CABINET 65 (49)

CONCLUSIONS of a Meeting of the Cabinet held at 10, Downing Street, S.W. 1, on Thursday, 19th November, 1949, at 10 a.m.

Present:

The Right Hon. C. R. ATTLEE, M.P., Prime Minister (in the Chair).

The Right Hon. HERBERT MORRISON, M.P., Lord President of the Council.

The Right Hon. A. V. ALEXANDER, M.P., Minister of Defence.

The Right Hon. VISCOUNT ADDISON, Lord Privy Seal.

The Right Hon. J. CHUTER EDE, M.P., Secretary of State for the Home Department.

The Right Hon. P. J. NOEL-BAKER, M.P., Secretary of State for Commonwealth Relations.

The Right Hon. G. A. ISAACS, M.P., Minister of Labour and National Service.

The Right Hon. T. WILLIAMS, M.P., Minister of Agriculture and Fisheries.

The Right Hon. J. H. WILSON, M.P., President of the Board of Trade.

The following were also present:

The Right Hon. ALFRED BARNES, M.P., Minister of Transport (Item 3).

The Right Hon. GEORGE STRAUSS, M.P., Minister of Supply (Items 2 and 3).

The Right Hon. WILLIAM WHITELEY, M.P., Parliamentary Secretary, Treasury (Items 1 and 2).

The Right Hon. JOHN STRACHEY, M.P., Minister of Food (Item 3).

The Right Hon. H. T. N. GAITSKELL, M.P., Minister of Fuel and Power (Item 3).

Mr. C. P. MAYHEW, M.P., Parliamentary Under-Secretary of State, Foreign Office (Item 3).

Secretariat:

Mr. A. JOHNSTON.

Mr. S. E. V. LUKE.
## Cabinet 65 (49)

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Parliament.
Business in
the House of
Commons.

1. The Cabinet were informed of the business to be taken in
the House of Commons in the following week.

Iron and
Steel Bill.
(Previous
Reference:
C.M. (49) 65rd
Conclusions,
Minute 1.)

2. The Lord Privy Seal said that the Lord Chancellor and he
had completed their discussions with the Leader of the Opposition
in the House of Lords (Lord Salisbury) and Lord Swinton about the
provisions governing the coming into force of the Iron and Steel Bill.
The Government's proposals, of which Lord Salisbury had now indi­
cated acceptance, were that the Bill should come into operation from
the date of its passing, but should include a provision that the
Minister would not appoint any member of the Iron and Steel
Corporation before 1st October, 1950. The earliest date for the
vesting of the companies in the Corporation would be 1st January,
1951. Since the agreed provision about the establishment of the
Corporation would enable the Minister of Supply to take pre­
liminary steps, including the setting up of a shadow Corporation,
before 1st October, 1950, it was proposed that the Minister of Supply
should state in the House of Commons that the Government did not
intend to make any approach, formal or informal, to any individual
with regard to membership of the Iron and Steel Corporation until
a new Parliament had been elected.

In discussion the following points were made:

(a) The compromise ultimately reached with the Opposition
in the House of Lords was more favourable to the Govern­
tment than the concessions which the Ministers immediately respon­
sible had been prepared to make in order to get the Bill on the
statute book before the end of 1949.

(b) The proposals were entirely acceptable to the Minister of
Supply. He had always recognised that, if the passing of the Bill
were delayed until a time when the General Election was in sight,
it would not be practicable to set up a satisfactory Iron and Steel
Corporation until after the Election. The necessary preliminary
work would fully occupy the time before 1st October, 1950, when
the Corporation could be formally constituted. On administrative
grounds it would have been impracticable to vest the undertakings
in the Corporation before 1st January, 1951.

(c) The House of Commons would discuss on 16th November
the Lords' insistence on their amendments relating to the coming
into operation of the Bill, and the Government's counter-proposals.
The Government's proposals would not be made available until the
morning of 15th November, and it was important that complete
secrecy regarding the Government's intentions should be observed
until that time.

(d) The Leader of the Opposition in the House of Lords had
stipulated, and the Lord Privy Seal and the Lord Chancellor had
accepted, that the Government's proposals should not be represented
as a compromise reached with the Opposition. The fact that conver­
sations had taken place was not to be disclosed. From this angle the
manner in which the Government's proposals were presented was
important, and the Minister of Supply proposed to discuss with the
Lord President the terms in which he would advocate acceptance of
the amendments and the terms in which he would announce the
Government's intention not to take any steps towards setting up
the Corporation before the Election.

(e) The Leader of the Opposition in the House of Lords had
made it clear that he expected the Government to discuss the
position with the Opposition in the House of Commons, although
Mr. Churchill and Mr. Eden had been consulted by Lord Salisbury
on the Government's proposals. It was arguable that acceptance
of the Government's proposals by the Opposition in the House of
Lords was conditional on their acceptance by the Opposition in the House of Commons. The Lord President proposed, later in the day, to enter into discussions with the Opposition in the House of Commons on the subject.

The Cabinet—

Approved the amendments to be made in the Iron and Steel Bill, after discussion with the leaders of the Opposition in the House of Lords, regarding the coming into operation of the Bill.

Economic Affairs.
(Previous Reference: C.M. (49) 39th Conclusions, Minute 4.)

3. The Cabinet had before them a note by the Chancellor of the Exchequer (C.P. (49) 225) covering a report on the economic situation.

The following points were made in discussion:

Concern was expressed at the large increase in the number employed in the distributive trades during the past year. Alternative employment was not, however, always available and the workers concerned were often unsuitable for more essential work. The total number of persons employed in distribution was still well below the pre-war figure. Some reduction might result from the recent cuts in some retail prices.

Since March the number of men on the colliery books had fallen by 17,000, and the total was now some 5,000 below the National Coal Board’s requirements. Nevertheless, output had continued to increase as the result of higher productivity. In this connection, attention was drawn to the fact that the total figure of persons employed in the coalmining industry was some 70,000 in excess of the numbers on the colliery books. Was there reason to suppose that the administrative organisation of the National Coal Board might be excessively elaborate and wasteful in the use of man-power?

The Minister of Fuel and Power said that he did not think that the numbers of the administrative, clerical and technical staff employed by the Board were greater than were essential to the efficiency of the industry, but he would look further into this point.

The figures for production were very satisfactory. The index figures for July and August were 7 points higher than for the corresponding months of 1948, and this was largely due to increased productivity.

It was inevitable that the ship-repairing industry should continue to contract. It had not so far proved difficult to find alternative employment for redundant workers, though their mobility was seriously hampered by the housing shortage. The future of this industry was at present being considered by the Production Committee.

The value of United Kingdom exports rose in October to £156 million as compared with £142 million in September; imports, however, had increased by £17 million over the September figures. It was unlikely that either of these figures reflected any substantial changes in prices on account of the devaluation of sterling.

The inflationary pull exerted by the sterling area on United Kingdom exports was a matter for concern; in particular, we were sending a very high proportion of our exports to Australia. During recent years Australia had accumulated large sterling balances; and this situation would be further aggravated if the Australian Wheat Board took advantage of the fact that the prices prescribed by the International Wheat Agreement were stated in terms of dollars and insisted on increasing the price of Australian wheat to the full extent made possible by the devaluation of sterling. The general view of Ministers was that this was a matter which should in due course be taken up with the Australian Government; there could be no justification for paying a price for Australian wheat three
Balance of Payments.

Stocks.

Prices.

The Chancellor of the Exchequer said that the United Kingdom gold and dollar holdings had increased by $170 million in October. It would, however, be inadvisable to attach undue weight to the inflow of dollar funds during this period since it seemed likely that this was largely due to temporary factors arising out of devaluation. In recent weeks there had been signs of a flight from the dollar to gold as a result of talk of a possible devaluation of the dollar. There were interests in the United States who might make a determined effort to compel the Administration to devalue the dollar.

In recent months the volume of imports had been expanded by purchases for stock; since March the level of stocks had increased by £100 million.

The increase in prices since devaluation had not so far exceeded the original estimates. For some months before September the terms of trade had moved slowly in our favour, but this movement would be checked by devaluation.

The Cabinet—

Took note of C.P. (49) 225 and of the points made in discussion.

4. The Cabinet had before them the following memoranda—

C.P. (49) 216: by the Prime Minister, asking Ministers in charge of Civil Departments to press forward with the action required to give detailed effect to the Government's decisions for a reduction in the rate of supply expenditure;

C.P. (49) 221: by the Lord President, suggesting measures which might be initiated with a view to effecting further economies in Government expenditure;

C.P. (49) 228: by the Chancellor of the Exchequer, commenting on the Lord President's proposals.

The Lord President referred to the steps which were being taken to secure administrative economies in Government Departments by reorganisation of work and staff reductions, but expressed the view that a greater impetus was required to secure more economies. Certain Departments which had grown during the war appeared to remain swollen in size beyond what was required to carry out their present functions. The method by which reorganisations and reductions in numbers might be effected would no doubt vary from Department to Department. In the aggregate, very considerable savings could be effected. Where there was a general impression that a Department was unnecessarily large, an arbitrary cut might have to be imposed and the Department told to make the necessary reorganisation of its work within the new limits of size.

The Chancellor of the Exchequer said that the Organisation and Methods Branches of various Departments were expected to see that waste was avoided within the existing framework of organisation. At the same time these branches could not be expected to cope with major problems of organisation, and he had for some time been engaged in initiating special enquiries, conducted in some cases by persons with expert experience from outside the Department concerned. These investigations took some time, and the number of individuals competent to carry them out was limited, but satisfactory results had been secured from a special investigation into the organisation of the Air Ministry and other enquiries were in
train. It would be undesirable to make public the reports of these enquiries. He was not in favour of arbitrary cuts in establishments and preferred an expert investigation into the organisation of an office.

In discussion, the following points were made:

(a) Organisation and Methods Branches were concerned primarily with greater efficiency, and staff economies were incidental to their main work. Endeavours were being made to secure that individuals of the right calibre and temperament were put in charge of Organisation and Methods Branches.

(b) It was difficult to initiate enquiries into the working of new and expanding services, such as the National Health Service, until the organisation had taken shape.

(c) It was very desirable that special investigations, on the lines of that conducted in the Air Ministry, should be initiated as soon as possible in other large Departments, the staff of which had been swollen during the war and did not appear to have contracted sufficiently since the end of it.

(d) The matter was best left to the Chancellor of the Exchequer, who would consult the Prime Minister as might be necessary, rather than that the process of supervising administrative economies should be entrusted to the Economic Policy Committee or other Ministerial body.

(e) Expenditure might in some cases be reduced by alterations in the methods of working adopted by Government Departments. It was, for example, suggested that the method of employing subcontractors adopted by the Ministry of Works was very expensive. A matter of this kind would, however, have to be taken up with the Minister concerned, since it impinged on policy.

(f) The possibility of effecting economies by the amalgamation of certain Government Departments would be brought before the Machinery of Government Committee.

The Cabinet—

(1) Endorsed the practice of holding special enquiries into the organisation of Departments and invited Ministers to co-operate with the Chancellor of the Exchequer in initiating enquiries into appropriate cases.

In the Cabinet's discussion of administrative economies in Government Departments, attention was drawn to the expansion of local government staffs and the tendency to upgrade local government officers. The Ministry of Labour had recently handed over juvenile employment bureaux to local authorities, and many authorities were now recruiting highly-paid staff to do the work. There was a tendency to insist to an unnecessary extent on the recruitment of university graduates in local government employment and to pay them high salaries.

There was general agreement that there was scope for an investigation into the methods of recruitment, rates of remuneration and organisation of local government staffs, though it was undesirable that any overt steps should be taken in this matter until the Government had considered the report of the Committee on Local Government Man-Power.

The setting up of divisional organisations under county education committees had doubled the administrative staffs engaged in education work in counties; but changes in these arrangements, which involved the amendment of statutory provisions, would have to be handled separately from any enquiry into administration.

The Cabinet—

(2) Invited the Minister of Health, after the report of the Local Government Man-Power Committee had been received
The Lord President said that he felt there was room for improvement in the control of Government expenditure. In education and the other social services there was a tendency for expenditure to rise from year to year without full regard to the taxable capacity of the country. To a greater extent than had happened in recent years, what was desirable must be judged in the light of what was practicable from the point of view of long-term national finance. His suggestion was that there should be a careful review of the likely cost of existing commitments over the next few years and that, in the light of the estimated national income and of the revenue which the Chancellor of the Exchequer might properly take from that income, an endeavour should be made to allocate to each service what it might expect to receive during the next three or four years. This would oblige Departments to consider which of several desirable schemes they wished to adopt within the financial limits imposed on them and would go some way to relieve the Treasury of the burden of considering a constant stream of proposals for further expenditure. It would in effect apply to the civil field something of the technique which the Ministry of Defence and the Service Departments had adopted in dealing with the size and shape of the Armed Forces in 1950-53.

The Chancellor of the Exchequer said that the Government were faced with a new factor which had not hitherto arisen in peace-time, namely, that they were reaching the limit of expenditure which could be raised by taxation, and there was a serious danger that obligations might be entered into which the country could not meet in full in future years. The fact that so many persons were now in Government employment would make it difficult in a time of severe stress to secure reductions in expenditure by reductions in wages, such as an industrial undertaking might have to resort to; and this factor introduced further rigidity into the mechanism. It was with these considerations in mind that in July last he had circulated to the Economic Policy Committee a memorandum on the prospective increases in expenditure in the next two years. He was arranging for the Treasury to keep a continuous watch on the situation and he had it in mind that, in January and July of each year, he should circulate to the Economic Policy Committee a memorandum giving an estimate of Government expenditure for the next twenty-four months or so. The January memorandum would be useful in a final review of Departmental estimates, and the July memorandum could be the basis of a consideration, from the financial aspect, of the Government's legislative proposals for the forthcoming Session. He hoped that Ministers and Permanent Secretaries would examine carefully the figures submitted to the Treasury in connection with the preparation of these half-yearly forecasts. He did not think it was practicable to prepare forecasts for more than about twenty-four months ahead.

In subsequent discussion, attention was drawn to the difficulty of making accurate forecasts of expenditure some time ahead, having regard to the possibility of unforeseen developments. It might, however, be that firmer figures would be forthcoming from the angle of revenue and of the division of the available funds among the various services. The procedure would probably be for Ministers to put forward their forecasts of expenditure in the next two years or so and for the estimated expenditure to be related to the estimated revenue. Thereafter, it might be necessary for Ministers to modify their policies in the light of the sums likely to be made available in future years for the services for which they were responsible.

Attention was drawn to the fact that the whole of Government expenditure should not be regarded as a burden upon the citizen.
To a considerable extent it operated to bring about a redistribution of income. The taxpayer derived substantial benefits through the operation of subsidies and, indirectly, through the amounts devoted to productive expenditure.

The Cabinet—

(3) Took note that the Chancellor of the Exchequer proposed to submit half-yearly forecasts of Government expenditure, covering the ensuing two years, to the Economic Policy Committee.

(4) Invited the Prime Minister to draw the attention of the Chairman of Cabinet Committees (Ministerial and official) to the desirability of reporting on possible savings in public expenditure which came to notice in the course of their investigations.

(5) Agreed that Ministers should ensure that the necessary action was taken to give effect to the Government's decisions on expenditure, on the lines indicated by the Prime Minister in C.P. (49) 216.

5. The Cabinet had before them a memorandum by the Lord President (C.P. (49) 229) on the extent of the economies which he regarded as practicable in the estimated cost of the Festival of Britain.

The Lord President recalled that at the meeting of the Cabinet on 21st October last he had expressed the view that he could secure economies amounting to £600,000 and he had hoped it might be possible to reach the full saving of £1 million proposed by the Economic Policy Committee. He had since examined the question whether the saving of £1 million, to which the Prime Minister's announcement on 24th October last had referred, could be effected. The Festival Council had originally put forward proposals involving a cost to the Exchequer of about £14 million, and this had already been reduced to £12,300,000. He was satisfied that it was not practicable, without making cuts which would seriously detract from the value of the Festival, to secure further economies beyond £700,000; but he hoped to secure additional revenue, totalling £300,000, by making a charge to exhibitors for space. He thought it was reasonable to regard the saving of £700,000, and the additional revenue he hoped to obtain, as amounting in the aggregate to an economy of £1 million. The Chancellor of the Exchequer had suggested that one of the travelling exhibitions should be dispensed with, but he was sure that this would cause great dissatisfaction throughout the country. There was already criticism of the extent to which the Festival was concentrated in London.

The Chancellor of the Exchequer said that he saw great difficulty about whittling away any of the economies which had been announced in the Prime Minister's statement. Apart from that, he felt doubtful whether the receipts from the Festival, including the proposed charge for exhibitors' space, would be as great as had been estimated.

In discussion, the question was raised whether exhibitors would be prepared to pay for space in an exhibition which was not being organised for trade purposes. The Festival Council were confident that they could secure the necessary revenue from this source, and the Scottish Committee favoured charges in respect of the exhibition at Glasgow.

The Cabinet—

Agreed to refer the questions raised in C.P. (49) 229 for detailed consideration by the Economic Policy Committee.

Cabinet Office, S.W. 1.
10th November, 1949.