defence matters and would increase the occasions for friction with the Maltese on defence matters. The suggestion which the Malta Nationalist Party put forward in discussion that such disagreements could be solved by the arbitration of a Commonwealth Prime Minister or his deputy does not offer a solution.

B. The Malta Labour Party's Proposals

12. At the talks in June, Mr. Mintoff tabled an Aide-Memoire (text at Annex IV) setting out his proposals. This has not been published or seen by the other Malta parties. He supplemented and modified these proposals in certain important respects in subsequent discussions, although some important obscurities remain. He made it clear, however, that if his main proposals were accepted in principle, he was ready for "negotiation" on details. His proposals on the economic side are moreover, largely based on the interim advice of Dr. Balogh and Mr. Dudley Seers who at his request are completing their survey of Malta's economic resources and potential.

13. Although Mr. Mintoff's policy is generally known as "integration", it is clear that this term is misleading, and that Mr. Mintoff does not propose the incorporation of Malta in the United Kingdom, but only a relationship which, in certain important respects, would not even be as close as that between Great Britain and Northern Ireland.
14. The two main proposals which Mr. Mintoff wants Her Majesty's Government to accept at once in principle are:

(a) that there should be representation of Malta in the United Kingdom Parliament by at least three Members, beginning after the next United Kingdom election;

(b) that Malta should have parity in wages, social services and direct taxation with the United Kingdom. This would, however, be implemented only gradually in step with a programme of intensive economic development over an interim period of fifteen to twenty years. The United Kingdom Government would have to provide substantial assistance during this period, and a fixed contribution to Malta revenues thereafter.

15. The main constitutional and administrative implications of the acceptance of these two proposals as proposed by Mr. Mintoff are as follows:

(a) As soon as Malta is represented in Parliament, Parliament would have exclusive powers of legislation in respect of Foreign Affairs and Defence, and the "imperial branch" in Malta would become a direct agency of the United Kingdom Government. Parliament would assume exclusive power in the field of direct taxation at the end of the interim period, i.e., in fifteen to twenty years' time.

(b) During this interim period there should be:

(i) a committee in Malta representative of the two Governments, under the Maltese Minister of Finance, to decide on the rate of progress in raising taxes, wages, and social service benefits towards United Kingdom levels;

(ii) a Ministerial Committee in London presided over by a Cabinet Minister and "possessing executive powers" which would supervise the economic plans, and measures to maintain full employment. It should also be a means of consultation on the effects of the level of Service expenditure on Malta's economy.

16. There are, however, notable obscurities in Mr. Mintoff's proposals. While he clearly envisages that formal dyarchy will end when Malta receives representation in Parliament and that thereafter Foreign Affairs and Defence will be "within the exclusive jurisdiction of the United Kingdom Parliament", he does not indicate clearly how executive powers would be exerted in Malta in respect of these matters. It is not clear whether the Governor of Malta, in addition to being the constitutional head of the Maltese Government, would also be the head of an "Imperial branch" with executive functions of its own comparable to those of the present Maltese Imperial Government, or whether the Imperial branch would be a mere local agency of Her Majesty's Government. It is also not clear whether the proposed Consultative committees in Malta and London or some other form of consultative machinery would be continued after the end of the transitional period of fifteen to twenty years.
PART III
CLOSER ASSOCIATION

17. The root political problem in Malta arises from the division of authority. On one hand Her Majesty's Government's defence requirements are so important that they cannot relinquish their authority in this field or in the related field of external affairs. On the other hand the United Kingdom has, in accordance with its declared colonial policy, given Malta a large measure of self-government. At the June discussions, the Secretary of State for the Colonies recognised that the present constitutional arrangements required revision, and welcomed proposals for closer association as a means for resolving the existing difficulties.

18. The main foreign examples of close association between Metropolitan and dependent states are briefly surveyed in Annex V. They do not offer any close parallel to the circumstances of Malta's case. Before examining the implications of Parliamentary Representation for Malta, as proposed by the Malta Labour Party, it is desirable to assess the possibilities of closer association based on modifications to the existing constitution, but without full representation in Parliament.

A. CLOSER ASSOCIATION WITHOUT FULL REPRESENTATION IN PARLIAMENT

19. The existing Constitution does not provide effective machinery for consultation with the Maltese on reserved matters. There is obviously a need for such machinery. Although the Governor of Malta has under the Constitution full legal powers to take any measures necessary for the purposes of defence and foreign affairs, in practice his ability to use them is sometimes dependent upon the assent of the Maltese Ministers. At the same time, the Maltese Ministers are acutely conscious that certain actions of Her Majesty's Government in foreign affairs and defence matters affect them closely, and feel that they ought to have regular means of access to United Kingdom Ministers and opportunity to make their views known before such decisions are taken. For example, the adherence of Her Majesty's Government to N.A.T.O. has resulted in the setting up of a N.A.T.O. headquarters in Malta and a request for customs privileges for N.A.T.O. staff; the United Kingdom's commitments to other countries in regard to control of strategic exports to the Soviet bloc resulted in Malta being asked to impose restrictions on transit trade; a decision by Her Majesty's Government to reduce the amount of naval work done in Malta dockyard could create employment problems in Malta. The belief of Malta Ministers that their interests in such matters are not sufficiently taken into account reacts upon their own attitude towards measures which are required to be taken for defence purposes in Malta itself.

20. To meet this situation it would be possible to set up administrative arrangements for consultation on the following lines:

(a) There should be a Ministerial Committee in London presided over by a Secretary of State, with two Maltese Ministers and two United Kingdom Ministers. A representative of the Imperial Branch in Malta would attend as an adviser. This body would meet at regular intervals, say three times a year, to discuss matters of common interest, though it could of course
hold ad hoc meetings at any time if matters of special importance to Malta arose. A principal function of this Committee would be to give the Maltese a general survey of United Kingdom foreign affairs and defence policy, especially any aspects of it which are likely to affect Malta itself. It would also be open to the Maltese to raise any matters either in regard to foreign affairs and defence and related matters, or in regard to economic and financial matters and United Kingdom assistance to Malta.

(b) There should be a consultative body in Malta under the chairmanship of the Governor where matters in regard to defence and foreign affairs and other reserved subjects would be discussed, and where economic and financial matters could be raised. Members of this body should be drawn as appropriate from Maltese Ministers and officials, from the Imperial Branch, and from the Services.

21. The consultations in Malta on reserved matters should be mainly concerned with measures which require to be taken in Malta, while the consultations in London would be primarily concerned with wider aspects of United Kingdom foreign affairs and defence which might affect Malta. It would be necessary from the outset to make it clear that the Committee was not a combined United Kingdom and Malta Cabinet with power of final decision on any defence or foreign affairs matter concerning Malta, and also not a place where actions already taken by the Governor would be reversed. It would clearly be necessary that, when the Governor found that the Maltese members of the Consultative Committee were in disagreement with any proposed course of action put to them, he should normally have to seek the instructions of the Secretary of State before any action were taken. This would give the Secretary of State the opportunity of deciding whether or not action should be deferred until the Committee had been consulted. There might, however, be occasions when for reasons of urgency it would be necessary for action to be taken on defence matters in Malta without prior reference to the Secretary of State.

22. One other reservation must be made. While he was in London talks started between Mr. Mintoff and the Service Departments about establishing machinery for consultation, negotiation and arbitration in connection with wage disputes. The result of these negotiations will have to be taken into account.

23. The proposed London Committee could be given an enhanced status if it were constituted as a Committee of the Privy Council comparable to the Committee responsible for the affairs of the Channel Islands. It would obviously not be feasible for the Maltese Ministers to be made Privy Councillors, but it might be much more attractive to the Maltese if the London Committee were formally constituted as a Committee of the Privy Council for Maltese Affairs, which invited Maltese Ministers into consultation with it.

24. The introduction of administrative arrangements on these lines would not in itself involve any modification of the existing written constitution of Malta. In conjunction with them certain modifications might be made in the Malta constitution in order to remove some of the objections which the Maltese have to the present form of dyarchy. These modifications are:

(a) The existing Nominated Council and Privy Council would be abolished, and, in the exercise of his functions on the reserved side, the Governor would be
required normally to consult a Council which included Maltese ministers as well as officials and service representatives. The Governor should have discretion not to consult this Council when for reasons of urgency, triviality or prejudice to Her Majesty's service he thought this desirable.

(b) The Governor would have to accept the advice of his Ministers in Executive Council on non-reserved matters, in all cases except those in which public faith was involved.

c) The Governor would (subject to the control of the Secretary of State) decide what is or is not a reserved matter. The existing list of such matters (Annex I) could be retained, but it might be preferable to substitute for it a general formula under which any matter which the Governor of Malta certified to be a matter required for the purposes of or in the interests of defence policy of the United Kingdom, or the defence of Malta itself, or was a matter relating to external affairs or nationality would be a reserved matter. These changes should not involve any reduction of the special powers reserved to Her Majesty in an emergency.

25. If it were thought that the perpetuation of a separate legislature in Malta to legislate on reserved matters would prove unacceptable, it would be possible to abolish the Governor's powers to legislate by Ordinance, and instead to arrange that Her Majesty in Council would legislate for Malta on reserved matters by Order-in-Council on the advice of a Secretary of State who would normally consult the London Consultative Committee referred to in paragraph 20(a) above beforehand on the policy to which the Order-in-Council would give effect.

Association with the United Kingdom Parliament

26. The Conference may wish to consider whether in conjunction with the proposals outlined above, any form of association with the United Kingdom Parliament short of full representation could be granted to Malta. There appear to be two main possibilities.

27. The first is that Malta should have one or more representatives in the House of Commons who would be entitled to ask questions and to take part in debates on foreign affairs and defence but who would not have the right to vote. Mr. Mintoff rejected this idea at the London discussions, but if full Parliamentary representation for Malta is found to be unacceptable such an arrangement would accord with the realities of the situation and would meet the claim of Malta that they should have a voice in foreign affairs and defence matters. This would be a notable innovation. The second is that one or more representatives chosen by the Malta Legislature should be enabled to sit in the House of Lords. In either case it would be difficult to maintain that the case of Malta could be distinguished from that of other Colonies, as under an arrangement of this sort Malta would not be in any way integrated with the United Kingdom except for foreign affairs and defence.

28. The proposals outlined in paragraphs 20-25 would not imply any alteration in Malta's position as a separate political entity, outside the United Kingdom itself. They carry no new implications as to the extent of assistance to be given by the United Kingdom to Malta, which would be decided on its merits from time to time in the light of the agreed Statement of July last (Annex II).
B. FULL PARLIAMENTARY REPRESENTATION FOR MALTA

Comparison of the Mintoff Proposals with the Existing Relationship with Northern Ireland

29. It is convenient at the outset to compare the Mintoff proposals for Malta with the existing relationship with Northern Ireland. The main differences are:

(a) The division of powers

In Northern Ireland a defined list of matters is reserved by Statute to the United Kingdom Parliament and Government. This is similar in scope to the existing list of reserved subjects in Malta. In addition, United Kingdom legislation applies in Northern Ireland unless the contrary is provided. In practice, the power of Parliament to legislate for Northern Ireland, on transferred matters is used only after consultation and with the consent of the Northern Ireland Government, but the specific reservation and use of this power recognises both the supremacy of Parliament and the ultimate authority of the British Government in all matters.

There is no comparable provision in the Mintoff plan for dealing with the problem of divided legislative authority.

(b) Customs Tariffs

Northern Ireland is a part of the United Kingdom for Customs as for other purposes. Malta would have a separate Customs tariff.

(c) Taxation

Northern Ireland pays United Kingdom rates of both direct and indirect taxation with certain minor agreed exceptions. Malta would become subject to United Kingdom direct taxation after an interim period of fifteen years or more but would remain autonomous in respect of indirect taxation.

(d) Financial contribution

Northern Ireland makes a contribution to Imperial Defence expenditure. Malta would not be in a position to do this. It is envisaged that even after the interim period Malta would continue to receive a subvention from the United Kingdom.

30. The Northern Ireland system has worked only because of the peculiar historical and geographical circumstances, the determination of both sides to make it work, and the common background of members of the two Administrations. The majority of Ulster's population strongly desire that their country should remain part of the United Kingdom and are ready to accept any limitation of their autonomy which is necessary to preserve the Union. Up to 1920 Northern Ireland had for more than a century been administered as part of the United Kingdom; it possesses a similar structure of trade and commerce, and of law and administration. It is subject to the same judicial system.
These conditions do not exist in Malta. In the field within its responsibilities Northern Ireland has readily adopted measures similar to those taken in Great Britain. The essence of the arrangement is that Northern Ireland is part of the United Kingdom. From this it follows that, although it possesses autonomy in a wide range of matters such as social services, industrial and labour matters, agricultural policy, and public utilities, it is entitled to adopt in all these fields the same policies as are being applied in the United Kingdom. The cost of such measures is set against the revenues raised in Northern Ireland and so, in effect, reduces Northern Ireland's contribution to Imperial revenues. In practice, Northern Ireland, although autonomous for most internal matters except taxation, is 'integrated' with and part of the United Kingdom for all important purposes.

The Implications of Parliamentary Representation for Malta

31. It is desirable to examine:

(a) How far and in what respects it would be practicable for the affairs of Malta to be integrated with those of the United Kingdom.

(b) What would be the financial implications for the United Kingdom of Parliamentary representation of Malta.

(c) The possible repercussions of granting Parliamentary Representation to Malta on constituent parts of the United Kingdom, and on other Colonial territories.

(a) The Possibilities of 'Integration'

Direct Taxation

32. It would be practicable as a matter of administration to apply United Kingdom direct taxation in Malta and to control its administration from London. This would mean applying to Malta the whole of the relevant United Kingdom law. Apart from the fact that United Kingdom rates of tax on individuals are considerably higher, the imposition of United Kingdom rates of company and profits tax would discourage local enterprise. Moreover, if effect is given to the proposals of the Royal Commission on the Taxation of Profits and Income that a scheme should be introduced for recognising a special category of overseas trading corporation, the profits of which would, on certain conditions, be exempt from United Kingdom tax, then the introduction of the higher United Kingdom rates into Malta would naturally make the Island a much less attractive place to United Kingdom companies.

33. It is not possible without a special enquiry to estimate the revenue which would be obtained by applying United Kingdom direction taxation in Malta, but it is likely that there would be a high level of exceptions particularly as a result of the allowances for children under the United Kingdom tax system.

Customs and Excise Duties

34. It might be held that 'integration' should imply, for fiscal purposes, parity not only of direct but also of indirect taxation - in the sense that there should be common rates of Customs and Excise duties in the United Kingdom and in Malta, and goods produced in one country should be admitted free of Customs Duty into the other.
35. The question arises whether the United Kingdom's rates of duty and of purchase tax could be introduced into Malta. As regards the practical aspects of revenue administration, this would be possible if United Kingdom Customs and Excise law were made applicable in Malta, with some additions or adaptations to fit the local circumstances. For example, the passage of dutiable goods between the United Kingdom and Malta would still have to be treated as foreign trade for the purpose of Customs control. The Maltese Customs and Excise service, of course, would have to come under United Kingdom control.

36. But to transfer the United Kingdom system of indirect taxation on this basis to Malta would have several disadvantages from the Maltese point of view. In the first place, over 40 per cent of Malta revenue is at present derived from Customs duties. Nearly half Malta's imports come from the United Kingdom, and a serious reduction in revenue would follow both from free admission of United Kingdom goods and from the abatement in the duties on many foreign goods which would result if the United Kingdom tariff were adopted. This loss of revenue could perhaps be made good by the imposition of purchase tax, and from the increased yield of the duties on tobacco, oil and alcoholic drinks, which are generally at much higher rates in the United Kingdom than at present in Malta; but the withdrawal of protection against United Kingdom goods would be a serious matter for the small industries which already exist in Malta and would militate against any possibility there may be of persuading United Kingdom firms to set up new industries in Malta if they are to produce mainly for the local market. There would be no corresponding advantage to Malta by way of increased export opportunities to the United Kingdom; already about 90 per cent of the United Kingdom's imports from Malta enjoy duty-free admission under preference.

37. Moreover, it is open to doubt whether that part of the system of Customs and Excise duties which has been developed as a means of raising revenue in the United Kingdom would really be the most suitable instrument for the same purpose in the very different economic and social circumstances in Malta. For example, the cheap wine that is commonly sold in Mediterranean countries would certainly not stand the United Kingdom's rate of duty. Local variations in the duties would seem unavoidable; and that being so, there is much to be said for leaving Malta to raise its proper share of indirect taxation under an independent tariff adapted to its own local needs and conditions.

38. It therefore seems very improbable that United Kingdom rates of Customs and Excise duties could ever be applied to Malta. This might give rise to some complaint from United Kingdom firms on the ground that if Malta is represented in Parliament it is in effect part of the United Kingdom and should give United Kingdom traders free access to the Maltese market - indeed one trade association has already made the point - but the Maltese market is so small that complaints are not likely to create a serious problem.

Currency and Monetary Policy

39. At present Malta issues her own currency, but can hardly be said to have an independent monetary policy. Her currency is backed 100 per cent by sterling or sterling securities. If integration were held to involve the withdrawal of the Maltese currency and the substitution of sterling, this would have no economic effects but the Maltese Government might lose some £300,000 a year from interest on the currency backing, and the possibility of investing part of that backing in local loans. This might mean that the United Kingdom subventions to Malta would have to be correspondingly increased.
Social Services

40. Expenditure per head on social services in the United Kingdom is estimated by Dr. Balogh to be about four times that in Malta. If the United Kingdom system were applied directly to Malta it would involve high contributions and benefits, both completely out of line with incomes in Malta. Such measures would not only be extremely expensive but impracticable at the present time. It is recognised by Mr. Mintoff that Malta's social services must be designed to fit Maltese conditions and that they can only be raised to United Kingdom levels over a substantial period. The real question is whether Malta will, in any foreseeable time, be able to pay for social services on the United Kingdom scale. If not, representation of Malta in Parliament may be regarded as giving her a right to receive such benefits at the expense of the United Kingdom.

Location of Industry and Industrial Development

41. The Maltese appear to believe that one of the economic advantages to Malta from integration would be the application of United Kingdom development area policy to Malta. This might mean either that the Board of Trade would undertake to do what it could to encourage industrialists to go to Malta or that the United Kingdom distribution of industry legislation would be made applicable to Malta which could also be scheduled as a development area. Little benefit could be expected merely from exhortations to firms by the Board of Trade. The power to schedule areas as development areas apply only where there is a special danger of unemployment, which is not at present the case in Malta. If it were agreed that powers of the kind available in development areas should be taken in Malta, it would seem preferable that this should be done by local legislation as is the case in Northern Ireland.

Defence and Foreign Affairs

42. The natural consequence of the Mintoff proposals might be that existing United Kingdom law in these matters would apply to Malta immediately. In the field of foreign affairs the main legislation relates to diplomatic privileges and would be applied in any case. In the field of defence it is certain there are a good many provisions in United Kingdom law which would be neither appropriate nor needed in Malta. Therefore in practice Malta would have to be exempted from a large part of this legislation from the outset, Mr. Mintoff has made it clear that he would not agree to United Kingdom laws relating to National Service applying in Malta, For special reasons, this legislation does not apply in Northern Ireland.

Judicial

43. The Malta judicial system is distinct and not based upon the British system. At present Malta's final Court of Appeal is the Judicial Committee of the Privy Council. Certain United Kingdom Laws already apply in Malta and are interpreted there by the Malta Courts. Under Integration the number of United Kingdom statutes applied to Malta would increase, particularly if the Income Tax and Estate Duty Acts were applied to Malta. It might then be desirable to provide that where United Kingdom laws apply to Malta appeals should lie to the House of Lords and not to the Judicial Committee of the Privy Council.
Constitutional

44. In order to deal with the problem of division of powers between Parliament and the Malta Legislature it would be necessary for the Maltese to agree that Parliament should continue to have and on occasions exercise overriding power of legislation in all fields as it has in Northern Ireland. Apart from this it would be impracticable to bring Mr. Mintoff's proposals more nearly into line with the existing arrangements with Northern Ireland without a gradual process of development such as he envisions in the interim period. The immediate question is therefore whether representation in Parliament could be accorded to Malta now, when the only powers to be exercised by the United Kingdom Parliament in Malta would be principally in the field of foreign affairs and defence.

(b) The Financial Implications for the United Kingdom

45. However much Mr. Mintoff's proposals and the United Kingdom's commitments might be limited in the course of negotiation it is very possible that public opinion in Malta would regard representation in Parliament as giving Malta an eventual right to standards of social services and wages similar to those in the United Kingdom. It also seems likely that public opinion in this country would regard the presence of Maltese representatives in Parliament as a recognition of Malta as part of the United Kingdom. Members of the Conference ought therefore, to take into account the strong possibility that representation for Malta in Parliament will be regarded as a commitment to assist Malta to achieve eventually the current United Kingdom standards of social services and a level of economic development not far out of line with that in the United Kingdom, irrespective of Malta's own capacity to support such services. The proposal for Parliamentary representation for Malta must be considered in the light of the possibility of developing Malta's economy to a point at which it could itself support United Kingdom levels of social and other services without subventions from the United Kingdom considerably greater than what would be available under any other constitutional relationship.

The level of United Kingdom Expenditure on Malta

46. In 1955/56 the United Kingdom Government are financing expenditure by the Government of Malta amounting to £1.7 million in addition to expenditure by the Service Departments in Malta. Of this, rather more than £2 million would come from the special grant of approximately £30 million for war damage reconstruction, which is now nearing exhaustion, and approximately £500,000 was for civil defence, stockpiling and emigration. In order to give effect to the Agreed Statement made after the London discussions in July last - that is to say, in order to avoid serious unemployment in Malta, and to provide for some gradual improvement in the level of social services - United Kingdom assistance to Malta in the next five years might, it is estimated, have to run at about £5 million a year exclusive of the cost of the Imperial Branch (which would in any case be a United Kingdom liability). This would include £3-4 million for capital expenditure and £1-½ million for assistance to the Malta Budget. The amount required after the next five years cannot be forecast. It will depend upon the success of the development programme, the amount of private saving in Malta, the level of Service expenditure and the trend of emigration, as well as upon the rate of increase in expenditure on social services.
The Possibilities of Developing the Maltese Economy

47. The economy of Malta is narrowly based and it cannot pay itself for any substantial improvement in social services. If it is to have the same rates of tax and social services, and not to be a conspicuously depressed area compared with the rest of the United Kingdom, it is roughly estimated that development would have to proceed at a rate which would at least double income per head in the interim period, i.e., fifteen to twenty years. (This calculation is more fully set out in Annex VI.)

48. It is clear that any genuine economic development must take the form of expansion of civilian activities. It should not be sought merely through an increase in expenditure by the Services resulting from the grant of higher rates of wages, though the Services may be expected to provide higher wages as the general level of wages rises. The claim that Maltese workers employed by the Service departments should be paid the same wages as their United Kingdom employees was a prominent feature of the original integration proposals of the Malta Labour Party. The Service departments have recently granted a 10 per cent increase to their Maltese workers following similar action by the Malta Government, and if the Malta Government grants further pay increases it will be difficult for the Services to avoid doing the same. It is important that the Maltese should recognise that the prospects of economic development depend upon the Malta Government exercising a policy of wage restraint at any rate for some years.

49. In his Interim report, Dr. Balogh estimates tentatively that if 10 per cent of the gross national income, or at present £33 million a year, were made available by the United Kingdom for capital development this might over a long period be expected to produce an increase in national income of nearly 5 per cent per annum. If this were so, the rate of expenditure envisaged in para. 106 might be enough to double the level of income per head in Malta in fifteen to twenty years, if the flow of emigration could be well maintained.

50. Any such estimate depends, however, on whether there are sufficient potential economic resources in Malta which can profitably be developed. Admittedly, there has not yet been a proper geological survey or full review of the possibilities, and Dr. Balogh is to report further on this subject, but his interim report outlines the possibilities as seen at the present time. It is very doubtful indeed whether these justify his general estimate of the long-term rate of development which is possible. The interim report suggests that agriculture and fishing, the tourist trade, and the civilian harbour all offer opportunities for development. It seems unlikely, however, that these industries alone could provide a rapid expansion of the Maltese economy. Dr. Balogh therefore concludes that any really substantial advance must come from the development of manufacturing industry in Malta and that this depends on attracting to Malta a number of overseas firms for which purpose basic services must first be developed. In paragraphs 104-109 of his interim report Dr. Balogh says that the prospects depend mainly upon United Kingdom firms being attracted to Malta by the application of location of industry and development area legislation to Malta, and by the United Kingdom Government requiring that a proportion of defence orders of certain types must be executed in Malta. Dr. Balogh himself concludes that "without some such purposive British action we are unable to see how Maltese productive capacity could grow quickly enough to enable a steady but slow decrease of dependence on direct British Government grants"; and again in paragraph 109 "all the stimuli we have suggested will be needed if enough British firms are to be attracted. Only in this way can sufficiently quick progress be achieved to raise Maltese income and to relieve the British taxpayer of his responsibility (or at least substantially reduce it) in the foreseeable future."
51. This seems to presuppose that the Government have powers to direct firms to particular areas, which is not the case, and also that it would be feasible to direct defence orders to inexperienced and untried firms. It is very unlikely that any considerable number of British firms will be attracted to Malta by any measures which it would be practicable to take. Malta suffers from serious disadvantages. It has, so far as is known, no natural deposits of industrial materials or fuel, it lacks water. It cannot at present provide industrial services such as facilities for putting out toolroom work, which are needed by small branch businesses. Its home market, even when protected from competition from the United Kingdom, is too small to attract United Kingdom firms on its own merits and the main market to which Malta has free access, the United Kingdom, is far away. Its advantages are its climate, the fact that it has been shown in the dockyard that its people can become good industrial workers, and its low labour costs. The last is offset by the fact that it is the objective of the Minton proposals and of all parties in Malta to raise wages towards United Kingdom standards.

52. It has been far from easy to attract industry to Northern Ireland even though it has the facilities of an industrial centre and although considerable inducements have been offered. These have included the provision of factory sites on favourable terms, loans and grants to meet initial capital expenditures, and the provision of direct subsidies based on fuel consumption. In spite of these advantages, transport problems and costs and the unwillingness of managerial and technical staff to go to Northern Ireland have remained deterrents and there is still a high rate of unemployment there. This experience suggests that it is unlikely that British firms could be persuaded by similar measures to set up branches in Malta on any substantial scale.

53. Apart from the doubt as to whether it will be practicable to develop Malta's economy to the extent required, there are two important factors in Malta's economic situation which might alter to her disadvantage. The first is Service expenditure. Part I of this Memorandum shows the extent to which Malta's internal economy and balance of payments depend on this expenditure, and any considerable reduction in it would substantially offset the results of new development which may be achieved. The second is the rate of emigration. The natural increase in the population in Malta is at a high rate - between 1½-2 per cent per annum in recent years. Between 1949 and 1954 a total of 39,000 people emigrated from Malta so that the net population has been rising only at about ½ per cent per annum. But no less than £25 million have been spent in this period in subsidising emigration. Part of this money has been provided by recipient Commonwealth countries and a large proportion by the United Kingdom. If the rate of emigration fell off, as it might well do if the result of development efforts is to raise wages and increase the prospects of remunerative employment in Malta, this would increase the size of the problem.
Financial Implications for the United Kingdom

54. If Parliamentary representation were granted to Malta, and Dr. Balogh's assessment of the possibilities of development proved in the event to be much too optimistic, Malta would remain much poorer than the United Kingdom, and one of two alternative situations would ultimately arise. The first would be acceptance of a situation in which Malta continued permanently to receive a lower standard of wages, social service and other benefits, and to pay lower rates of direct taxation than prevail in the United Kingdom. In that event the cost to the United Kingdom of financial assistance to Malta might be no more than if Parliamentary representation had not been granted, although pressure for quick advance might be increased. It is difficult to see how in such circumstances Parliamentary representation could be refused to other Colonies which asked for it on the same terms. The second would be that United Kingdom standards of benefits would eventually have to be introduced in Malta under pressure of public opinion, and that, in so far as Malta could not pay for them, the cost would fall on the United Kingdom in the form of a larger direct subvention to the Malta Budget than might otherwise be required, and of increased wages and social service contributions paid by the Service departments. If the grant of full representation in Parliament will constitute in effect a commitment that Malta will eventually receive United Kingdom standards of social benefits, this is the risk which has to be assessed. It is not possible to estimate what the cost to the United Kingdom might be. It would depend on the success of the development effort and on the trends of emigration and Service expenditure. It might also be affected by increases in the standards of benefits prevailing in the United Kingdom. Apart from the cost, a virtual guarantee by the United Kingdom of eventual similarity of social service standards and wage levels, whatever the Malta economy can itself stand, might seriously weaken the incentive to the Maltese to improve their standards by their own efforts.

(c) Repercussions of accepting the Mintoff proposals on the constituent parts of the United Kingdom and on other Colonial Territories

Scotland and Wales

55. If Parliamentary representation is granted to Malta on the same basis as Northern Ireland, with a greater degree of autonomy and (at the outset at any rate) lower rates of taxation than are carried by Scotland and Northern Ireland, the demand for a separate Scottish Parliament would certainly be stimulated. So may the claim for a differential system of taxation applicable to Scotland. It might well be asked why, if Malta can be exempt from the United Kingdom direct taxation until her economic standards have been raised with United Kingdom assistance, and can at the same time receive representation in Parliament, the same principle should not be applied to Scotland where the average income is admittedly less than in England and Wales.

56. Similarly in Wales, impetus might be given to the movement for autonomy for Wales on the Northern Ireland pattern. Hitherto it has been recognised that the imperial contribution which would be paid by an independent Wales would be so heavy in proportion to her revenue that Wales would suffer a decline in her standard of living. But, if it could be claimed that Wales should have more generous treatment on the model of the proposed Malta arrangements, much more support might be forthcoming, even though the possession of a separate Parliament on the Northern Ireland model would reduce the representation of Wales in the House of Commons.
Northern Ireland

57. Northern Ireland opinion might well dislike the grant to Malta of greater autonomy than Northern Ireland possesses, but it would probably not react by demanding similar treatment. If the Mintoff plan was accepted Northern Ireland might well ask that consideration should be given to the equity of taxing Northern Ireland at the same level as the rest of the United Kingdom, in view of the undoubted economic disabilities of the country. There might also be pressure to increase the financial assistance for economic development in Northern Ireland.

Colonial Territories

58. The larger Colonial territories, and some of the smaller ones if they are brought into Federations, can expect to move gradually towards the achievement of a fully independent status and to become candidates for full Commonwealth membership. Those apart, however, there remain twenty smaller territories, in addition to Malta, most of which cannot expect to reach that status because their size, geographical situation, and economic resources will not enable them to stand alone in the world without external assistance. The question is whether Malta can be clearly distinguished from these other smaller territories, or whether, if Malta is given representation in the United Kingdom Parliament, there is likely to be such pressure for similar treatment from a number of other territories that they, or some of them, may ultimately have to be given representation also.

59. Her Majesty’s Government consider that the grant of representation to Malta is not in itself likely to stimulate pressure for similar treatment in any of the smaller Colonial territories. The majority of them are likely to regard representation at Westminster, implying a greater control of their affairs by the United Kingdom Parliament, as less acceptable than a growth of greater local responsibility for handling their own affairs in their own Legislative and Executive bodies. In those cases it would probably be accepted that a radical solution of Malta’s relationship with the United Kingdom was justified by Malta’s unique circumstances.

60. It is however possible that assistance given by Her Majesty’s Government to Malta to help in raising the levels of wages and of social services either up to, or substantially towards, the United Kingdom standards might well bring pressure from some smaller Colonial territories for the like assistance; and, if need be, for representation as a necessary corollary.

61. The financial assistance to Malta, both for development and for current expenses, which might be involved in a commitment to aim at parity with the United Kingdom in wages and social services, would be on a scale far greater in proportion than that given to any other Colony, and this fact would undoubtedly be noticed elsewhere. This disparity in itself could be defended by Malta’s special position – even existing help to Malta is to some extent disproportionate – but the effect elsewhere of any acceptance for Malta of United Kingdom standards of social services and wages, might be considerable. This would be a new concept with clear attractions for many other Colonies, particularly if the cost is virtually guaranteed by Her Majesty’s Government; and if it is coupled with no obligation to adopt United Kingdom tax rates the position would be difficult to hold against demands from other Colonies for similar treatment. Malta already enjoys a standard of living...
higher than that in most Colonies, and it might be extremely difficult to convince the others that Malta's position was indeed so unique as to justify such specially favourable treatment.

Other Considerations

62. There remain certain other considerations to which attention should be drawn:

(a) The division of opinion in Malta

Maltese opinion is at present divided on the Mintoff proposals. The Malta Nationalist Party, which polled 40 per cent of the votes at the recent election, is strongly opposed to them. The attitude of the authorities of the Roman Catholic Church, who have great influence, is still uncertain, although their main preoccupation is with possible interference in Church matters by the United Kingdom Parliament, which is not involved in the Mintoff proposals. Mr. Mintoff proposes that if Her Majesty's Government accept his proposals they should be the subject of a referendum in Malta before effect is given to them. Even if the result of the referendum were favourable, however, there is the risk that a change of Government in Malta might create a challenge to integration as a permanent solution.

(b) The position of Malta Members of Parliament

Although they might be drawn from both Parties in Malta, there is a risk that the Malta members might offer their support, in matters which affect the United Kingdom alone, to the Party which was willing to do the most for Malta. At times when the Government had only a small majority in Parliament this might be embarrassing. Moreover, at any rate until direct taxation in Malta became a matter for the United Kingdom Parliament, the Maltese members would not have many opportunities to raise in general debate matters of direct concern to Malta. This might lead to a sense of frustration, which would react on public opinion in Malta and thus lessen the political attractions of the Mintoff proposals.

(c) Method of Representation

Mr. Mintoff has insisted that Malta should have at least three representatives. Assuming that, as he proposes, the British electoral system on the basis of adult suffrage were used in Malta, there would be about 150,000 voters, or 50,000 per constituency. This is about the same as in Great Britain, but in Northern Ireland there are approximately 75,000 voters in each constituency and it is a recognised feature of Northern Ireland's position that, because she has a separate Parliament of her own, she has fewer representatives in proportion to her electorate than the rest of Great Britain. It may be thought desirable to maintain this principle in Malta, because one of the reasons which withholds support from the demand for a separate Parliament for Wales on the Northern Ireland model is that Wales would then receive smaller representation in Parliament at Westminster.

An alternative to direct election would be for Malta to be represented by Members elected by the Malta Legislative Assembly in proportion to its own composition. But this would be a departure from the Northern Ireland model.
(d) **Budgetary Control**

The question arises as to how Malta's Budget would be operated if direct taxation in Malta comes under the Imperial Parliament. It would be necessary to ensure that the Maltese fixed levels of indirect taxation which taken with United Kingdom rates of direct taxation absorbed a proportion of the national income in Malta broadly comparable to that taken by taxation in the United Kingdom after taking into account the difference in the levels of income and the fact that there is no local authority taxation in Malta. Her Majesty's Government consider that the Maltese would have to agree that both in the interim period and after they have become liable to United Kingdom direct taxes, there must continue to be regular consultation in regard to their proposed revenue and expenditure, and that the United Kingdom contribution to their Budget would continue to be dependent, as it is now, on Her Majesty's Government being satisfied that Malta is raising taxation on an adequate scale.

**SUMMARY OF CONSIDERATIONS AFFECTING PARLIAMENTARY REPRESENTATION FOR MALTA**

63. The case for giving full representation in Parliament to Malta is that to do so provides the best hope of solving a long-standing political problem, and of securing full Maltese co-operation in foreign affairs and defence matters. This is the first time that a Colonial Government has made proposals to draw closer to the United Kingdom. If these proposals are rebuffed, there may well be an intensification of friction and obstruction over defence requirements in Malta. All Maltese parties demand some modification of the present rigid dyarchy. The Mintoff proposals aim at achieving this, while enabling the necessary powers to be retained by Her Majesty's Government in foreign affairs and defence matters, by giving Malta an effective voice in Parliament. Representation in Parliament is the essence of the proposals. This would be regarded by the Maltese as visible assurance that they could make their views known in London, and share in decisions taken there on matters affecting their vital interests. It would also be regarded as carrying an assurance of financial and economic support for Malta's development plans and for the achievement of their long-term objective of attaining United Kingdom standards of wages and social service benefits.

64. The following main considerations have to be weighed in reaching a decision on the Mintoff proposals:

(i) The proposed relationship would give Malta considerably more autonomy than Northern Ireland. In particular, at least for ten years, and perhaps indefinitely, Malta representatives would be entitled to speak and vote in the House of Commons on all matters, although Maltese taxation was not under the control of the United Kingdom Parliament, and the Maltese were not bearing the full burden of United Kingdom rates of taxation.
(ii) The acceptance of Parliamentary representation for Malta is likely to be regarded as a commitment on the part of the United Kingdom that Malta will eventually have broadly the same standards of social and other benefits and the same level of wages as prevail in the United Kingdom irrespective of what the economy of Malta can itself sustain.

(iii) Even with considerable United Kingdom assistance for development, it is very doubtful on present information whether Malta's resources could ever support United Kingdom standards of benefits and wages. If this proves to be so, the extra cost of giving Malta such standards will eventually fall on the United Kingdom. The size of this risk cannot be precisely assessed.

(iv) Acceptance of the principle that the United Kingdom should help Malta to achieve United Kingdom standards of wages and social benefits might well provoke stronger demands for increased financial assistance in Scotland and Northern Ireland and in some Colonial territories. The claim for differential rates of taxation in Scotland and Northern Ireland would also be strengthened so long as lower rates of direct taxation applied in Malta.

(v) Because of the division of opinion in Malta it is uncertain whether Parliamentary representation would be accepted permanently.

(vi) The Malta members of the House of Commons would, in the interim period, have little opportunity of raising matters of direct concern to Malta except through intervention in general debates on foreign affairs and defence. This might in practice lessen the attractiveness of Parliamentary representation as a solution for local difficulties. From time to time the support of the Malta members would acquire disproportionate political value which might be used to secure concessions for Malta.

[Annexes not reproduced]
CABINET

SECURITY CONTROLS ON EAST/WEST TRADE

MEMORANDUM BY THE MINISTER OF DEFENCE

I suggest that the time has arrived to seek further policy discussions with the Americans about the level of security controls on trade with the Soviet Bloc, in the light of the new strategic concept.

2. At their meeting on 17th February, 1954 (C.C. (54) 9th Conclusions, Minute 6), the Cabinet decided to press for a much shorter embargo list, based on the concept of the “long haul,” and following discussions in Washington between Mr. Thorneycroft and Mr. Stassen joint Anglo-American proposals were accepted by the Paris Group which resulted in reducing the embargo list by 86 items.

3. A few important items remained undecided, owing to continued pressure by the Americans for wider controls than we and other countries were prepared to accept. Three of these, viz., merchant ships, rolling mills, and copper wire, are still outstanding. It is evident from the discussions on these items that the Americans are still thinking in terms of retaining the embargo as far as they can on all items of industrial equipment which might be regarded as of some assistance to the Soviet Bloc in waging a prolonged war of the conventional type.

4. During the past year the recognition that the thermo-nuclear bomb would be used in a major war has revolutionised the whole basis of our strategic planning. We no longer attach the same importance to the build-up of industrial capacity or of stockpiles of industrial raw materials for a long term productive effort after the outbreak of global war. Nor do we feel that the expansion of industrial manufacturing capacity and the accumulation of raw materials by the Soviet Bloc are so serious a strategic menace in the new circumstances as they have been in the past.

5. Even before the strategic situation was transformed by the hydrogen bomb, we had recognised that the embargo on exports from the Western world could have only a marginal effect on the growth of industrial power in the Soviet Bloc or on its capacity to wage a prolonged war. As far as we can judge the embargo has had practically no effect on the quantitative build-up of the Soviet Armed Forces in peacetime. The Bloc is in a position to direct, and has no qualms about directing, a high proportion of its resources into arms production at the expense of the civil population. Moreover, it has vast natural resources of its own and has rapidly developed both modern manufacturing capacity and the means of expanding it. The main value of the security controls has rested in the denial to the Bloc of the more advanced types of equipment used in military production, of technological know-how of military application, and of atomic energy materials and a few raw materials of military importance of which they are known to be critically short. Nevertheless, as a form of protection against a total war of the
conventional type, the controls have hitherto been justified, as representing some handicap to the development of the mass-production capacity which would be so essential in sustaining the vast Soviet Forces in a prolonged conflict.

6. In the new situation, it is very questionable whether the political irritants and the handicaps to world trade which result from the controls can any longer be justified by their results in terms of defence advantage. If we accept that any war in which we are opposed to Russia will be a global conflict and that in such a conflict thermo-nuclear weapons are bound to be used, the initial phase will be all-important. In this phase Russian Government organisation and industry will be the principal targets of the Western strategic air attack. In all probability the outcome of the war will be decided in this phase, even though fighting may continue for some time thereafter with what forces and equipment are left. In these circumstances, such minor difficulties as we can impose upon Russia by security controls in peace have little significance. What we need is a fresh approach to the problem.

7. My own view is that we should now eliminate from the list of controlled items anything whose sole justification for inclusion is that denial to Russia would hamper her general industrial development and that we should confine the list to equipment and material which would, if exported, assist the Bloc in a military sense in the initial phase of a major war or in preparation for that phase. This means, in brief, that apart from Atomic Energy materials and Defence equipment proper (including machinery specially designed for making it) we should now restrict the controls to:

(a) Items involving important Military know-how.
(b) Specialised telecommunications equipment.

In practice, this would amount to a fairly wide control over electronic equipment. No attempt would be made to control plant or machinery solely on the ground that it could in war be turned over to the production of armour-plate, vehicles and conventional weapons; nor would there be any control of most types of merchant shipping or of the ordinary raw materials of industry.

8. If we accept that this should be our general policy, our main problem will be to convince the Americans that it is sound and justified by the new situation. Much less difficulty is likely to be encountered with the remaining members of the Paris Group (the other North Atlantic Treaty countries and Japan) with the possible exception of Canada, which is closely tied to the United States on export policy because of their common open frontier.

9. An opening for an approach to the Americans has been provided by the recent request of the French Government for informal talks with the Americans and ourselves to discuss East/West trade matters, in particular the reduction of the China controls and the streamlining of the Soviet Bloc controls. A tripartite meeting has been arranged for 3rd October, and it is desirable that we should settle our own policy before that meeting.

S. L.

Ministry of Defence,
13th September, 1955.
CABINET

INDUSTRIAL RELATIONS

Note by the Prime Minister

At their meeting on 5th September, the Cabinet invited the Chancellor of the Exchequer, in consultation with the Minister of Labour, to circulate a draft of a White Paper on industrial relations in the present economic situation. The Chancellor of the Exchequer accordingly arranged for the preparation of a draft White Paper.

2. I now circulate such a draft, together with a covering note by the Financial Secretary, Treasury, which describes the origins and aims of the Paper, and sets out the main points which the Cabinet need to consider.

3. I have not yet had an opportunity of reading the Paper myself; but in view of the possible timing of its publication I consider it important that the Cabinet, without going into details, should have a preliminary discussion of its tone and contents at our meeting on Thursday, 15th September.

A.E.

10, Downing Street, S.W.1.

14th September, 1955.
PUBLIC RECORD OFFICE

Reference

CAB 129 77

ALL ODD NUMBERS BETWEEN

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This draft White Paper has been prepared in accordance with the directions of the Ministerial Committee on Industrial Relations, who instructed officials "To examine the possibility of making a statement of Government policy, in the form of a White Paper or otherwise, on industrial relations in present economic circumstances".

2. The draft deals not with the legal and jurisdictional aspects of industrial relations, but with the economic forces which tend to generate discontent and unrest in industry, i.e., the familiar questions of wages and dividends, costs and prices, and so forth - it endeavours to present them in a fresh light in such a way that they can be seen in relation to the longer-term issues involved.

3. The White Paper is, deliberately, a long-term document, dealing with the problems which a fully employed economy must solve if it is to continue to make progress without strain. (This does not mean that it has no topical reference. Indeed, if it were decided to publish it more or less simultaneously with the announcement of the further economic measures which are now envisaged, it would provide a convenient means of setting those measures in the right perspective).

4. The document is concerned to explain and not to preach. It endeavours to set out the relevant facts as objectively as possible, and to leave the public to draw their own conclusions.

5. The essential points for decision are:­

(a) Whether this is the sort of document which Ministers wish to see published.

(b) If so, when they would like to see it published.

6. Much work has been done on its preparation, and it is as well balanced as it seems possible to make it. The purpose of the notes which follow is not to make a full summary of the document, but to single out for the attention of the Cabinet those ideas in it which are most difficult to handle objectively, and which therefore deserve particular consideration.

(i) Appendix I attempts to describe what the state of the economy may be in ten years' time, if all goes well. This is a purely technical document, which analyses, in conventional national income terms, the possible national product of 1964 and the possible claims upon it by the various sectors of the economy. This Appendix is explicitly not a prediction or a promise of what will happen; it is simply illustrative of what may happen on two alternative assumptions about the level of productivity which we achieve. Nevertheless it can inevitably be attacked, from the purely technical point of view, at those points where it has had to attempt a definite statistical measure of, e.g., the future growth of imports, the future level of Government expenditure (which is shown as unchanged), the future expansion of investment, and so forth. All of these
figures can be argued to be too large or too small or unrealistic in some other respect; and to the extent to which the Appendix can be misrepresented as a definite prediction this sort of attack may discredit it to some extent. Even if we assume that the Appendix is accepted as being no more than illustrative, it gives hostages to future political fortune; and it needs to be considered carefully, from this point of view, whether it should be included.

(ii) Section II of the draft analyses the course of prices since the end of the war. If this analysis is to be fair and impartial, it must refer to the effects of the 1949 devaluation and to the results of the reduction of the food subsidies in 1952. These references have been inserted, as briefly as possible.

(iii) Section III describes the movements in the various types of income since the end of the war. All the statistics in this Section are derived directly from the Blue Book on National Income and Expenditure, and they have been chosen to give as objective a picture as possible. But the treatment of dividends in relation to wages needs to be carefully scrutinised, since that term is here interpreted in the way in which the ordinary man understands it (i.e., as dividends on Preference and Ordinary shares) and not in the more technical sense in which it is often used, (i.e., as including interest as well as dividends).

(iv) Section IV briefly describes the probable effects, both at home and abroad, of an indefinite continuance of rising prices. The overseas effects, which are reflected, of course, in the balance of payments, cannot fairly be described without some reference to the fact that, if our prices rise to a point at which we lose our export markets and if we simultaneously insist on maintaining full employment at home, the only safety valve is the exchange rate, i.e., another devaluation. This reference has been inserted, at the end of paragraph 25. It needs careful consideration.

(v) Section V deals with the responsibility of Government and of both sides of industry in these circumstances. What it says is fairly obviously what needs to be said. But the tone in which it is presented is all-important.

H.B.

Treasury Chambers, S.W.1.

14th September, 1955.
Sixth Draft

THE IMPLICATIONS OF FULL EMPLOYMENT

I. Full Employment since 1945

1. The White Paper on Employment Policy (Cmd. 6527), issued by the Coalition Government in May 1944, set out the policies to be pursued after the war to maintain a high and stable level of employment. The experience of the past ten years has shown that full employment can be maintained but that it has created new and serious problems of its own.

2. Since the end of the war, this country has enjoyed full employment to a greater degree than most people would previously have thought possible. From 1945-55 unemployment has never (except for a few weeks in 1947) exceeded 3 per cent; for most of the period it has been under 2 per cent; and it is now little more than 1 per cent. In the years immediately before the war, the average rate of unemployment was 8-9 per cent.

3. The 1944 White Paper recognised that it was not employment alone which our national effort must seek to maintain, but "a high level of employment combined with a rising standard of living". But although full employment has been accompanied by an almost continuous expansion of output (interrupted only for comparatively short periods in 1947 and 1952), the possibilities of devoting this increase in production to improving the standard of living were limited, in the immediately post-war years, by the need to meet more urgent claims on our resources. We had to devote our efforts to making good the physical damage and destruction of the war, to overtaking the arrears of capital investment, and, at the same time, to restoring our balance of payments, which had been seriously dislocated by the war. In particular, we had to achieve a very large increase in our exports, in order to offset adverse movements in the terms of trade and the loss of a large part of our pre-war income from overseas investments. These difficulties had been only partially overcome when, in 1950, the outbreak of war in Korea and the growing international tension compelled us to undertake a substantial programme of rearmament. As a result, it is only in the past two years or so that the individual consumer has become the main direct beneficiary of the increase in resources.

4. This pattern of development over the last ten years can be illustrated in terms of the total national output of goods and services. Since 1946 that output has risen by 25 per cent; industrial production has risen by 50 per cent; and the volume of imports of goods and services has risen by about 25 per cent. But in the first four years of this period, 1946-1950, about half of the increase in available resources was exported, and a further quarter was devoted to rebuilding and expanding fixed investment. Most of the remainder represented an increase in personal consumption; but this increase raised personal consumption by only some 6 per cent above the low level to which it had inevitably been reduced by the end of the war. In the next two years, 1950-1952, more than two-thirds of the increase in resources had to be allocated to the new Defence programme; the level of personal consumption fell slightly. In the last two years, 1952-1954, about half of the growth of resources has been absorbed by exports, investment and Government expenditure, and about half by the consumer, whose expenditure, in real terms (i.e. after allowing for price changes), has risen at the rate of 4 per cent per annum.

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5. Our experience since 1945 is not necessarily typical of the working of a fully employed economy in more normal times. But it has made it sufficiently clear that, if full employment is henceforward to be associated with a rise in the real standard of living of all sections of the community, we have two enduring problems to face. First, we need to maintain a much greater degree of price stability than has been achieved in the past decade. Second, although we have rebuilt and substantially enlarged our export trade, our balance of payments needs to be still further strengthened if it is not only to accommodate the removal of our remaining restrictions on imports but also to show the substantial continuing surplus which we need.

6. To some extent, the future growth of the economy will be determined by developments in other countries. It would be unrealistic for a nation which is as dependent as ours on overseas trade to hope to maintain the full momentum of economic expansion in the face of severe or prolonged recession in the rest of the world. But in large measure the solution of our problems will depend upon our own determination and our own ability to solve them. The effort which is implied will be considerable; but it must be seen in the perspective of the potential expansion of the economy in the longer term, with all that this means for the strength of our country and the welfare of our people in the future.

7. The growth of the economy is subject to the influence of too many unforeseeable factors, particularly the impact of technical innovation, to enable it to be predicted with any certainty. We are on the eve of great technical advances in the application of nuclear energy and electronics to industrial processes. Under the stimulus of full employment, new attitudes to production are developing on both sides of industry. The possibilities of economic progress and the importance of raising productivity command greater understanding and a wider degree of acceptance than they did ten years ago. The influence which these factors are likely to exert on the future development of the economy will certainly be profound; but their full extent cannot be forecast.

8. But the fact that the pattern of economic progress cannot be predicted in any detail does not mean that it is wholly beyond the reach of analysis. As new techniques of production are developed, more efficient methods of work are introduced, and the yield from investment rises, we can look forward with confidence to a continuing expansion of our capacity to produce. Thus it is possible by the use of certain specific assumptions, to project in broad outline the growth of the economy during the next decade; and alternative projections are contained in Appendix I. The assumptions involved are liable, like any assumptions about the future, to be falsified by events in many respects. But although the prospect which they imply is in no sense a forecast of what is likely to happen, it is of value in clarifying some of the implications of economic development.

9. One such implication is a further progressive improvement in our standard of living. It is right that we should look forward to this possibility: one of the main purposes of economic expansion is to satisfy the natural desire of mankind to enjoy a fuller life, in terms of security and happiness, leisure, range of choice and the fulfilment of personal hopes and ambitions. A sustained growth of the economy is no less essential to enable us to discharge our duties as a major political and industrial power, to sustain our commitments in many parts of the world, and to contribute to development overseas.
II. The Problem of Price Stability

10. The possibilities for the expansion of production and the improvement of living standards which are within our reach are, therefore, very considerable. But the full realisation of these possibilities may be jeopardised unless the maintenance of full employment and the expansion of production are accompanied by a much greater degree of price stability than we have achieved in the past ten years.

11. The White Paper of 1944 did not foresee the extent to which full employment was to be associated with rapidly rising prices. Between 1946 and 1954, the prices of the final output of goods and services of all kinds increased by about 50 per cent. Apart from the relatively minor effect of subsidies and indirect taxation, these prices are determined partly by the price of our imports and partly by our own costs of production. And these costs of production are themselves determined by the incomes of those who produce the goods and services at each stage of the productive process - in other words, by wages, salaries and profits. The level of incomes reflects the balance of supply and demand throughout the economic system as a whole. If demand is significantly in excess of the supplies available to meet it, its pressure will itself contribute to forcing up prices; and in such conditions it becomes easier both to obtain higher money incomes and to pass on any resultant increases of costs in the form of higher prices. The available statistics of output and incomes do not permit us to make a comprehensive analysis of the detailed effects of these different factors. But a brief survey of the course of prices in the last ten years indicates clearly that, while increases in incomes need not necessarily lead to rises in costs and prices, they do so whenever they outrun the growth of production, that is, whenever labour costs and/or profit margins rise per unit of output.

12. The history of rising prices since the war falls broadly into four phases:

(1) The immediate legacy of the war was a world-wide shortage of goods, coupled with an excess of demand for them. World prices therefore rose sharply, and from 1946-1948 the average prices of our imports increased by 25 per cent. This increase would, if it had been the only factor at work, have raised the average level of our final prices by about 5 per cent. But it was accompanied by a widespread demand for higher incomes in this country; and, because this increase in incomes outstripped the growth of output, costs of production rose, the rise being reflected in an increase not of 5 per cent but of 15 per cent in the average level of prices.

* A definition of this price index, and of the factors which have influenced it, is contained in Appendix II.
In 1948, the White Paper on Personal Incomes, Costs and Prices ( Cmd. 7321 ) set out the dangers of further price rises. In the next two years incomes did not increase much faster than output, and costs of production were therefore considerably more stable. Since, at the same time, world supplies were becoming more plentiful, import prices also were rising less fast. As a result, our own final prices rose relatively little.

In 1950, the Korean war precipitated a fresh outburst of world demand, particularly for primary products; and import prices rose sharply. This resulted in a rise in retail prices in this country, which itself initiated a demand for a compensating adjustment in incomes. These increased incomes added substantially to costs, because at that time it was proving difficult to increase output: shortage of steel retarded production in 1951, and the world-wide recession in the demand for textiles, clothing and other consumer goods - itself a reaction from the Korean boom - led to an actual fall in output in 1952. In the event, our final prices rose 18 per cent between 1950 and 1952.

The reduction in the food subsidies in 1952 added somewhat to prices in the latter part of that year and in the early months of 1953. But after 1952 the growth of production was resumed, and during the whole of that year and the first part of 1954 import prices were falling. At home, however, incomes were rising rather faster than output. The fall in import prices was sufficiently large to offset the rise in home costs, and during most of 1953 and the first half of 1954 prices were very stable. But after the middle of 1954 import prices began to rise again, while the upward trend of home costs showed some acceleration. The combined result has shown itself in the renewed upward pressure on costs and prices which has continued into 1955.

13. This brief summary of the course of our final prices in the past ten years has inevitably compressed into a few paragraphs a highly complex process. But its essential features are clear:-

(a) Since 1946 the prices of the final output of goods and services of all kinds have risen by about 50 per cent. Of this increase, about one-tenth is attributable to the net effect of changes in subsidies and indirect taxes. The remaining nine-tenths have been determined by movements in import prices and in our own costs of production.
(b) Since 1946 the prices of our imports of goods and services have risen by about 75 per cent, partly as a result of the devaluation of sterling in 1949. In the same period money incomes per unit of output have increased by about 50 per cent. But for the economy as a whole our own costs of production, as measured by money incomes per unit of output, are between three and four times as important as import prices, in terms of their effect on final prices. Thus, although the rise in import prices has been greater than the rise in our own costs of production, it is the latter which have been - and will remain - responsible for by far the greater part of the increase in our final prices.

(c) Although, over the ten years as a whole, import prices have risen by 75 per cent, they have fluctuated considerably during this period, sometimes rising and sometimes falling. When they have risen they have not only added directly to our price level, but also initiated demands for higher incomes, the result of which has been greatly to magnify the immediate impact on the price level of the rise in import prices themselves. It is this process which has established, from time to time, a new, and permanently higher, level of prices. That level has never fallen when import prices fell, because the gain from lower import prices has been more than offset by the rising trend of incomes and costs at home.
III. Changes in the Distribution of Income

14. Of the factors which determine our final prices, the most important is, therefore, our own costs of production i.e. our own incomes and productivity. We cannot analyse the extent to which changes in different categories of income have contributed to the increases in costs of production, and so to the rise in prices discussed above. But the relative movements of these categories of income over a period of years are of obvious relevance and public interest. They emerge clearly from the following table:

Table 2

Incomes from Employment and Gross Trading Profits

<table>
<thead>
<tr>
<th>Year</th>
<th>Wages and Salaries (million)</th>
<th>Percentage Changes</th>
<th>Share in Total National Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>2,830</td>
<td>100</td>
<td>55</td>
</tr>
<tr>
<td>1948</td>
<td>6,140</td>
<td>217</td>
<td>59</td>
</tr>
<tr>
<td>1954</td>
<td>9,265</td>
<td>327</td>
<td>59</td>
</tr>
</tbody>
</table>

Gross Trading Profits of Companies and Public Enterprises

<table>
<thead>
<tr>
<th>Year</th>
<th>Million</th>
<th>Percentage Changes</th>
<th>Share in Total National Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>764</td>
<td>100</td>
<td>15</td>
</tr>
<tr>
<td>1948</td>
<td>2,018</td>
<td>264</td>
<td>19</td>
</tr>
<tr>
<td>1954</td>
<td>2,995</td>
<td>392</td>
<td>19</td>
</tr>
</tbody>
</table>

Incomes from Self-Employment

<table>
<thead>
<tr>
<th>Year</th>
<th>Million</th>
<th>Percentage Changes</th>
<th>Share in Total National Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>647</td>
<td>100</td>
<td>13</td>
</tr>
<tr>
<td>1948</td>
<td>1,328</td>
<td>205</td>
<td>13</td>
</tr>
<tr>
<td>1954</td>
<td>1,645</td>
<td>254</td>
<td>11</td>
</tr>
</tbody>
</table>

Note: The items in this table are taken from the Blue Book on National Income and Expenditure, 1955, Tables 1 and 2.

15. This table shows that nearly 80 per cent of incomes consists of wages and salaries and the gross trading profits of companies and public enterprises; that the total of wages and salaries is rather more than three times as great as the total of gross trading profits; that the latter showed a rather greater proportionate rise than the former between 1938 and 1948; and that both types of income have risen at a more or less equal rate - by about 50 per cent - in the period between 1948 and 1954.

16. The distribution of gross profits as between dividends, taxes and reserves is a separate question. The following table provides estimates of the allocation of the total income of companies, in 1938, in 1948 and in 1954.

-6-
### Table 3
The Allocation of Companies' Income
1938, 1948, 1954

<table>
<thead>
<tr>
<th></th>
<th>1938</th>
<th>1948</th>
<th>1954</th>
<th>1938</th>
<th>1948</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends on Preference and Ordinary Shares</td>
<td>481</td>
<td>512</td>
<td>700</td>
<td>46</td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td>Other interest payments (1)</td>
<td>160</td>
<td>206</td>
<td>374</td>
<td>16</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>U.K. taxes on income (2)</td>
<td>95</td>
<td>743</td>
<td>978</td>
<td>9</td>
<td>32</td>
<td>29</td>
</tr>
<tr>
<td>Company saving after tax (3)</td>
<td>299</td>
<td>895</td>
<td>1,312</td>
<td>29</td>
<td>38</td>
<td>39</td>
</tr>
<tr>
<td><strong>Total income of companies</strong></td>
<td>1,035</td>
<td>2,356</td>
<td>3,364</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: The items in this table are taken from the Blue Book on National Income and Expenditure, 1955, Table 29.

(1) Including debenture interest; interest of co-operative societies and building societies shares and deposits; other interest paid by banks etc.; and taxes and remittances paid abroad.

(2) Including additions to tax reserves.

(3) Including additions to dividend reserves.

17. This table shows that, before the war, dividends - in the sense in which they are normally understood, i.e., dividends on the Preference and Ordinary shares of companies - absorbed rather more than 45 per cent of the total income of companies; taxes took 9 per cent; and reserves rather less than 30 per cent. The balance of about 15 per cent consisted of a variety of other types of interest payment, together with provision for payment of taxes abroad. In both 1948 and 1954, dividends took a little over 20 per cent of total company incomes; taxes accounted for about 30 per cent; nearly 40 per cent was put to reserve; and the balance of some 10 per cent was absorbed by the other items.

18. Dividends constitute about 5 per cent of the total of income analysed in Table 2, and their relevance to the movement of prices lies much less in their direct effect on the level of incomes than in the pressure which they are liable to generate for what are felt to be corresponding adjustments of wages and salaries. Table 4 compares the movement of wages and salaries with the movement of dividends, both in money terms and in real terms over the period 1938-1948-1954.
### Table 1

#### Wages, Salaries and Dividends

<table>
<thead>
<tr>
<th>Year</th>
<th>Wages and Salaries (£ million)</th>
<th>Dividends on Preference and Ordinary shares (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>2,030</td>
<td>481</td>
</tr>
<tr>
<td>1948</td>
<td>2,110</td>
<td>512</td>
</tr>
<tr>
<td>1951</td>
<td>2,265</td>
<td>710</td>
</tr>
</tbody>
</table>

#### Percentage Changes in Money Terms

<table>
<thead>
<tr>
<th>Period</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938-1948</td>
<td>+117</td>
</tr>
<tr>
<td>1948-1954</td>
<td>+51</td>
</tr>
</tbody>
</table>

#### Percentage Changes after allowing for price changes (1)

<table>
<thead>
<tr>
<th>Period</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938-1948</td>
<td>+18</td>
</tr>
<tr>
<td>1948-1954</td>
<td>+25</td>
</tr>
</tbody>
</table>

---

19. In money terms, wages and salaries rather more than doubled in the years 1938-1948, while dividends rose by slightly more than 5 per cent; and in the period 1948-54, wages and salaries increased by about 50 per cent, and dividends by rather less than 40 per cent. In real terms, wages and salaries rose by 18 per cent during the earlier period, and dividends fell by about 15 per cent; while in the last six years, wages and salaries have risen by 25 per cent and dividends by 12 per cent.

20. These estimates take no account of direct taxation. If allowance is made for the charge of tax, and for changes in the incidence of that charge during the period, the difference of movement between wages and salaries on the one hand and dividends on the other hand is accentuated. But although, over the years 1938-54 as a whole, dividends have increased substantially less, both in money and in real terms, than wages and salaries, their rate of increase has been faster than that of wages and salaries during the most recent part of this period; and while no comprehensive statistics are yet available for the current year, this trend has continued during 1955.
21. Earlier sections of this paper have referred to some of the possibilities for future economic expansion, and have discussed the forces which have made for rising prices since 1915. Unless the upward pressure of rising money incomes on prices is moderated, continued economic expansion is likely to be associated with serious and increasing strains, both economic and social. These strains, if not relieved, may well prevent our realising our full potentialities of economic growth; and they may, especially if they cause balance of payments difficulties, lead to a set-back in the rate of our economic progress.

22. The increase in our overseas earnings which will be required if we are to pay for the imports needed to sustain an expanding economy and to maintain an adequate surplus on our balance of payments, will depend, for its realisation, on two factors - first, a continuing growth of production and trade throughout the world; second, our own ability to secure a sufficient share of this growing trade. The policies of Her Majesty's Government are directed, in co-operation with those of many other countries, to securing the maximum expansion of trade and to creating conditions in which this trade can flow freely. But no efforts of Government alone can ensure that this country reaps the fullest advantage from the expansion of world trade. Our success in export markets depends on the vigour of our production, on the versatility and initiative of British industry, and - in the long run most important of all - on our competitive strength in world markets.

23. Competition in overseas markets is now very keen; and this country no longer enjoys the pre-eminent position which it held during the last century. Today we have to match ourselves against formidable rivals. The dislocation caused by the war left the United States of America the only source of supply for many goods; and the United States' share of world trade in manufactures has risen from about 20 per cent in 1937 to more than 25 per cent today. As against Western Germany we enjoyed a considerable advantage in the years immediately after the war; even as late as 1950, her share of world exports was little more than 7 per cent. Today it is more than double that figure. In the same five years the total volume of world trade in manufactures has risen by about £50 per cent; but our own share has fallen from over 25 per cent to about 20 per cent.

24. A country's share of world trade is affected by many factors apart from its competitive power, and too much weight should not be attached to the precise percentage at any single point in time. But a continuing downward trend in the share, if it persists too long, must inevitably be a cause of concern; for if such a decline reflects the fact that exports are not increasing sufficiently to meet a growing import bill and to finance other external commitments, serious balance of payments difficulties will inevitably result. These difficulties cannot be allowed to remain uncorrected.
25. An adequate volume of exports, in so far as it lies in our power to maintain it, will depend above all upon the competitive strength of our goods in overseas markets. That strength is itself the outcome of several factors - the quality of the product, promptness of delivery, effective salesmanship, good after-sales service, and so forth. But the basic factor is price. If our prices and our costs of production move too far out of line with those of our competitors, our exports will be inadequate to the needs of our balance of payments, and our currency will not retain its value in world markets.

26. These balance of payments difficulties are the most obvious and immediate consequence of a disproportionate rise in costs and prices. But such an increase, if it persists, has other, and no less serious, effects at home. The future growth of the economy will to a considerable extent depend upon a sustained expansion of investment; and the rate of investment which we can afford will depend on our willingness to save. In the long run, therefore, the rate of our economic progress will depend largely on this willingness to save and to invest. The full effect of continually rising prices on savings is unpredictable; but it is clear that they can progressively undermine the whole relationship between borrower and lender, and, therefore, the accepted structure of savings. That structure rests, to a considerable extent, on the willingness of the lender to hold, for long periods, titles to fixed sums - in the form of Savings Certificates, Government Securities, insurance policies, Debenture stock, and so forth. This willingness itself derives from a basic confidence that money will, broadly, retain its value. In so far as rising prices impair this confidence, and, therefore, reduce the lender's willingness to invest savings at fixed rates of interest, the financing of investment becomes more difficult and more expensive; and the pressure on prices is accentuated.

27. But the effects of a rising price level have a much more direct and more immediately personal impact. Continually rising prices are an obvious social evil. For many people this evil is obscured by the fact that they either are, or believe themselves to be, able to secure increases in their incomes to offset the rise in prices; and although their pressure for higher incomes itself adds to the pressure on prices and they do not in fact gain very much from the rise in incomes, at least they do not lose very much from the rise in prices. Even so, the spiral of rising incomes and prices is a cause of considerable personal anxiety and of an acute sense of social unfairness. The difficulties and hardships inherent in such a situation bear most heavily on those dependent on fixed incomes, who are in continual danger of having their standard of living progressively reduced. The longer this process continues, the more arbitrary its effects appear, and the more sharply the sense of injustice is felt.

-10-
V. The Conditions of Price Stability

28. Full employment and a climate of economic expansion depend upon the maintenance of a high and steadily rising level of demand. It is in such circumstances that the pressure of incomes on costs and prices is likely to grow most rapidly and to meet with least resistance. Price stability, in so far as it is determined by factors under our own control, is, therefore, largely a function of productivity and self-discipline; and full employment will only be accompanied by price stability if both sides of industry play their part.

29. An increase in productivity calls for contributions from both management and labour. Management must strive to ensure the maximum expansion of output by progressive investment in the most efficient capital assets, by the introduction of the most modern industrial techniques and by the elimination of all restrictive practices which inhibit the economic growth of production. The contribution of labour lies in cooperating to the full in the adoption of new methods of working and in setting aside all practices which, however justifiable they may have been in the past as means of safeguarding status, conditions of work, or the security of employment itself, are not appropriate in conditions of full employment.

30. The healthy functioning of the economy and the progressive growth of its output depend also on co-operation between both sides of industry in maintaining an efficient and enlightened system of industrial relations. The relation between management and workers which this implies is a vital but intangible factor which only they can create by common effort. It demands a full and frank exchange of opinion and information at all levels between representatives who have confidence in each other's competence and integrity. If this confidence is achieved and maintained, the gain, in terms both of physical output and of human relations, can be incalculably great. If not, the resulting discontent and friction are liable to discredit British industry, abroad no less than at home, and will, therefore, impede production, hamper exports, and detract from our longer term success.

31. Efficient methods of work and sound industrial relations should result in a sustained growth of productivity, yielding economic production and competitive prices. The movement of the prices of individual goods and services is bound to diverge, since the rate at which productivity rises will differ from industry to industry and from firm to firm. In those sectors of the economy in which it is not easy to achieve very rapid increases in productivity, prices will tend to rise. If general price stability is to be maintained, it is essential that this tendency should be offset by a positive reduction of prices in those sectors of the economy in which productivity rises more rapidly than the average.

32. The objective of price stability and the progressive price policy which it implies will largely depend, for their fulfilment, on the extent to which prices remain subject to the pressure of incomes. Rising profits are an economic consequence of the rising level of activity which is the necessary basis of full employment. And inasmuch as profits are the source of finance for much of our new investment, they contribute substantially to the expansion of activity in the future.
But a fully employed economy requires a price policy which
passes on the gains from higher productivity, as far as
possible, in lower prices. In other words, industry should
effort to earn its profits not by the maintenance of high
profit margins but by the expansion of turnover. These enter-
prises which can achieve an increase of output and sales by a
reduction of profit margins will, in this way, be making a
positive contribution to the maintenance of price stability and
to the whole process of balanced economic growth.

33. The counterpart of realism in profits is realism in costs.
The costs of production are not wholly under the control of
British industry itself; in particular, the prices of imports
must always remain uncertain. But to a very considerable degree
our costs are determined by the incomes of those engaged in all
forms of production of goods and services. The Government of
this country does not attempt to tell the people what income each
one of them ought to be receiving at any given moment. Wages are
fixed by free negotiation between employers and workpeople, within
a system of collective bargaining which we have built up over a
long period of years. By equally long practice, the level of
dividend declared by a company is a matter for recommendation by
the Directors and confirmation by the shareholders. But the
satisfactory operation of this whole system depends upon the ex-
tent to which the parties concerned in each case show themselves
aware of the fundamental factors involved in the progressive
development of the economy of which they are all members. If
the resulting decisions reflect too greatly the pressure of merely
sectional interests, economic stability will be endangered and the
possibilities of future expansion will be impaired.

34. These two objectives, the stability and the expansion of our
economy, are the continuing concern of Government policy. The
Government is pledged to foster conditions in which the nation
can, if it so wills, realise its full potentialities for growth in
terms of employment and living standards. But the Government
must no less seek to ensure that the pressure of domestic demand
does not reach a level at which it threatens price stability
and endangers the balance of payments. To maintain the due
balance between these objectives of policy is always a difficult
and delicate task; and the fiscal, monetary and social policies
of the Government action must be adjusted, from time to time, to
meet changes in economic pressures. But the ultimate aim will
always remain essentially the same - the encouragement, by all
the means which the Government commands, of the general climate
most favourable to the maximum development of a balanced economy.

35. Economic growth depends, to a considerable extent, on
the rate at which increased investment contributes to the
expansion of productive capacity. In the private sector the
appropriate level of investment can be encouraged by specific
fiscal incentives, by the appropriate use of monetary and credit
policy, and by other general measures of Government policy
designed to maintain expansion and to promote saving. In the
public sector the Government has a more direct responsibility,
and a more immediate opportunity, for influencing the rate
and pattern of investment. It must therefore keep under review
the investment for which it is responsible, and moderate or ac-
celerate its rate of growth from time to time, in order that its
claim on available resources in the shorter term should be
proportionate to the needs of the economy as a whole. But the scale and direction of the investment plans of the public sector must be designed to ensure that the expansion of basic supplies and services will be adequate to sustain, in the long term, the full growth of the economy.

36. It is not only through public investment that the Government contributes significantly to the total level of demand. The extent to which it can affect that level, in either direction, depends not merely upon its fiscal and monetary policies but also upon its own direct expenditure on goods and services. The magnitude of this expenditure is to some extent determined by conditions over which the Government has no control; to some extent it is determined by the Government's own policies, which will need to adjust governmental outlay according to the prevailing economic conditions.

37. Finally, the Government of a democratic country has a clear duty to keep the nation informed of changes in the pattern of expansion, and to warn it of the dangers of both stagnation and unbalanced growth. The future prosperity of our country will be, to a considerable extent, a matter of our own choice and our own actions. These should be determined by an awareness of the economic factors which, however much we may usually take them for granted, are, in a substantial degree, under our own control. Not the least valuable of the contributions which the Government can make to the progressive and healthy growth of the economy is to enable the men and women of this country to appreciate more fully the way in which individual decisions and efforts can influence our standard of living, and may, in the longer term, profoundly affect our whole future. It is the purpose of this White Paper to explain the dangers to which a fully employed economy is exposed in so far as full employment is reflected in a continually rising level of costs and prices. These dangers can be averted, and our national prosperity can be more securely established, by a clear realisation of what is at stake and a determined will to shape our actions accordingly.
APPENDIX I

THE PROBLEMS AND POTENTIALITIES OF ECONOMIC EXPANSION

1. Full employment favours economic progress, and therefore affords growing scope for improving our standard of living. Our present problems, and the day-to-day decisions and actions which they require, need to be judged in the light of the possibilities for expansion and the difficulties which must be overcome if the full potentialities for future growth are to be realised.

2. It is impossible to forecast the rate at which we shall succeed in expanding our production in the future. It is equally impossible to predict in detail the lines on which economic expansion will develop. We shall inevitably have new problems to face; and new and unforeseeable claims on our resources will have to be met. Nevertheless this does not imply that all the problems of economic growth are incapable of analysis, or that the potentialities for expansion cannot be envisaged to some extent.

3. We know the rate of expansion which has been achieved in the past. It is possible to examine the implications of such an expansion in production and productive capacity in the future. The growth of production and incomes will require a growth of imports to sustain it; and the rising import bill will need to be matched by a corresponding expansion in exports. Again, the growth of production will require an increase in our productive capacity, and this will in turn require a corresponding increase in the level of investment. Thus it is possible to examine the increases in exports and investment required to sustain an increase in production, and to indicate very broadly what such an expansion in production, investment and exports might provide in terms of higher standards of living. It is possible also, by using the same method but adopting a different set of assumptions, to discuss the implications of achieving a more rapid expansion than has proved possible hitherto, and therefore to assess the further gains which a higher rate of expansion might yield, if it could be securely established. It is these possibilities which are examined in this Appendix.

The expansion of output

4. Past experience offers some guide to the rate of progress which may reasonably be assumed. Between 1948 and 1954, output-per-man in the industries covered by the Index of Industrial Production rose, on average, by about 3 per cent a year. In four of these years, increases of between 4 and 5 per cent were realised; but the gains in these years were offset by much smaller increases in 1951 and 1952 when conversion to rearmament, the steel shortage, and the brief recession interrupted progress. One possible assumption, therefore, might be that over the next ten years output-per-man will increase at the same average rate as has been achieved since 1948. There is nothing impossible in this hypothesis; indeed it would be pessimistic to assume that we can do no better than we have done hitherto. If the next decade comprised roughly the same proportion of favourable and less favourable years, but reflected no fundamental change
in the trend of progress, output-per-man in industry might be expected to continue to rise at an average rate of about 3 per cent per annum. If, on the other hand, technical progress were more rapid, if the response of industry to the possibilities of expansion yielded greater returns in increasing productivity, or if we could assume fewer interruptions of the trend of expansion, output-per-man might rise, over the whole period, at least as fast as it has done in the more favourable post-war years, i.e. by between 4 and 5 per cent per annum.

5. On the lower of these assumptions, that is if output-per-man in industry were to increase at a rate of about 3 per cent per annum (allowance being made also for the small increase which can be foreseen in the population of working age), industrial production might be, by 1964, nearly 50 per cent above its present level. On the higher assumption, that is that we do as well as we have done in the more favourable post-war years, the increase in industrial production achieved by 1964 might be of the order of 70 per cent. After allowing for a continuing, but smaller, increase in output-per-man in the rest of the economy, the national income (at 1954 prices) might be, on the lower assumption, about 24,750 million higher in 1964 than it is now - an increase of about a third; while on the higher assumption it might rise by about 27,000 million - an increase of some 45 per cent.

The balance of payments

6. The growth of production, and the corresponding growth of incomes, will be associated with a rising demand for imports of raw materials, of food, and of manufactured goods. This increase in the demand for imports cannot be calculated at all exactly; it will depend upon, among other things, the extent to which we prove able to supply our own needs efficiently, by comparison with overseas sources of supply, and upon the extent to which the industries which contribute most to the expansion of output remain dependent upon imported materials. But, allowing for possible changes in the pattern of demand and production, it may perhaps be assumed that our demand for imports might increase, in real terms, at about the same rate as the national income as a whole. This would imply an increase of nearly 3 per cent per annum in the volume of imports on the lower assumption, and about 3.5 per cent on the higher assumption - increases of nearly 35 per cent and about 45 per cent respectively over the next ten years.

7. These imports will have to be paid for; and if periodic strain on the balance of payments is not to threaten the stability of the economy and to interrupt its growth, we shall need to increase our overseas earnings sufficiently to offset the rise in imports.

8. The magnitude of this increase will depend not merely on the volume of our imports but also on their price. The prices of the goods which we buy from overseas, particularly primary products, are determined by supply and demand in world markets. In the long term the movement of the prices of primary products will depend on the rate at which world production of these products can be increased relatively to the demand for them; and this will be a major factor in determining the secular trend in our terms of trade. But apart from any secular trend, the prices of our imports will always be liable to short term fluctuations. If, either by reason of such fluctuations or
because of an adverse long term trend, our terms of trade deteriorate, we need to match this deterioration by a corresponding increase in our external earnings. An increase in our import prices implies an increase in the incomes of our overseas suppliers, and a worsening of our terms of trade offers us, in general, more favourable opportunities for expanding our export sales, and thus for restoring the balance on our external account. We should, therefore, be able to meet adverse fluctuations in the terms of trade, provided that our economy is sufficiently flexible to permit us to enlarge our exports quickly, and that these exports are sufficiently competitive, in price, quality and delivery, to take full advantage of the opportunities. But, in order to withstand the initial impact of fluctuations in world prices we shall always need adequate reserves and a sufficient surplus on our balance of payments.

9. But the balance of payments has to accommodate not merely the results of changes in our current trade but also a considerable body of international commitments - the repayment of our debts, the maintenance of armed forces in many parts of the world, and the financing of development in the Commonwealth, the Colonies, and many other countries. To meet these commitments we need to earn and to maintain, over a period of years, an adequate surplus on our current transactions.

10. It would be quite unrealistic to attempt to predict our terms of trade over the next ten years. But on the assumption that they show no secular trend in either direction and that temporary fluctuations can be absorbed by the economy without undue strain, the growth of imports envisaged above, combined with the discharge of our continuing international commitments, and the maintenance of a healthy surplus on our balance of payments and an adequate level of reserves, would imply an increase in our overseas earnings of the order of 45 per cent on the lower assumption and 60 per cent on the higher.

Investment

11. The maintenance of full employment and a steady growth of output will require - and can also be expected to induce - an expansion of productive capacity and an increase in the nation's stock of capital assets. Indeed, the scale of our investment, both now and in the future, will to a considerable extent determine the rate at which it proves possible to increase production. If investment plans are based on too cautious an assessment of the longer term prospect for demand and output, the full potentialities of economic expansion will not be realised. The counterpart of a high rate of investment is a high rate of saving by the community as a whole. The greater the willingness to save, the greater will be the resources liberated for increasing investment and, consequently, the greater will be the possibilities for the growth of output in the long term.
12. Investment in productive industry and the provision of basic services may be distinguished from investment in housing and the social services. Both contribute to the welfare of the nation as a whole; but the former is more directly related to the growth of output than the latter. It is not possible to estimate the probable expansion of either type of investment with any precision, particularly in view of the unpredictable impact of technical progress. But the increase in investment in productive industry and basic services which would be required to sustain the growth of output assumed above might be, over the next ten years, of the order of £1,200 million on the lower assumption, and £2,000 million on the higher. In the climate of an expanding economy, it is not unrealistic to expect the growth of output and incomes envisaged above to yield a growth of savings sufficient to finance an expansion of investment of this magnitude.

The current expenditure of Public Authorities on goods and services

13. The expenditure of the Central Government and Local Authorities has become, and will remain, an important element in the total level of demand. Much of it is associated with the maintenance of the basic structure and security of the State – the armed forces, the judicial system, the Police, the roads, coast protection and so forth. By far the largest of these is Defence. The level of Defence expenditure in ten years’ time will, of course, depend mainly on international developments which are wholly unforeseeable. For the purpose of these projections, therefore, it has been assumed that Defence expenditure, with the other items in this group, will remain broadly at the present level. But if, as is greatly to be hoped, an improvement of international relations makes possible some reduction in the outlay on the armed forces, the resources so released should enable us to aim at even larger and more rapid increases in investment and living standards than can be envisaged at present.

Consumer’s standard of living

14. The following table illustrates the argument of the preceding paragraphs:
### Total Supply and Use of Resources, 1954-1964

#### Supply of Resources

<table>
<thead>
<tr>
<th></th>
<th>1954</th>
<th>1964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product</td>
<td>15,515</td>
<td>20,300</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>3,605</td>
<td>4,700</td>
</tr>
<tr>
<td><strong>Total supply of resources</strong></td>
<td><strong>19,120</strong></td>
<td><strong>25,000</strong></td>
</tr>
</tbody>
</table>

#### Use of Resources

<table>
<thead>
<tr>
<th></th>
<th>1954</th>
<th>1964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports of goods and services</td>
<td>3,455</td>
<td>4,850</td>
</tr>
<tr>
<td>Gross domestic investment in production and basic services (1)</td>
<td>1,855</td>
<td>3,000</td>
</tr>
<tr>
<td>Public Authorities current expenditure on defence and basic civil services (2)</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Consumers expenditure</td>
<td>10,115</td>
<td></td>
</tr>
<tr>
<td>Gross investment in housing and social services (3)</td>
<td>11,810</td>
<td>15,150</td>
</tr>
<tr>
<td>Public Authorities expenditure on social services (4)</td>
<td>710</td>
<td></td>
</tr>
<tr>
<td><strong>Total use of resources</strong></td>
<td><strong>19,120</strong></td>
<td><strong>25,000</strong></td>
</tr>
</tbody>
</table>

#### Notes

The estimates in the first column of this table are derived directly from the Blue Book on National Income and Expenditure, 1955 (rounded to the nearest £5 million). The adjustment to factor cost has been made from the estimates in Table 46 of the Blue Book Table 41, for investment and public authorities’ current expenditure the totals in Blue Book Table 41 have been split on the assumption of constant proportions.

(1) All gross domestic capital formation (including investment in stocks and work in progress) except New Housing and Social Services.

(2) From Table 42 of the Blue Book. Includes all current expenditure on goods and services shown there except that classified as "Social Services".

(3) Gross fixed capital formation in new dwellings and Social Services. (Table 48 of the Blue Book.)

(4) From Table 42 of the Blue Book.
15. This table outlines, on the basis of the assumptions described above, the possible growth of output over the ten years to 1964, together with the possible claims upon it from the balance of payments, from investment in productive industry and services, and from the maintenance of the basic structure of Government. It shows that, at the same time as these claims are met, the consumer can expect sufficient resources to remain available to permit his own standard of living - as measured by personal expenditure on goods and services of all kinds and by current and capital expenditure on housing and social services - to increase, in real terms, by nearly 30 per cent on the lower assumption, and by about 45 per cent on the higher. Over the same period, the population may increase by \( \frac{5}{4} \) per cent.
## APPENDIX I I

### Indices of Prices and Costs since 1946 (1943 = 100)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Prices of imports of goods and services</td>
<td>80</td>
<td>92</td>
<td>100</td>
<td>102</td>
<td>117</td>
<td>148</td>
<td>144</td>
<td>131</td>
<td>133</td>
<td>727</td>
</tr>
<tr>
<td>2. Home costs per unit of output (1)</td>
<td>90</td>
<td>95</td>
<td>100</td>
<td>103</td>
<td>103</td>
<td>111</td>
<td>122</td>
<td>126</td>
<td>129</td>
<td>272</td>
</tr>
<tr>
<td>3. Price index of final output (2)</td>
<td>87</td>
<td>93</td>
<td>100</td>
<td>103</td>
<td>107</td>
<td>119</td>
<td>126</td>
<td>128</td>
<td>130</td>
<td>507</td>
</tr>
<tr>
<td>4. Prices of exports of goods and services</td>
<td>84</td>
<td>92</td>
<td>100</td>
<td>103</td>
<td>109</td>
<td>128</td>
<td>135</td>
<td>129</td>
<td>130</td>
<td>54</td>
</tr>
<tr>
<td>5. Consumer price index (3)</td>
<td>87</td>
<td>93</td>
<td>100</td>
<td>103</td>
<td>106</td>
<td>114</td>
<td>121</td>
<td>123</td>
<td>125</td>
<td>45</td>
</tr>
<tr>
<td>6. Retail price index (4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Home costs per unit of output are obtained by dividing the figure for money income of all kinds (wages, salaries, profit and other income = gross domestic product at factor cost; see Blue Book on National Income and Expenditure, 1955) which rose as follows:

<table>
<thead>
<tr>
<th></th>
<th>86</th>
<th>90</th>
<th>100</th>
<th>107</th>
<th>111</th>
<th>124</th>
<th>135</th>
<th>145</th>
<th>154</th>
</tr>
</thead>
</table>

by the figure for real domestic product which rose as follows:

<table>
<thead>
<tr>
<th></th>
<th>95</th>
<th>96</th>
<th>100</th>
<th>104</th>
<th>106</th>
<th>111</th>
<th>110</th>
<th>115</th>
<th>120</th>
</tr>
</thead>
</table>

(2) This index covers the prices of all finished goods produced for consumption, investment or export.

(3) This index covers the prices of all consumer goods and services, weighted in the proportions consumed by the whole community.

(4) This index covers the prices of goods and services bought by the average wage-earning household. It differs from the consumer price index, for instance by giving greater weight to food prices (which have risen more than the average) and less weight to rent and rates (which have risen less than the average). There is no retail price index figure for 1946 comparable to that for later years, and the change shown between 1946 and 1947 is based on the change in the consumer price index during the period.
ADMISSION OF NEW MEMBERS TO THE UNITED NATIONS

Memorandum by the Secretary of State for Foreign Affairs

The admission of new members is effected by a two-thirds majority of the General Assembly, on the recommendation of the Security Council, where a successful applicant needs to get seven favourable votes, including those of all the permanent members, who can therefore exercise a veto.

2. All the Western candidates have been repeatedly vetoed by the Russians, because the Russian candidates have failed to muster the necessary seven votes in the Security Council.

3. Hitherto the Russians have sought to break the deadlock, which dates from 1950, by proposing a limited package deal, viz., the admission of certain Western and Soviet candidates. We have rejected such a deal as inconsistent with the Charter.

4. The Canadian Government have now requested the views of the United Kingdom, the United States and France, on a solution reported to have been discussed between Mr. Nehru and Mr. Bulganin during the former's recent visit to Moscow. Mr. Nehru suggested, and Mr. Bulganin apparently agreed, that all "qualified States" should be supported. These were in their opinion:

- Albania
- Austria
- Bulgaria
- Cambodia
- Ceylon
- Finland
- Hungary
- Irish Republic
- Italy
- Japan
- Jordan
- Laos
- Libya
- Nepal
- Outer Mongolia
- Portugal
- Roumania

but not partitioned Korea or Vietnam until they have been reunified.
(The question of Communist China was rightly regarded as an entirely separate issue, as the issue is one not of admission but of representation).

5. The Canadian Government are disposed to favour a prior understanding with the Soviet Government on the admission of the seventeen applicants listed above. The Australian Government agree.
This proposal has the following advantages:

(i) By providing for the admission of nearly all possible applicants, except the divided states, it does not constitute a limited package deal.

(ii) It would break the deadlock, which is discreditable to the United Nations.

(iii) If we do nothing, the Soviet Union may take an inconvenient initiative with Asian support.

It has the following disadvantages:

(i) We should have to accept Bulgaria, Hungary and Roumania, despite their bad record in human rights matters, and Albania despite the Corfu case.

(ii) It is questionable whether Outer Mongolia can be called a State, or can fulfil the obligations of the Charter.

(iii) The admission of all these new members would adversely affect the voting position of the Colonial Powers. But new members cannot be excluded indefinitely and our present voting position must deteriorate sooner or later.

There is also the question of Spain, whose entry is at present specifically barred by two General Assembly resolutions of 1946. I do not see why we should raise this ourselves, although the Spaniards will feel aggrieved. They are no worse than the Outer Mongols.

3. If the proposed seventeen members are admitted, we shall have to adopt a firmer line towards attempts by the United Nations to intervene in Colonial questions within our jurisdiction. A large number of the candidates are likely to vote against us on Colonial questions, and make it difficult if not impossible for us to block objectionable action in the General Assembly. This will mean that we may in future be more frequently faced with the question of withdrawing from meetings at which we consider that the competence of the United Nations is being exceeded. (A policy foreseen in C. (52) 232 but not yet acted on).

9. I am sounding the United States and French Governments on the Canadian proposal that the three Western Powers should reach a prior understanding with the Soviet Government for support to be given to the applicants listed in paragraph 4 above. The matter is urgent, as it is likely to come up in the Security Council before 20th September.

H. M.

Foreign Office, S.W.1.

14th September, 1955.
The purposes of National Service were announced by the then Prime Minister in 1946 as:

(a) To build up a large trained reserve which would be ready for operational use in an emergency without the need for a lengthy period of further training.

(b) To supplement the regular component of the active forces to enable them to carry out their worldwide commitments.

At that time the primary purpose of the scheme was recognised to be the training of the reserves. The period was originally announced at 18 months when the National Service Bill was introduced on 12th March, 1947. The period was changed to 12 months within 24 hours of the Second Reading on 31st March/1st April, 1947. It was raised to
18 months before the National Service Act came into force on 1st January, 1940. In October, 1950, after the Korean war had broken out, it was raised to two years.

3. More recently the emphasis has changed. As the consequences of nuclear war have been realised, it has been recognised that the primary purpose of National Service is to maintain the active forces at the strength necessary to enable them to meet the country's commitments rather than to build up reserves.

A situation has also grown up in which, without National Service, the necessary numbers of junior leaders and technicians cannot be provided.

4. The present power to call men up under the National Service Acts expires on 31st December, 1950.

5. The demand of the forces on United Kingdom manpower in recent years has been as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31. 3. 53</td>
<td>846,682</td>
<td>24,415</td>
<td>871,097</td>
</tr>
<tr>
<td></td>
<td>(National Service 312,781)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31. 3. 54</td>
<td>822,753</td>
<td>23,166</td>
<td>845,919</td>
</tr>
<tr>
<td></td>
<td>(National Service 298,377)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31. 3. 55</td>
<td>803,073</td>
<td>20,557</td>
<td>823,630</td>
</tr>
<tr>
<td></td>
<td>(National Service 284,954)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 30. 6. 55</td>
<td>783,533</td>
<td>19,393</td>
<td>802,926</td>
</tr>
<tr>
<td></td>
<td>(National Service 279,562)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In this year's Defence White Paper it was stated that - by 31st March, 1956 - the total figure would have fallen to 788,000, of whom 285,500 would be national-service men. On present forecasts, this figure will be about 703,000, of whom 287,000 will be national-service men. Owing to the reduction in the number of regulars, the present forecast is that the total, by 31st March, 1956, will be 765,000, of whom about 300,000 will be national-service men. It will be seen that between 31st March, 1955, and 31st March, 1958, the reduction in the total numbers serving will, on present plans, be due solely to the expected diminution in regulars.

6. At the present time almost the total strength of the Army is national-service men. About a quarter of the Corporals, half the Lance-Corporals and more than half of the tradesmen in the Army are national-service men. In some highly skilled trades the proportion of national-service men is more than 70 per cent. The Royal Air Force are also largely dependent upon national-service men in some of the highly skilled trades, e.g., for 25 per cent of their radio fitters. Even though the number of national-service men in the Royal Navy is small, about 10 per cent of the main branches (seamen and engineer-mechanics) serving in ships in commission come from this source.
FUTURE MANPOWER REQUIREMENTS

7. Together with the Service Ministers and the Minister of Supply, I have been examining the long-term trends in the demands of the defence programme upon the physical and material resources of the nation. As a result I have suggested to my colleagues a reduction in the strength of the forces to 700,000 (680,000 men and 20,000 women approximately) by the 31st March, 1950. This is a reduction of about 100,000 on the present figure, a reduction of 33,000 in the two years beginning 1st April, 1956, and a reduction of 65,000 on the present plans for the figure at the 31st March, 1956. The consequences of this reduction to the front line strength of the Services are being examined. They are bound to be serious, but in my view must be accepted. I do not, however, think that a larger reduction is possible.

If this figure is accepted, the demand of the active forces on United Kingdom manpower will be reduced by 170,000 between March, 1953 and March, 1958.

So far as national-service men are concerned, it means a reduction from about 260,000 at present to about 235,000 provided the adverse trends in regular recruiting and re-engagements do not increase.

POSSIBLE METHODS OF PROCURING THE ABOVE REDUCTION

8. There are a number of methods by which the proposed reduction could be achieved:

(a) Retain national service at 24 months but reduce the intake by a selective system on the United States pattern.

(b) Retain national service at 24 months but reduce the intake by a system of ballot.

(c) Retain national service at 24 months but reduce the intake by increasing the number of indefinite deferments (i.e. a system of "selective exemptions").

(d) Reduce the period of national service to 16 months.

(e) Retain national service at 24 months but reduce the intake by allowing the age of call-up to rise.

(f) A combination of one or more of the above or variants of them.

9. For reasons which I shall set out, I advise that (a), (b) and (d) should be rejected.

I am not in favour of (c) as a means of effecting the full number required, although it might be worthy of consideration as a means of effecting a subsidiary saving.

Therefore I believe that the real choice is either (e) or some combination under (f).
10. Course (a). (Retaining National Service at 24 months: but reducing the intake by a selective system on the United States pattern.)

In the United States the Selective Service System is controlled by the Federal Office of Selective Service and is administered through some 4,000 local Draft Boards, each of which is given a monthly quota of men to be called up. Such a system allows for a great deal of flexibility both as to numbers and methods of selection. It may well be the most suitable system for a Federal and heterogenous country like the United States. I do not believe that such a system would be acceptable in this country.

11. Course (b). (Retaining National Service at 24 months but reducing the intake by a system of ballot.)

This has the merit of being simple and impartial. It would preserve the appearance of universal liability for service, although individual indefinite deferments along the present lines would still be necessary. But its incidence as between individuals would be the more marked, since something like four-fifths of those involved in the ballot would have to be called up and only one-fifth would escape. In my view the use of the ballot to decide a comparatively small difference in treatment might be acceptable (i.e., a ballot to decide 21 months or 24 months), but its use to decide between such extremes as two years and no service at all would not be acceptable to public opinion.

12. Course (c). (Retaining National Service at 24 months but reducing the intake by increasing the number of indefinite deferments.)

The present indefinite deferments scheme covers coalmining, the Merchant Navy, fishermen who are members of the Royal Naval Reserve (Patrol Service), agriculture (in part), very limited numbers of Police Cadets and men specially qualified scientifically and technically, such as graduates for the Government Scientific Service, highly qualified technicians in certain industries of importance to defence work, etc.

An extension of the present scheme to include all agriculturalists (8,000 a year) and those national service men in medical category Grade III (6,000 a year) would not be difficult and would reduce the numbers entering the forces by about 14,000 a year. The case for extending it to agriculturalists would be that it is most difficult to get them to return to agriculture after their period of national service. The case for extending it to national-service men in Grade III would be that these, on the whole, are more trouble and expense to the forces than they are worth.

It would be possible to extend the scope of deferment among industries of importance to defence work or experts. There have already been many claims on behalf of particular interests. Substantial reductions could only be effected in this way by "blanket extensions" of deferment to cover whole industries or professions or vocations. It would be extremely difficult to differentiate within particular industries, etc. Any large scale extension on these lines would, I am told, create serious difficulties with the Ministry of Labour and National Service, who would be responsible for administering and policing the scheme.

This method would probably also lose to the Services many of the officers, technicians and craftsmen whom they at present obtain already partly technically trained. If this scheme were to be taken beyond the...
agriculturalists and medical category III men, the more it is examined the
greater appear the practical difficulties. It would, of course, be a further
breach of the principle of universality on which national service in theory
at present rests.

13. Course (c). (A reduction in the period of National Service to
18 months.)

This method, if applied as from 1st January, 1956, would by
1st July, 1957, reduce the number of national-service men in the armed
forces by some 70,000. It would also have a serious effect on the number
of men serving on regular engagements of three years or more. It is
estimated that by March, 1959, that would amount to a further loss of
30,000 men in the strength of the forces beyond the expected diminution in
this category of men already foreseen. At present, with two years national
service and the liability for part-time service, between 25 per cent and
30 per cent of the men liable to be called up for national service in the
Army and the Royal Air Force volunteer for regular engagements of three
years or more. It is expected that if the period were cut to 18 months the
number of volunteers for these regular engagements would be reduced by
a half in the case of the Royal Air Force and about one-third in the case
of the Army. It is doubtful whether foreseeable improvements in pay and
conditions of service would substantially affect these figures.

It will be seen from what I have just stated that this method would
produce a reduction in manpower carrying the total well below the 700,000,
which I believe to be the greatest reduction reasonably attainable by

My colleagues are already well aware of the effect which a cut of
six months would have upon the efficiency of the forces. For example,
with 24 months' national service, a battalion on a normal three-years
overseas tour changes 55 per cent of its national service content twice
and the remaining 45 per cent once during the tour. The average national
service content of a battalion is about 60 per cent. Standards would fall
to quite an unacceptable extent and front line strengths would have to be
substantially cut. It would be impossible to carry out our present
commitments. The period of useful service in those trades which need
the longest training would be reduced to six months or less. Numerically,
the effect on the Royal Air Force would not be so severe, but it would be
worse hit in its most sensitive points, since it would lose half of the
useful service of national-service men in some of the most highly skilled
trades where the shortage of regulars is most acute and where the
number of regulars due to leave is heavy. It would also lose a number
of N.C.O.'s, of whom it is already short. In some highly skilled trades
in all the Services it would no longer be worth while training national
service men at all.

Training overheads are already high. In the Army some 20 per cent
and in the Royal Air Force some 30 per cent of the total strengths are
already either training or being trained. With a quicker turnover of
national service men the training overheads would have to be proportionately
increased.

Another consequence would be the bad effect on the morale of the
regulars. At present the strain of producing operationally efficient
units is already heavy. With a quicker turnover of national service
men the strain would be increased and the incentive to regulars to
leave the Services would grow.
14. **Course (e). (Retain National Service at 24 months but reduce the intake by allowing the age of call-up to rise.)**

By adhering to the present plan of only three registrations this year and dropping one registration in 1956 and one in 1957, it would be possible to reduce the number of national-service men to the figure of 235,000 by March, 1958. This would raise the age of call-up from 10 years 5 months at present to about 13 years by March, 1958. If this expedient were continued beyond 1958, it would mean that the age of call-up would increase by about three months each year.

There are many advantages in adopting this method during the period up to March, 1958:

(a) The Services would retain the benefit of the efficiency and flexibility that result from 24 months' national service. In fact, with the rising age of call-up this flexibility would be increased.

(b) The method itself is extremely flexible. If the international situation were to change for the worse there would be no difficulty in increasing quickly the numbers called up. If the international situation were to change for the better and our overseas commitments were substantially reduced, other methods such as a reduction in the period of service could be comparatively quickly introduced in combination with, or substitution for, this method.

(c) Even though coupled with a reduction in the requirements for part-time service (which I deal with below), this method would be least damaging to regular recruitment and re-engagement.

(d) I believe that the rise in the age of call-up would be welcomed by many parents who feel that their sons at present go into the Services too young. I am told that industrially there would be no disadvantages. So far as those who leave school at 13 are concerned, it would still be open to them to apply for early call-up.

15. **Course (f). (A combination of one or more of the above methods or variants of them.)**

I think there are only three combinations worth considering:

(i) Reduce the period of national service to 21 months and allow the age of call-up to rise.

(ii) Reduce the period to 21 months and give indefinite deferments to agriculturalists and medical category III.

(iii) Allow the age to rise and give indefinite deferments to agriculturalists and those in medical category III.
Of these I should be inclined to reject (ii) on the ground that if the call-up is to be reduced to 21 months course (i) is much simpler. I should reject (iii) on the ground that if the call-up is not to be reduced course (e) set out above is much simpler. In neither case would it appear to me to be worth while to open the door to the whole argument about more deferments.

With regard to (i), a cut of three months in the period of full-time service beginning on 1st January, 1956, would reduce the number of national service men by about 35,000 by 1st October, 1957. At the end of three years, in addition to the run-down at present foreseen, there would probably be a further loss to the Services of 15,000 owing to a decline in the number of men serving on short-term regular engagements. Only minor alterations in registration and call-up would be necessary to bring down the figure to 700,000. The effect would be that the age of call-up would rise to about 10 years 7 months by March, 1958.

A three months' cut would have to a lesser extent the consequences set out in paragraph 13 above with regard to a six months' cut. Their effects, however, would be less than half as severe because the Services would get three more months of useful service when the man was effectively pulling his weight. However, in both the Army and the Royal Air Force the period of trained service would be so shortened in many trades that it would not be worth while sending such men to the more distant stations. As men could not spend so long overseas there would be an increase of wasted time in movement, etc. More regulars would have to be posted to distant theatres and the ratio of home to overseas service worsened, with bad effects on recruiting and re-engagement.

A cut of three months would have serious effects upon the efficiency of the forces.

CONCLUSION

16. The choice between 24 months and 21 months is not easy.

It would be possible to reduce the period to 21 months, provided it is realised that the effect upon efficiency would be considerable, and that it would have an adverse effect upon recruiting. It may be the least reduction that will retain general support for national service. The danger about course (e) is that it might be thought to be a "wangle". It might be misinterpreted and misrepresented as an attempt to conceal the fact that we were really intending to keep precisely the same number of people in the Services.

On the other hand I doubt whether a reduction of three months would satisfy those who have been clamouring for either six or twelve months' reduction. We should be expected to follow it up very shortly with a reduction of at least a further three months. That expectation would add to uncertainty and have a further bad effect upon regular recruiting. If we reduce by three months now, our freedom of manoeuvre in 1958, when new powers of call-up must be sought, will be proportionately diminished. The reduction in part-time service proposed in the next paragraph might increase willingness to continue to accept 24 months.

I think that the political assessment is difficult but on balance I favour retaining the period at 24 months.
PART-TIME SERVICE

17. When the National Service Act was passed in 1947, the period of part-time service was fixed at six years. It was reduced to four years when the period of whole-time service was increased from 12 to 18 months in 1949, and to the present period of 3½ years when whole-time service was raised to two years in 1950. The Act requires that during their period of reserve service National Service men may be required to perform 60 days' training in all, no more than 21 days of which may be required in any one year. Provided that the statutory liability is not exceeded, the actual amount of training which a man is required to perform is a matter of administrative decision.

18. The Admiralty and the War Office have made full use of these provisions for part-time training. Generally speaking, only those excused on compassionate grounds or for occupational reasons do not undertake it.

In the Navy, part-time national service reservists normally carry out two or three periods of annual training during the 3½ years. Each period is about 20 days.

In the Army, the majority of national service reservists carry out three periods of 15 days' training, while those serving in the Territorial Army carry out the balance of their 60 days' training at weekend camps and drills.

It has not been the policy of the Air Ministry to give part-time training to reservists who would not be required at the outset of war. In consequence, many of the Royal Air Force national service reservists are not given any training at all during their period of reserve service, or at all events substantially less than that given to those in the other two Services.

Exceptions to this are the Royal Air Force national service reservists earmarked for the reserve flights, especially the control and reporting system. It is expected that of those passing into the reserve each year from now on about 5,000 will be required to do three periods of 15 days' training during the 3½ years.

19. I have considered whether it would be possible to make substantial reductions in these arrangements. Such reductions would be logical because the earlier conception of national service as a means of building up a large pool of trained reserves is out of date. On the other hand, it would be difficult to come to a final conclusion about part-time service without deciding in particular upon the future role of the reserve army. It is also important to have regard to the structure and morale of the Territorial Army. Account must also be taken of the need for the efficiency of the two divisions from the reserve army promised to the North Atlantic Treaty Organisation.

20. On the assumption that the primary role of most army reservists in a nuclear war would be to assist to preserve some sort of organised society in these islands and to deal with small-scale raids and saboteurs, I believe that it would be possible to restrict the training required of them as follows:

-8-
(a) Those in the Territorial Army - X drills within twelve months of their discharge and one period of 15 days' camp.

(b) Those in the Army Emergency Reserve (which consists of specialised and technical personnel including dockers, engine-drivers, etc.) - as much training up to the limit laid down for those in the Territorial Army as may be desirable and administratively possible.

(c) Mobile Defence Battalions - as they do no drills during the year I think it would be reasonable to expect them to do two periods of 15 days' camp. If they do not do as much as this, I do not think that they can become effective units.

Royal Navy and Royal Air Force reservists should be dealt with on analogous lines.

INDUCEMENTS FOR THE REGULAR ELEMENT

21. Consideration of the figures set out in this paper has increased my anxiety about the rundown of the regular element of the Services. This is already alarming. It is therefore most important to deal with any reduction in the burden of military service in such a way as not to aggravate this situation. I and my Service colleagues also regard it as essential that any statement of the Government's decisions in this matter should include an announcement of the Government's intention to make substantial improvements in conditions of pay and service for the regular element. The more precise this announcement can be made the better.

RECOMMENDATIONS

22. Accordingly, I recommend -

(a) with regard to the reduction of manpower in the Services, course (e) set out in paragraph 14 above.

(b) a reduction in part-time training along the lines set out in paragraph 20 above.

(c) an announcement of the intention to improve conditions of pay and service for the regular element.

The Service Ministers are unanimous in supporting the recommendation that the Government should adopt method (e) with regard to full-time service. They are also agreed that the requirement to do part-time training can, to some extent, be reduced.

S.L.

Ministry of Defence, S.W.1.

September, 1955.
19th September, 1955

CABINET

SIGNATURE OF THE PROTOCOLS OF AMENDMENTS TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Memorandum by the President of the Board of Trade

I think I should inform my colleagues of the position reached on the signature of the Protocols of Amendments to the General Agreement on Tariffs and Trade (G.A.T.T.).

2. On 30th March the Cabinet approved a statement of policy welcoming the outcome of the review of the General Agreement carried out last winter (C.C.(55) 27th Conclusions, Minute 10). In that statement, which was published in a White Paper on 19th April, 1955 (Command 9413), we said that we would be signing the resulting instruments at the appropriate times. The Protocols of Amendments are open for signature until 15th November, and have already been signed by the United States. A convenient time for us to carry out our declared intention of signing these Protocols will be during the next Intersessional Meeting of the G.A.T.T. in Geneva later this month, and I have arranged for the Protocols to be signed on behalf of Her Majesty's Government then.

3. There is a separate Agreement for the establishment of an organisation, to be known as the Organisation for Trade Co-operation, to administer the revised General Agreement. United States signature of this Agreement is subject to approval by Congress and no question of our signing it arises at present.

P.T.

Board of Trade, S. W. 1.

19th September, 1955.
C.P. (55) 127
20th September, 1955

CABINET

PALESTINE

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

I circulate for the information of my colleagues a note on the statement on Palestine which Mr. Dulles made on 26th August.

2. The chief importance of the statement is that it has publicly established the position of the United States Government that the Palestine settlement must precede a guarantee for Israel's security. It has thus brought the American position into line with Her Majesty's Government's policy as explained by the Prime Minister when he was Foreign Secretary in his statement to the House of Commons on 4th April.

3. It will be seen that, on account of its general character and the competition of news from Gaza and North Africa, Mr. Dulles' statement caused less excitement in the Middle East than we had originally expected. This enables us to revert to our original idea of attempting through confidential exchanges to induce the parties to the dispute to agree to our proposals as a basis for negotiation. Representatives of the Foreign Office and the State Department will start discussion on the future tactics of negotiation in the next few days.

H. M.
Foreign Office, S.W. 1,
19th September, 1955.

NOTE ON MR. DULLES' STATEMENT ON PALESTINE

At their meeting on 28th July (C.M. (55) 27th Conclusions, Minute 2) the Cabinet agreed that if Mr. Dulles made a statement on Palestine on the lines of the draft which he had communicated to the Foreign Office, Her Majesty's Government should issue a supporting statement, subject to assurances by the United States Government on:

(a) their ultimate adherence to the Turco-Iraqi Pact; and
(b) their readiness to make a substantial financial contribution towards the supply of British tanks to Iraq.

2. These two conditions have been fulfilled. The United States assurance on the Turco-Iraqi Pact was contained in a letter, dated 19th August, from Mr. Dulles to Sir Roger Makins, the text of which is annexed at Appendix A. In a previous letter of 16th August (reproduced as Appendix B) Mr. Dulles had informed Sir Roger Makins that the United States Government were prepared to supply ten...
Centurion tanks by off-shore purchase to Iraq during the current fiscal year, on
the understanding that the United Kingdom would supply two. Although this
offer was much smaller than we had hoped and been given reason to expect,
Mr. Dulles, in a personal message, observed that he regarded it as a start. On
that understanding we decided to accept it.

3. The way was therefore clear for Mr. Dulles to make his statement, and
for Her Majesty’s Government to issue a supporting statement on the lines
approved by the Cabinet. In the event, Mr. Dulles decided to make his statement
in less specific terms than he had originally intended, and to advance the date to
26th August. In view of the fact that the revised text of the statement was much
less explosive than the draft seen by the Cabinet, I concurred with Mr. Dulles’
decision and issued a supporting statement on 27th August.

4. The Governments of Australia, New Zealand, France, Ceylon and the
Scandinavian countries, have publicly welcomed Mr. Dulles’ initiative. Several
other Governments have assured the Americans and us privately of their support.

5. The Arab States and Israel have received the statement as well as we
could possibly have expected. There have been no disorders, and no demonstra­
tions; and although the Arab press and the “Voice of the Arabs” have handled
Mr. Dulles’ ideas roughly, their criticism has been less violent than on similar
occasions in the past. Some independent politicians and Opposition groups have
urged the rejection of what they brand as “imperialist” intrusion into their affairs.
But no Arab Government has so far taken up a public position against the
statement. Those who have made public announcements have recognised its
importance and stressed the need for careful study and consultation with other
Arab Governments to define a common Arab attitude. The Prime Minister of
Iraq has told us privately that he regards the statement as satisfactory, and that
if the Egyptian reaction is encouraging or even reasonable he will support it and
use his influence in favour of some kind of negotiation on the basis of Mr. Dulles’
ideas. It is clear that the Arab States await a lead from Egypt, and there has
been much talk of convening a meeting of the Arab League to work out a common
Arab policy. On 13th September, however, the Egyptian Foreign Minister told
Her Majesty’s Ambassador that the statement would not be discussed in the Arab
League. Any conversations should be confined to the Egyptian Prime Minister
and himself, to whom we and the Americans were at liberty to put separately our
more specific ideas whenever we wished. He agreed that a settlement was urgent,
and thought that solutions to the refugee and Jerusalem problems would not
present much difficulty. But he made it clear that Egypt’s minimum demand was
the re-establishment of territorial continuity, by which he meant the cession of
the Negev up to Beersheba. No arrangement of corridors would do. Colonel
Nasser himself had simply expressed his disappointment that the statement should
have contained no particular advantage for the Arabs and nothing to which the
Israelis could take exception.

6. The response of the Israeli Government has been prompt. They have
welcomed the statement as a “constructive act,” and are busy seeking detailed
explanations of Mr. Dulles’ ideas and trying to dislodge the United States Govern­
ment from the position that a settlement must precede a guarantee. They are
worried about Mr. Dulles’ reference to frontier changes and they are making clear
their determination to resist unilateral cessions of territory. But, in general, they
are taking pains to show their readiness to examine the possibilities of a reasonable
settlement. This was confirmed by the Israeli Ambassador in London.

APPENDIX A

TEXT OF LETTER OF 19TH AUGUST, 1955, FROM THE UNITED STATES
SECRETARY OF STATE TO H.M. AMBASSADOR IN WASHINGTON

Dear Mr. Ambassador,

You will recall our previous conversations and your talk with Mr. Hoover
regarding the question of United States adherence to the Baghdad Pact. I also
discussed this matter with Mr. Macmillan in Paris.
It has been my thought that it was not feasible for the United States to join the Baghdad Pact until there was a relaxation of tension between the Arab States and Israel. At that time we would be disposed to seek formal adherence. In the meanwhile, the Arab States in the area know of our support for the Baghdad Pact and we will continue to make this support known to them. We are also prepared to establish close liaison arrangements with the Baghdad Pact organisation when it is set up.

Because of Prime Minister Eden's interest in this matter I would appreciate your informing him of these views.

Sincerely yours,

JOHN FOSTER DULLES.

APPENDIX B

TEXT OF LETTER OF 16TH AUGUST, 1955, FROM THE UNITED STATES SECRETARY OF STATE TO H.M. AMBASSADOR IN WASHINGTON

I refer to our conversations and correspondence concerning Centurion tanks for Iraq.

Off-shore procurement of Centurion tanks faces us with serious financial difficulties because of recent appropriation cuts by the Congress. Nevertheless, we are prepared to purchase in the United Kingdom for Iraq, as part of our grant aid program for the current fiscal year, ten Centurion tanks if the United Kingdom will provide two. Also, we will explore the possibilities of expediting deliveries to Iraq under our current program and of adding certain other additional items to this program. Our action with respect to the tanks is not intended to set a general pattern for the Near East but only to meet a specific special situation.

Members of our staffs can discuss the question of the manner and time for informing the Iraqi Government.

Because of the personal interest Prime Minister Eden has expressed to the President, I would appreciate your bringing this letter to his attention.
PUBLIC RECORD OFFICE

Reference

CAB 129/77

ALL ODD NUMBERS BETWEEN

FOLIOS 235 - 277

ARE BLANK AND HAVE NOT BEEN COPIED
20th September, 1955

CABINET

HOUSING SUBSIDIES

Memorandum by the Minister of Housing and Local Government

I submit below my proposals for lightening the burden of the housing subsidies and for reducing the total volume of house building. Owing to the absence abroad of the Chancellor of the Exchequer I have been unable to agree these proposals in detail with him. However, they follow closely those which I outlined to the Cabinet at its meeting on 5th September, and on which there appeared to be general agreement.

2. In our election manifesto, we undertook to maintain a high rate of house building and to concentrate especially on slum clearance and the relief of urban congestion. A substantial subsidy should therefore continue to be paid in respect of houses built -

(i) for the re-housing, directly or indirectly, of slum dwellers;

(ii) in New Towns, or as part of expansion schemes under the Town Development Act to accommodate excess population from overcrowded cities; and

(iii) in approved cases, to accommodate workpeople coming into an area to meet the urgent needs of industry (e.g. coal mining).

3. For such houses I recommend an Exchequer subsidy of £24. This represents a slight increase of about £2 on the present Exchequer subsidy (£22 ls. od.). However, it falls short by nearly £11 of the amount which, under the existing practice, would be required from the Exchequer to make good the increase in interest rates and other costs since the subsidy was fixed a year ago.

4. The subsidy on houses for other purposes should be abolished altogether as soon as possible; but it would be unwise to effect this drastic change all at once. The first and immediate step should be to cut the subsidy on houses built for "general needs". I would like if possible to reduce it from the present level of £22 to about £10. However, if we are not to lose the essential co-operation of the Local Authorities, it may be necessary to make some advance on this figure. They have reacted most strongly to the latest increase in the interest rates on public works loans, and when they learn that on top of that the Government are proposing drastically to cut the subsidy, they will certainly protest violently. In fact, they may adopt the attitude that they are not disposed to build any
substantial number of houses with so low a subsidy. I am meeting the representatives of the Local Authority Associations on 3rd October to discuss the position, after which I will be better able to advise my colleagues on this point.

5. Other housing subsidies (e.g. for flats) would be adjusted proportionately.

6. Most Local Authorities will probably decide to meet all or part of the cut in subsidy by raising rents. I would propose to advise them to spread any such rent increases over all their houses, new and old, and to consider adopting differential rent schemes, as has already been done by quite a number of Councils.

7. Local Authorities should be absolved of their statutory obligation to pay subsidy out of rates on any of their houses, old or new. At the same time they should be left free to do so to such extent as they may think fit. This would give Local Authorities a further incentive to raise Council house rents to something more nearly approaching what the tenants can afford to pay.

8. These new rates of subsidy would apply to any dwellings built in pursuance of tenders approved by a Local Authority after the date of the announcement. Subsidies payable in respect of houses previously approved would, of course, not be affected.

9. The existing system, under which the Government fixes the house-building programme of each Local Authority by the issue of housing allocations, should be brought to an end so that authorities would be free to build as many houses as they wish with subsidies at the revised rates.

10. Our aim should be to reduce progressively the number of subsidised houses completed by Local Authorities and New Towns in England and Wales down to (but not below) 120,000 a year, and the total rate of completions in Great Britain down to (but not below) 270,000 a year. It is reasonable to expect that the reduction in the general needs subsidy and the "credit squeeze" will produce something approaching this result, though it is impossible to forecast with accuracy the precise effect of either of these measures. The position should, therefore, be closely watched. If it should be found either that the rate of house building is still too high, or that it is falling away too rapidly, further action may have to be considered.

11. If they are approved by the Cabinet, I would propose to announce to the House the changes proposed in paragraphs 2 to 9 above and to say that a Bill to give effect to them will be introduced as soon as possible. I would not specify the precise figures for the new subsidy rates, pending the outcome of my meeting with the representatives of the Local Authorities on 3rd October.

Conclusion

12. Accordingly, I ask my colleagues -

(a) to approve the proposals outlined in paragraphs 2 to 10 above;
(b) to agree that I should make a statement to the House on the lines indicated in paragraph 11; and

(c) to authorise the preparation of the necessary Bill, with a view to its early introduction.

D.S.

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

19th September, 1955.
CONFIDENTIAL

C.P. (55) 129

20th September, 1955

CABINET

IMPORTS OF UNITED STATES FRUIT

Note by the Financial Secretary, Treasury

I circulate the attached report by officials for consideration by the Cabinet.

H.B.

Treasury Chambers, S.W.1.

19th September, 1955.
IMPORTS OF UNITED STATES FRUIT

Report by the Mutual Aid Committee

This matter was last put to Ministers in P.R. (55) 30 and was considered by the Economic Policy Committee at their meeting on the 27th July. Officials then suggested a counter proposal to the American request that we should spend £30 millions between Autumn 1955 and Autumn 1956. This was that the programme should be reduced to £25 millions of which £6 millions were to be spent on citrus (including £500,000 on canned grapefruit and £1 millions fresh grapefruit), subject to the conditions that at least £20 millions of aid funds, which were expected to be available, should be used to finance the programme, and that we should be free to use also any further aid funds which might become available later, thus reducing or even eliminating the contingent liability to spend "free" dollars.

2. The Economic Policy Committee recognised in general the necessity for agreeing to a comprehensive programme of fruit imports from the United States; they considered, however, that time should first be allowed for a West Indian Mission to go to the United States to explain both to the Administration and to the Citrus Industry there the difficulties of the West Indian Citrus Industry. Mr. Manley, the Chief Minister of Jamaica, and Mr. Gomes, the Minister for Trade and Commerce of Trinidad, accordingly went to Washington and subsequently held a further meeting in Jamaica with representatives of the Florida Citrus Canners, which resulted in the agreement which is described in paragraph 6.

Non-citrus fruit

3. Meanwhile there was strong pressure from the Americans for some progress to be made in the purchase of fruit, and the Chancellor of the Exchequer authorised the making of an offer totalling £19 millions for the purchase of fruit other than citrus. Subject to certain technical points, this offer has been accepted by the Americans. The £20 millions of aid funds already allotted which it was proposed to use to finance the programme included the residue of the existing procurement authorisation for citrus fruit amounting to £6.5 millions. The Americans now say that they are unwilling to reprogramme this procurement authorisation for another type of fruit. Evidently they fear that we might subsequently agree to take only a disproportionately small amount of citrus. They wish merely to prolong the life of the existing procurement authorisation for citrus. This alters the assumptions on which the £19 millions proposition was made and we have told the Americans that we must regard ourselves as being free to reduce the non-citrus programme by the whole amount of £6.5 millions. Certain additional amounts of aid have however now come to hand, sufficient to finance a programme of at least £15.9 millions exclusive of citrus; arrangements for such a programme have now been put in train.
4. The Americans will no doubt press us to agree an import programme to cover the balance between the $15.9 millions agreed and the earlier offer of $19 millions. In discussing the non-citrus programme it was made clear to them that officials had no authority to offer "free" dollars for this interim deal. The original American proposals put considerable emphasis on their desire for some "free" dollars to be spent on fruit, and the counter-proposal (considered, but not agreed by Ministers) envisaged accepting this as a contingent liability. The general economic situation of the United Kingdom, however, and the measures taken in the internal and external fields, may be thought to be inconsistent with the expenditure of "free" dollars for fruit and Ministers may accordingly wish to consider whether to reject any contingent liability to spend free dollars. They might, however, be prepared to maintain the original offer of $19 millions on non-citrus fruits provided that the balance between this higher figure and the $15.9 million already agreed is allowed in only at our discretion as and when aid funds become available which cannot be used for other purposes.

Citrus Fruit

5. In the earlier report to Ministers it was suggested that $6 million should be allocated to the purchase of citrus fruit. This is the same amount as was included in the 1954/55 programme; it was not all used then because agreement was reached too late in the season for it to be effective, and in the coming season rising freight rates are likely to limit the amount of citrus fruit which will be taken by the United Kingdom market. The earlier report to Ministers proposed that within this amount of $6 million we should agree to $500,000 for canned grapefruit and $1 million for fresh grapefruit. We specified moreover that no timing conditions would be imposed on the import of fresh grapefruit and other citrus products. Now that the Americans propose to use the existing procurement authority for citrus fruit, as described in paragraph 3 above, there appears to be an opportunity for restricting our purchases to this amount thus avoiding the contingent liability of spending free dollars on citrus fruit. It is politically essential for the American authorities to achieve a reasonable figure for citrus imports (at least $4.5 millions for example) although they recognise that the actual level of sales of citrus fruit may not be as high as this. They may press for a larger figure. Not only would this involve the risk of spending free dollars but it would increase our embarrassment with the Colonies. Ministers will wish to decide whether to accept a contingent liability for the expenditure of free dollars for citrus fruit, by agreeing a $6 million citrus programme, or to reject it by restricting our offer to $4.5 million.
6. Within either figure it is necessary to consider what amounts of canned and fresh grapefruit should be included in the programme. The talks between the British West Indies and the Florida producers, which were limited to canned grapefruit, resulted in agreement on the following basis. (It was of course fully understood by all from the outset that Her Majesty's Government would not be bound by any agreement.)

(a) The West Indies would be prepared to acquiesce in United Kingdom imports of 150,000 cases (roughly £500,000 worth) of canned grapefruit from the United States during the coming season, on the basis that such imports "will not prejudice in any way the special interests and present position of the West Indian citrus industry in the United Kingdom market".

(b) To satisfy this condition it was agreed that purchases of United States produce would have to be made only from members of the Florida Citrus Canners organisation, who would give a prior undertaking to raise prices to bring them into line with those charged by West Indies producers.

(c) Certain other conditions were stipulated to which the West Indians attach the greatest importance:

(i) The United States canned grapefruit should be imported and on-sold by the importers before the West Indian canners start to pack their 1955 crop (that is to say by about the end of October).

(ii) The additional receipts of the United States exporters resulting from sales at the higher West Indian price to a total of not less than £59,000, should be spent promptly on the advertising and promotion of grapefruit in general in the United Kingdom.

7. There are difficulties involved in accepting an arrangement of this sort. Subject to certain modifications to the restrictions which would have to be imposed to carry out the agreed conditions, it would in fact be technically possible to make some arrangements which would meet the West Indian requirements; but the considerations of principle involved are such that it would be essential to carry the United States Government with us in approving the arrangements. The American authorities have accordingly been consulted and while they are very sympathetic to the idea of the two industries reaching agreement upon their joint problems, they point out that there are two aspects of the agreement arrived at (the price fixing provision and the limitation to certain suppliers) which are contrary to the requirements of American law; thus it would not be possible for them to authorise the expenditure of Aid funds for purchases under such an arrangement. In view of this American reaction it is clear that the proposed arrangements are unacceptable.

8. It is however very unlikely that the Americans would accept any proposal on citrus which excluded canned grapefruit entirely and the Committee have considered whether there is any alternative to the scheme evolved by the British West Indies and Florida Producers. In their view the only safeguards for the West Indies which could be applied in the immediate future would be the limitation of American imports of canned grapefruit to a period when they would interfere least with West Indies marketing
from the new crop; in particular they propose a limitation by which American imports would be permitted only in the period up to 31st December, which is the shortest time in which it is reasonable to expect the importers to move the suggested quantities of canned grapefruit. Although this does not give the West Indies all they want it does give them a reasonable degree of protection. Its essence is speed; delay will cause damage to West Indies interests by creating the worst trading conditions for their products. There is however an obligation on the United Kingdom Government to consult the Colonies with regard to all Aid-financed fruit imports and in particular with regard to the import of canned grapefruit in the period up to 31st October. The Committee, therefore, recognise that the Colonies must be consulted in the first place, and that this should be done urgently; none the less the majority of the Committee feel that the proposal suggested is the most consistent with the general interest of the United Kingdom and of the Colonies concerned and should be adopted.

9. The Colonial Office would not be prepared to say that the proposal in the preceding paragraph would be acceptable to the West Indies. In view of the part which the citrus industry plays in the political and economic life of the West Indies, the negotiations which have already taken place between the two industries, and the importance to the West Indian industry of strengthening the contact they have established with the American industry, the Colonial Office consider it important that the West Indian Governments should be consulted again before any decision is taken. If this is not done our relations with the West Indian Governments will undoubtedly be seriously damaged and the talks with the West Indian Ministers on the Price Assistance Scheme for the citrus industry, which are to be resumed at the end of the month, will be even more difficult. The Colonial Office consider that the West Indian Governments should be informed by telegram of the objections to the arrangements negotiated between the West Indian and Florida citrus industries and moreover should be told that if they wished to arrange for further talks between the two industries to see whether they could modify the arrangements to meet those objections we should be willing for them to do so. In that event, since the proposed time limit for the import of American segments into the United Kingdom could not be achieved, the West Indian industry would, no doubt, try to get agreement to the restrictions of imports to some other period during the year covered by the Aid Programme which would be least harmful to the West Indian industry. The telegram to the West Indies could then go on to state the proposal in the preceding paragraph as one that we should have to consider if the West Indies decide against further negotiations with the Florida citrus growers, and since this proposal involves a time limit for the import of American segments we should wish to know the views of the West Indian Governments as quickly as possible.

10. The discussion between the British West Indies and American interests did not cover other citrus fruits. Mr. Manley said that the United States had no interest in exporting fresh grapefruit or other citrus products to the United Kingdom at this time, and had urged that the United Kingdom should not agree to any such proposal. The American Administration on the other hand, have made it clear that they have a substantial interest in securing at least a token import of fresh grapefruit, as well as other citrus fruits. It is suggested therefore that a token amount of 1 million of fresh grapefruit (without restriction as to the date of entry) should be included in the 24.5 millions programme. In this connection there is a commitment to consult the Colonies concerned and the Colonial Office consider that their Governments should be told, at the same time as the communication to them of whatever decision is reached on canned
grapefruit, that the United States Government have definitely asked for the inclusion immediately of fresh citrus in the programme and they should be asked for their views on the proposals in paragraph 5 above. (The views of the Cyprus Government are already available; they have expressed strong objection to the lack of limitation on the period in which United States citrus fruit will be imported.)

Conclusions

11. Ministers are asked to decide -

(a) Whether our offer on fruit other than citrus should be modified in such a way that we are in no danger of spending free dollars, and whether we should maintain our offer of $19 million if this can be eventually financed wholly from Aid funds.

(b) Whether, subject to consultation with the Colonial interests concerned, our offer on citrus should be limited to the $4.5 million of the existing procurement authorisation thus avoiding all risk of spending "free" dollars, on the basis that not more than $1 million would be spent on fresh grapefruit and $3 million on other citrus fruits and fruit products (excluding canned grapefruit), with no limitation as to the period of importation.

(c) That the arrangements evolved between the British West Indies and Florida Industries and set out in paragraph 6 above are unacceptable.

(d) Whether to accept the view of the majority of the Committee that the British West Indies should be informed that we are proposing to import $500,000 worth of canned grapefruit within the period up to 31st December, or whether to accept the dissenting opinion of the Colonial Office to the effect that the British West Indies interests should be given further opportunities for negotiation with the Florida Producers before a final decision is reached.
20th September, 1955

CABINET

NATIONAL SERVICE: DEFERMENT FOR AGRICULTURAL WORKERS

Memorandum by the Minister of Labour and National Service

The Secretary of State for Scotland, the Minister of Agriculture, Fisheries and Food and I were approached by the National Farmers' Unions of Scotland and England just before the Election this year, with a request that the present system of call-up of men from agriculture for National Service should be discontinued and that there should be a reversion to the position existing prior to 1951 in which all agricultural workers were given "blanket" deferment.

2. After consulting the Election Business Committee (E.B.C. (55) 4th Meeting), a deputation from the two Unions was received by me; the Joint Parliamentary Secretary to the Ministry of Agriculture, Fisheries and Food and representatives of the Scottish Office were also present.

3. The deputation made out a strong case for special steps to be taken to preserve the manpower position in the agricultural industry and I promised that their representations would receive the careful consideration of the new Government.

4. Later in the summer, the Secretary of State and the Minister informed me that the manpower position in the industry was becoming so serious that they were now convinced that urgent measures must be taken. They agreed, however, that a decision on this particular aspect of National Service must await consideration of the major question now before the Cabinet in C.P. (55) 125.

5. The number of agricultural workers available from each age class is approximately 15,000. Until now 6,000 of these have been called up for National Service and 2,000 more have volunteered for the Armed Forces.

6. Under present arrangements agricultural workers born before 1933 are, in general, not called up unless they leave agricultural employment.

Men born on or after 1st January, 1933, are regarded as eligible for call-up; limited deferment may be granted on the employer's application (or on the man's own application if he is self-employed), but the object of any deferment granted is to enable such arrangements to be made as will make it possible for the worker concerned to be called up eventually. Applications can only be made in respect of (a) workers on small farms or (b) stockmen, and essential conditions of the grant of deferment are...
that the holding is making a significant contribution to food production, that it is impracticable to make alternative arrangements and that there is no prospect of obtaining a replacement within a reasonable period.

Any further concession in the call-up makes it more difficult to maintain the principle of universality of national service and, although the present labour position in agriculture is such that substitution is impossible over the majority of the field and deferments continue from year to year, I am nevertheless anxious to avoid any extension of the blanket deferment system.

7. I propose, therefore, in order to meet the exceptional circumstances of the agricultural industry, that every full-time worker in agriculture should be eligible for consideration for deferment on the same tests as now apply to the small farms. It is estimated that this concession would result in at least a further 2,500 deferments a year and would reduce the annual intake into the Forces of National Service men to 3,500.

This year, as in previous years, no men are being called up from agriculture during the period of the 14 weeks "harvest suspension". In order to meet local conditions these periods vary from Region to Region; the earliest date of termination is 15th October for Wales and the latest 26th November for the Eastern Region.

Under present arrangements the men due to be called up at the end of the harvest period are in two groups: those who have already been considered and rejected for normal deferment; and those who were ineligible for consideration. The former group will not be affected by the new arrangements and will be called up at the end of their harvest periods. It is proposed that the latter group should be brought within the scope of the new arrangements and be eligible for consideration for deferment.

8. My Ministerial colleagues and the two Farmers' Unions have expressed grave concern about the uncertainty in the position of at least 20,000 agricultural workers whose call-up has been deferred since 1952. Because of the uncertainty of their position, many men are asking to be called up or are volunteering for regular service in order to put their service behind them before settling down in marriage.

9. It is proposed therefore that an early announcement should be made giving an assurance to the industry in respect of men under deferment that, if the conditions justifying their deferment still exist when their 26th birthday approaches, they will continue to be deferred even though this means that they will pass out of liability and will never be called up.

10. I should hope that the two proposals which I have outlined above will go a long way towards satisfying the two National Farmers' Unions, and that the two Workers' Unions will also accept them. I would, however, propose, in conjunction with my Ministerial colleagues, to consult both sides of the industry before making any public announcement which should, if possible, be included in the statement to be made about the future of the National Service scheme as a whole.

Summary of Recommendations

11. I accordingly recommend - and I understand that my two colleagues are prepared to agree - that I should be authorised to approach both sides of the agricultural industry with the proposals that -
(a) Eligibility for consideration for deferment of call-up of agricultural workers should be extended to all farms irrespective of size (paragraph 7); and

(b) An early announcement should be made to reassure the farming industry that men who are deferred will not be called up regardless of productivity considerations merely because they are approaching the upper age limit of liability (paragraph 9).

W.M.

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

TOP SECRET

C.F.(55) 131

20th September, 1955

CABINET

CAPITAL FINANCE FOR LOCAL AUTHORITIES

Memorandum by the Chancellor of the Exchequer

Under the present system the local authorities can choose the source from which they borrow to meet approved capital expenditure. There is no limit to the amount that they raise from the Exchequer through the Public Works Loan Board (P.W.L.B.) and the rates at which they borrow are in line with Government credit.

2. I propose to change the system in two respects:

(i) to limit the demands on the Exchequer by asking the Board to grant loans only when it is satisfied that the applicant has made an effort to borrow elsewhere, i.e., in the stock and mortgage markets, and cannot reasonably do so;

(ii) to prescribe rates for the P.W.L.B. based not on Government credit, but on the credit of local authorities of good standing in the market.

3. The present system dates from 1945, when the local authorities were charged with a programme of reconstruction and housing far in excess of the capacity of the stock and mortgage markets. For seven years the local authorities were in effect denied access to the stock market. In 1952 they were given back their freedom to go to the market if they wished. But the Government did not take the further step of limiting their access to the P.W.L.B. The local authorities still had a big programme of commitments authorised by the Government. Parliament was told that in this situation the authorities must be given access to all the sources of finance, and that it was not the Government's policy to force local authorities into the stock market.

4. The present system has two disadvantages.

5. First, the authorities have lost the habit of considering before they incur capital commitments how the money to meet them will be found - since the tap is open from which they can draw the money when the commitments mature. Their sense of financial responsibility is also weakened if they borrow at rates which reflect not their own credit but the credit of the Government.
6. Second, the system is unhealthy for the Exchequer. The deficit below the line this year includes £193 millions of capital advances to local authorities made in six months compared with a Budget estimate for the whole year of £320 millions. This drain is not due to any increase in the capital formation of local authorities which is, in fact, tending to fall. It is due to the fact that, when interest rates have been rising, the local authorities have chosen to concentrate their borrowing on the P.W.L.B. As a direct result, the Exchequer has been obliged to raise these large sums by increasing the Floating Debt, and this increase has diminished the pressure on the liquidity of the banks and added to the difficulties of credit control.

7. We now have an opportunity to adopt a more healthy system. Local authorities' capital expenditure may be expected to fall in the next 12 months or so, for it is probable that the reduction in housing expenditure will continue while, if the local authorities succeed in carrying out the Government's request in the rest of their programmes, their other capital expenditure will be no larger than it was last year. This contraction of expenditure provides the opportunity for a change in the local authorities' arrangements for raising the capital finance. The fact that their capital requirements will tend to fall means that a greater proportion of them can be met from the stock and mortgage markets. Moreover, we are moving into a situation in which the local authorities will have a somewhat greater degree of freedom to decide for themselves the size of their capital expenditures - particularly on housing - and this carries with it a greater degree of independence and financial responsibility for the local authorities.

8. This development calls for a corresponding modification of the system of financing, for the authorities will no longer be under such compelling pressure from the Government to embark upon specific programmes of capital expenditure.

9. Therefore propose that the Exchequer should resume the right to grant or withhold advances to local authorities. This step does not require fresh legislation. It can be done by a request from myself to the P.W.L.B., who, under the present law, have full power to grant or withhold advances.

10. At least for the present, I would not propose to revert to the pre-war system under which the Board were instructed not to lend (except for certain specified services) to large authorities (defined as authorities with a rateable value of more than £200,000 a year). The larger authorities are responsible for about half the present advances from the P.W.L.B. - say £150 millions a year. There can be no assurance that the stock and mortgage markets will find additional finance of this amount. But I believe it will be feasible to have a selective and flexible system. I propose to ask the Board, before they grant any advances in future, to satisfy themselves that the applicant has made an effort to raise the finance on its own credit in the stock and mortgage markets, and only to lend from the Exchequer insofar as, in the Board's judgment, the applicant could not reasonably raise the money elsewhere.

11. But I do not think this change will be feasible unless the instruction to the Board is supported by a further step - a change in the basis on which the Treasury calculates the lending rates of the Board. At present the rates are based on Government credit for loans of comparable periods.
The result is that - unless an authority decides to pay more for the flexibility and prestige of a market loan - it is to the financial advantage of the local authorities to borrow from the Board as opposed to the market. They will certainly claim when it suits them that it is their duty to do so; and the Board will be given a very difficult task in deciding how far they can press an applicant to go back to the market when the applicant claims that the market's terms are unreasonable.

12. I believe that the right solution is to prescribe lending rates for the P.W.L.B. based, not on Government credit, but on the credit of local authorities of good standing in the market. This again does not require legislation, as the Treasury has full discretion to prescribe whatever rates they think fit under the existing law.

13. Clearly certain safeguards are needed before the new system can be put into operation. The main points to be safeguarded are -

(a) the market prospects;

(b) the effect on local authority credit; and

(c) the administrative arrangements to avoid dislocation of local authority finance.

14. Market prospects. The success of the plan depends on an active market in local authority issues. The Bank of England have been closely consulted on this point. No assurance can be given of an immediate flow of local authority issues or of consistently favourable markets. But there exists already a list of local authority stocks to go on the market; and there is a reasonable prospect of making steady progress with the orderly flotation of these issues in the first place, followed by others on which preparations could start as soon as the new policy was announced. Similarly there are good prospects of an active mortgage market. This is an encouraging report. But I must emphasize that it is conditional on a new Local Loans rate based on local authority credit. Progress cannot be made in either stock or mortgage markets if they have to compete with the P.W.L.B. lending at finest gilt edged rates.

15. Local authority credit. It is not intended that the pressure of the local authorities on the market should drive up their borrowing rates to penal levels. The authorities are entitled to protection against that risk. They will get protection from the lending rates prescribed for the P.W.L.B. Some margin is bound to develop between the full gilt edged rate and local authority rates, and it is right that it should. But local authority credit will continue to rank in the market next after Government credit. This standing will be reflected in the lending rates prescribed for the P.W.L.B., who will be given guidance not to press applicants to borrow in the market at rates significantly higher than the Board's own lending rate.

16. Administrative arrangements. I am satisfied that the P.W.L.B. as at present constituted can carry out the function now to be given to them. They will not be concerned in the merits of the capital expenditure, but with the market prospects of the local authorities who come to them. In practice the Board will accept the statements of small applicants that they were unable to raise their finance elsewhere, and will concentrate
on the large authorities of known market standing. On these the Board will be advised by the Bank of England who are in a position to report on the prospects of such authorities in both stock and mortgage markets.

17. As far as the Board and the Bank are concerned, this system is ready to be put into operation immediately. From the standpoint of the local authorities, however, a transitional period may well be required. It is the present practice of many local authorities to decide the amount and source of their loans only when commitments mature for payment. But the new system will mean that local authorities must work out forward borrowing programmes, taking account of their broker's advice on the prospects of their stock issues, etc. before they can justify the amount of their proposed borrowing from the P.W.L.B. It will also take a little time for the authorities and their market advisers to organise the flow of new issues in the stock market. Clearly the Board must be ready to make such advances as are required to help the authorities through this transitional period. I would propose to make these transitional arrangements by meeting the Standing Consultative Committee of Local Authority Associations immediately after the new policy was announced. But to avoid forestalling, the new lending rates for the P.W.L.B. must be prescribed and operate immediately.

Summary

18. (i) Under the present system, there is no limit to the amount of approved capital expenditure that local authorities can finance by borrowing from the Exchequer at rates based on Government credit.

(ii) I propose that (a) the Public Works Loan Board should only grant Exchequer loans so far as the applicants cannot raise the money in the stock and mortgage markets; and (b) the Board's lending rates should be based not on Government credit but on local authority credit.

(iii) In order to succeed, the new system requires an active market in local authority issues, safeguards against penal rates for local authority borrowing, and workable administrative arrangements, particularly to begin with. All these points are covered.

(iv) If the scheme is agreed, I would propose to announce it on 27th September and to fix the new Local Loans rates, based on local authority credit, on the same day.

R.A.B.

Treasury Chambers, S.W.1.

19th September, 1955.
CABINET

LOCAL AUTHORITIES CAPITAL EXPENDITURE

Memorandum by the Chancellor of the Exchequer

The capital expenditure of local authorities (United Kingdom) is nearly £600 millions a year - one-quarter of total investment. This is an element of decisive importance in the programme of anti-inflationary action.

2. The measures to deal with it are:
   (a) The reduction in subsidised housing.
   (c) Stabilisation of local authorities other capital expenditure at the 1954-55 level.
   (c) Certain changes in the conditions under which local authorities borrow from the Public Works Loan Board (P.W.L.B.).

3. These are complementary, and should work effectively without subjecting the local authorities to more detailed control from the centre and weakening their financial responsibility and discretion.

Housing

4. This is nearly 65 per cent of the authorities total capital expenditure. It may be helpful if I set out my views on the proposals of the Minister of Housing and Local Government.

5. I agree with the rates of subsidy of £24 and £10.

6. I agree also with the freeing from allocation, on the understanding that a watch is kept so that if the numbers are likely to exceed a certain figure, the alert is sounded and prompt action taken, either by reduction of the subsidy or otherwise. It is important to be clear on this limitation, and in my view it would give unnecessary hostages to fortune to give the public the impression of unlimited freedom.

7. On the numbers proposed by the Minister, I agree that the output of subsidised houses should be reduced as quickly as possible to 120,000 (England and Wales). But I cannot agree that this should be regarded also as a minimum and further action (presumably an increase
of subsidy) taken if output tended to fall lower. Our political commitments on slum clearance, etc., do not imply an output of more than 100,000 and I see no valid case for going beyond this.

8. I agree also that we should let the total output of houses (Great Britain) fall to 270,000, but I should again feel that it would be dangerous to begin regarding this as a minimum. I must emphasize that every 20,000 houses represents investment (including ancillary services) of about £40 millions, and it can be strongly argued that there are other needs for social investment which would be of much more importance than marginal houses between, say, 270,000 and 250,000.

9. I conclude therefore that our aim in subsidised housing (England and Wales) should be a maximum of 120,000 and a minimum of 100,000.

Other capital expenditure

10. I undertook to circulate a draft message to those of my colleagues who are directly concerned. The re-draft at Annex A incorporates a number of suggestions which have been made, but I have not of course been able to discuss points which have been raised. This message would be sent to every local authority in England and Wales over the signatures of the Minister of Housing and myself, and to every authority in Scotland over the signatures of the Secretary of State and myself. It would be timed to reach the authorities as soon after the statements in Parliament as possible.

11. The essential point of the message is that the local authority is asked to review its capital expenditure (other than housing) and that its aim should be to prevent it from rising above the 1954-55 level. We are bound to accept the consequence that this may lead to a postponement of projects which have already been authorised; and it follows that we have to accept the local authority's judgment of what is most important in the locality (except where a choice is being made between elements in the same Department's programme). Some of my colleagues may find it desirable to issue circulars themselves setting out the priorities to be followed between projects within their own sphere of responsibility.

12. Some authorities are likely to find it easier than others to comply with this request; the decline in housing will have considerable effects upon the demand for other capital expenditure (e.g., water and sewerage), and this will in many cases make it easier to expand other parts of the programme. A preponderant part of the expenditure of County Councils, however, is on educational building. I am aware of the public pronouncements made by the Government, especially on rural re-organisation. I hope to discuss with the Minister of Education the possibility of authorities delaying the least urgent part of their educational building programmes in order to comply with the terms of the message.

13. A table in Annex B shows the distribution of local authorities capital expenditure in England and Wales; these are totals for the whole country covering all types of authority.

14. Some of my colleagues have suggested that certain items of expenditure should be excluded from this message, on the grounds that national programmes have already been authorised. While I appreciate
the force of the arguments put forward, I feel that the exclusion of important elements would frustrate the purpose of the message. Housing is excluded because housing is a declining programme; if we excluded the expanding programmes also, there would be no further point in the message.

**Public Works Loan Board**

15. I propose to ask the P.W.L.B. to confine their lending to authorities which cannot borrow on the stock or mortgage markets, and to lend at rates based not on Government but on local authority credit. I have circulated a separate paper explaining this measure in detail (C.P. (55) 131).

**Conclusion**

16. To sum up, these three series of measures - reduction in subsidised housing, stabilisation of other expenditure, and change in conditions of lending - are all parts of our approach to the problem of local authority capital expenditure. My colleagues will be taking decisions on housing and P.W.L.B. separately.

17. I ask my colleagues' agreement accordingly to arrange, in consultation with the Secretary of State for Scotland and the Minister of Housing and Local Government, for the distribution of the message at Annex A to all local authorities.

R.A.B.

Treasury Chambers, S. W. 1.

20th September, 1955.
ANNEX A

DRAFT MESSAGE TO LOCAL AUTHORITIES

1. Reference to Chancellor's statement and (in England and Wales) to Minister of Housing's statement about housing policy.

2. We are writing to you, and to all other local authorities, on behalf of the Government to ask you to undertake an immediate review of your capital expenditure for the period from now to 31st March 1957. We also ask you to review your current expenditure in order to secure economies wherever possible, and to refrain, save in cases of exceptional need, from undertaking new services which will involve additional expenditure either from Government grants or from the rates.

3. The reason for this request is that in recent months it has become clear that the productive resources of the nation are carrying too heavy a load. The consequence of this is seen in the upward movement of costs and prices at home, as well as in the pressure on sterling abroad.

4. The Government's policy is designed to bring the total demand within the capacity of the nation's productive resources. It has always been recognised, from the Full Employment White Paper of 1944 onwards, that the maintenance of full employment involves a continuing process of adjustment, particularly in the capital expenditure plans of public authorities, in order to keep the economic affairs of the country on an even keel.

5. The aim should be to ensure that your authority's capital expenditure (other than on housing) in each of the years 1955-56 and 1956-57 does not exceed that of 1954-55, and that within this limit no new works, even those already authorised, are undertaken unless your authority are satisfied that these works are urgently necessary to meet the needs of the area. For some authorities with special problems, particularly those with rapidly expanding populations, some increase of capital expenditure above the 1954-55 level may be inescapable. Some authorities, on the other hand, may well be able to secure a reduction in their capital expenditure below the level of 1954-55.

6. In this process of review, questions of the priority to be given to the claims of different services are bound to arise, and should be decided in the light of the local circumstances in your own area. Where there are considerations of national policy which should be taken into account in choosing between projects within the field of responsibility of one Government Department, you will be informed by the Department. The Departments will not press local authorities to provide services of a more expensive standard than the authorities would regard as being necessary in the light of local conditions.

7. It is appreciated that to give effect to the requests in this message may result in the postponement of improvements which local authorities would like to make in the standards of their services. But the essential condition for all future progress is to secure and maintain the nation's internal and external economic stability now. Failure to take the necessary action for this purpose would involve a much more serious setback to employment and the standard of living.
ANNEX B
CAPITAL EXPENDITURE: LOCAL AUTHORITIES (ENGLAND AND WALES)

<table>
<thead>
<tr>
<th>Description</th>
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<tbody>
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<td>Total</td>
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<tr>
<td>Housing</td>
<td>291.4</td>
</tr>
<tr>
<td>Other than housing</td>
<td>182.3</td>
</tr>
<tr>
<td>Education</td>
<td>62.7</td>
</tr>
<tr>
<td>Water and sewerage</td>
<td>42.6</td>
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<tr>
<td>Land drainage and coast protection</td>
<td>9.9</td>
</tr>
<tr>
<td>Town and country planning</td>
<td>9.2</td>
</tr>
<tr>
<td>Highways</td>
<td>12.0</td>
</tr>
<tr>
<td>Harbours, docks and piers</td>
<td>6.1</td>
</tr>
<tr>
<td>Public lighting</td>
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<tr>
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<tr>
<td>Passenger transport</td>
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<tr>
<td>Health and welfare and child care</td>
<td>5.4</td>
</tr>
<tr>
<td>Other</td>
<td>16.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>182.3</strong></td>
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</table>
MEMORANDUM BY THE SECRETARY OF STATE FOR THE COLONIES

This paper has been prepared in consultation with the Financial Secretary, Treasury, following discussion of an earlier, and substantially similar, version of it in the Ministerial Committee on Malta. M.C. (55) 2nd Meeting.

2. Since the Parliamentary Conference on Malta is being told, in evidence given on behalf of Her Majesty's Government, that representation of Malta at Westminster is not thought likely to stimulate early pressure from any other smaller colonies for similar treatment, the Conference may wish itself to consider that possibility fairly closely and, in particular, it may ask what alternative constitutional development there is which could suitably be offered to the territories in question.

3. Some members of the Parliamentary Conference will know that the future of the smaller colonial territories was examined, on a confidential basis, in 1949-51 by a Committee appointed by Mr. Creech Jones. A copy of that Committee's summary of recommendations is attached at Appendix A. The opinions of a number of Colonial Governors were sought on those recommendations which, in general, attracted so little support that action taken upon them has, in the event, been negligible.

4. Although the ideas in the Report of this Committee thus proved, in the view of the Governors concerned, to be unacceptable, the question of the future of the smaller colonial territories has been reviewed from time to time and, in the course of a debate on the 21st June last, I told Parliament that I would study with care the problem of those territories. Recent studies in the Colonial Office have resulted in the scheme of which an outline is given in Appendix B. This takes account of the Report of the Committee of 1949-51 and attempts to meet the main objections raised by the Colonial Governors to the proposals in that Report.

5. The scheme outlined in Appendix B is, of course, not intended for those territories which, either on their own or as members of Federations can be expected to move gradually towards the achievement of a fully independent status and to become candidates for full Commonwealth membership. A list of those territories is given in Appendix C. The three main East African territories have been included since, although their political future is still uncertain, they obviously cannot be regarded as "smaller territories" in the present context.

6. A list of the remaining Colonial territories (except Malta) is given in Appendix D. A copy of the new scheme (Appendix B) was sent recently to the Governor of each of these territories (except Cyprus, whose Governor was consulted personally), who was asked to give (after consulting, if need be, his principal official advisers but no one else) his view on the two following questions:—

(a) to what extent is the scheme thought likely to be acceptable, on its merit, in the particular territory; and

(b) if the scheme would otherwise be acceptable would it be likely to be rejected (as being inferior treatment) if Malta is given representation at Westminster?
7. The replies from Governors are summarised in Appendix E. It will be seen that only three of them (Gambia, Gibraltar and Mauritius) consider that pressure for representation at Westminster might follow if that were granted to Malta. But in two cases (Gambia and Mauritius) the main purpose of that pressure would be to obtain financial help from Her Majesty's Government to raise the levels of wages and social services either to, or substantially towards, United Kingdom standards—assuming that such help were granted to Malta. Gibraltar would be unlikely to press for representation if that was conditional on a gradual levelling-up of taxation to United Kingdom rates. It is not however contemplated that the rates of direct and indirect taxation in Malta should be raised in the foreseeable future to United Kingdom levels; and the possibility cannot be excluded that the kind of settlement which might be reached for Malta would eventually stimulate demands in at least Gambia, Gibraltar and Mauritius for similar treatment, including representation at Westminster. Nevertheless it does not appear likely that representation for Malta will stimulate immediate pressure for similar treatment in any of the territories, and I think that it should be possible for Her Majesty's Government to present any radical solution to Malta's relationship with the United Kingdom as appropriate to Malta's unique circumstances.

8. The replies of Governors can be classified, broadly as follows:—

(a) Those territories for which “Statehood” has immediate attractions. They are: Aden (Colony), British Honduras, Mauritius, Gambia, Gibraltar, Fiji, North Borneo, Falkland Islands, Sarawak, Seychelles.

(b) Those for which it has longer-term attractions. They are: Bahamas, Bermuda (in the sense that public opinion there does not appear actually interested in any change from their present status), Western Pacific High Commission territories (in the sense that they are still at too elementary a constitutional stage).

(c) Those for which it is not regarded, in the foreseeable future, as suitable. They are: Brunei, Hong Kong, Somaliland Protectorate, Aden Protectorate, Zanzibar, British Guiana and St. Helena.

This classification omits Sierra Leone. I share the Governor's opinion that it is doubtful whether any status which appeared to impair Sierra Leone's opportunities to achieve, eventually, independence within the Commonwealth would be politically acceptable.

9. My colleagues may consider that the degree of favour for the scheme shown by Governors, the possibility that public opinion in some of the territories might eventually ask for representation at Westminster for economic reasons and perhaps for political reasons which Governors could not be expected to foresee, the likelihood of public and Parliamentary interest here being increased by the very fact of the Malta Conference, and the example of the developing tempo of constitutional advance in the larger colonial territories, make it desirable to give further early consideration to the scheme outlined in Appendix B. The purpose of that study would be to get the proposals into concrete form in the context of certain selected territories. This would be done in the first instance in consultation with the Governors, local unofficial leaders being brought into the discussion when the issues had been sufficiently clarified. The manner and timing of the announcement of policy would be considered when it had been established that a workable scheme acceptable to at any rate some territories could be produced.

10. As a separate, though related, exercise I consider that we should have it in mind to convene, some time next year, a conference of Chief Ministers (or the equivalent) of those territories (not only the smaller ones) which now have a Ministerial or quasi-Ministerial form of government. The primary purpose of such a conference would be to discuss generally with these leaders the policies and aims of Her Majesty's Government, but it would enable us to test opinion as to the value of setting up any regular consultative machinery such as is pressed upon us in Parliament from time to time. (The Financial Secretary wishes to reserve his position on this suggestion.)

11. Should members of the Round Table Conference enquire about our attitude to the question of the future of the “smaller territories,” I consider that we should say that that is not a specific matter for this Conference, but that we are very fully aware of the importance of the question and are giving it earnest...
consideration. If, as is likely, we are pressed to be more forthcoming, I would propose to circulate to the Conference a note of the recommendations of the Smaller Territories Committee (Appendix A) and a note (Appendix F) stating in General terms the position which we shall have reached if my colleagues approve my present suggestions. It would not, I think, be desirable to circulate to this Conference the detailed scheme set out in Appendix B.

12. I should like to emphasise that the Colonial Office study which has produced the scheme outlined in Appendix B at no time contemplated bringing Malta within the scheme; nor would it be appropriate to do so now. In many ways Malta has, and is dissatisfied with, a constitutional status similar to that to which aspirants to “Statehood” have yet to progress. “Statehood” is neither “integration” nor “dominion status,” nor even “quasi-dominion status,” and therefore would not interest either of the main political parties in Malta. The existence of the scheme outlined in Appendix B should not, therefore, be revealed to any of the Maltese representatives at the Conference.

A. I.-B.

Colonial Office, S.W. 1.
21st September, 1955.

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APPENDIX A

SUMMARY OF MAIN RECOMMENDATIONS OF SMALLER TERRITORIES COMMITTEE

(a) A new constitutional status should be established by the creation of Island States and City States of the Commonwealth, and this status should be between that of a dependency and an independent member of the Commonwealth.

(b) While there would be different classes of Island and City States, they should all be given the greatest possible degree of internal self-government and that government should be vested in a State Council.

(c) The basis of membership of the State Council should be election either directly or by local government bodies.

(d) In the simpler type of City or Island State constitution, the State Council should administer local government as well as central government services. In other types, there should be separate local government bodies, but since these would have the responsibility of electing the State Council, there would be intimate association between local and central government.

(e) Except in the more complex type of Island or City State (Class III), the State Council should combine executive and legislative functions.

(f) As far as possible the State Council should be regarded as the executive and should function as such. For executive matters which must remain vested in the Governor he should be assisted by one or more consultative bodies, which would be purely advisory and for specified subjects.

(g) In larger and more complex territories there should be a small executive body, selected from and responsible to the State Council, to be termed a Council of Government.

(h) Members of the Council of Government would be termed Ministers and would assume responsibility for one or more functions of Government.

(i) The Council of Government should be primarily an executive body, but should also, to a limited extent, carry out the functions of a second Chamber.

(j) Civil Servants, with the exception of the holders of the three State Offices of State Secretary, Attorney-General and Financial Secretary, should, in practice, be the servants of the State Council, and their position should be analogous to that of the staff of a local authority.

(k) Financial responsibility should be vested in the State Council and the delegation of financial power to the Council should be as complete as possible.
(i) Territories which are solvent should not be required to submit their annual estimates to the Secretary of State for approval, and territories which are insolvent owing to unavoidable causes should receive assistance in the form of a block grant covering a period of years.

(m) A Colonial Consultative Council should be created, associated in conception with the Privy Council. Such a purely advisory body should, in any case, be set up for Island and City States and, if limited to these territories, should be designated His Majesty's Council of Island and City States, but in the view of the majority of us such a Council should include representatives from all non-self-governing territories of the Commonwealth.

(n) The smaller territories should be encouraged to follow the practice of some of the larger territories in appointing accredited representatives in this country.

(p) Potential leaders of the new City and Island States should be brought to the country in greater numbers than at present for training, and a special department in the Colonial Office should co-ordinate all matters connected with Colonial visitors.

The conversion of the smaller colonial territories into Island and City States if decided on should not be done piecemeal. It should be announced as a new departure and, after the necessary instruments had been prepared and the offer of the new status had been explained to and accepted by the peoples concerned, it should be confirmed simultaneously on several territories by His Majesty the King.

APPENDIX B

SMALLER COLONIAL TERRITORIES

1. The proclaimed policy of Her Majesty's Government is "to help the Colonial Territories to achieve self-government within the Commonwealth," but obviously the term "self-government" does not mean the same thing for all territories, irrespective of their characteristics. It is, however, generally assumed, notwithstanding at least one explicit statement to the contrary, that at present all colonial territories are on one and the same ladder leading up to a common goal of "Dominion" status; and unless a clear preliminary understanding is established that certain territories cannot in fact reach the top, there is an obvious risk that at some stage—most probably when some specific demand has to be rejected in an atmosphere of controversy—Her Majesty's Government will be accused of a breach of faith.

2. The problem of the smaller territories may therefore be stated as one of devising a status (combining internal self-government with dependence upon the United Kingdom for defence and external affairs) which is accepted both as the proper aim of British Colonial policy, and as a desirable object for the aspirations of their peoples. In the following paragraphs there is described a conception of "Statehood," as a possible solution. It takes account of the Report of the "Smaller Territories Committee" in 1951 and attempts to meet the main objections which have been made to it.

(i) A new designation ("State" is provisionally suggested) would be established as a recognised technical term to denote a country self-governing in its internal affairs, but dependent upon the United Kingdom to the extent that it would be presided over by a representative of the Crown appointed on the advice of Her Majesty's Government in the United Kingdom and armed with reserve powers sufficient to enable him to guarantee fulfilment of Her Majesty's Government's continuing responsibilities in defence, security, foreign relations and financial stability. Such powers would include the right to assume direct administration of the territory in an emergency. The creation of the new category of "State" would be a public act of the Sovereign on the advice of Her Ministers in the United Kingdom, and the title would be an honourable distinction to be conferred by the Sovereign upon such territories as it was considered to possess the necessary qualifications.
(ii) The qualifications for admission to Statehood would broadly consist of—
   
   (a) reasonable economic stability;
   
   (b) an established form of representative government, in which the
       Executive Council is the principal instrument of policy, with
       Ministers responsible to an elected legislature—or some
       comparable arrangement giving unofficial representatives a
       predominant say in government;
   
   (c) proof of capacity for self-government in domestic affairs.

(iii) Since Statehood should not be cheapened by conferring it upon very
     small or backward territories it should be limited, at least at the outset,
     to units of a certain size and importance.

(iv) Practical marks of distinction would need to accompany the grant of
     Statehood, if it were to make any significant appeal. The most effective
     would be formal recognition of States' legislatures as sovereign
     Parliaments within the scope of their allotted responsibilities. An
     appropriate adjunct, if it could be devised, would be a special
     relationship between these legislatures and the Commonwealth
     Parliamentary Association. A further possibility would be the
     alteration of the title of the Sovereign's representative from
     "Governor" to "High Commissioner." Other "marks" could be
devised, e.g., the right to fly a "State" flag.

(v) Some form of central Council Meeting in London could also be established,
     but whereas the initiative in offering abandonment of Parliament's right
     to discuss the domestic affairs of the territories would have to come
     from the United Kingdom, it would be desirable to let the initiative for
     a central body come from the territories. Regional differences are so
     marked that any attempt by the United Kingdom to impose a central
     body would be impolitic. Such influence as the United Kingdom
     exercised in this matter should be confined perhaps to favouring a
     Conference of Chief Ministers of States, which would be in some sense
     a parallel organisation to the Meetings of Commonwealth Prime
     Ministers, and would meet under the Chairmanship of the Secretary
     of State as and when the opportunity existed for a profitable discussion
     of subjects of common interest.

3. For the United Kingdom the most important implications of granting
   Statehood in these terms may be stated in the form of questions of which the
   following are principal examples:

   (a) Will the United Kingdom Parliament abandon its right to discuss the acts
       and decisions of State legislatures in their domestic affairs? In other
       words, will Parliament agree to treat the legislatures of States as it now
       does the Parliament of Southern Rhodesia?

   (b) Will Parliament accept some limitation on its right to discuss the external
       relations of States in cases where (e.g. an I.L.O. Convention) the subject
       matter falls largely within the scope of a State legislature?

   (c) Will Her Majesty's Government be prepared and able to maintain in the
       United Nations that it no longer has the authority to transmit
       information about the matters within the scope of State legislatures?

4. The conception of Statehood outlined in this paper implies a kind of
   diarchy, but it is not proposed to make this explicit by introducing, as between
   States and the United Kingdom, a formal division of functions and responsibilities
   such as exists to-day in the constitution of Malta and was formerly practised in
   India. Such formal diarchies have been found in practice to provoke rather than
   diminish opportunities for controversy between the parties.

What is in fact proposed here as the relationship between States and the
United Kingdom would resemble that at present obtaining for the Gold Coast—
plus the abnegation by Parliament of its right to discuss the domestic matters of
States. In handling domestic matters the Governor (except when using reserve
powers) would act in accordance with the advice of his Ministers in Executive
Council. In dealing with the continuing responsibilities of Her Majesty's

* The only limitation of such sovereignty being the reserve legislative power of Governors.

† The title "Prime Minister" in "States" should not be granted. "Chief Minister" or
"Premier" is more suitable.
Government, the Governor would normally ask for the advice and assistance of his Ministers, but would be empowered to act in his own discretion. A State's legislature would not be debarred from debating or legislating upon any subject, domestic or otherwise, but legislation affecting United Kingdom responsibilities would not be effective without the consent of Her Majesty's Government.

**Summary**

5.—(i) It appears desirable to forestall misunderstanding by reaffirming clearly that Her Majesty's Government's Colonial Policy of self-government within the Commonwealth cannot mean eventual sovereign independence for all territories.

(ii) Such a statement should however be accompanied by a positive declaration of policy about the status which territories which cannot qualify for full independence may expect to achieve.

(iii) Examination of a suitable status has yielded the following proposals:

   (a) A new category of “State” should be established, to denote a territory of some size and importance which is dependent upon the United Kingdom for defence and the conduct of external affairs but self-governing in its domestic affairs.

   (b) Inclusion in this category should be regarded as an end in itself for territories which cannot aspire to full independence; it would not, of course, preclude the eventual achievement of independence if new circumstances should arise which would make this possible in a particular case.

   (c) A “State” should be granted suitable marks and privileges; the most important of these is that its conduct of domestic affairs should not be open to question in Parliament.

   (d) Her Majesty's Government should encourage the idea of holding Conferences of the Chief Ministers of “States” but should not themselves take any initiative to secure the establishment of a Central Council representative of such territories, leaving that to come from the places themselves.

**APPENDIX C**

Territories which can aspire to full independence, or are in no sense “smaller territories”:

- Gold Coast.
- Nigeria.
- Northern Rhodesia.
- Nyasaland.
- Singapore.
- Federation of Malaya.
- Jamaica.
- Barbados.
- Trinidad.
- Leeward Islands.
- Windward Islands.
- Kenya.
- Uganda.
- Tanganyika.

as part of Central African Federation.

as part of a Malaya Federation (possibly, in time, covering Borneo territories also).

as part of a Caribbean Federation.

**APPENDIX D**

Territories whose Governors were consulted about the scheme in Appendix B:

- Aden (Colony and Protectorate).
- Bahamas.
- Bermuda.
APPENDIX E

SUMMARY OF GOVERNORS' REPLIES

Aden (Colony)

"Statehood" would be generally acceptable to present political opinion in the Colony; and would probably still be acceptable if Malta is given representation at Westminster. But "Statehood" would not be a suitable status for the Protectorate. The Governor has stressed the point that this estimate of opinion in the Colony is contemporary. Public opinion there is changeable, and might alter radically under pressure of any propaganda from any other Arab countries which depicted "Statehood" as a new form of imperialism.

Bahamas

No responsible opinion in the Colony seeks "dominion status." Indeed there is little articulate opinion in favour of a greater degree of responsible government than Bahamas has long enjoyed. "Statehood" would be acceptable as providing as much self-government as the people of Bahamas would wish to achieve, and representation for Malta at Westminster would not be likely to arouse jealousy or to prejudice acceptance of "Statehood." The Acting Governor suggests that long experience of representative government (such as Bahamas has enjoyed) might rank as a qualification for "Statehood."

Bermuda

Bermuda opinion is perhaps more content with the title "Colony" than some other territories, and therefore there is unlikely to be any widespread demand for "Statehood," but others would not accept the implication that British Guiana was offer "Statehood" to Bermuda it would probably be acceptable. If, however, a broader franchise than at present exists in Bermuda were made a qualification for admission to "Statehood," this might give an incentive to coloured politicians to seek such a broadening, thus bringing relationship of "Statehood" to Bermuda into active local politics. Representation for Malta at Westminster would not affect feelings about "Statehood" in Bermuda.

British Guiana

That part of the public opinion in favour of joining a British Caribbean Federation would regard "Statehood" as a less preferable alternative to eventual full self-government within the Federation. Some anti-Federationists, might like "Statehood," but others would not accept the implication that British Guiana was incapable of obtaining complete independence, having regard to its size and development potentialities. On one or other of the above grounds the majority of opinion in the Colony is unlikely to favour "Statehood." It is unlikely that opinion in British Guiana would make any comparison with Malta.

* The possibility still exists of their joining a Caribbean Federation.
British Honduras

"Statehood" would be acceptable only to the extent that it represented an improvement on the present status of British Honduras as a colony. It would not be acceptable as the Colony's final status. This acceptability would not be affected by grant of representation to Malta.

Cyprus

The Governor of Cyprus, with whom the matter has been discussed during his visit to London for the Tripartite Conference, has confirmed that neither representation at Westminster nor "Statehood" would at present have the least attraction for any considerable section of the Greek population of Cyprus. Also he doubts whether either would have much attraction for any but a few of the Turkish population of the Island.

Falkland Islands

Although small, the Falkland Islands are inhabited almost exclusively by people of British descent, who feel themselves capable of handling their own internal affairs. It is hoped that their small size would not preclude them from "Statehood." Once that was understood "Statehood" would be locally acceptable. The people of the Falkland Islands would not wish to send representatives to Westminster.

Fiji

"Statehood" would be popular and not prejudiced by the grant of representation to Malta. Nor is there likely to be pressure from Fiji for similar representation. Nevertheless local feeling for some form of closer link with Westminster may result, and to meet such feelings Her Majesty's Government should take a stronger initiative in creating and summoning a conference of Chief Ministers.

Gambia

"Statehood" would be generally acceptable, provided that, to meet the feelings of local politicians, it were not presented as debarring further progress to eventual full self-government. However, a few ambitious individuals might fancy themselves as Members of Parliament, and a larger number might see in representation at Westminster a means of averting eventual domination by the Gold Coast or some other large West African territory. Further, any feeling that such representation could secure for Gambia social and other services up to United Kingdom standards would arouse a certain envy. It may be hard for Her Majesty's Government to convince Gambians that the decision to confine representation at Westminster to Malta is not in part based on race and climate; and it is possible that such a decision may raise dissatisfaction which could be stimulated so as to have a considerable local political effect. The idea of conferences of Chief Ministers of States in London is welcomed. It is emphasised that were Her Majesty's Government to hold that Gambia did not measure up to an immediate grant of "Statehood" this would lead to immediate agitation by the politically-minded for constitutional advance and that such agitation would be widely supported.

Gibraltar

"Statehood" would be acceptable on its merits to Gibraltar as an advance on its present constitution. It is not likely to be rejected in Gibraltar if representation at Westminster for Malta is to be coupled with increases in taxation to bring them to United Kingdom levels. But Gibraltar opinion would be attracted by representation without taxation at United Kingdom rates and if there were any prospect that that might be conceded "Statehood" might be rejected.

Hong Kong

An all-elected legislature is, in present circumstances, out of the question for Hong Kong; nor is there any responsible local pressure for this. "Statehood" would therefore be inappropriate. Nevertheless, local feeling on the "superior status" of Hong Kong, as a city comparable in many ways to Singapore, is
sensitive. This, however, could be effectively recognised, even if the colony were not given “Statehood,” if senior unofficial members of the Executive and Legislative Councils were invited to any conference of Chief Ministers in London.

**Mauritius**

“Statehood” appears both suitable and likely to be acceptable, but if the impression were given that representation at Westminster for Malta would entail a commitment by Her Majesty’s Government to subsidise Malta in order to hasten the development of social services up to United Kingdom levels pending the development of its economy to a stage at which it could bear commensurate taxation there would be some danger of local pressure for similar treatment, particularly from the Mauritius Labour Party. If, however, it were made clear that the development of social services depended on the ability of Malta to finance them, the attraction of “Statehood” would probably prevail. Reasonable safeguards for minorities are suggested as a qualification for “Statehood,” where local conditions make such an arrangement desirable.

**North Borneo**

“Statehood” would not only be generally acceptable; it might well be greeted with profound relief by more responsible people who are apprehensive of over-rapid general progress towards colonial self-government. Nor would acceptance of “Statehood” be prejudiced by representation at Westminster for Malta. While recent political events in Singapore and the Federation of Malaya appear likely to delay rather than hasten the growth of closer association between North Borneo and these territories, events there are likely to cause some pressure for more rapid political development in North Borneo. Thus development of the territory to a condition which would qualify it for “Statehood” may be expected. The term “State” has a long history, with quite a different connotation, in North Borneo, as in other British territories in the Far East. North Borneo indeed was a “State” before it became a Colony. This position should be borne in mind in presenting the new conception of “Statehood.” Regional conferences of Chief Ministers of State might be preferable to holding them in London, at any rate in the early years of Statehood, since there might be insufficient common interest or understanding to make effective a gathering in London of experienced Ministers from different parts of the world.

**St. Helena**

In the remote contingency of the qualifications for “Statehood,” as proposed, being established in St. Helena, the status would be acceptable; it would not be prejudiced by representation for Malta.

**Sarawak and Brunei**

“Statehood” would be a suitable and acceptable status for Sarawak. Although at present representative government on the Parliamentary model is elementary, it would be unwise to withhold “Statehood” for long from a country such as Sarawak which, for one hundred years of its history, was a “State” and ran its own domestic affairs. Refusal of “Statehood” to Sarawak because of the elementary character of its representative institutions would create local disappointment and create pressure for immediate constitutional adjustment. But representation at Westminster would not be sought provided that some acceptable alternative was offered. Regional conferences meeting either in London or in the Far East seem desirable. Too firm an announcement by Her Majesty’s Government that some small territories in the Commonwealth cannot aspire to full self-government and independence might lead to dissatisfaction with the Commonwealth, as it might produce unfavourable comparisons between such a policy and the independence which has been obtained by other countries in South-East Asia. Brunei is already a sovereign State, in treaty relationship with Her Majesty’s Government, and appears unsuitable for “Statehood.”

**Seychelles**

“Statehood” would appear to be acceptable on merits to the people of Seychelles, and Maltese representation at Westminster would not be likely to arouse dissatisfaction with “Statehood” as inferior treatment.
Sierra Leone

"Statehood" would be suitable for Sierra Leone, and perhaps acceptable to conservative public opinion. It is feared, however, that less conservative politicians, who may obtain a majority in Legislative Council in the next elections, could not openly admit to being satisfied with an inferior status to the Gold Coast—unless Her Majesty's Government made clear that "Statehood" was not a bar to eventual full self-government. Sierra Leone politicians would not be interested in representation at Westminster.

Somaliland Protectorate

"Statehood" would not be acceptable to the Somalis, whose hopes lie in the direction of eventual association with other neighbouring Somali territories. As yet development of representative government in the Protectorate is elementary.

Western Pacific

Eventual "Statehood" might be suitable and acceptable, but present political consciousness is so elementary that forecasts must be most tentative. Representation for Malta at Westminster does not affect the above opinion.

Zanzibar

"Statehood" would not be appropriate to Zanzibar, nor acceptable locally, because of its special treaty relationship with Great Britain. This position would not be affected by the grant of representation to Malta.

APPENDIX F

FUTURE OF SMALLER COLONIAL TERRITORIES
(OFFER THAN MALTA)

NOTE BY SECRETARY OF STATE FOR THE COLONIES

In this context "Smaller territories" means Colonies, &c., which are too small or remote to be able to look forward to independent national status, either alone or as components of a regional federation.

2. The problem of devising a status for such territories which would satisfy local aspirations while preserving the interests of Her Majesty's Government was examined confidentially by a Committee which sat between 1949 and 1951. The Committee made a number of recommendations (Appendix A) which have since been under continuous examination in consultation with Colonial Governors.

3. Most of these recommendations were aimed at giving the people of the territories a greater measure of self-government in local affairs. From the point of view of relationship to Her Majesty's Government in the United Kingdom, the most important recommendation was the establishment of a standing Consultative Council. This recommendation, however, found little favour with the Governors consulted. The general view was that the individual territories were more interested in their own status and relationship to the United Kingdom than in collective machinery, and that there would in fact be little matter of common concern for such a Council to deal with.

4. In fact, since 1951, much has been done to promote the development in individual territories of a greater degree of local self-government along lines suited to local circumstances. There has been little or no indication of any real interest in the question of "Status" relative to the United Kingdom. (Even in British Honduras, where the avowed policy of the Party now in office is to end "Colonialism," this is presented as an ultimate rather than an immediate objective.)

5. On the other hand, there is some pressure in this country, if not as yet in the territories concerned, for Her Majesty's Government to proclaim a constructive policy for these small territories. In spite of at least one Ministerial statement to the contrary, there is a widespread impression that "self-government" means eventual independence. Some territories are getting near the limit of practicable
constitutional advance. It is highly desirable that that limit should be presented and regarded as being in itself a worthy object of aspiration rather than as a compulsory halt half-way up a ladder. Apart from this general argument, it is clearly likely that any new development in regard to Malta may stimulate interest in the question of "status" and lead to demands not indeed for other territories necessarily to be treated in exactly the same way as Malta, but for their particular problems to receive the same intensive and sympathetic attention as has been given to the problems of Malta.

6. With these considerations in mind, plans are already being worked out for a new kind of status which could be offered to certain territories immediately or prospectively, according to their degree of political maturity. In effect, these plans envisage a modified form of the "Island and City States" idea put forward by the 1949-51 Committee. So far they have been discussed only with selected Governors; the next stage will be to get them into more concrete form and take local political leaders into consultation. It would therefore be premature to discuss details in this paper.

7. At the same time, although the objections noted above to establishing a Standing Consultative Council are weighty, it is thought that—now that many of the Colonial territories have during the last few years developed a Ministerial or quasi-Ministerial form of government—there may be value in convening a conference of Chief Ministers (or the equivalent) in the fairly near future. The primary object of such a conference would be to provide an opportunity for giving these leaders some insight into general policy; but their opinion could also be tested as to the existence of any substantial demand for setting up machinery for regular collective consultation.
PUBLIC RECORD OFFICE

Reference CAB 129/77

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ARE BLANK AND HAVE NOT BEEN COPIED
This paper requires no action. I circulate it because I think it may be of help to my colleagues in discussing our present difficulties to be able to see in pictorial form what we have achieved in the field of Assistance and Insurance since 1951, and the extent to which these achievements must be prejudiced by any further rise in the cost of living, whether this occurs as a result of further wage inflation, or by deliberate acts of policy, such as the abolition of the bread subsidy.

2. The first chart deals with national assistance scales and their purchasing power in terms of the kind of things upon which persons in need spend their money. The cost of living for these people has risen more steeply than it has for the general run of the population, because they spend a higher proportion of their incomes on essentials like food and fuel, which have risen more in price than other less essential goods and services. The chart begins in 1948 because it was on that date that the Socialist Government claimed that the new assistance scales gave to the poorest of the poor a better standard than ever before. The chart shows that when the Socialist Government raised assistance scales in 1950 and again in 1951 they did no more than make good the loss of purchasing power which had occurred; the increases restored the 1948 position. The increase given in the Summer of 1952 went further, and raised the standard of these people to the highest level ever achieved. It enabled us to claim until the Autumn of 1954 that persons on assistance were better off than at any time under the Socialist Government. The increase given in February of this year restored the position as it was in June, 1952. It will be seen, however, that there is now not much margin left. Quite a small further rise in the cost of living will put persons on assistance back to the standard of July, 1948. In this case, the Board would soon proceed to recommend an increase in the scale. The smallest practicable rise which they could recommend is 2s. 6d., a week for a single person, they might well recommend, as they did in 1952, raising the scale by more than that in order to anticipate a further rise in the cost of living, and avoid the administrative difficulties which frequent changes in the scales involved. An increase of 2s. 6d. would cost the Exchequer over £12 millions a year, and of 5s. over £24 millions a year.
3. Chart No. 2 shows how national insurance benefits have moved since 1946 in relation to the ordinary retail prices index. It illustrates clearly how, from the time when pension and benefit rates were first fixed in 1946, the pension lost value despite the increases made for some pensioners only by the Socialists in October, 1951, and by our Government for all pensioners in 1952. The recent increases in pension and benefit rates which came into force in the spring of this year not only fully restored the 1946 value, but enabled us to claim at the Election that the purchasing power of pensions and benefits was higher than when first fixed in 1946. Here again, a further rise of three points in the retail prices index, such as that announced in July, would bring the purchasing power of pensions and benefits at basic rates back to the 1946 level.

4. Chart No. 3 shows the number of grants of national assistance in payment, and the number of such grants given in supplementation of national insurance pensions and benefits. It shows how, from July, 1948, when the National Insurance scheme came into full operation, the number of assistance grants rose steeply year by year up to the end of 1952. In 1953 the pace slackened, and in 1954 we achieved virtual stabilisation. The increases in national insurance pensions and benefits which came into force this spring were of course bigger than the corresponding increases in national assistance scales. Since then the number of grants has fallen by 175,000 to the lowest figure since 1952. With a stable cost of living, there would be every reason to hope that we had now turned the corner, and that a progressive decline would occur in the numbers seeking assistance. The favourable factors are mainly the growing proportion of old people who will have retirement pensions; the growing number with occupational pensions; and the growing number who have earned increments of national insurance pension of such magnitudes as to take them outside the national assistance field. There has also been a revival of private thrift, encouraged by the greater stability in the value of money which we succeeded in achieving in the years 1952 to 1954. With present wage levels there are great possibilities for more private savings by working people, particularly against their old age, in the years from 50 to 65 or so, when their children have, for the most part, ceased to be a cause of expenditure and have left the home to make their own way in the world.

5. If a further rise in the cost of living takes place and the National Assistance Board recommend an increase in assistance scales, our recent achievements will be jeopardised and we shall see an increase in the numbers on assistance, and its cost. The only way of avoiding this would be once more to increase national insurance pensions and benefits, and that would involve another increase of insurance contributions. Moreover, a further increase in the cost of living would give rise to pressure for further advances in the whole social security field, in war and industrial disability pensions, and in family allowances as well as in national insurance pensions and benefits.
When Sir Geoffrey Hutchinson succeeded Mr. George Buchanan as Chairman of the National Assistance Board, I suggested to him that he should make use of the Board's officers to collect some information about the welfare of the aged. A number of unofficial enquiries have already been made in this field; and some of them have given rather disquieting reports which have been politically embarrassing, although they reflect favourably on the humanity of the Board's administration. The result of the Board's enquiries appears in their Annual Report for 1954 which came out in July. As many of my colleagues will not have seen it and as it is, I think, of exceptional interest, I attach the relevant extract from the Report as an Appendix.

O.P.


21st September, 1955.
APPENDIX

Extract from the 1954 Annual Report of the National Assistance Board describing the circumstances of 121,000 old people over 80 and living alone

Less than one in ten of these old people were living and cooking in one room; two-thirds were living in three or more rooms. The great majority were found to be over-housed rather than under-housed. It was plain that many had remained in the family home after the family had scattered. Hardly any of the over-housed old people would consider a suggestion that they should sublet rooms; they have never sublet and are afraid of getting in "the wrong type of people". Although many of those who have been rehoused are happy, particularly in the specially-designed bungalows included in some of the new housing estates, most of the old people seemed to prefer to end their days in the homes which, however inconvenient, held their memories.

Water was found to be reasonably accessible to most, but where it is not, friends and neighbours are generally available to help to fetch it, though a few have to carry it themselves and the task puts a heavy strain on their strength. Although many have to go outside to a lavatory, lack of indoor sanitation is not looked upon as a hardship by people who have been accustomed to it all their lives. One widow of 83, a retired nurse, lives alone in a country district in a three-roomed wooden bungalow with an outside lavatory and the only water 50 yards from the house; she has been offered a modern bungalow by the local Council but steadfastly refuses to move.

Eighty out of every 100 homes were described as "well kept" and only about one in 50 as poor, neglected or insanitary. Many were reported to be in beautiful or spotless condition. In many cases the credit for this may be due to relatives, neighbours or paid domestic help, but it is also a tribute to the vigour, the pride and the independence of the old people themselves. In nearly every case where it seemed to be required (about 52,000) some sort of domestic help was already being given or was arranged for by the Board's officers, by a home help supplied by the Local Authority, by private arrangement (payment being made by the Board through an addition to the allowance), or by relatives or friendly neighbours. There were, as might be expected, a fair number who refused to accept any help, and a few for whom help might indeed be difficult to obtain (for example a woman of 85, who lives in a dirty, smelly, six-roomed house with a dog, three cats and a parrot, refuses to allow anyone to help her).

More than one-third of the old people send out their laundry (and receive special additions to their assistance allowances to meet the cost) and about the same proportion are receiving some help with the shopping; the visiting officers reported only a few cases where help of these kinds was required, or would be welcomed, but was not obtainable.
A surprisingly large proportion of the old people — certainly much more than half of them — were to all appearances well and active; no doubt other arrangements had already been made for most of the really frail and infirm, either in the homes of relatives or in an old people's home or in hospital. Of the nearly 122,000 people over 80, only 2,100 — one in every 50 — were bedridden (the officers were of course at pains to satisfy themselves that some reasonable arrangements had been made for their care); 17,600, or 14.5 per cent, though not bedridden were confined to the house. The district nurse was attending in 7,500 cases; very few were found who seemed to need her services but were not getting them. Where chiropody services have been arranged either by a voluntary organization or by the Local Authority these are much appreciated. The great majority said that they were in regular touch with their doctor, though the Board's officer thought it desirable to advise some 2,000 who had not seen their doctor for a long time to consult him about some ailment that was troubling them. Of the majority who were in good health, many were anxious to pass on their particular recipes for a long life, "a daily nip of whisky", "drinking well-water", and "temperance and hard work" being highly recommended. One man of 84 returned no reply to questions about his health but climbed a tree and picked some apples by way of demonstration.

Officers are expected, in the ordinary course of visiting, to take the opportunity of advising those old people who seem to need them how to obtain, free of charge, spectacles or false teeth or hearing aids and they did so again on this occasion. People of this age who have managed without them are, however, often reluctant to make a start with these aids at their time of life and a not uncommon reaction was a polite but obstinate refusal; one old lady said she had not had a tooth in her head for 50 years and saw no reason for wanting any. Another replied that she could see and hear "as much as God intended". However, as a result of the special attention which the officers gave to the matter many of the old people were supplied with spectacles or false teeth or hearing aids, and some — a much smaller number — with surgical belts and boots and home nursing appliances. A few of the old people were also referred to the Blind Welfare services, and, where there was a local branch, to the Deaf or Hard of Hearing Society.

One of the most interesting impressions was the extent to which old people living on their own are visited and befriended by relatives and neighbours. Very many of those reported on had friends and relatives, some quite a number, with whom they exchanged visits, and others were members of a church or of a social club. Allowance must be made for those who, from pride or reserve or for other reasons, are reluctant to admit that no one bothers about them; and indeed, in about 2,000 instances where there was some doubt whether the old person really was in regular touch with anybody, the officer was able to arrange for a friendly visitor from the church, or the local old people's welfare committee or club, or otherwise to put the old person in the way of some welfare contact. How the arrangement will work out depends almost as much on the old person as on the friendly visitor. Those who were not in regular contact either with relatives, friends, neighbours, or some church or club, and for whom the officer could make no arrangements, numbered rather less than 1,000.
This small minority who seemed to be really lonely or neglected were, it must be said, often themselves difficult, even disagreeable people, who by actively discouraging callers over a long period had finally cut themselves off from almost all human contacts except the routine ones with the milkman, the postman, and so forth. The regular visit every two or three months by the Board's officer is sometimes itself resented. By the time such people have reached the age of 80, they often take a perverse pride in the fact that they "don't neighbour" and little can then be done except to arrange for someone to keep an unobtrusive eye on them.

Even if relatives or friends pay frequent visits, the intervals between them must often seem long to an old person, particularly to one who cannot get about much. Old age inevitably brings loneliness to many, especially when it is accompanied by some decline in faculties, the loss of a lifetime partner and the companionship of old friends and contemporaries, which no amount of good neighbourliness or friendly visiting can altogether replace. The happiest old people were those who knew how to fill up their time - cleaning and polishing the furniture, gossiping in the public house, visiting the cinema, watching the children on the recreation ground. Most strenuous or more unusual activities reported were "hiking", bicycling, swimming, "old tyme dancing", hospital visiting, playing the piano, making jam, writing plays or poetry, studying languages, keeping goats and mending watches; but reading and listening to the wireless were the most favoured occupations, though knitting, sewing and gardening ran them close and some of the old people got much enjoyment from television sets.

Nearly half the old people said they belonged to a church or a social club, and such meeting places form a most valuable link between a solitary room and the outside world. It is possible that more would attend old people's clubs if transport difficulties could be overcome; but apart from those who are too infirm to get about much, there is a large group who are not interested, and these are not confined to the ungregarious, or the censorious (one of whom described the local club to the officer as "a gossip shop and marriage bureau").

The overriding impression left on the visiting officers by this large group of old people is that while a few of them are distressingly lonely (often perhaps from some eccentricity or defect of personality rather than from neglect by the community) and others, who find it increasingly burdensome to fend for themselves, would undoubtedly be happier and better cared for in a Home, the overwhelming majority are comparatively healthy, independent, reasonably contented, and in frequent touch with relatives and neighbours; grumbling a little about the cost of living, their rheumatism and the weather, feeling their age and the disappearance of most of their own generation, but not neglected and not unfriended. In broad outline the picture which emerges is not dissimilar from that presented by the report of the recent survey by the National Old People's Welfare Committee, which has already been referred to. It affords support for the view not only that there has been no decline in the sense of responsibility for their old relatives on the part of the younger generation but also that there is a positive growth of neighbourliness and community interest in all parts of the country,
reflecting the increasing concern for the care of the aged in recent years. The reports which the Board have received are on the whole encouraging, but they give no grounds for complacency; there must be no slackening of effort, either in the application of the statutory services, including, of course, those administered by the Board, or on the part of voluntary workers, whose services, as the Board have perhaps a better opportunity than anyone else of knowing, have come to mean so much to old people.
REGULAR WEEKLY GRANTS OF NATIONAL ASSISTANCE

CHART 3

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KEY

RED LINE = ALL GRANTS
BLUE LINE = GRANTS IN SUPPLEMENTATION OF NATIONAL INSURANCE BENEFITS

Note: In many cases the grant covers the needs of husband and wife and, when dependants are included, the number of persons covered by the grants is nearly 1.5 times the number of grants themselves.
CABINET

ROAD PASSENGER TRANSPORT

MEMORANDUM BY THE LORD CHANCELLOR

By direction of the Prime Minister a Committee of Ministers was established under my chairmanship “to consider whether the British Transport Commission should relinquish its control over certain road passenger transport companies, and to report to the Cabinet.”

The Present Position

2. Under the Transport Act, 1947, the considerable shareholdings in bus companies previously owned by the railways were vested in the British Transport Commission (B.T.C.). (This was in addition to London Transport which were vested in B.T.C. separately.) Under this Act, B.T.C. were also given power to propose area schemes for the compulsory acquisition of bus companies in private ownership. These schemes were subject to a procedure for local objections and Parliamentary approval, and it soon became clear that they would not be practicable in the absence of greater public support. The B.T.C. therefore bought the remaining shares in certain groups of bus companies of which they were already part owners by ordinary commercial process. Apart from London Transport, the present position is that of some 72,000 buses and coaches operating outside London, the B.T.C. own and control 15,000. The largest private concern is the British Electric Traction Company, Ltd. (B.E.T.), who have sole ownership of 1,200, and control a further 12,000 which they own jointly with the B.T.C.

3. The Transport Act, 1953, abolished the powers for area schemes, barred B.T.C. from acquiring any more bus companies without the consent of the Minister of Transport, and (under Section 18 (9)) gave the Minister power to compel B.T.C. to divest itself of those of its shareholdings in bus companies which gave it control over them. The question for decision is whether this power should now be exercised.

The Case for Denationalisation

4. Since 1951 there has been a good deal of pressure, mainly from private bus companies and in particular from B.E.T., for the return of B.T.C. buses to private enterprise. It is alleged that there is some deterioration of standards, which will accelerate as old managements are replaced by those appointed by the Commission, that the B.T.C. have a transport monopoly which should be broken, and that bus interests are subordinated to those of the railways. It is also claimed that the sales of private interests to B.T.C. were made “under duress”—but that depends on how real the bus companies considered the threat of area schemes to be. It is now argued that the return of the Government with an increased majority makes this a good time to return the control of bus companies to private enterprise, and at present a majority of the Parliamentary Party’s Transport Committee are in favour of this course. However, there is little demand from the general public for any change. Indeed, most people do not know who owns their local bus company.

48797
The Case Against Denationalisation

5. It can be seen from the figures in paragraph 2 that B.T.C. do not in fact enjoy an overall transport monopoly so far as buses are concerned. On the other hand, in certain areas, notably Eastern and South Western England and in Scotland, Commission owned and controlled companies do exercise something of a local monopoly. There is, however, no real evidence of any deterioration. The Thesiger Committee who were appointed to consider the working of the licensing system under the Road Traffic Act, 1930, reported that the view "that the Commission control has in practice materially affected the services provided for by the public under the licensing system" was not established. Again, since B.T.C. does not interfere in the ordinary management of the bus companies it controls, the subordination of bus to railway interests does not in practice exist. The arguments in favour of denationalisation are therefore not very persuasive.

6. There are in addition sound reasons why B.T.C. should not be deprived of control over bus companies. First, where it is essential, in the interests of efficiency of the railways, to close down uneconomic branch lines, B.T.C. have an incentive to reduce their losses by substituting a bus service, even if this may not be profitable. But they are only in a position to do so if they control a bus company operating in the area; it would be much more difficult to persuade a private company to run an unremunerative bus route to take the place of an uneconomic railway line. Secondly, if the Minister were now to exercise his powers under Section 18 (6) of the 1953 Act, this would be a considerable blow to the morale and prestige of B.T.C. at a time when they have considerable difficulties on their hands. Thirdly, it would deprive them of a net sum of about £2 million a year when they are already in considerable deficit.

Implications of Maintaining the Present Position

7. We therefore take the view that, on merits, the Minister should not exercise his powers under Section 18 (6) of the 1953 Act and B.T.C. should be left with their present control of their companies. Such a policy would, of course, disappoint many Government supporters, as well as the private interests concerned, who may claim that the Conservative Party, when in Opposition, gave undertakings not merely to halt, but to reverse, the process of nationalisation of the buses. It would be fiercely criticised by the B.E.T. who have considerable financial interests at stake. (A selection of statements made on behalf of the Party is contained in the Annex.) We do not think that this interpretation of these statements is justified, or that it should outweigh the balance of argument against denationalisation.

8. The full facts and the implications of the exercise of the Minister's powers under the 1953 Act (which might well be to set up a private near-monopoly) have not yet been explained to the Conservative Party Transport Committee since it has not been possible to do so until a Government decision has been made. If the Cabinet accept our view, we suggest this should now be done.

9. We do not, of course, propose that the Government should undertake that the powers under Section 18 (6) of the 1953 Act would not at any time be exercised. It might, in different circumstances, become desirable to require B.T.C. to give up control of road passenger transport or of particular companies owned by them.

Recommendation

10. We accordingly recommend—

   (i) that for the present B.T.C. should not be required to give up its control of road passenger transport companies;

   (ii) that the Minister of Transport should take suitable opportunities to explain the Government's policy on this issue in present circumstances to the Transport Committee of the Conservative Parliamentary Party.

K.

House of Lords, S.W. 1.
23rd September, 1955.
ANNEX

STATEMENTS MADE ON BEHALF OF THE CONSERVATIVE PARTY
ON ROAD PASSENGER TRANSPORT

What has been said:—

(a) In March, 1949.—Sir David Maxwell Fyfe at Newcastle.
   “I have, with full authority, committed the Conservative Party
to return transport services to local authorities and companies if they
are nationalised.”

(b) In April, 1949.—“50 Things the Tories will do”.
   “Will oppose any attempt to nationalise road transport services,
as this would inevitably mean higher fares. If the Socialist attempt
should temporarily succeed, Conservatives will return the affected
services to municipal and private ownership.”

(c) In July, 1949.—“The Right Road for Britain”.
   “The Conservative Government will stop any further plans for
nationalising omnibus and tram undertakings and, wherever possible,
will return those already nationalised at the time of the General
Election to their former owners, whether local authorities or private
enterprise.”

(d) In 1950 the election manifesto.—“This is the Road”.
   “The nationalisation of bus and tramways will be halted.
Wherever possible, those already nationalised will be offered to their
former owners, whether private or municipal.”

(e) Between the two elections of 1950 and 1951 the Conservative Parliamentary
Transport Committee produced for the Advisory Committee on Policy
a document which was not published. It said—
   “We intend to take power to sell, either in whole or in part, those
road (passenger) transport undertakings which have already been
acquired by the Commission.”

(f) October, 1951.—“Britain Strong and Free”.
   “The proposals for placing passenger transport services now
run by local authorities and local companies in the hands of regional
boards will be abandoned.”
CABINET

RELATIONS WITH THE INDEPENDENT TELEVISION AUTHORITY

NOTE BY THE POSTMASTER GENERAL

Following the Cabinet's discussion of a note by the Chancellor of the Exchequer (C.P. (55) 78) at their meeting of the 19th of July (C.M. (55) 24th Conclusions, Minute 4), I was invited:

(i) to consider what arrangements should be made to ensure that applications by the Independent Television Authority or programme companies for Government facilities were dealt with in a uniform manner;

(ii) subject to (i) to arrange for discussions to begin with the Independent Television Authority and the programme companies on the basis of C.P. (55) 78; and

(iii) to seek the Prime Minister's approval for the arrangements to be worked out at (i) and (ii) above, and to inform the Cabinet of the results.

2. I circulate for the information of my colleagues an Appendix showing the arrangements which were discussed with the Independent Television Authority and the Central Office of Information, and which have now been approved by the Prime Minister.

3. The approved arrangements have been brought to the notice of all Chief Information Officers and Public Relations Officers, and the Independent Television Authority have informed the programme companies.

C. H.

General Post Office, E.C. 1,
26th September, 1955.

APPENDIX

There have been discussions with the Independent Television Authority in which the Central Office of Information (C.O.I.) have participated. The arrangements proposed are:

(a) Independent Television News—Facilities

Requests from I.T.N. for facilities will be treated in precisely the same way as similar requests from the B.B.C.

(b) Independent Television News—Press Notices, &c.

The C.O.I. has already arranged for I.T.N. to receive all press notices, &c., put out by its News Distribution Unit. All Government Departments have also agreed to include them in any selective distribution of news, invitations, &c., handled direct.
(c) Programme Companies—Facilities and Material

A general directive has been issued to Chief Information Officers of Departments asking them to help the I.T.A. news and programme companies as far as possible with facilities for use in their programmes, subject to the conditions that the company requesting the facilities should:

(i) defray any additional expense incurred by the Department;
(ii) undertake not to use any facilities otherwise than for the original purpose, unless specific agreement is first obtained from the Department;
(iii) make the resulting film material available to the Government for library use, if required, at reasonable rates to be agreed;
(iv) ensure that any advertisements immediately before and after the programme are not inappropriate; and
(v) agree, if it wants civil servants to appear in a programme, to approach the Department concerned and not individual civil servants, to take special care in the presentation of the programme and ensure that any such programme should not be in any awkward or incongruous position vis-à-vis advertisements.

There should be little difficulty in securing uniformity in the supply of Crown copyright film or photographic material for programmes, as it is held largely by the C.O.I. Other Departments holding such material have been asked to adopt the same practice and make the same charges as the C.O.I.

(d) Advertising Agents—Facilities and Material

Very special safeguards will be necessary when Government Departments are asked for facilities or material for use in T.V. advertisements. The C.O.I. is providing Crown copyright material from its libraries on request (at commercial rates) if the responsible Department agrees and on condition that the Department must see and approve the finished film before it is used. It will be for individual Ministers to decide for themselves whether or not to grant Departmental facilities or material for making T.V. advertisements. Whenever the Minister responsible desires, the Postmaster General would be glad to advise. At the outset, and until a body of experience has been built up, Ministers might wish to consult the Postmaster General on most of the applications received. Arrangements are being made by the C.O.I. for Departments to be given information illustrating the need for uniform treatment of applications relating to advertisements of the same or similar products.

(e) Reciprocal Arrangements

Approaches by Government Departments to programme companies with suggestions for the preparation of programmes on particular subjects or their mention in programmes would be made informally and are therefore hardly suitable for formal regulation.
CONSTITUTIONAL CHANGES IN ZANZIBAR

MEMORANDUM BY THE SECRETARY OF STATE FOR THE COLONIES

The Zanzibar Protectorate, comprising the Islands of Zanzibar and Pemba, is a constitutional monarchy under His Highness the Sultan, who is advised on behalf of Her Majesty's Government by the British Resident. The population at the census of 1948 was approximately 265,000 made up as follows:—

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<th>Group</th>
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<td>Europeans</td>
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<td>Arabs</td>
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<td>Asians</td>
<td>16,000</td>
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<td>Africans</td>
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<td>Others</td>
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These proportions have not been substantially affected by population growth. The principal organ of Government is the Executive Council presided over by His Highness, consisting of the British Resident as Vice-President, the Heir Apparent and 7 others (officials). The Legislative Council consists of the British Resident as President, 9 officials and not more than 8 unofficial members, the members being appointed by His Highness on the advice of the British Resident. It has long been felt that a constitution of this kind is something of an anachronism.

2. In 1953 the then British Resident submitted proposals for reform which would involve the establishment of a Privy Council presided over by His Highness. This would be divorced from the reformed Executive Council, which would in future be presided over by the British Resident, with 7 official and 3 unofficial members nominated by His Highness on the advice of the British Resident. The unofficial members would normally be drawn from the unofficial members of the Legislative Council and would probably initially be one Arab, one African and one Asian. The Legislative Council would be remodelled to consist of the British Resident as President, 13 official members and 12 representative members nominated by His Highness on the advice of the British Resident. The representative members nominated as members of Executive Council would be invited to sit on the Government side of the Legislative Council without being bound to accept a Government whip. An official majority would persist on both Executive and Legislative Councils. These proposals were approved by my predecessor in October 1953, and in April 1954 the then British Resident stated that the agreement of His Highness the Sultan had been obtained and all the major political associations had accepted the proposals.

3. These proposals unfortunately had to be suspended in July 1954 when the leaders of the Arab Association withdrew their consent and instructed their members to resign from the Legislative Council. This action was in the nature of a protest against the successful prosecution by the Government of the Executive Committee of the Arab Association for publishing seditious articles in an Arab newspaper. Later in the year the Executive Committee put forward a number of political demands as a condition of their resuming co-operation with the Government, which included the introduction of elections, a ministerial system and an unofficial majority in the Legislative Council.
4. Since his assumption of office at the end of 1954, the present British Resident has patiently laboured to restore conditions in which the original proposals could be implemented with Arab agreement and has urged the Arab Association to resume co-operation with Government. He has succeeded in restoring some form of contact with the Arab Association and has explored the views of the other communities. He has now concluded that the extreme demands of the Arab Association apart from being unacceptable in themselves command only partial popular support even in their own community, and that the original proposals for constitutional reform, which have not hitherto been publicly debated, should be made fully known to the rest of the people of Zanzibar who are becoming impatient of stagnation. He has, therefore, reached the conclusion that there should be no further delay in introducing the 1953 proposals, and an announcement of the intention of the Government of Zanzibar to have an independent inquiry into future methods of selecting the representative members of Legislative Council.

5. The Arab leaders have not accepted this and have demanded a full dress inquiry into the whole constitutional position, stating that if their demands are not met they will organise a deputation representing all the main communities to ask me to appoint a Commission from outside to investigate all aspects of constitutional advance in Zanzibar. The British Resident has informed me of his opinion that such a move on the part of the Executive Committee of the Arab Association would not find support outside one section of the Arab community. I have, therefore, agreed that he may issue in Zanzibar a communique outlining for public discussion his proposals, to which I refer above, and indicating his intention to submit them to the Legislative Council for its early consideration. In this connexion an exchange of despatches between the Resident and myself analysing the proposals in greater detail will be published and placed before the Legislative Council. This action commands the full and willing consent of His Highness the Sultan.

6. I circulate the above for the information of my colleagues. A. L-B.

Colonial Office, S.W. 1,
29th September, 1955.
CABINET

TEACHERS’ SUPERANNUATION

MEMORANDUM BY THE SECRETARY OF STATE FOR SCOTLAND AND THE MINISTER OF EDUCATION

We submitted to the Home Affairs Committee at its meeting on 27th September (HA (55) 11th Meeting, Item 3) the offer which had been agreed by the Chancellor of the Exchequer, and which we proposed to put to the Local Authorities and the teachers as the Government’s new scheme for teachers’ superannuation. The main points of the offer are:

(i) The rate of contribution to be raised from 10 per cent. to 12 per cent. from 1st April, 1956—6 per cent. from the teachers, 6 per cent. from their employers.

(ii) The Exchequer to credit their Accounts with the sums required to make the balance in each case equal to the net liability under the revised Scheme as at 31st March, 1956.

(iii) The present interest rate of the Account of 3½ per cent. to be retained.

(iv) Periodic valuation of the Accounts to be carried out as under the present Acts, but at intervals of five years instead of seven.

(v) Any deficiency revealed by a valuation to be borne by the employers by a supplementary percentage contribution to be revised as necessary upwards or downwards at subsequent valuations.

2. It will be seen that the teachers are to be asked to increase their contribution by 1 per cent. against the acceptance by their employers of liability for any future deficiency on the account. These provisions are in line with the terms of the pensions scheme for other Local Authority employees.

3. There was considerable opposition in the House of Commons to any increase in the teachers’ contribution above 5 per cent., but the present offer is more generous than the last because the teachers’ 6 per cent. cannot be increased, and we think there is a chance the teachers will accept it. We ask for authority to put the scheme to the teachers’ and local authorities’ associations.

J. S.

D. E.

30th September, 1955.
CABINET

AERIAL ADVERTISING

MEMORANDUM BY THE MINISTER OF TRANSPORT AND CIVIL AVIATION

I have to make very soon a number of detailed and technical amendments to the Air Navigation Order, 1954. I have in mind to take this opportunity to deal with aerial advertising, which I have discussed with representatives of the local authorities.

2. The practice of aerial advertising appears to be increasing and I am convinced that it should be carefully regulated. It is at present carried out by only a few small aircraft operators, none of whom is solely dependent on it. It is important to deal with it now before it becomes more substantial.

3. The most offensive form it takes is sky-shouting. This speaks for itself, and I am sure we should stop it. The local authorities agree with this.

4. On other forms of aerial advertising (banner towing, illuminated signs and sky writing), I had contemplated simply taking power to prohibit them in individual areas, if requested to do so by the local authorities concerned. The local authorities, however, stressed to me the importance on amenity grounds of keeping the skies free from advertisements and drew attention to the distracting effect of aerial advertising on road users. They therefore asked me to prohibit aerial advertising generally, relaxations only being granted in exceptional circumstances and after consultation with the local authorities concerned. I am inclined to think that this system of local relaxations would be easier to administer than a control by means of local prohibitions, and particularly in view of the comments of the local authorities I would propose to take powers accordingly.

5. I therefore seek the approval of my colleagues to my taking powers when amending the Air Navigation Order, 1954:

(i) to ban sky-shouting over the United Kingdom; and
(ii) to make other forms of aerial advertising subject to my prior permission, which would in fact only be given after consultation with the appropriate local authorities.

I should add that the proposed Article would extend only to operations carried out for commercial purposes and so would not affect public use, e.g., for Civil Defence.

6. The Secretary of State for Scotland and the Minister of Housing and Local Government are in agreement with the above.

J. A. B–C.

Ministry of Transport, W.1.
29th September, 1955.
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CABINET

LONDON TRAFFIC CONGESTION: PARK LANE SCHEME

MEMORANDUM BY THE MINISTER OF TRANSPORT AND CIVIL AVIATION

At their meeting on 26th July (C.M. (55) 26th Conclusions, Minute 9) the Cabinet—

(i) Agreed in principle that there was need for major road improvements to relieve traffic congestion at Hyde Park Corner, Park Lane and Marble Arch.

(ii) Recognised that these improvements would involve some encroachment on the amenities of the Royal Parks, but considered that, as a tunnel had now been added to the earlier proposals, it might be possible to modify the scheme in such a way as to reduce its interference with amenities.

(iii) Invited me to hold discussions for this purpose with representatives of the Ministry of Works, the Ministry of Housing and Local Government, the Road Research Laboratory and the London County Council, and to report the results to the Cabinet before the end of September.

2. These discussions have been held and this paper embodies my report.

3. A number of modifications of the existing scheme and alternatives to it have been examined to see whether the interference with amenities could be reduced. Subject to the matter dealt with in paragraph 4, the conclusion reached was that there was no variant of, or alternative to, the present scheme which would adequately solve the traffic problem at reasonable cost and yet interfere appreciably less with existing amenities. The experts agree that the provision of an underpass would not justify dispensing with the proposed new roundabout or some similar layout. There may of course be minor modifications in the scheme which can be effected as it progresses, but these would not materially affect either the look of the project or its effect on amenities.

4. In our prolonged previous consideration of the scheme it was assumed throughout both that the interference with the Park must be kept to a minimum and that the Decimus Burton screen should not be moved. In the course of discussion it was however suggested that consideration should be given to an alternative scheme involving moving the screen. Although no detailed scheme could be worked out in the time, there seems little reason to doubt that if this were done and a further sacrifice made of amenity and of land in the Park a much larger roundabout could be constructed with an even greater increase in traffic capacity.

5. I remain of the opinion, which I have held since last autumn, that, while it is urgently necessary to carry out work improving traffic conditions at and between Hyde Park Corner and Marble Arch, any scheme for so doing must interfere with the Park only to the smallest degree consistent with dealing with the traffic problem. For this reason, in the light of the conclusions of the experts set out in paragraph 3, I still consider that the L.C.C. scheme should be approved, and work authorised to begin as soon as possible.

48828
6. If, however, my colleagues take the view that the desirability of dealing on a larger scale with the needs of traffic justifies both the removal of a well-known London landmark and a larger use of the Park for traffic purposes than seems to me necessary, it would no doubt be desirable to prepare, in conjunction with the L.C.C., a further scheme involving these sacrifices.

7. In view, however, of the urgency of starting work on whichever scheme is decided upon at the earliest possible moment, particularly because of the considerations in paragraph 5 of my memorandum C.P. (55) 91, I would urge that no further time be taken in detailed examination of such a scheme unless the Cabinet feel that this greater sacrifice of amenity could be faced. We are already under severe criticism for our delay in coming to a decision on this issue, and, clearly, it would be unfortunate to spend further time in the detailed working out of plans which would be, whatever their traffic merits, unacceptable on amenity grounds.

8. I may add that further consideration of the aesthetic aspect of the L.C.C. scheme is far from discouraging. The present barren area of paving at Hyde Park Corner is hardly the most imaginative or pleasing layout which could be contrived. I feel confident that with the advice of the Royal Fine Art Commission the junction could be remodelled with some improvement in amenities. In particular, a central reserve and large roundabout offer considerable scope for good landscape treatment which, in the vicinity of Hamilton Gardens especially, could largely restore what the scheme would damage. And, as above indicated, the L.C.C. scheme has the advantage of making the smallest interference with the Park of any scheme which could do the job from a traffic point of view.

J. A. B-C.

Ministry of Transport and Civil Aviation, W. 1.
30th September, 1955.
CABINET

LONDON TRAFFIC CONGESTION: PARK LANE SCHEME

Memorandum by the Minister of Works

In C.22(55)140 the Minister of Transport proposes that the
New Park Lane scheme should go ahead as soon as possible.

2. In paragraph 8 of his paper he suggests that the
appearance and amenities of Hyde Park Corner might, with some
redesigning, be positively improved by the scheme. The Royal
Fine Art Commission have expressed the strongest opposition
to it. When they were considering it they had before them my
Chief Architect's proposals for mitigating the damage and
these were much on the lines suggested in the Minister of
Transport's paper.

3. The Decimus Burton screen is so familiar a part of
London that it would be a sad day if it had to be moved.
Nevertheless to move it might well prove the lesser evil and
for this reason I instructed my representatives on the working
party of officials to ask that the implications of removal
should be examined. In paragraph 4 of his paper the Minister
of Transport states that, while no traffic plan involving the
removal of the screen has been worked out, he believes that
such a plan would mean a greater loss of amenity than the old
scheme.

4. I cannot see how a firm opinion on the aesthetic con­
sequences of removing the Decimus Burton screen can be arrived
at unless a proper plan has been worked out. Drawings by my
architects suggest that much less damage might be done by
removing the screen than by carrying out the old Boulevard
scheme. I also understand that some technical experts consider
that the removal of the screen would open up a new range of
alternative schemes which might interfere less with amenities
and might cost less.

5. The experts on the official committee considered that a
proper examination of the new scheme involving the removal of
the Decimus Burton screen might take several months. I hope
my colleagues will agree to a proper examination being made.
The existing scheme would involve permanent damage. Its
adoption without the fullest examination of all possible
alternatives could only be justified by absolute and immediate
necessity. It may be worth recalling that the reason why my
predecessor laid out Hamilton Gardens so splendidly was that
it was understood that the Boulevard scheme was a long way
ahead and as recently as 25th May, 1954, he had a letter
from the then Minister of Transport which said 'I cannot even
say that we shall be able to approve the (Boulevard) scheme
inside the next ten years'.

N.B.

Ministry of Works, S.E.1.
1st October, 1955.
JAPAN: TRADE AND PAYMENTS NEGOTIATIONS

NOTE BY THE CHANCELLOR OF THE EXCHEQUER

I circulate, for the consideration of my colleagues, a report by officials on the present state of the negotiations for a new Trade and Payments Agreement with Japan.

2. Since the resumption of the negotiations, the Japanese have gone a long way to meet our requirements, but there are still a number of important points on which further negotiation is required.

3. The most important of these is the matter of the trade quotas. As the Japanese will require, as part of any agreement, an assurance from us that the Colonies will be free to import Japanese goods up to the limit of their stated requirements until the end of March 1956, my colleagues will wish to consider what must be secured in the way of quotas for our exports to Japan in order to make the agreement politically defensible.

4. There are also points to be considered in connection with Japan's treatment of oil imports and the level of sterling expenditure provided for in her winter budget.

R. A. B.

Treasury Chambers, S.W. 1,
30th September, 1955.
On 5th September the Cabinet approved new instructions to be given to our negotiators, who had been recalled from Tokio (C.M. 30th Conclusions, Minute 7). These instructions are set out for convenience in the Annex to this report.

The negotiations were resumed on 8th September. Since then the Japanese have come a long way towards meeting our basic requests. On the undertaking in regard to sterling expenditure the Japanese reply is satisfactory, provided that one point can be met. So far as discriminatory practices are concerned, they have substantially met our requirements, except in regard to the licensing of machinery imports and the negotiation of exclusive quotas with the independent countries of the sterling area. There remain two difficult questions, namely, the treatment of the United Kingdom controlled oil companies, and trade quotas. The position under each of these heads is set out below, with recommendations for Ministerial consideration.

The Undertaking in regard to Japanese Sterling Expenditure

3. Our objectives under this head were:

(a) To obtain a general statement of intention by Japan to facilitate imports, visible and invisible, from the sterling area to the amount of Japan's total earnings from the area.

(b) To obtain a concrete translation of this general undertaking in the sense that the forthcoming winter budget would provide not less than £105 millions for visible imports from the sterling area.

(c) To secure that this figure of £105 millions should be broken down into commodities and values in a way which would satisfy us that real opportunities existed for our trade.

4. The Japanese are willing to give, without qualification, the general undertaking at (a); and as regards (b), they offer an undertaking to provide in the winter budget not less than £127-5 millions for visible and invisible imports from the sterling area. As regards (c), we have been told, in confidence that the Japanese are planning expenditure of £117-7 millions on visible trade with the sterling area. The main items are raw materials, such as wool (£22 millions), food-stuffs—rice, wheat and barley (£20 millions), cotton (£14 millions) and sugar (£2-5 millions). This total also includes estimated expenditure on “automatic approval” imports—that is to say, imports on Open General Licence—from sterling area sources at £32 millions. This compares with the provision of £23-5 millions last year and actual trade of only £16 millions. In addition, the Japanese are planning to spend £25 millions on oil and invisibles making a total of £142 millions.

5. The Committee consider that, in the light of the information given about Japan’s winter budget, the figure of £127-5 millions for visibles and invisibles together can be accepted as equivalent to at least £105 millions for visibles only. Although the increased provision of sterling for “automatic approval” imports shown in the winter budget does not guarantee that equivalent trade will take place, we shall be able to compete for it, because we now have an assurance that the United Kingdom and Colonies will be a permitted source of supply for all goods on “automatic approval,” and a large proportion of such goods are obtainable from Colonial sources. There is, however, one reservation. The Japanese wish to include in the £127-5 millions sugar bought from non-sterling sources through London. They put the value of this at £2-6 millions, but it might be more. We cannot agree to the inclusion of what are, in effect, payments to third countries. But even if it proves necessary in consequence to reduce the figure to £125 millions, Departments are agreed that this would still be equivalent to £105 millions for visible trade.

Recommendation

6. Subject to the exclusion of sugar purchased through London from non-sterling sources, we recommend that the Japanese answer in regard to sterling
expenditure be regarded as satisfactory; and that, if necessary, the undertaking can be reduced to £125 millions for visible and invisible trade exclusive of this sugar.

Additional Assurances of Non-discrimination

7. The Japanese are prepared to give the assurances asked for as set out in paragraph 3 of the Annex, with two main exceptions. These are:

(a) Machinery

The Japanese have not met our request for an assurance that licences will not be refused on protectionist grounds, but agree to state that "the utmost relaxation will be exercised in the actual application of the screening criteria." Our negotiators advise us that in practice this limited assurance is worth much to us; having given it, the Japanese will not wish to refuse applications which might lead to representations from us. On the other hand, it is of little value presentationally.

(b) Independent Sterling Area

We sought an assurance that the Japanese would not seek from independent sterling area countries exclusive quotas for their exports. The Japanese are not willing to give any undertaking which would tie their hands in negotiations with other sterling area countries. They have, however, informed us in confidence of the amount of sterling which they are programming for imports of cotton, and we know that this is enough to cover all the cotton that Pakistan hopes to sell. Our main object in seeking this assurance is to prevent the Japanese demanding from Pakistan an exclusive quota for Japanese textiles. We should not be able to disclose to the Pakistanis what we know about Japanese intentions, but we should be able to say to them in general terms that the Japanese intend to increase their sterling purchases of cotton, and that they will be in a strong position if they resist any demand for an exclusive textile quota from Japan.

Recommendation

8. The advice of our delegation is that these two points should not be pursued further and the Committee concur in this recommendation.

Trade Quotas

9. Here the position reached is not at present satisfactory. But it is still fluid and there may well be scope for further negotiation. Last year, in negotiating the current Agreement, we granted import quotas to the Japanese of £3 millions for grey cloth for re-export after processing and of £1 35 millions for manufactured goods. The quotas conceded in return by the Japanese for United Kingdom exports amounted to only £2.4 millions (for wool textiles, whisky and confectionery). We accepted this imbalance in recognition of the sterling shortage from which the Japanese were then suffering. In the present negotiation we have insisted that, if we are to continue the concessions granted last time, the Japanese must, in view of their improved sterling position, offer us at least equivalent concessions. The Japanese response has been to offer us a continuation of the previous quotas for wool textiles, whisky and confectionery, an additional £1 million for machinery and new or increased quotas for a number of miscellaneous items, mainly food, which we also value at about £1 million. Thus in terms of money their offer balances the quotas which we are prepared to continue. Although we have not secured complete assurances of non-discrimination in the licensing of machinery, these offers should present genuine opportunities for £2 millions additional trade. Many of the smaller Japanese quotas will not help our more important exporting industries. On the other hand, we need the grey cloth which constitutes the major part of our import quotas, although this is still represented to the Japanese as a concession to them. On balance, therefore, the bargain up to this point appears advantageous to us and the Committee recommend that it should be accepted.
10. Over and above the continuation of their existing facilities for exporting to us, the Japanese want to have the quota for canned salmon increased from the previous figure of £2 millions to £6 millions and to have various other quotas amounting to £600,000. In return they propose to give us concessions totalling £4.6 millions. These include an additional £500,000 for wool textiles, which is a real and difficult concession for the Japanese to make; they also offer small concessions on cars, spare parts, motor cycles and poplins and the release of blocked film earnings. These concessions are of value to us but they total (including the wool textiles) not much more than £1 million. The balance of the Japanese offer, amounting to over £3 millions, consists of quotas for goods which either we are not interested in selling, or which the Japanese would buy in any case.

11. Canned salmon is a relatively easy item for us to concede and increased supplies would, from a supply point of view, be welcome, as the present consumption is much below the pre-war level. Of the small balance of the Japanese request rather over half is for silk goods, a concession which we cannot make. The other items are quite small.

12. The Japanese proposal is in effect that we should concede an additional quota of £4 millions for canned salmon in return for concessions on products of value to us worth not much more than £1 million. The Committee consider that this is not good enough. Nor would the offer be attractive even if (which is unlikely) the Japanese were prepared to see their additional canned salmon quota cut down to £1 million, i.e., the equivalent of the concessions on their side which are of value to us.

Recommendation

13. The Committee recommend, first, that the bargain over existing quotas referred to in paragraph 9 above be accepted. Secondly, as regards new quotas, they consider that our delegation should press for at least £2 millions worth (including the items of value to us in the Japanese proposal) of additional new quotas of goods which will be of real value to United Kingdom exporters. This might include increased facilities for motor cars, motor cycles, dyes and chemicals and certain textiles. They should press this claim on the basis of conceding only the equivalent value in canned salmon, but should be authorised to concede in the last resort up to £3 millions for canned salmon, provided that our requirements in regard to oil are satisfactorily met.

Oil

14. Our objective has been to secure arrangements which give the United Kingdom-controlled oil companies adequate opportunity to maintain, and if possible to increase, their sales. Under the expiring agreement the Japanese undertook to provide sterling for the purchase of oil from the United Kingdom-controlled companies to a value of not less than 22 1/2 per cent. of the value of all imported oil; or alternatively, 25 per cent. of the total value of oil supplied for dollars and sterling—whichever is the greater. The Japanese have applied this provision in a way which we never intended, by obliging the importers to take oil from United Kingdom-controlled companies up to the prescribed ceiling. This has led to accusations of market sharing from the Americans. At the same time, while sterling earnings from the supply of oil to Japanese importers have risen, particular importing companies in which there is a United Kingdom interest, notably the Shell group, who distribute refined products through subsidiaries, have seen their share of the distribution market fall because of the method by which the Japanese allocate currency for oil imports.

15. Our negotiators have therefore been attempting to secure the replacement of the existing practices by arrangements which would provide:

(a) that the import of oil from United Kingdom-registered companies against payment in sterling will be freely approved upon application from any Japanese importer within his respective quota; and that this intention will be made public;

(b) that certain discriminatory practices will be abolished, and nothing substituted in their place;

(c) that the method of determining and allocating quotas to importers shall be fair and equitable.
16. The Japanese have given us an assurance in the terms of (a) above. On (b), they have said that they will modify or gradually abolish the “merit” system and that it will not be replaced by anything similar. On (c), they have given assurances that the allocation of foreign exchange for imports of oil will be based on each importer’s allocation for the years 1952–54. As an exception to this, they will make an additional allocation of £164,000 to the Shell subsidiary during the period of the agreement. They have stated their intention of increasing the Shell allocation gradually over a period, and meanwhile have offered to continue the minimum percentage arrangements. In earnest of this, they are prepared to earmark 27 per cent. of total oil allocations in the Winter Budget for imports from United Kingdom-controlled companies.

17. The view of our delegation in Tokyo is that we have a choice between either:

(a) Getting a substantial increase (to 27 per cent.) in the percentage share of the market reserved for United Kingdom-controlled oil companies, and disregarding any embarrassment this might cause us with the Americans; or

(b) Dropping the 22½ per cent. and concentrating on getting increased import allocations for the importers linked to United Kingdom-controlled companies, particularly Shell, in order to restore the cuts that they have suffered.

Our negotiators have advised that in their view the weight of advantage seems to lie in going for course (a). Such a general underpinning of the position would be of definite value to us in that it would afford general protection against Japanese discrimination, and secure a definite increase in sterling income as against the past year. Moreover, there is no reason why we should not continue to press for, and use any bargaining power at our disposal to secure, improvements in the allocation to particular importers.

18. The Committee feel bound to dissent from this view on general principles and on account of the damage that it would do to our relations with United States oil companies and the State Department. The goodwill of United States oil companies is of great importance to us all over the world, and if we were to forfeit that goodwill, as we should assuredly do if we took the line advocated by our delegation in Tokyo, the general damage to our interest would far outweigh the advantage we should get from accepting the Japanese offer of a guarantee of 27 per cent. of their oil market. The Committee are therefore agreed in recommending to Ministers that the offer of a guarantee of a 27 per cent. share should be declined.

19. This leaves us with the particular problem of the United Kingdom-controlled oil companies which have close ties with importing companies in Japan. It seems to us that the assurance we have secured at (a) in paragraph 15 already goes a long way towards giving us the substance of what we want. Indeed, the proffered guarantee of 27 per cent. of the market—though it is of a larger share of the market than we now enjoy—might in practice place a limitation upon our operations; and it is even possible that, in the long run, given the freedom to expand that we have secured under the assurance at (a) of paragraph 15, United Kingdom-controlled companies might sell more than 27 per cent.

Recommendation

20. We recommend

(i) that the Japanese offer to reserve 27 per cent. of the total oil allocations for imports from United Kingdom-controlled companies be declined;

(ii) that we welcome the assurances at (a) and (b) of paragraph 15; but continue to press for fair and equitable allocations to importers—and in particular for the offer made to the Shell subsidiaries to be improved so that their cuts may be restored on a permanent basis.

Invisibles

21. On films, the Japanese are prepared to release the accumulated blocked sterling belonging to our film companies and to maintain import licences at the
present level. This is a valuable concession. The Japanese have also made some concessions on the remittance of business profits and on personal remittances. They have said that they could only agree to our request that Japanese importers should be freely permitted to use United Kingdom merchanting facilities if we would agree to count all purchases of sugar on the London market, irrespective of the country of origin, against the sum they are required to provide in their sterling area winter budget. We cannot agree to this (see paragraph 5 above).

Recommendation

22. The progress made on invisibles, with the opportunities provided for pressure on the Japanese for further relaxations in future, can be accepted as satisfactory.

Conclusion

23. The Japanese have met a substantial part of the demands which we put forward. At the same time they have stated that their offers are subject to our agreeing not to call upon the Colonies to restrict their imports from Japan and to our notifying the independent Sterling Area countries that the balance of payments situation of the Sterling Area gives no grounds for discriminatory restriction of imports from Japan. Ministers will, therefore, wish to consider what further concessions on trade quotas are necessary to make the agreement politically acceptable. In this part of the negotiation our weapon is the quota for canned salmon. Now that the Japanese have met our requests on the provision of sterling and on non-discrimination and have met the Colonies own requirements, it would clearly be difficult to use the threat of restriction of Japanese imports into the Colonies to secure our remaining objectives.

Recommendation

24. Her Majesty's Ambassador, Tokyo, has asked for final instructions. The Committee recommend that our delegation be authorised to conclude an agreement, provided that the following conditions are satisfied:

(i) As regards trade quotas, that we secure at least £2 millions of new quotas, that are of real value to United Kingdom exporters, if possible for a return of an equivalent value (i.e., £2 millions) in terms of additional quotas for Japanese canned salmon; or—if it proves necessary in the last resort and if our other requirements are met, particularly in regard to oil—in return for not more than £3 millions of additional quotas for canned salmon.

(ii) As regards sterling expenditure, that Japanese sterling expenditure on non-sterling sugar, merchaned through London, be excluded from the proposed commitment of £127.5 millions sterling in the Japanese winter budget. If it is necessary to secure this, we can accept a reduction of the figure to £125 millions.

(iii) As regards oil, that the system of determining and allocating quotas to importers be improved with a view to ensuring a fair opportunity for United Kingdom controlled oil companies.

If these conditions are not satisfied, the delegation should report back for further instructions.
ANNEX

OBJECTIVES IN THE NEGOTIATIONS

The following re-statement of the objectives to be sought in the resumed negotiations in Tokyo was approved by the Cabinet, on 5th September: —

(a) An undertaking with regard to sterling payments as proposed in C.P. (55) 103 (see paragraph 2 below). But the Winter Budget figure of £105 millions should be broken down into commodities and values in a way which would satisfy us that real opportunities existed for our trade.

(b) A satisfactory agreement on United Kingdom quotas. It is understood that in return for increased import facilities for Japanese canned salmon the Board of Trade consider that satisfactory United Kingdom quotas should be negotiable.

(c) Import arrangements for oil which give our companies adequate opportunities to maintain and increase their sales of oil to Japan.

(d) A definite move by Japan in the liberalisation of invisible payments to the Sterling Area, such as insurance, passenger fares, films, the remittance of business profits generally, and the treatment of British banks in Japan.

(e) The removal of discrimination in regard to collateral deposits on import licences.

2. The undertaking in regard to sterling payments referred to in (a) above was as follows: —

(i) A general statement of intention by Japan to facilitate imports, visible and invisible, from the Sterling Area to the amount of Japan's total earnings from the Area.

(ii) A more specific commitment that Japan will make available for spending in the Sterling Area in the coming year—preferably in the year beginning July 1955, but failing that, October 1955—as much sterling as she has earned in the Sterling Area in the preceding twelve months.

(iii) Finally, a concrete undertaking that the winter budget will provide not less than £105 millions for visible Sterling Area imports, i.e., excluding oil and imports from third (i.e., non-sterling) countries.

It was understood that of these desiderata, (i) by itself was not enough, and that the general statement of intention at (i) should be translated into concrete terms on the lines of either (ii) or (iii).

3. The Cabinet further agreed that in addition to the objectives stated above, it was desirable to require certain further undertakings from Japan as a safeguard against Japanese discrimination, and in order to ensure that the import quotas obtained from the Japanese would not be frustrated by administrative devices. These undertakings were to be regarded as of not less importance than the other objectives in the sense that satisfaction on non-discrimination was as fundamental as satisfaction on the other points. These additional undertakings were formulated as follows: —

(i) Colonies

(a) Assurance of retention on Automatic Approval (A.A.) of the Colonial exports now on A.A.

(b) Assurance of non-discrimination in dealing with applications for licences to import goods shipped from the Colonies.

(ii) United Kingdom

(a) Assurance of retention on A.A. of the United Kingdom exports now on A.A.

(b) For goods on A.A. or on global quota or non-dollar quota assurance that no exclusive quotas will be given to other countries for those goods; and that there will be no discrimination in dealing with applications to import goods in these categories from the United Kingdom.
(c) In respect of the machinery global quota an assurance that the screening Committee will be instructed to disregard the criterion in their present instructions which requires them to reject any application for machinery of a kind which is made in Japan.

(d) In respect of any listed goods for which we fail to secure any quotas whatever an assurance that if quotas for such goods are given to any other country, we shall receive non-discriminatory treatment.

(iii) *Independent Sterling Area*

Recognition by Japan that it would be inappropriate and unjustifiable that she should seek exclusive quotas for Japanese exports to the Independent Sterling Area having regard to the state of her sterling balances and the liberal facilities for Japanese exports to the United Kingdom and Colonies provided by the Agreement.

(iv) *Sterling Area as a whole*

Inclusion of sterling area as permitted source of supply for all goods in A.A. List or in Miscellaneous Lists.
NEW HEBRIDES

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS AND THE SECRETARY OF STATE FOR THE COLONIES

On 10th August, 1953 (C.C. (53) 48th Conclusions, Minute 4), the Cabinet—

(1) endorsed the proposals in C. (53) 225 for an attempt to reach agreement with the French Government on a revision of the 1914 Protocol which is the basis on which the Anglo-French Condominium is administered;

(2) invited the Lord President to suggest to the French Government that the British and French Resident Commissioners in the New Hebrides should jointly examine, without commitment to either Government, the revision of the Protocol;

(3) invited the Commonwealth Secretary to inform the New Zealand and Australian Governments of this approach and to try to find out if there was any likelihood that the Australian Government would be willing to take over United Kingdom responsibilities in the territory;

2. The Australian Government stated in March 1954 that the Australian interest in the Condominium continued, but that they would not at present be able to assume United Kingdom responsibilities in the territory. They wished to be kept informed of the progress of negotiations for the revision of the Condominium arrangement.

3. In C. (53) 225 it was recommended that a final decision about the future of the New Hebrides should not be taken until the financial and other implications of the proposed revision of the Protocol had been worked out. This revision was examined at Honiara in March 1954 by the British and French High Commissioners for the Western Pacific and the British and French Resident Commissioners in the New Hebrides. They agreed, without commitment to either Government, on the draft of a revised Protocol and on proposals for improving the administration of the Condominium. Their recommendations are summarised in the Annex. These have been considered departmentally and, while detailed legal examination of the draft Protocol has not been completed, it is considered that they form an acceptable basis for negotiations with the French Government and will assist the administering Powers to discharge their responsibilities towards the inhabitants of the New Hebrides in accordance with present-day principles of Colonial administration.

4. The High Commissioners consider that the Condominium will be able to raise the additional revenue necessary to meet the increased expenditure which their proposals involve. They also proposed that France and the United Kingdom should contribute equally towards the cost of a development programme to be drawn up locally. Further consideration will be given to the extent and proportion
of any United Kingdom contribution when a development programme has been prepared, and under the new Colonial Development and Welfare Act provision has been made for Colonial Development and Welfare assistance to be extended to the New Hebrides. Consideration will also be given to the question of raising revenue above the level so far agreed locally in order to improve the state of the Condominium reserves during the course of the next few years. No increase in the present net cost of the British Service in the New Hebrides is expected to arise from the High Commissioners' proposals, although the United Kingdom Government may have to accept some small additional contingent liability in order to overcome difficulties in the way of supplying British staff for the Condominium service.

5. We accordingly invite our colleagues to agree—

(1) that negotiations for the revision of the Protocol and the improvement of the administration of the New Hebrides should be entered into with the French Government on the general lines of the proposals agreed at Honiara between the British and French High Commissioners;

(2) that the Australian Government and the New Zealand Government should be consulted as necessary and kept informed.

H. M.
A. L.-B.

Colonial Office, S.W. 1,
30th September, 1955.
ANNEX

NEW HEBRIDES

Note on the Honiara Discussions

March 1954

The discussions were attended by the British and French High Commissioners in the Western Pacific and by the British and French Resident Commissioners in the New Hebrides. They resulted in general agreement on proposals for the revision of the Anglo-French Protocol of 1914 and for improving the efficiency of the Condominium administration. These proposals can be summarised under the following headings:

A.—REVISION OF THE 1914 PROTOCOL.
B.—SCOPE OF CONDOMINIUM RESPONSIBILITIES AND ORGANISATION OF DEPARTMENTS.
C.—FINANCE AND TAXATION.
D.—FINANCIAL CONTROL.
E.—PRESIDENT OF THE JOINT COURT.

A.—REVISION OF THE 1914 PROTOCOL

The principal changes from the 1914 Protocol are as follows:

(a) The draft Protocol has been considerably shortened and simplified by the omission of certain detailed provisions which are considered inappropriate for an instrument of this kind.

(b) The preamble embodies a brief declaration of aims.

(c) The draft provides that the native inhabitants shall enjoy equal rights of residence, personal protection and trade with nationals of the administering Powers and provision is made for the native inhabitants, when outside the Condominium, to receive the diplomatic protection of either of the signatory Powers.

(d) Provision is made for the establishment of an Advisory Council. Its functions would be purely advisory, but the Resident Commissioners would be required to consult it about new taxation and the annual budget. The Honiara Conference proposed that the two Resident Commissioners should be the Presidents of the Council, presiding at alternate meetings, and that there should be 10 members, comprising two Heads of Departments of the joint administration, four members appointed from among the Franco-British population and four members appointed from the indigenous population, all appointments being made by the two Resident Commissioners.

(e) The annual Condominium budget is to be subject to the approval of the Signatory Powers.

(f) The joint administration is given specific power to raise loans.

(g) It is provided that joint regulations must be compatible with the provision of the Protocol, provided that regulations to give effect to international agreements which have been extended to the New Hebrides shall have effect even though they conflict with the provisions of the Protocol.

(h) Provision is made for the development of local government institutions for the native inhabitants.

(i) Specific provision is made empowering the High Commissioners to make regulations regarding arms, liquor and labour matters. This enables the detailed provisions in Articles 31 to 61 of the 1914 Protocol to be dispensed with. Consideration is now being given to the labour regulations which will be required to replace those which it is proposed to delete from the Protocol.
(j) The provisions for the administration of justice and the registration of land claims are simplified.

(k) There is no provision regarding mines and mining in the 1914 Protocol. It is proposed to vest the ownership of minerals in the joint administration and provision is made for the issue of mining regulations.

The draft protocol is now being examined with a view to preparing a definitive text for discussion with the French Metropolitan authorities.

B.—SCOPE OF CONDOMINIUM RESPONSIBILITIES AND THE ORGANISATION OF DEPARTMENTS

The High Commissioners discussed whether the Condominium should assume general responsibility for Government services in the New Hebrides, instead of the present system whereby some services—e.g., agriculture—are provided by the Condominium Administration, and others—e.g., medical services—by the National Administrations. The conclusion reached was that, while joint services should be the aim of policy, in view of the practical difficulties they should be instituted gradually rather than by a radical alteration of the structure of the Condominium Administration. In particular, it was decided that the Condominium should not at present take over responsibility for education and medical services, though financial assistance given by the Condominium Administration to the National Administrations and the Missions for these purposes is to be increased, provided sufficient revenue is forthcoming from the Condominium.

A number of improvements in the Condominium Administration in order to promote efficiency and economy were proposed, including the creation of a joint Condominium Secretariat, and the amalgamation of the Treasury with the Customs Department, the Works Department, and the Marine Department and the Lands Department with the Survey Department.

C.—FINANCE AND TAXATION

The revised 1954 Estimates of Revenue and Expenditure of the Condominium provided for revenue of £278,000 and expenditure of £304,000. At the end of 1953 the Condominium’s liquid surplus balances were £242,000; they had decreased substantially during the two preceding years. The administrative changes summarised at B above, if fully implemented would, on the basis of the 1954 Estimates, increase expenditure to £368,000. It was therefore agreed to set up a committee in the New Hebrides to recommend ways of raising the additional revenue by local taxation, and agreement was also reached on the importance of maintaining a balanced budget. A number of new taxation proposals have subsequently been agreed between the Resident Commissioners in connection with the 1955 Estimates, which also include provision for a number of the administrative changes proposed at the Honiara Conference. These Estimates provide for revenue of £367,000 and expenditure of £355,000, but the question of increasing this revenue, in view of the need to improve the Condominium’s reserves, is to be considered.

The High Commissioners envisaged a development programme of £500,000 during the period 1955–60, in addition to expenditure of £400,000 on a new wharf which is to be financed by means of a loan on the London market. They proposed that the programme should be financed in equal proportions by grants from the Colonial Development and Welfare Fund and its French equivalent. The programme would be drawn up locally by the two Resident Commissioners for consideration by the metropolitan Governments. The extent and proportion of any contribution under the new Colonial Development and Welfare Act towards the cost of the development programme by the United Kingdom would be considered when a programme had been drawn up.

D.—FINANCIAL CONTROL

Agreement was reached on the need for more effective control of the Condominium’s finances and M. Sanner, an Inspector of the Ministry of Overseas Finance, who attended the Honiara Conference, undertook to draft the necessary financial instructions, taking into account the advice already given by the Accountant of the British Solomon Islands Protectorate and the recommendations of the New South Wales Audit Department.
President of the Joint Court

The draft Protocol simplifies the machinery for the administration of justice and the settlement of land claims. These proposals involve reviving the post of neutral President of the Joint Court, which has been unfilled since 1939, since experience has shown that the Court cannot function efficiently without a President. The Australian Government, which has a close interest in the settlement of land claims in the New Hebrides, has stated that it has no objection to these proposals, subject to the clarification of a point about the procedure of the Court.

A. L.-B.

Colonial Office, S.W. 1.
CABINET

COLONIAL POLICY COMMITTEE

NOTE BY THE SECRETARY OF THE CABINET

The Prime Minister considers that Cabinet discussion of Colonial problems will be assisted if a small standing Committee of the Cabinet is appointed to consider problems arising from constitutional development in Colonial territories and other problems of Colonial policy. He has therefore appointed a Committee comprising:

Foreign Secretary,
Commonwealth Secretary,
Colonial Secretary,
Minister of Defence,

with the following terms of reference:

"To assist the Cabinet in controlling constitutional development in Colonial territories and in dealing with the problems arising therefrom, and to consider such other problems of Colonial policy as may be referred to them."

The Prime Minister will himself preside over the Committee.
The Secretary of the Cabinet will act as Secretary of this Committee.

(Signed) NORMAN BROOK.

Cabinet Office, S.W. 1,
3rd October, 1955.
CABINET

ARMED FORCES: EDUCATION GRANTS

MEMORANDUM BY THE MINISTER OF DEFENCE

In August 1952 the Cabinet discussed proposals for education grants for the Armed Forces submitted by the then Minister of Defence (C.C. (52) 77th Conclusions, Minute 6). The question was also touched upon in the discussions last year with the Chancellor of the Exchequer on Service emoluments. On neither occasion was it possible to reach agreement on a scheme.

2. The difficulties of the Service parent arise fundamentally from the frequent movement to which he is subjected, not only between home and overseas, but also within the United Kingdom. He is seldom in one place long enough to take root and avail himself of the full facilities provided by a local education authority. He cannot refuse to move on grounds of domestic inconvenience.

3. The Service parent, particularly when his children have reached the age of secondary education, is faced with various possibilities:

   (a) He can try to take his children with him and avail himself of the facilities provided. This practically always means constant changes and interruptions in the children's education. Moreover, even this unsatisfactory arrangement is not always possible with certain overseas postings.

   (b) He can set up a separate home for his wife, while his children attend day school. Apart from the extra expense, this is not conducive to a contented or efficient Service.

   (c) He can try to place the children with a near relative during term time, an increasingly difficult proposition, and one which does not in any case solve the problem of what to do with the children during the holidays if the parents are abroad.

   (d) He can send the children to a boarding school. This is usually the most satisfactory solution, but the financial burden imposed is beyond the means of the average Service officer or man.

The extent of the difficulties thus experienced by Service parents is illustrated by the statement reproduced in Appendix A, which is based on the replies given by a representative cross-section of personnel of all ranks to a questionnaire recently put to them in confidence at three typical R.A.F. stations. The implications in regard to morale and the desire of individuals to remain in the Service are obvious.

4. The Service Ministers and I have considered, in consultation with the Secretary of State for Scotland and the Minister of Education, whether any satisfactory alternative arrangement to direct financial grants could be devised. A possible alternative scheme was prepared, under which a Central Agency would have to be set up in the Ministry of Education in collaboration with the Scottish Education Department, to handle all applications by Service parents for help with the education of their children. This plan might have resulted in some easement of the present problem; but we were advised by the Education Ministers that it would involve legislation which might be controversial, and that it would be
difficult to put into effect. Moreover, it would take a long time to bring into
operation. At best it would provide only a partial solution to the problem and
it would restrict the parent's choice of school. These considerations rule out the
plan for a Central Agency.

5. But the special problem of the Service parent must be recognised; and he
should be given financial assistance to help him to give his children educationally
a fair start in life. The principle of financial assistance has already been accepted
for the Foreign Service, and for members of the Home Civil Service posted
abroad. Details of the assistance given in these cases are set out in Appendix B.

6. We have been under constant pressure in both Houses and from all
Parties on this matter. The Select Committee on the Army and Air Force Acts,
1953-54, urged strongly that a solution to the problem must be found, and the
Eighth Report of the Select Committee on Estimates for 1953-54 describes it as
a major deterrent to regular service. Lord Waverley's Committee on the Forces
Medical Services found educational difficulties one of the principal reasons for the
shortage of Service doctors.

7. The Education Ministers are willing to ask local education authorities to
deal sympathetically with the difficulties of Service parents. They are also willing
to set up machinery to advise these parents how best they can take advantage of
any facilities that may be open to them. My Service colleagues welcome this help.
But even if local education authorities were willing to co-operate more fully than
many of them do at present, their financial assistance depends on an income test
which debar a large number of officers from any real help.

8. We propose, therefore, that Service parents who qualify under
paragraph 10 below should be entitled to a grant, as a charge on Service Votes:

(a) of up to a maximum of £75 a year for each child between the ages of
11 and 18 at a boarding school, or
(b) of 10s. a week for each child between the ages of 11 and 18 left with
guardians in order to ensure continuity in a day school education.

9. We had hoped that, in order to be really effective, these grants could have
been exempted from income tax, but we understand that the Chancellor of the
Exchequer would see objections to introducing legislation to make these allowances
tax free for parents resident in the United Kingdom. We have, therefore,
reluctantly had to accept the position that parents stationed in the United
Kingdom will have to pay tax on these grants while those overseas will not. This
anomaly will undoubtedly lead to serious administrative difficulties, and will
reduce the value of the grant for many parents.

10. At the request of the Chancellor of the Exchequer we propose to restrict
this scheme to those Service parents who are normally subjected to frequent
postings. Officials are now working out a suitable formula to cover this.

11. We propose, if the Cabinet approve, to introduce the scheme with effect
from the Michaelmas Term, 1955, for the £75 grant, and from 1st September, 1955,
for the £26 grant, but we should prefer that the scheme should not be announced
publicly until the details, now being worked out in the Service Departments, have
been promulgated to those who will be affected by it.

12. It is difficult precisely to estimate the cost of our proposals. But so
far as we can judge, it is probable that the cost of the scheme, when in full
operation, will be something of the order of £3 million annually. We are convinced
that such expenditure would be money well spent.

S. L.

Ministry of Defence, S.W. 1,
4th October, 1955.
APPENDIX A

EDUCATION OF SERVICE CHILDREN

A typical cross section of officers, senior n.c.o.'s and junior n.c.o.'s and airmen at three R.A.F. units in the United Kingdom with children of school age were recently invited to answer questionnaires about the education of their children. The replies received are summarised below.

(a) Numbers Answering Questionnaire

<table>
<thead>
<tr>
<th>Group</th>
<th>Aged 5-10</th>
<th>Aged 11 and Over</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officers</td>
<td>60</td>
<td>58</td>
<td>118</td>
</tr>
<tr>
<td>Senior n.c.o.'s</td>
<td>57</td>
<td>51</td>
<td>108</td>
</tr>
<tr>
<td>Junior n.c.o.'s and airmen</td>
<td>8</td>
<td>1</td>
<td>9</td>
</tr>
</tbody>
</table>

(b) Number of Children Attending School

<table>
<thead>
<tr>
<th>Group</th>
<th>Aged 5-10</th>
<th>Aged 11 and Over</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children of officers</td>
<td>68</td>
<td>47</td>
<td>115</td>
</tr>
<tr>
<td>Children of senior n.c.o.'s</td>
<td>71</td>
<td>36</td>
<td>107</td>
</tr>
<tr>
<td>Children of junior n.c.o.'s and airmen</td>
<td>8</td>
<td>1</td>
<td>9</td>
</tr>
</tbody>
</table>

(c) Types of School being Attended

<table>
<thead>
<tr>
<th>Group</th>
<th>Aged 5-10</th>
<th>Aged 11 and Over</th>
<th>All Children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children of officers</td>
<td>11</td>
<td>19</td>
<td>30</td>
</tr>
<tr>
<td>Children of senior n.c.o.'s</td>
<td>—</td>
<td>71</td>
<td>72</td>
</tr>
<tr>
<td>Children of junior n.c.o.'s and airmen</td>
<td>—</td>
<td>1</td>
<td>8</td>
</tr>
</tbody>
</table>

(d) Average Number of Schools Attended to date

- By Children Aged 5-10: 3-1 schools
- By Children Aged 11 and Over: 6-3 schools

(e) Average Time Spent in any One School

- By Children Aged 5-10: 12-8 months
- By Children Aged 11 and Over: 20-5 months

(f) One in six of the fathers were living apart from their families in the interests of their children's education, and one in four had had to do so at some time in the past.

(g) The parents of more than half the officers' children said that they were suffering financial hardship in their efforts to ensure that their children were properly educated. In many cases parents had been obliged to realise such savings as they had, to incur bank overdrafts or to surrender insurance policies. Frequent reference was made to the extra expense arising from the need to purchase new school uniforms, to pay fees in lieu of notice and to provide special coaching.

(h) The education of 133 out of the 231 children was said to have been adversely affected by one or more of the following causes:

- Repeated moves from one school to another.
- Absence of adequate educational facilities in the neighbourhood of Service stations.
- The low standard of the educational facilities available at some places abroad.
- The different methods of tuition used at different schools. (Of the 98 children whose education was not said to have been adversely affected, two-thirds were below the age of 11.)

(i) Practically all parents referred to the need for greater continuity of education.
APPENDIX B

EDUCATION GRANTS TO MEMBERS OF THE CROWN SERVICES

Members of the Foreign Service while serving overseas receive tax-free grants at the following rates:—

Branch A officers: £150 per annum for each child at boarding school in the United Kingdom.
Branch B officers: £100 per annum for each child at boarding school in the United Kingdom.

An education allowance is also paid at the same rate (but subject to tax) to Foreign Service officers who are appointed for duty at the Foreign Office after service abroad and who have children at boarding schools in this country.

A similar scheme applies to members of the Commonwealth Relations Office and of the Trade Commissioner Service of the Board of Trade.

Officials of other Departments (including civilian employees of the Service Departments) while serving overseas receive tax-free grants at the following rates:—

£50 in respect of the first child and £75 in respect of each subsequent child at boarding school in the United Kingdom, provided that the official is accompanied overseas by his wife.
Children sent to boarding school under local education authority arrangements, or living with guardians in the United Kingdom—£25 a year in respect of the second and each subsequent child in the family.
CABINET

POST OFFICE FINANCE

MEMORANDUM BY THE POSTMASTER GENERAL

During the war capital investment in the Post Office virtually ceased. Since the war it has been greatly restricted. As a result nearly 380,000 people are waiting for telephones, and many Post Office buildings are decrepit.

2. The Chancellor of the Exchequer agreed with my predecessor that the capital necessary to overcome the arrears should be made available, provided that the Post Office revised its tariffs and increased its provision for depreciation.

3. Recent events have made it necessary to scale down capital development. I have agreed to accept less than is needed while still observing the conditions of the original bargain.

4. I have thought it right to make this the occasion for a comprehensive review of Post Office finance and development. My proposals, as amended in the light of the current economic position and approved by the Home Affairs Sub-Committee on Post Office finances, are embodied in a draft White Paper a copy of which is attached. I should like to lay this White Paper before Parliament as soon as possible after the House resumes.

5. It is proposed to return to "self-contained finance" by resuming the annual fixed contribution to the Exchequer instead of the Exchequer absorbing the whole Post Office surplus as has happened since 1939. This contribution will be £5 millions.

6. The annual provision for depreciation will in future be calculated at current prices, instead of at the prices of the equipment when installed. The £12½ millions which this will cost in increased depreciation next year represents a reduction by this amount of the Post Office draft on the nation's reserves for capital development.

7. Rising wages will cost the Post Office £14 millions more in 1956-57 than in 1954-55; rising prices will cost another £3 millions.

8. Taking these three factors into account it will be necessary to raise Post Office annual income by £25½ millions. Of this, £19 millions should come from telephones and the remainder from posts.

9. Telephone rentals should contribute substantially. Those classes of rental which show the greatest loss should bear the greatest increase. In particular, the provincial residential subscriber now obtains his service for only half of what it costs the Post Office; this is clearly an important factor in encouraging demand. It is his rental which should rise most steeply, and it will be from him that the most vigorous criticism will come.

10. Local calls now charged at 1½d. cost rather more than 2d. Accordingly it is proposed to raise the charge to 2d.

11. On the postal side, the increase in railway rates makes it necessary to increase the charges for inland parcels. Heavy losses require an increase in the
charges for overseas parcels and for inland printed papers. In addition I propose
to increase the charge for inland letters weighing more than 2 oz. as the least
objectionable way of raising the rest of the money.

12. Neither the basic rate of 2½d. for the 2 oz. letter, nor the call box fee of
3d. will be raised.

13. The increased charges will be very unpopular. But I believe the case for
them to be sound and their general effect to be deflationary. The proposals, taken
as a whole, constitute a major and realistic recasting of Post Office finances in line
with current economic needs.

14. I ask my colleagues to approve the proposals set out in the White Paper
and to authorise its issue.

C. H.

General Post Office, E.C. 1,
Report on Post Office Development and Finance
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<tr>
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<td>51–57</td>
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</tbody>
</table>

**Appendices**

1. Quarterly Totals of New Applications for Telephone Service.
2. Post Office Relations with the Exchequer.
4. Other Telephone Tariff Changes.
6. Details of changes in Postal Charges—Inland.
POST OFFICE DEVELOPMENT AND FINANCE

INTRODUCTION

(1) In the war years, there was a virtual cessation of capital investment in the Post Office except for defence purposes. Since the war, capital development has been necessarily restricted. As a result there are today large arrears still to be overtaken, particularly on the telephone side. The Government want to rectify this state of affairs as speedily as the economic position of the country will permit, and in this connection have been examining the finances of the Post Office with a view to placing them on a sounder basis. The proposals for capital development in this as in other fields have necessarily had to be adjusted to the current economic position.

PART I: DEVELOPMENT

I. TELEPHONES

The Problem

(2) Nearly 380,000 people are waiting for telephones. 40,000 of them have been waiting for 3 years or more. This year it is expected that about half a million new applications will be received, though plant will be available for little more than half the people in the queue.

(3) The position, though unsatisfactory, is somewhat better than it was, for in September, 1951, there was a waiting list of half-a-million applicants. During the past 4 years, 1,470,000 applications for telephone service have been met. There has been a net increase of over a million in the number of telephones. Today there are more than 6½ million telephones in use.

(4) The capital investment in telephones and the growth of the system during the past 4 years are shown in the following Table:

<table>
<thead>
<tr>
<th>Financial year ending 31st March</th>
<th>Telephone Investment</th>
<th>Net growth of system during year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m.</td>
<td>Telephone* stations</td>
</tr>
<tr>
<td>1952 ... ... ...</td>
<td>50.0</td>
<td>290,128</td>
</tr>
<tr>
<td>1953 ... ... ...</td>
<td>60.0</td>
<td>210,745</td>
</tr>
<tr>
<td>1954 ... ... ...</td>
<td>66.4</td>
<td>268,993</td>
</tr>
<tr>
<td>1955 ... ... ...</td>
<td>70.1</td>
<td>355,372</td>
</tr>
</tbody>
</table>

* Stations are all telephones including those on extensions and private branch exchanges. Exchange connections are subscribers' lines connected to an exchange, each exclusive line counting as one and each shared line counting as two connections.

(5) The business demand remains fairly steady. During the past 4 years 566,500 business applications have been met. Excluding orders now being fulfilled, there is today a waiting-list of some 70,000 business applicants, including 12,000 farmers.
The demand for residential telephones has risen steeply. The volume of new demand from residential applicants is now well over half as much again as in 1952. The full story of this upsurge is shown graphically in Appendix 1. A telephone is now regarded as a social necessity by an increasing number of families—yet another indication of the present high standard of living—and it can hardly be doubted that this spate of applications has been encouraged by the rates which are charged.

The Prospect

The distribution system for telephones is more complicated than for electricity, water or gas, for it involves more than tapping the mains. A separate pair of wires is required between the exchange and each subscriber—each pair of subscribers in the case of shared service. Once all the plant has been brought into use, there is needed either new exchange equipment—maybe a new exchange—or new cables, or both. All these involve substantial investment in apparatus, buildings and cables, and new recruitment to the Post Office engineering staff. Lacking any one of these, arrears cannot be made good or progress made.

The aim of the Post Office is to reduce outstanding applications for telephone service to manageable proportions as quickly as possible. For the time being its plans have had to be scaled back because of the general need to reduce the claims of home demand on our national resources. But it is the Government's intention that the Post Office should speed up the supply of telephones as quickly as the economic condition of the country will permit. About 200 new telephone buildings will be started in 1956-57, more than three-quarters of which will be exchanges. This is an increase of about one-third over the present year's programme. Nearly half a million new exchange connections will be made in 1956-57. The rate of installation should increase somewhat in the two following years and, allowing for telephones given up, there should be about 8 million telephones in service in March, 1959. To achieve this objective there will have to be installed about 1 million more pairs of wires, and exchange equipment (including replacements) for nearly $\frac{1}{4}$ million subscribers. Even so there will still be many areas where people will have to wait some time for telephones. Meanwhile technical development does not stand still. Post Office plans are indicated in the following paragraphs.

Improvement of the System

At present 76 per cent. of British telephones are connected to automatic exchanges for local calls. Most of the remaining local manual exchanges are worn out and their replacement by modern automatic exchanges has become a matter of urgency. Looking further ahead, the Post Office Research Station at Dollis Hill is working on the application of electronic techniques to telephone switching.

Shared service. Shared service was introduced in 1942. Since 1948 all new and removing residential subscribers have been liable to share their lines when there is need. They cannot be released from this liability until there is enough cable capacity for all who want exclusive lines to be offered them. This is the long-term aim, but progress towards it in many localities will take time. Nearly a million subscribers are now sharing. One third of residential subscribers are sharing lines. In the U.S.A. two-thirds of residential subscribers are sharing, half of them with more than one other party.

Trunks. The number of public trunk circuits increased from 9,430 in March, 1945, to 21,115 in March, 1955. This growth has been made possible by the great advances in scientific research and technical development.
On the main routes coaxial cables are providing circuits at much reduced cost. Trunk traffic has been increasing recently at a rate of rather over 10 per cent. a year, and a further increase in the number of public trunk circuits is needed. At least 4,000 more will be added during the next three years. The Post Office is also starting to build a chain of radio stations—a radio relay system—extending from South to North through the centre of the country. When completed in about four years’ time, the chain will have an ultimate capacity for several thousand telephone circuits and a number of television channels for the transmission of B.B.C. and I.T.A. programmes.

(12) Subscriber trunk dialling. At present all calls over 15 miles are handled by operators. Prior to 1939 several operators were required to set up each such call. The Post Office then started putting in operator-controlled dialling equipment for calls between the principal cities. This mechanisation is now being extended so that eventually no long-distance call will need more than one operator to set it up. This will reduce both the time taken to obtain trunk calls and the operating costs. The next step will be to enable subscribers to dial long-distance calls themselves. Most calls are already handled this way in the compact telephone systems of Holland and Switzerland, and the facility is rapidly being developed in other European countries, and in the U.S.A. where distances are much greater than here. The necessary equipment to enable subscribers in the United Kingdom to dial trunk calls is being designed and will be ready for a first installation within four years. One of the early applications will be inter-dialling between some of the largest towns. This development will lead to a further reduction in operating costs and to a still more speedy and economical long-distance service.

(13) New coin boxes. It is intended to introduce a new coin box about the same time. It will provide long distance dialling facilities on calls from public call offices. The box will make possible the timing of local calls from call offices and the use of threepenny bits in the coin slots.

(14) Overseas communications. The capacity of our telephone cables to the Continent has increased from 200 circuits in 1945 to over 1,000 today. On the longer cables in the North Sea submarine amplifiers have been used very successfully to increase capacity. The major project at present being undertaken by the Post Office is, however, our part in the transatlantic telephone cable. This will cost £15m., shared between Great Britain, Canada and the United States. With its completion in 1956, telephone service between the two continents should enter into a new era; quality of service will be improved and growth no longer restricted by shortage of radio frequencies. The completion of the new Rugby Radio Station will improve our other overseas communications.

II. TELEGRAPHS

(15) The main task in the inland telegraph service is, in co-operation with the Staff Associations, to adjust staff to the declining traffic so that the loss on the public service is kept to a minimum. In order to help remote communities, it is proposed to make free delivery universal. It is also proposed to extend the latest hour for the acceptance of overnight telegrams from 10 p.m. to midnight.

(16) The automatic switching of telegraph circuits, which imports the techniques of the automatic telephone exchange into the telegraph service, avoids retransmission and contributes to economy. The telex service has recently been reorganised, inland and overseas services being integrated, and it is now forging ahead. Plans are being made for the conversion of this service to a national dialling system in about five years' time.
III. POSTS

(17) The Post Office would like to speed up the completion of the early morning delivery of letters. The practical obstacles are, however, considerable. To complete the delivery 15 minutes earlier in towns generally would involve the employment of some 3,000 more men and an increase of about £1½ m. in annual expenditure. It cannot therefore be done at present. The inland parcel post service is to be improved by the introduction wherever practicable of a second parcel delivery in the business areas of all towns of any size which do not already have one. It is intended to make greater use of air transport to accelerate the delivery of mails, and inland letters will shortly be sent by a number of air services which have not hitherto been used for mails. The possibility of making further use of inland air services is being studied. Meanwhile, the air mail services with overseas destinations are being developed. By far the greater part of the letters posted in this country for Europe are now carried by air without extra charge.

(18) Many post-offices and sorting offices would have been rebuilt many years ago but for the war and post-war restrictions. A good start will be made in overtaking these arrears. The plans for 1956–57 include about 100 such offices, an increase of one-half on the planned programme for the present year.

(19) The Post Office is studying the whole problem of handling mail in sorting offices. A special enquiry is to be made into the layout of the fittings used and the manual processes involved. An outside organisation specialising in problems of work study is to be invited to make a detailed examination of a number of sorting offices, to ensure that no possibility is neglected of improving efficiency and working arrangements.

(20) In addition, postal mechanisation is receiving much attention and increased research and engineering effort is to be put into it. Conveyors have been in use in sorting offices for many years but recently a new type of mail conveyor has been introduced and a machine developed which will sort parcels at the touch of a button. Much thought has been given to the problems involved in the mechanical sorting of letters and a machine has been produced and has recently been brought into service experimentally in one of the sorting offices. Long term possibilities, still in the experimental stage, are mechanical and photo-electric devices which will divide up into different categories all posted letters and arrange them for date-stamping, thus avoiding much laborious handling. Several mechanical devices designed to speed up or relieve the work at public counters have been developed and tested and some are now in regular use.

IV. CAPITAL DEVELOPMENT

(21) The estimated Post Office expenditure on development and renewals during the present year is £92.5 m., including £87.7 m. for telephones. A three-year plan is indispensable for ordered telephone development, but, in common with other bodies, the Post Office must accept that the economic situation demands some slowing-up in the immediate future of the expanding development programme it could otherwise undertake. The programme has been cut down accordingly, and as outlined in this paper it is based on an outlay during the next three years at present restricted to slightly over £300m., nearly 95 per cent. of it on telephones. In Commercial terms, and with the depreciation provisions proposed later in this paper, net borrowing from the Exchequer would be about £160m.
PART II: FINANCE

V. THE POST OFFICE AND THE EXCHEQUER

(22) The nub of the reforms ensuing from the Bridgeman Committee of 1932 was "self-contained finance", involving a limit on the use of the Post Office as a revenue-producing instrument for the Exchequer. It meant the fixing of a definite contribution to the Exchequer beyond which any net earnings were at the disposal of the Post Office. The objects were to give the Post Office an opportunity to show that it could run its services with enterprise and economy, to promote better understanding by the public of the commercial basis of its activities, and to facilitate a less meticulous Treasury control of the Post Office.

(23) The system then introduced was suspended during the war. It has now been decided to bring into force from 1st April, 1956, for a trial period of five years, arrangements having a precisely similar effect. These arrangements are set out in Appendix 2. They provide for an annual contribution of £5m. in the Post Office Commercial Accounts, of which half would be attributed to Posts and half to Telephones.

(24) The pre-war annual contribution (1933–1939) was £10½m. It was fixed arbitrarily on a basis of the average cash surplus for the three years preceding its introduction, and no principles were laid down for future guidance. The £5m. now proposed may be compared with recent commercial surpluses, which have averaged in the past four years nearly £6m., and which represent in effect what has accrued to the Exchequer. The Post Office does not pay most forms of taxation, and on a commercial approach some composition in lieu of taxation would be reasonable. Very broadly, it can be estimated that the proposed contribution of £5m. is in line with what the Post Office would, but for its exemption, have been paying in recent years by way of taxation, including income-tax.

(25) The pre-war system, based on an elaborate adjustment of the cash accounts, involved the creation of a physical fund into which any surplus in excess of the contribution was paid. This time a simpler procedure giving equivalent results will be established by basing the whole arrangement on the Commercial Accounts (by which in practice Post Office budgetary policy is determined). The intention is that the contribution shall be treated as an expense before striking the balance in the Income and Expenditure Account which forms part of the Commercial Accounts. If a surplus then remains it may be carried forward in the Balance Sheet as a revenue reserve and used, if necessary, to offset any deficit subsequently occurring. A deficit which could not be so offset would be carried forward and would have to be liquidated by a subsequent surplus.

VI. RISING COSTS

(26) Prices charged should be economic and related to cost, for only on such a realistic basis can the fresh expenditure of capital be justified. Many of the present Post Office tariffs do not cover costs.

Current Costs

(27) During the past four years (1951–52 to 1954–55) pay increases have added £42m. a year to the Post Office bill for current expenses. Many of these increases have resulted from awards of the Arbitration Courts which the Post Office is committed to accept. They are all the natural result of the rising wage rates paid in industry generally. Increases in the rates paid to the railways and steamship companies for the conveyance of mails, and
in prices generally, have also added over £8m. to the annual bill. Nor has the effect of these increases yet been exhausted. By 1956–57 pay awards already granted will add another £14m. to the wages bill, and increases in other prices, already known, will raise Post Office costs by a further £3m. In short, £17m. more has to be found in 1956–57 to meet additional wage awards and other increased current costs. This is over and above the £50m. found in the past four years.

Capital Costs
(28) Rising costs naturally affect capital equipment also; the effect is most apparent in the telephone system. Present depreciation provisions do not reflect increases in replacement cost. Real assets are therefore being run down, with the present mortgaging the future. In the case of new plant, the customer pays less than it costs. This is because what he is charged for depreciation is based on the average historic cost of the whole system, and not on the cost of the new plant, which is about 50 per cent. greater. It is equally true that customers are not charged what old plant is now worth, because the provision in respect of depreciation only reflects historic prices. The historic cost of the telephone system will be nearly £700m. by the end of the present year, whereas at current prices the cost of a system giving equivalent facilities is estimated to be over £1,000m.

(29) For the past ten years the Post Office has, like most business concerns, acknowledged the inadequacy of its standing depreciation provisions. It has made special additional provisions, arbitrarily fixed at one quarter of the telephone surplus and totalling £17m. over the period. But the excess cost of renewing its old plant at current prices in the same period has totalled about £60m.

(30) The total provision on a historic basis in the coming year will be over £29m. Basing depreciation on current replacement costs, an amount of over £43m. would have to be provided. To place the system on a sounder economic footing it is thus necessary to budget for a supplementary provision of £14m. After deducting £13m. saved by obtaining longer life from existing equipment it is still necessary to raise about £12½m. more revenue than if the present arrangements had continued in all respects unchanged. The Government’s view is that from 1956–57 onwards provision should be made accordingly, subject to annual review by the Post Office of the amount required. The effect will be that the Post Office will reduce by £12½m. a year its draft on the nation’s reserves for capital development.

VII. THE POST OFFICE BUDGET

(31) During the past four years at least £50m. has been added to Post Office current costs, most of it due to pay increases. By no means all of this was passed on to the public. £31m. was raised by tariff increases (mainly imposed in 1951 and 1952) and another £5m. by increased charges to other Government Departments for Agency services. The gap of £14m. was bridged by internal economies, including those gained by expanding business, by greater technical efficiency and by a reduction in the surplus by £7m. Put in tabular form and in very round figures:—

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<thead>
<tr>
<th>Increase in current costs</th>
<th>£m.</th>
<th>Met by</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay increases</td>
<td>42</td>
<td>Increased tariffs</td>
<td>31</td>
</tr>
<tr>
<td>Other price increases</td>
<td>8</td>
<td>Payments by other Government</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Departments</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Economies and increased efficiency</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduction in surplus</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>Total</td>
<td>50</td>
</tr>
</tbody>
</table>
Conditions favourable to the growth of Post Office business still prevail and in assessing the prospects for the coming year it is assumed that they will continue. Taking prices and wage-rates at their current levels, and making no allowance for any other changes, expenditure in the coming year must be expected to exceed that of 1954–55 by at least £17m. for increases in wage and price levels. Against this it is expected that, at present tariffs, about £3m. will be obtained from increased charges (mainly for Agency services) and about £6m. from economies. Thus, although the growth of expenditure will outstrip that of income by £8m. this is less than half the additional expenditure due to rising costs. Again in rough tabular form:

### TABLE III

<table>
<thead>
<tr>
<th>Increase in current costs</th>
<th>£m.</th>
<th>Met by</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>14</td>
<td>Tariff increases already made</td>
<td>1</td>
</tr>
<tr>
<td>Payments by other Government Departments</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economies and increased efficiency...</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Still to be found</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other prices</td>
<td>3</td>
<td>Total</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>Total</td>
<td>17</td>
</tr>
</tbody>
</table>

### VIII. THE FINANCIAL PROBLEM

Unless tariffs are further increased, the £8m. shortfall in Table III will alter the Post Office surplus of over £5m. in 1954–55 to a deficit of £3m. in 1956–57. In that case, the prospective outturn (commercial) for the latter year would be as follows:

### TABLE IV

<table>
<thead>
<tr>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postal</td>
</tr>
<tr>
<td>Income</td>
</tr>
<tr>
<td>Expenditure</td>
</tr>
<tr>
<td>Surplus (+)/Deficit (−)</td>
</tr>
</tbody>
</table>

(34) Taking into account the other proposals in this paper, the additional cost elements which will have to be covered by tariff increases may be summarised as follows:

(a) payment to the Treasury of £5m. (para. 23);
(b) the increase of depreciation provisions by £12½m. (para. 30);
(c) a sum in respect of rising current costs sufficient to convert the prospective deficit of £3m. (para. 33) into an appropriate working margin.

On the last point, it is necessary, especially in times of rising prices, to budget for something more than a bare covering of costs. For a business of the size of the Post Office, a surplus of £5m. would not be excessive. In apportioning this between the services, it is fair to regard the telephone as having a special responsibility for the telegraph deficit.
Thus the additional income which the Post Office must aim to raise in the coming year from tariff increases is as follows:

<table>
<thead>
<tr>
<th>TABLE V</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postal</td>
<td>Telephone and Telegraph</td>
</tr>
<tr>
<td>Initial deficit (para. 33)</td>
<td>...</td>
</tr>
<tr>
<td>Exchequer Contribution (para. 23)</td>
<td>...</td>
</tr>
<tr>
<td>Supplementary Depreciation (net) (para. 30)</td>
<td>...</td>
</tr>
<tr>
<td>Budgeted surplus (para. 34)</td>
<td>...</td>
</tr>
</tbody>
</table>

To this must be added the costs of improvement of services (paras. 15 and 17), amounting to about £4m. on current account. This makes a total of £25 1/2m. to be found. Most of the cost of improvements in the telephone service (paras. 9 to 13) is borne on capital account.

IX. TARIFF PROPOSALS

It is proposed to raise the sums given in the preceding paragraph by tariff increases directed as follows:

<table>
<thead>
<tr>
<th>TABLE VI</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephones: Rentals</td>
<td>...</td>
</tr>
<tr>
<td>Local calls</td>
<td>...</td>
</tr>
<tr>
<td>Other heads</td>
<td>...</td>
</tr>
<tr>
<td>Telegraphs: Ship-shore telegrams</td>
<td>...</td>
</tr>
<tr>
<td>Posts: Inland services</td>
<td>...</td>
</tr>
<tr>
<td>Foreign parcels</td>
<td>...</td>
</tr>
</tbody>
</table>

All the new rates will come into force on 1st January, 1956.

Telephones

The telephone rental is the part of the tariff most out of line with costs. It is also the factor which most clearly affects demand. The present scale for exclusive service is shown in Table VII.

<table>
<thead>
<tr>
<th>TABLE VII</th>
<th>Annual Rental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>Residential</td>
</tr>
<tr>
<td>London</td>
<td>...</td>
</tr>
<tr>
<td>4 large cities*</td>
<td>...</td>
</tr>
<tr>
<td>Provinces</td>
<td>...</td>
</tr>
</tbody>
</table>

* Birmingham, Glasgow, Liverpool, Manchester.

There is a uniform abatement of 30s. a year for shared service. One hundred free calls are allowed to residents, equivalent to 12s. 6d. Thus, present annual rentals range from £11 for a London business exclusive line to £4 10s. (including 100 free calls) for a provincial residential shared line.
(38) Table VIII analyses on the basis of current cost the average profit or loss per telephone. (The revenue shown includes minor miscellaneous charges in addition to the rental. Business subscribers’ rentals allow for the reduced rates charged to Small Business Users and for auxiliary lines—extra exchange lines numbered in sequence with the main number, e.g. MAYfair 4567/8).

<table>
<thead>
<tr>
<th></th>
<th>London £ s. d. a year</th>
<th>Four Large Cities £ s. d. a year</th>
<th>Provinces £ s. d. a year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BUSINESS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exclusive Revenue</td>
<td>10 8 0</td>
<td>9 12 0</td>
<td>8 16 0</td>
</tr>
<tr>
<td>Current Cost</td>
<td>9 10 0</td>
<td>9 6 0</td>
<td>12 12 0</td>
</tr>
<tr>
<td>Profit or Loss</td>
<td>+ 18 0</td>
<td>+ 6 0</td>
<td>- 3 16 0</td>
</tr>
<tr>
<td>Shared Revenue</td>
<td>9 14 0</td>
<td>8 14 0</td>
<td>7 14 0</td>
</tr>
<tr>
<td>Current Cost</td>
<td>8 0 0</td>
<td>8 0 0</td>
<td>10 18 0</td>
</tr>
<tr>
<td>Profit or Loss</td>
<td>+ 1 14 0</td>
<td>+ 1 4 0</td>
<td>- 3 4 0</td>
</tr>
<tr>
<td><strong>RESIDENTIAL</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exclusive Revenue</td>
<td>8 4 0</td>
<td>7 4 0</td>
<td>6 4 0</td>
</tr>
<tr>
<td>Current Cost</td>
<td>9 10 0</td>
<td>9 6 0</td>
<td>12 12 0</td>
</tr>
<tr>
<td>Profit or Loss</td>
<td>- 1 6 0</td>
<td>- 2 2 0</td>
<td>- 6 8 0</td>
</tr>
<tr>
<td>Shared Revenue</td>
<td>6 14 0</td>
<td>5 14 0</td>
<td>4 14 0</td>
</tr>
<tr>
<td>Current Cost</td>
<td>8 0 0</td>
<td>8 0 0</td>
<td>10 18 0</td>
</tr>
<tr>
<td>Profit or Loss</td>
<td>- 1 6 0</td>
<td>- 2 6 0</td>
<td>- 6 4 0</td>
</tr>
</tbody>
</table>

(39) The “current costs” shewn are identical for business and residential subscribers. This is unavoidable because costs of business and residential telephones cannot be separated. It is, however, probable that residential telephones are the more expensive to provide and maintain. The cheapest form of service now available, a residential shared line outside London and the four large cities, costs £4 10s. 0d. a year in rental, 10s. dearer than the cheapest form of service available before the war. The majority of such subscribers are small users. Because of this, the average yearly number of calls has been falling. Taking into account that residents have the benefit of 100 free calls, new provincial residential lines are now being supplied at less than half their current cost.

(40) The shared service differential of 30s. is not far out of line with cost. The business/residential differential of £3, on the other hand, has no foundation in ascertainable differences of cost. It is a traditional feature of the tariff. Where the amount is arbitrary, the level appropriate in prevailing circumstances must be a matter of judgment. The Government have no doubt that some reduction would be proper. Similarly whilst the geographical differential (i.e., the £1 difference between certain localities), stems historically from the greater range of the unit call fee in London and the four cities, that factor is not today reflected in higher costs and a reduction in this differential would not be unfair.
A basic increase of £1 a year on all lines is therefore proposed, coupled with a reduction of the business/residential differential from £3 to £2 and of the geographical differentials from £1 to 10s. The rebate for shared service will remain at £1 10s. Od. and 100 free calls will continue to be given to residents. This means increases in rental varying from £1 a year for the London business subscriber to £3 a year for the provincial residential subscriber. There will be certain consequential increases for lines rented under the obsolescent Business Small User tariff, and for auxiliary lines, for lines connected to very small exchanges, and for lines connected to private branch exchanges owned and maintained by the subscriber. The present and the proposed rentals are set out in Appendix 3. The new rentals, which are estimated to produce an additional income of £9.75m. a year, will still leave the charges below costs for provincial subscribers, particularly residential subscribers, as shown in Table IX.

| TABLE IX |
|---------------------|---------------|---------------|
|                     | London £ s. d. a year | Four Large Cities £ s. d. a year | Provinces £ s. d. a year |
| Exclusive           |               |               |               |
| Revenue             | ...            | ...           | ...           |
| Current cost        | ...            | ...           | ...           |
| Profit or loss      | + 2 4 0        | + 2 2 0       | − 1 12 0      |
| Shared              |               |               |               |
| Revenue             | ...            | ...           | ...           |
| Current cost        | ...            | ...           | ...           |
| Profit or loss      | + 2 1 6 0      | + 2 6 0       | − 1 2 0       |
| Exclusive           |               |               |               |
| Revenue             | ...            | ...           | ...           |
| Current cost        | ...            | ...           | ...           |
| Profit or loss      | + 1 6 0        | + 1 0 0       | − 3 6 0       |
| Shared              |               |               |               |
| Revenue             | ...            | ...           | ...           |
| Current cost        | ...            | ...           | ...           |
| Profit or loss      | + 1 6 0        | + 6 0         | − 3 2 0       |

(42) The cost to the Post Office of a 1½d. local call is at present slightly over 2d. and is increasing steadily as the proportion of new plant grows. It is clear that, after rentals, this is the major tariff item most in need of adjustment.

(43) The call fee to subscribers for local calls (up to 15 miles radius from the exchange) will accordingly be increased from 1½d. to 2d. per unit as follows:

<table>
<thead>
<tr>
<th>Present</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 5 miles</td>
<td>1½d.</td>
</tr>
<tr>
<td>From 5–7½ miles</td>
<td>3d.</td>
</tr>
<tr>
<td>7½–12½ miles</td>
<td>4½d.</td>
</tr>
<tr>
<td>12½–15 miles</td>
<td>6d.</td>
</tr>
</tbody>
</table>

The additional income resulting is estimated at £7.0m. a year, including that derived from a consequential increase in the fee for the cheap rate trunk call in the range 15–20 miles. There will be no increase in call office or coin box fees.
(44) Other increases, designed to raise about £2.25m. in all, include—

<table>
<thead>
<tr>
<th>Description</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extension rentals</td>
<td>1.0</td>
</tr>
<tr>
<td>Advice of duration and charge</td>
<td>0.3</td>
</tr>
<tr>
<td>Reversed charge fee</td>
<td>0.1</td>
</tr>
<tr>
<td>Connection charges</td>
<td>0.75</td>
</tr>
</tbody>
</table>

Details are given in Appendix 4. These changes are justified by the cost of the service given.

Telegraphs

(45) The ship-shore radiotelegraph service is being run at a loss under a tariff fixed nearly ten years ago. To make the service financially sound the tariff will be increased as shown in Appendix 5. The increased income will be rather less than £100,000.

Posts

(46) In the field of postal services it is proposed to increase the charges for inland letters exceeding 2 oz. in weight. The basic rate of 2½d. for 2 oz. will not be altered. 95 per cent. of all letters are sent at this 2½d. rate. Increases in inland parcel post rates are also required to meet additional payments to the railways following the recent increase in railway freight rates, and to reduce the existing deficit on the service. There is also a substantial deficit on inland printed papers and samples, and it is proposed that this should be nearly met without increasing the charge for packets which do not exceed 2 oz. in weight. Other rates which call for review are those for the express and redirection services, none of which have been changed since the last war and many not since 1919; the proposed increases will reduce the present deficit on these services. The estimated yield from all the changes proposed is £5.7m. made up as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inland letters over 2 oz. in weight</td>
<td>2.2</td>
</tr>
<tr>
<td>Parcels (after deducting increased conveyance payment to railways)</td>
<td>1.7</td>
</tr>
<tr>
<td>Printed papers, samples, etc.</td>
<td>1.7</td>
</tr>
<tr>
<td>Express and other services</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Details of the increases proposed are set out in Appendix 6.

(47) On the overseas side it is proposed to increase the postage rate for parcels. These rates vary according to destination and for any particular route are assessed in relation to the actual cost of conveyance over that route. Details of the new rates, which it is estimated will yield an additional £1.1m. a year and so reduce a substantial deficit, will be published in the London Gazette in due course.

X. SOME COMPARISONS BETWEEN COSTS AND TARIFFS

(48) Since 1939 the average wage paid by the Post Office to its employees has risen by about 175 per cent.; earnings have risen by approximately 195 per cent. The rise in plant costs has been around 150 per cent. Only trunk circuits are cheaper to provide now than before the war. The capital investment required to connect one subscriber by an exclusive line to his local exchange (for the apparatus in his house, his share of the cable to the exchange and his individual equipment in the exchange) is now around £100—two and one-half times what it was in 1939.

(49) Compared with these increases, the cost to the public of using the postal and telephone services will remain relatively low even with the new tariffs. It is difficult to make an exact comparison between telephone tariffs to-day and those pre-war, but the average subscriber to-day pays around 55 per cent. more than the average subscriber did in 1939. The effect of the proposals in this Paper will be to increase this bill to about 80 per cent. above
pre-war. A provincial residential subscriber who makes 400 local calls a year pays at present 3s. 0d. a week for an exclusive telephone and calls. At to-day's prices this service costs the Post Office about 6s. 0d. a week. In future he will pay about 4s. 6d. a week. If he shares the telephone, he pays, and will still pay, 7d. less a week.

(50) The average postage paid for inland letters and printed papers to-day is 88 per cent. more than pre-war. The proposals in this paper will raise the figure to 98 per cent., but the cost of an ordinary letter will remain at 2½d., which is only 66 per cent. above the 1½d. charged before the war.

PART III: SUMMARY

(51) During the past four years, 1,470,000 applications for telephone service have been met. But the waiting list has fallen by only about 120,000. It now stands at 380,000 and demand is still rising rapidly. (Paras. 2–6; Appendix 1.)

(52) The Post Office will speed up the provision of telephones as much as national economic conditions will allow. Its programme has had to be scaled back because of the general need to reduce the claims of home demand on our national resources. But it is planned to connect up 1½ million people during the next three years. (Paras. 7, 8, 21.)

(53) Post Office services will be improved. Full advantage is being taken of technical developments. In about four years' time some subscribers will be able to dial their own trunk calls. There will be increased facilities for long-distance conversations, both inland and overseas. The telex service is forging ahead. Free delivery of telegrams is to be made universal and the latest hour for accepting overnight telegrams will be midnight. Wherever practicable, the second parcel delivery is to be extended to the business areas of all towns of any size which do not already have it. Further use is to be made of inland air services. (Paras. 9–17.)

(54) New relations between the Post Office and the Treasury will be introduced. Henceforward the Post Office will contribute £5m. a year to the Exchequer (roughly what it would pay in taxation) and retain for its own purposes any surplus earned above this sum. (Paras. 22–25; Appendix 2.)

(55) The prices charged for many Post Office services have become uneconomic. The cost of new telephone equipment is now at least 2½ times what it was in 1939. Rising prices necessitate £124m. additional annual provision for the renewal of existing equipment. £17m. has also to be found to meet additional wage awards and other increased current costs. Although the impact of these increased costs is being reduced by internal economies, they alone would put the Post Office in deficit in 1956–7. Altogether it is necessary to raise £253m. additional revenue next year from the telephone and postal services. (Paras. 26–35.)

(56) In order to secure this sum, tariff changes are proposed. Local telephone calls will go up from 1½d. to 2d. and rentals will be increased by amounts varying from £1 to £3 a year. The new charges will bring the tariffs for the different types of service more nearly into line with their cost. The call box charge of 3d. remains unchanged. The 2½d. letter will remain unaltered. Some increases will be made in the charges for heavier letters, for printed papers and for parcels. (Paras. 36–47; Appendices 3 to 6.)

(57) The effect of the proposals will be to bring the amount paid by the average telephone subscriber to about 80 per cent. above pre-war. The average postage for inland letters and printed papers will rise to 98 per cent. more than pre-war. These increases of 80 per cent. and 98 per cent. compare with the 150 per cent. increase in the cost of telephone apparatus and the 175 per cent. increase in Post Office wage rates. (Paras. 48–50.)
APPENDIX 1

QUARTERLY TOTALS OF NEW APPLICATIONS FOR TELEPHONE SERVICE
APPENDIX 2

POST OFFICE RELATIONS WITH THE EXCHEQUER

1. These arrangements will have effect for a trial period of five years commencing 1956-57.

2. They are to be interpreted in terms of the Post Office Commercial Accounts.

3. It is implicit that the principles and practices governing the compilation of those Accounts at the commencement of these arrangements will in all material respects remain unchanged during the period.

4. The Post Office will hold itself under obligation to secure that its income as determined for the purposes of the General Income and Expenditure Account shall be not less than sufficient, taking one year with another, to meet its expenditure as so determined, including provision for the matters specified in the next succeeding paragraph.

5. The specific matters for which provision is to be made are as follows:—

(i) A Contribution to the Exchequer of £5m. p.a. For the purposes of the Service Accounts, this will be treated as debitable in equal parts to the Postal and Telephone Services.

(ii) Such supplementary provision for depreciation of telephone plant as represents, in the opinion of the Post Office, a fair estimate of the additional amount required in order that the total provision made in any year shall reflect the current value of the assets in that year.

(iii) Such additional provision for pension liability as may be required to liquidate over an appropriate period any ascertained deficiency in past provisions.

6. Any surplus or deficit on the General Income and Expenditure Account (after making the above provisions) will be carried to a General Reserve Account. The balance on that Account will be carried to the General Balance Sheet as a reserve or deficiency as the case may be. In the former case it will be offset by an Exchequer liability to the Post Office; in the latter by a Post Office liability to the Exchequer. These liabilities will bear interest at the rate currently appropriate to other Post Office transactions with the Exchequer, and such interest will be credited or debited, as the case may be, in the General Reserve Account.

7. The Post Office will continue to have both a general obligation to consult the Treasury on all financial matters which raise novel or important issues and a particular obligation to do so in cases where only a limited financial power has been formally delegated. The Treasury for their part will give due weight to the fuller measure of responsibility for the pursuit of sound financial policies which, under these arrangements, naturally falls upon the Post Office, and the general understanding will continue that their criticisms will be directed primarily to objective issues rather than to detailed points of administration.
APPENDIX 3
EXCHANGE RENTALS

<table>
<thead>
<tr>
<th></th>
<th>Existing Tariff</th>
<th>Proposed Tariff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>London</td>
<td>Four Large Cities</td>
</tr>
<tr>
<td>Business lines—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exclusive...</td>
<td>£ s. d.</td>
<td>£ s. d.</td>
</tr>
<tr>
<td>Shared</td>
<td>11 0</td>
<td>10 0</td>
</tr>
<tr>
<td>Residence lines—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exclusive...</td>
<td>£ s. d.</td>
<td>£ s. d.</td>
</tr>
<tr>
<td>Shared</td>
<td>8 0</td>
<td>7 0</td>
</tr>
<tr>
<td>Auxiliary lines—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business...</td>
<td>£ s. d.</td>
<td>£ s. d.</td>
</tr>
<tr>
<td>Residence</td>
<td>8 8</td>
<td>7 10</td>
</tr>
<tr>
<td>Business Small User—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exclusive...</td>
<td>£ s. d.</td>
<td>£ s. d.</td>
</tr>
<tr>
<td>Shared</td>
<td>9 0</td>
<td>8 0</td>
</tr>
<tr>
<td>Exchange lines con­</td>
<td></td>
<td></td>
</tr>
<tr>
<td>nected to PBX</td>
<td>£ s. d.</td>
<td>£ s. d.</td>
</tr>
<tr>
<td>owned and main­</td>
<td>Business</td>
<td>£ s. d.</td>
</tr>
<tr>
<td>tained by subscriber</td>
<td>Exclusive</td>
<td>10 5</td>
</tr>
<tr>
<td>Auxiliary</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7 13</td>
<td>6 150</td>
</tr>
</tbody>
</table>

Note 1. There is a very small number of subscribers connected with Exchanges each of which has three or less connections. Rentals for such subscribers are being increased by £2 (business) or £3 (others) a year.

Note 2. Residence rentals include 100 free calls a year, worth 12s. 6d. under the present tariff and 16s. 8d. under the new tariff.

Note 3. Business small user subscribers are at present charged 50 per cent. more than the normal tariff for their first 640 local calls annually; under the new tariff the first 300 calls a year will be so surcharged.

APPENDIX 4
OTHER TELEPHONE TARIFF CHANGES

Extension rentals... £1 4s. 0d. Business
Various from Residential differential, where existing, to be abolished: increase for commonest extension 7s. a year.
£1 1s. 0d. Residential)
upwards.

Subscribers' local calls

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extension rentals</td>
<td></td>
<td>Business</td>
</tr>
<tr>
<td></td>
<td></td>
<td>extension rentals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>to be increased generally</td>
</tr>
<tr>
<td></td>
<td></td>
<td>by one-sixth and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>residential differential, where</td>
</tr>
<tr>
<td></td>
<td></td>
<td>existing, to be abolished:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>increase for commonest</td>
</tr>
<tr>
<td></td>
<td></td>
<td>residential extension 7s. a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>year.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Subscribers' local calls</th>
<th>Present</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 5 miles</td>
<td>1yd.</td>
<td>2d.</td>
</tr>
<tr>
<td>From 5 to 7½ miles</td>
<td>3d.</td>
<td>4d.</td>
</tr>
<tr>
<td>7½ to 12½ miles</td>
<td>4yd.</td>
<td>6d.</td>
</tr>
<tr>
<td>12½ to 15 miles</td>
<td>6d.</td>
<td>8d.</td>
</tr>
</tbody>
</table>
### APPENDIX 4—continued

<table>
<thead>
<tr>
<th>Subscribers’ trunk calls—cheap rate</th>
<th>Present</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(6 p.m. to 10.30 p.m.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15—20 chargeable miles</td>
<td>6d.</td>
<td>8d.</td>
</tr>
</tbody>
</table>

| Alarm calls                        |         |          |
| Ordinary subscriber                | 4½d.    | 6d.      |

| Temporary transfer of calls        |         |          |
| Not more than seven periods in     | No charge| On each occasion for period |
| three months                       |         | up to seven days 5s.      |
| Each period over seven in three    |         | For each 24 hours there-   |
| months up to twenty-four hours     | 7d.     | after 9d.               |
| For each twenty-four hours         | 7d.     |                       |
| thereafter                         |         |                       |
| Contract rate—any number of       |         |                       |
| periods                            |         |                       |
| Within one month                   | 9s. 2d. | 15s. 0d.            |
| Within three months                | £1 3s. 0d. | £2 0s. 0d.        |

| Disconnection at Subscriber’s request |         |          |
| Not more than seven periods in      | No charge| Each occasion for period    |
| three months                        |         | up to seven days 5s.       |
| Each period over seven in three     |         |                       |
| months                              |         |                       |
| Up to twenty-four hours             | 7d.     |                       |
| For each twenty-four hours          | 7d.     |                       |
| thereafter                          |         |                       |
| Contract rate—any number of        |         |                       |
| periods                            |         |                       |
| Within one month                   | 9s. 2d. | 15s. 0d.            |
| Within three months                | £1 3s. 0d. | £2 0s. 0d.        |

| Interception of calls on ceased lines |         |          |
| To end of period for which           | No charge|                       |
| rental paid                         |         |                       |
| For any subsequent period            |         |                       |
| Up to one month                      | £1 3s. 0d. | 15s. 0d.          |
| Up to three months or part           | £1 3s. 0d. | £2 0s. 0d.        |

| Reversed charge call                 |         |          |
| Calls costing 1s. 6d. and over       | No charge|                       |
| Other calls                         | Varies up to | 3d.         |
|                                   | 1s. 4½d. |                       |

| Advice of duration and charge facility |         |          |
| Each call                            | No charge| 3d.      |
| Details on trunk statement—         |         |          |
| per 25 items per month              | 5d.     |          |

| Replacement charges                 |         |          |
| (For items lost or damaged other-  | Various | Increased two to three times |
| wise than by fair wear and tear)    | from 6d. to 18s. | to accord with modern    |
|                                    |         | costs.               |
|                                    |         | General rounding up to the |
|                                    |         | nearest 1s.          |

| Special directory entry charges     | Various | Charges to be doubled. |
|                                    | from 2s. 11d. to £2 6s. 0d. | |

| Connection charge                  |         |          |
| Exchange line                      | Various | (maximum £1 10s. 0d.) |
|                                    | (maximum 10s. plus | 10s. 0d. |
| Extensions                         | Various | extra wiring charge)  |
### APPENDIX 5

**SHIP-SHORE RADIOTELEGRAPH SERVICE**

<table>
<thead>
<tr>
<th>Type of Telegram</th>
<th>Present rate</th>
<th>Proposed rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full rate ordinary (per word)</td>
<td>...</td>
<td>1</td>
</tr>
<tr>
<td>Reduced rate ordinary (per word)</td>
<td>...</td>
<td>6</td>
</tr>
<tr>
<td>Full rate press (per word)</td>
<td>...</td>
<td>6</td>
</tr>
<tr>
<td>Reduced rate press (per word)</td>
<td>...</td>
<td>3</td>
</tr>
<tr>
<td>Ships Letter (per message: 20 words)</td>
<td>...</td>
<td>6</td>
</tr>
</tbody>
</table>

### APPENDIX 6

**DETAILS OF CHANGES IN POSTAL CHARGES—INLAND**

<table>
<thead>
<tr>
<th>Category of Correspondence or Service</th>
<th>Present Charges</th>
<th>New Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>LETTERS</td>
<td>2½d. for 2 ozs.</td>
<td>2½d. for 2 ozs.</td>
</tr>
<tr>
<td></td>
<td>⅓d. for next 2 ozs. then</td>
<td>1d. for 2 ozs. then</td>
</tr>
<tr>
<td></td>
<td>1d. for 2 ozs.</td>
<td>1½d. for 4 ozs. then</td>
</tr>
<tr>
<td></td>
<td>⅓d. for 2 ozs.</td>
<td>1d. for 2 ozs.</td>
</tr>
<tr>
<td>PRINTED PAPERS*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAMPLES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPRESS†</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) P.O. Messenger all the way:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charge for additional packets beyond the first</td>
<td>6d. a mile</td>
<td>1s. a mile</td>
</tr>
<tr>
<td>(b) P.O. Messenger from Delivery Office at addressee's request:</td>
<td>1d. a packet</td>
<td>2½d. per packet</td>
</tr>
<tr>
<td>Basic fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Search fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Special Delivery by P.O. Messenger from the Delivery Office at sender's request:</td>
<td>6d. a mile</td>
<td>1s. a mile No change</td>
</tr>
<tr>
<td>Basic fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Other charges:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For special conveyance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For article charged for on public conveyance</td>
<td>Actual cost</td>
<td>Actual cost</td>
</tr>
<tr>
<td>For miscellaneous services (including Railex and Sunday Special Delivery Service)</td>
<td>Various</td>
<td>Double present charges</td>
</tr>
<tr>
<td>REDIRECTION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Redirection of postal packets for firms while their premises are temporarily unoccupied at holiday periods</td>
<td>First 6 months—free</td>
<td>First 3 months—free</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Next 12 months—1s.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Each succeeding 12 months—5s.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>For each period—5s.</td>
</tr>
</tbody>
</table>

* Newspaper rates will remain unchanged.
† The Overseas Express Delivery fee will also be increased.
**APPENDIX 6—continued**

**DETAILS OF CHANGES IN POSTAL CHARGES—INLAND—continued**

<table>
<thead>
<tr>
<th>Category of Correspondence or Service</th>
<th>Present Charges</th>
<th>New Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DIVERSION</strong> of a person's or firm's mail from one address to another.</td>
<td>£1 10s. 0d. to £3 a year (additional fees are payable where mail is diverted from more than one address or where a firm operates under more than one name).</td>
<td>For each address from which mail diverted—£3 a year. Where at any address a firm uses more than one name—£3 a year for each name recorded beyond the first.</td>
</tr>
<tr>
<td><strong>PARCELS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 2 lb.</td>
<td>1s. 1d.</td>
<td>1s. 3d.</td>
</tr>
<tr>
<td>3 lb.</td>
<td>1s. 3d.</td>
<td>1s. 5d.</td>
</tr>
<tr>
<td>4 lb.</td>
<td>1s. 6d.</td>
<td>1s. 8d.</td>
</tr>
<tr>
<td>5 lb.</td>
<td>1s. 8d.</td>
<td>1s. 11d.</td>
</tr>
<tr>
<td>6 lb.</td>
<td>1s. 10d.</td>
<td>2s. 1d.</td>
</tr>
<tr>
<td>7 lb.</td>
<td>2s. 0d.</td>
<td>2s. 3d.</td>
</tr>
<tr>
<td>8 lb.</td>
<td>2s. 1d.</td>
<td>2s. 6d.</td>
</tr>
<tr>
<td>11 lb.</td>
<td>2s. 3d.</td>
<td>2s. 8d.</td>
</tr>
<tr>
<td>15 lb.</td>
<td>2s. 4d.</td>
<td>2s. 9d.</td>
</tr>
<tr>
<td><strong>Parcels to Irish Republic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 2 lb.</td>
<td>1s. 1d.</td>
<td>1s. 3d.</td>
</tr>
<tr>
<td>5 lb.</td>
<td>1s. 7d.</td>
<td>1s. 9d.</td>
</tr>
<tr>
<td>8 lb.</td>
<td>2s. 0d.</td>
<td>2s. 4d.</td>
</tr>
<tr>
<td>11 lb.</td>
<td>2s. 3d.</td>
<td>2s. 8d.</td>
</tr>
<tr>
<td>15 lb.</td>
<td>2s. 6d.</td>
<td>2s. 11d.</td>
</tr>
</tbody>
</table>
SECRET
C.P. (55) 147
7th October, 1955

CABINET

SPAIN

NOTE BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

It will very shortly be necessary to decide whether or not to support the Spanish Government's applications for membership of the United Nations and the Organisation for European Economic Co-operation (O.E.E.C.). This raises the whole question of Anglo-Spanish relations and is my motive for circulating the attached paper on the subject.

2. For the reasons given in my paper I consider that Her Majesty's Government should unequivocally support the Spanish candidature for both the United Nations and the O.E.E.C. In my opinion we should decide to do this on the merits of each case and because our favourable vote for Spain's inclusion in these two international bodies is essential for the improvement in Anglo-Spanish relations, for which I am convinced we ought to work.

3. Our relations with Spain are complicated by the Spanish attitude over Gibraltar and the restrictions which the Spanish authorities have enforced since 1954 on the Gibraltar frontier. An essential factor in a real improvement in Anglo-Spanish relations must be the return by the Spanish Government to a more friendly attitude towards Gibraltar, with relaxation of the frontier controls. If the proposal to support Spain for the United Nations and O.E.E.C. is approved, I would propose to instruct Her Majesty's Ambassador at Madrid that when the time comes to notify the Spanish Government of our favourable decisions he should at the same time emphasise to them that the success of Her Majesty's Government's policy of trying to improve relations will depend on Spanish willingness to behave reasonably over Gibraltar. For the reasons given in my attached paper I consider that this procedure is preferable to an attempt to strike a bargain with the Spanish Government, which would almost certainly fail and to which there are in any case serious objections.

H. M.

Foreign Office, S.W. 1,
5th October, 1955.
ANGLO-SPANISH RELATIONS

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

I invite my colleagues to consider the question of our relations with Spain.

2. British policy immediately after the War was to ostracise Franco, so far as our essential economic interests permitted, in the hope that he would remove himself or be removed from power. Thus we voted in favour of the 1946 Resolutions of the General Assembly of the United Nations, which declared Spain unworthy of membership of the United Nations and the Specialised Agencies or of participation in United Nations activities while the present regime remained in power and recommended the withdrawal of Ambassadors from Madrid. This policy was not a success and was recognised to have strengthened rather than weakened the régime. It was tacitly abandoned in 1950 when the prohibition on membership of the Specialised Agencies was rescinded and Ambassadors were reinstated. Nevertheless the critical comments on the régime and the bar on membership of the United Nations have never been withdrawn.

3. In November 1951 Sir Anthony Eden, as Foreign Secretary, announced in Parliament that Her Majesty's Government desired "correct and, I hope, friendly relations" with Spain. Since then we have voted in favour of Spanish membership of a number of specialised technical organisations. We have made available to Spanish officers vacancies on technical non-secret military courses and have given limited facilities for Spanish experts to study our development of nuclear energy. We have removed the ban on the export of military equipment except the latest operational jet aircraft and similar "classified" arms. Naval visits to Spanish ports, which were suspended in 1954 because of Spanish behaviour at the time of The Queen's visit to Gibraltar, are shortly to be resumed. There is a small but useful cultural exchange between the two countries. In the economic field we maintain good relations with Spain and have only this year lost first place to Germany as a buyer of Spanish goods. Despite these minor improvements, however, Anglo-Spanish relations remain unsatisfactory in important respects.

Questions at Issue between the United Kingdom and Spain

4. Three only need be considered here.
   (i) Our attitude to the Franco régime.
   (ii) Our attitude towards Spain's desire for re-instatement in international society, in particular Spain's candidature for international organisations.
   (iii) Gibraltar.

The Régime

5. Though mild compared with any Communist régime (including that of Yugoslavia) the Franco régime remains authoritarian and antagonistic to parliamentary democracy. The press is not free (though no more controlled than, for instance, in Turkey). Though Franco is preparing the way for a restoration of the monarchy, this process has not so far entailed liberalisation of his own régime.

6. Economically, the prospects of liberalisation may be rather better. We must not be too optimistic, but it seems unlikely that the Spanish Government would have applied for full membership of O.E.E.C. if they were not prepared to go some distance, in their own time, towards conforming with O.E.E.C. practices.

7. In the United Kingdom and Western Europe, particularly in the Socialist parties and the trade unions, hostility to Franco's régime is still strong. It appears nevertheless to be slowly diminishing, with the advent of a generation which did not know the Spanish civil war, and with the increased contacts resulting from the now very substantial tourist traffic.

Spain's International Aspirations

8. As hostility abroad has appeared to wane, Spain has progressively pressed her claim to be readmitted to international society. A point has now been reached where Spain has been admitted to the majority of international technical organisations, as well as United Nations specialised agencies. Spain also has observer status at the United Nations, O.E.E.C. and the International Labour
Organisation. She is in addition a member of the O.E.E.C. Ministerial Committee for Food and Agriculture and of the European Conference of Ministers of Transport.

9. The principal international bodies to which Spain is now seeking, or is likely to seek, admission are the United Nations, O.E.E.C., Council of Europe and the North Atlantic Treaty Organisation (N.A.T.O.).

(a) United Nations

10. Since the opening of the current session of the United Nations General Assembly the Spanish Government has applied for United Nations membership. Spanish membership of the United Nations is still specifically barred by the unrevoked parts of the General Assembly's Resolutions of 1946 (cf. paragraph 2 above). The Spanish Government however argue that this ban has been implicitly dropped.

11. When the Cabinet considered C.P. (55) 124 on the general subject of the admission of new members to the United Nations the question of Spanish membership was raised, but no decision was taken (C.M. (55) 31st Conclusions, Minute 7).

12. The prospects of a “package” solution of the contested applications for United Nations membership are obscure. But in any case sooner or later we shall have to take a position on the Spanish application. I consider that Her Majesty's Government should support it as the Americans certainly intend to do. Our failure to do so would certainly cause great bitterness in Spain and destroy the prospects of improving Anglo-Spanish relations. Spanish membership would also have certain specific advantages by increasing “Western” representation in the United Nations. It is also a matter of common sense that Spain should not be excluded from an organisation which already includes Soviet satellites and fictitious entities in the Ukraine and White Russia, not to mention numerous small and backward countries.

13. It would presumably be necessary for the United Nations General Assembly to revoke or annul in some way its 1946 decision against Spain. This decision was based, broadly speaking, on the grounds that the Spanish Government had been installed by the Axis powers and had shown by its association with them that it was not qualified for United Nations membership. It could be argued that whereas immediately after the defeat of Germany, Spain was still heavily tainted by her association with the enemies of the United Nations, this no longer applied in the changed circumstances of to-day.

(b) O.E.E.C.

14. The Spanish Government wish to become a full member of O.E.E.C. They have indicated that they would be willing to have an O.E.E.C. Study Group visit Spain to assess Spain’s fitness for membership.

15. At the outset, Spain could not comply fully with O.E.E.C. practices, and her membership would therefore cause difficulties. But if in the long term Spain is prepared to liberalise her trade practices, it will probably be in the general interest of the O.E.E.C. countries to have her as a member. Some ultimate political benefit may also be expected from the increased contacts with Western Europe which would result. I consider that there is a good case for supporting her candidature.

(c) Council of Europe

16. Spain has not applied for membership and until the existing rules for admission are relaxed the Spanish Government are unlikely to take the initiative in seeking membership. If they did we would have to frame our attitude after consultation with the other Governments. But if Yugoslavia were admitted we could hardly fail to vote for Spain. Perhaps both might be given “observer” status.

(d) N.A.T.O.

17. The Spanish Government have not asked to be admitted to N.A.T.O. They would certainly like to be invited to join, but are unlikely to canvass their claim publicly until they can be reasonably certain that it will be successful.
18. At the 1952 Lisbon meeting of the North Atlantic Council, the Portuguese Foreign Minister, in welcoming the Council, made a plea for Spanish membership of N.A.T.O. which was ignored by the Council. The Council has avoided the problem ever since—on the grounds that there would be strong opposition from certain members. There would certainly be political opposition in this country and also in the Netherlands, Norway, Belgium and France. Spanish candidature (which requires unanimous support for success) could on the other hand find support from the United States and Portugal, and probably from Turkey, Greece and Germany.

19. There are also practical objections to the early admission of Spain. N.A.T.O. needs time to assimilate Germany into the Organisation before accepting any more new members. Spanish membership might lead to diversion of United States funds and supplies from members who are nearer to the front line than is Spain. Any strategic advantage from Spain's admission would probably be small since the Spanish-American Agreement already gives N.A.T.O. most of what it needs.

20. The balance of advantage thus lies against any move to bring Spain into N.A.T.O. at present.

Gibraltar

21. However friendly we show ourselves the Spanish Government will not abandon their claim to Gibraltar, which has been regularly repeated since 1713 and which is generally supported by Spaniards irrespective of political belief. Franco hopes and expects that in time we shall agree to discuss the Spanish claim. The Simonstown agreement, and our invitation to the Greeks and Turks to discuss Cyprus, will have encouraged him to persevere.

22. Serious friction over Gibraltar began last year when, at the time of The Queen's visit to Gibraltar, the Spanish Government worked up a propaganda campaign and imposed various restrictions on the Gibraltar frontier. The propaganda campaign has in general been damped down, though there have been recrudescences such as the recent “Gibraltar Exhibition” in Madrid. The frontier restrictions have also been eased, though the most dangerous of them—the Spanish refusal to issue new labour permits to Spanish nationals wishing to seek employment in Gibraltar—remains and could over the years strangle the Naval Dockyard by denying Spanish labour.

The Possibility of a Bargain

23. If, as I suggest, it is now open to us to support Spain's candidature for the United Nations and (subject to conditions) O.E.E.C., it may be argued that we should seize the occasion to try to strike a bargain with Franco whereby, in return for our support, he would withdraw the remaining restrictions on the Gibraltar frontier. But there are weighty objections to this, the most serious being that Franco would interpret any British suggestion of a bargain as an indication that his policy of pin-pricks and restrictions had succeeded in its aim of compelling us to discuss with him Gibraltar and its future. Thus the bargain would fail and if we then opposed Spain at the United Nations and elsewhere, Franco would reply by increasing his campaign against Gibraltar so that our last state would be worse.

An Alternative Approach

24. I consider that we may do better simply to represent to the Spanish Government that our willingness to support them for the United Nations and other international organisations is an earnest of our desire for better relations; and to invite them to reciprocate. The best means of making our point might be to emphasize to the Spanish Government that our policy of improving relations must depend for its success on Spanish willingness to act reasonably over Gibraltar; and to suggest to them that they should re-examine Spanish restrictions on the Gibraltar frontier. We are unlikely to get a positive response in the first instance. But there is some prospect that we could in due course work the Spaniards around to a modus vivendi at Gibraltar.

25. It is for consideration whether Her Majesty's Government should volunteer any public statement about their desire to improve relations with Spain. If we support Spain's admission to the United Nations and O.E.E.C., we shall in any case have to defend our action. I do not think we ought to make any special
statement until we know the Spanish Government’s reaction to our opening approach and also the reactions here at home to our support of Spain for the United Nations.

Conclusions and Recommendations

26.—(i) We should seek to bring about a progressive and substantial improvement in our relations with Spain.

(ii) For this purpose, we should support Spain’s admission to—

(a) the United Nations and any subsidiary United Nations organisations of which Spain is not already a member; and

(b) O.E.E.C., provided Spain is able to satisfy the Organisation of her willingness and ability to comply with O.E.E.C. practices.

We should also consider sympathetically any eventual Spanish request for admission to the Council of Europe.

(iii) We should inform the Spanish Government of the aim in (i) above and our intentions in (ii) (a) and (b), explaining that these decisions have been taken in the belief that the closer association of Spain with the economic and political life of the free world is desirable, and will lead to an improvement in Anglo-Spanish relations.

(iv) We should add that while we are not seeking to make a bargain, the Spanish Government must understand that no policy designed to improve Anglo-Spanish relations can succeed if abnormal restrictions continue to be exercised on the frontier between Gibraltar and Spain. We accordingly invite the Spanish Government to re-examine in a friendly spirit those of its regulations affecting Gibraltar which have been enforced since the beginning of 1954. We should make it clear that we were not objecting to regulations aimed against the smuggling traffic.

(v) If the Spanish Government react favourably to this approach, we should invite Spanish suggestions for improving contacts, e.g., in the form of exchanges of Ministerial visits. We should also renew our proposal for the mutual abolition of visas, which Spain has hitherto rejected.

(vi) If asked by the Spanish Government about our attitude to Spanish membership of N.A.T.O., we should say that we understand that Spain is not a candidate for admission; and that on practical grounds it would in our view be inopportune to raise the question now.

(vii) We should tell the United States Government both of the general nature of our approach to the Spanish Government and in particular of the line taken about Spanish membership of N.A.T.O. We should ask the United States Government to urge the Spaniards in their own interests not to press any demand for admission to N.A.T.O. at present.
On 29th July, 1954, the Cabinet considered a memorandum, C. (54) 166, by the then Home Secretary and the Secretary of State for Scotland on the recommendations made in the report of the Royal Commission on Capital Punishment (C.C. (54) 56th Conclusions, Minute 3).

2. The Cabinet agreed not to accept the three major recommendations of the Commission (that is, (i) the raising from 18 to 21 of the statutory age limit below which sentence of death may not be imposed; (ii) conferring upon the jury a discretion to decide whether there are such extenuating circumstances as to justify substituting a sentence of life imprisonment for one of death; and (iii) the abrogation of the McNaghten Rules in regard to insanity), but decided that no final decision should be announced until after Members of Parliament had had an opportunity of expressing their views. The Cabinet also agreed that legislation should not be introduced giving effect to certain of the minor recommendations of the Royal Commission.

3. The report of the Royal Commission was debated in the House of Commons on 10th February, 1955, on a Government Motion to take note of the Report. The Government spokesmen indicated that the Government had provisionally formed the view that the three major recommendations should not be accepted, but that before coming to a final conclusion they wished to take account of the views expressed by Parliament. The debate turned mainly on the proposal, raised by an amendment to the Government Motion, that the death penalty should be suspended for a number of years. In so far as the recommendations of the Royal Commission were referred to, there was substantial support for the view that it was right to reject the first two of the recommendations referred to in paragraph 2 above. (Proposal (ii) had already been strongly criticised in the House of Lords.) There was rather more difference of opinion about proposal (iii), but no one could suggest any satisfactory alternative to the McNaghten Rules, and there was little support for the proposition that the Rules should be abrogated altogether.

4. Nothing was said in the debate, or has been said subsequently, to cause us to suggest any modification of the conclusions reached by the Cabinet on 29th July, 1954. Up to the present, the time has not seemed opportune for making any further statement as to the Government's decisions. It would not have been appropriate to make a statement on this controversial matter before the general election; and since then it would have been difficult to dissociate a general statement from particular cases which were arousing public interest. The Howard League, however, recently submitted a memorial, signed by a number of well-known people, urging that capital punishment be abolished or that at any rate the recommendations of the Royal Commission be adopted, and we think it probable that as soon as Parliament reassembles there will be Questions as to the Government's intentions.
5. We accordingly seek authority to announce that the Government have given careful consideration to the views expressed in the debates in both Houses and have reached the conclusion that they cannot accept the main recommendations of the Royal Commission and do not at present propose to introduce legislation to deal with the other recommendations. It would be explained that the Government did not necessarily accept all the minor recommendations (some of which are controversial) but would reserve a decision until there was some prospect of legislation; and that those recommendations which were accepted by the Government and could be carried out administratively have, so far as possible, been put into effect.

G. LL-G.

J. S.

12th October, 1955.
CABINET

NATIONAL SERVICE: EFFECTS ON EDUCATION AND EMPLOYMENT

NOTE BY THE MINISTER OF LABOUR AND NATIONAL SERVICE

I am circulating for the information of my colleagues a summary of a Report on an Enquiry into the Effects of National Service on the Education and Employment of Young Men. Publication of this Report has been promised in the House of Commons, and provisional arrangements for publication have been made.

2. In view of current interest in National Service, I should, nevertheless, be grateful for my colleagues' agreement to the Report's appearance at this juncture.

W. M.

Ministry of Labour and National Service, S.W. 1,
13th October, 1955.

SUMMARY OF REPORT ON ENQUIRY INTO THE EFFECTS OF NATIONAL SERVICE ON THE EDUCATION AND EMPLOYMENT OF YOUNG MEN

Purpose of the Enquiry

This Enquiry was undertaken at the request of the Advisory Council on Relationship between Employment in the Services and Civilian Life. Its purpose was to find out whether National Service gives rise to problems bearing upon the employment, vocational guidance and resettlement of young men on which action should be taken, either by the Government or industry, in order to avoid waste of manpower or of ability.

How the Enquiry was Carried Out

The men chosen to take part were those who completed their two years' National Service in September 1953. This sample included University students and those still in course of completing their education, apprentices and other trainees, as well as men already in employment.

The Enquiry was carried out in June–July 1954, nine months after the men had returned to civilian life and was made by means of interviews conducted by officers of the Employment Exchanges.

Of the 13,436 National Servicemen who were discharged in September 1953, 10,708, or 80 per cent., took part voluntarily in the Enquiry.
Conclusions of the Enquiry

I.—Of 10,708 who participated in the Enquiry 9,697 men (90.6 per cent.) were satisfactorily settled. Of these—

(a) 8,598 (80.3 per cent.) were settled in employment. This figure included 2,668 (94.2 per cent.) of the 2,831 who had completed their apprenticeship or other systematic training with an employer before call-up; of these 34.5 per cent. served in a trade related to their pre-Service training during their period of National Service. More men returned to their pre-Service employment where employers had kept in touch with them during their time in the Forces;

(b) 1,099 (10.3 per cent.) were continuing their further education. Some of these had gone back to the Universities, others had resumed professional training.

II.—The men who were most settled in civilian employment before National Service, e.g., those who had been apprentices or had had other systematic training and those who had had only one or two jobs before enlistment, had the least difficulty in settling down afterwards. This suggests that vocational guidance is most effective when given some time before a boy is called up as he can then settle in his job or training and will regard the interruption caused by National Service as a temporary break in his career which can be resumed without difficulty afterwards.

III.—A number of men who at first sight appeared to have been unsettled by National Service had in fact poor employment records before they were called-up so that their problems may be not so much resettlement problems caused by National Service as continuing employment problems that already existed before they were called up.

The general conclusion to be drawn from the results of the Enquiry is that, although National Service must inevitably cause some disturbance in civilian careers, it does not create any major problems of employment or resettlement.
CABINET

SUMMER TIME

MEMORANDUM BY THE SECRETARY OF STATE FOR THE HOME DEPARTMENT AND MINISTER FOR WELSH AFFAIRS

The Prime Minister has asked me to raise the question of extending the period of summer time next year.

2. Under the Summer Time Acts, 1922 and 1925, the period of summer time runs from the day following the third Saturday in April (or if that day is Easter Day, then the day following the second Saturday) to the day following the first Saturday in October. The Summer Time Act, 1947, enables a different period to be fixed by Order in Council after affirmative resolutions have been passed by Parliament. This power was used in the years 1948 to 1952 to lengthen the period. (The period in 1947 was fixed by the Act itself.)

3. My predecessor advised the Home Affairs Committee in 1952 and 1953 (H.A. (52) 153 and H.A. (53) 127) that summer time in 1953 and 1954 should end on the day fixed by the 1925 Act.

4. Towards the end of 1953, the National Farmers' Union in England and Wales passed a resolution in favour of extending summer time in 1954 by two weeks. The Minister of Agriculture and Fisheries believed, however, that the change of opinion was not yet complete, and that the Union was still divided on the question. The National Farmers' Union of Scotland remained firmly opposed to any extension.

5. In 1954, the Minister of Agriculture and the Minister of Fuel and Power, who are concerned with the conflicting interests in this matter of the farming community and the need to save coal, and the Secretary of State for Scotland agreed that there were no longer such special circumstances as would justify invoking the special powers in the Act of 1947. My view—which had previously been expressed by my predecessor to the Home Affairs Committee—was that, in the absence of some exceptional reason (such as existed in 1947 and the few years following), it would be wrong to use the power of the 1947 Act indefinitely, to make changes year by year. If a permanent change was to be made, it should be done by permanent legislation. Accordingly, when announcing in the House of Commons on 21st October, 1954, the duration of summer time in 1955, I stated that the Government had decided that it would not be right to ask Parliament in future to consider the use of the special powers given by the Summer Time Act, 1947, to effect annual changes in the statutory period unless there were most exceptional reasons to do so (Official Report—column 197).

G. LL.-G.

Home Office, S.W. 1.
13th October, 1955.
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