CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Friday, 28th December, 1951, at 11 a.m.

Present:
The Right Hon. WINSTON S. CHURCHILL, M.P., Prime Minister and Minister of Defence (in the Chair).
The Right Hon. ANTHONY EDEN, M.P., Secretary of State for Foreign Affairs.
The Most Hon. the MARQUESS OF SALISBURY, Lord Privy Seal.
The Right Hon. Sir DAVID MAXWELL Fyfe, K.C., M.P., Secretary of State for the Home Department and Minister for Welsh Affairs.
The Right Hon. LORD ISMAY, Secretary of State for Commonwealth Relations.
The Right Hon. JAMES STUART, M.P., Secretary of State for Scotland.
The Right Hon. HAROLD MACMILLAN, M.P., Minister of Housing and Local Government.
The Right Hon. LORD WOOLTON, Lord President of the Council.
The Right Hon. LORD SIMMONDS, Lord Chancellor.
The Right Hon. R. A. BUTLER, M.P., Chancellor of the Exchequer.
The Right Hon. OLIVER LYTTELTON, M.P., Secretary of State for the Colonies.
The Right Hon. LORD LEATHERS, Secretary of State for Co-ordination of Transport, Fuel and Power.
The Right Hon. Sir WALTER MONCKTON, K.C., M.P., Minister of Labour and National Service.
The Right Hon. PETER THORNEycROFT, M.P., President of the Board of Trade.
The Right Hon. LORD CHERWELL, Paymaster-General.
The following were also present:
The Right Hon. VISCOUNT SWINTON, Chancellor of the Duchy of Lancaster.
The Right Hon. GWILYM LLOYD GEORGE, M.P., Minister of Food (Item 7).
The Right Hon. DUNCAN SANDYS, M.P., Minister of Supply (Items 1–6).
The Right Hon. DAVID ECCLES, M.P., Minister of Works (Items 1–3).

Secretariat:
Sir NORMAN BROOK.
Mr. T. PADMORE.
<table>
<thead>
<tr>
<th>Minute No.</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Malaya</td>
<td>99</td>
</tr>
<tr>
<td>2</td>
<td>Prime Minister's Visit to Washington and Ottawa</td>
<td>99</td>
</tr>
<tr>
<td>3</td>
<td>Investment Programme</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>Civil Investment in 1952 and the Housing Programme.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investment other than Housing.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Housing</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Korea</td>
<td>101</td>
</tr>
<tr>
<td>5</td>
<td>Iron and Steel Industry</td>
<td>101</td>
</tr>
<tr>
<td>6</td>
<td>Road and Rail Transport</td>
<td>101</td>
</tr>
<tr>
<td>7</td>
<td>Food Imports</td>
<td>102</td>
</tr>
<tr>
<td>8</td>
<td>Sterling Balances</td>
<td>103</td>
</tr>
<tr>
<td>9</td>
<td>Egypt</td>
<td>103</td>
</tr>
<tr>
<td>10</td>
<td>Migration Policy</td>
<td>104</td>
</tr>
<tr>
<td>11</td>
<td>The Cabinet</td>
<td>104</td>
</tr>
</tbody>
</table>
1. The Cabinet had before them a memorandum by the Colonial Secretary (C. (51) 59) covering his report on his visit to Malaya.

The Colonial Secretary gave the Cabinet a short account of the impressions which he had formed as a result of his visit and described the steps which he was taking to find suitable persons to fill the vital posts of High Commissioner and Commissioner of Police.

In discussion there was general support for the Colonial Secretary’s approach to the problem of restoring order in Malaya.

The Cabinet appointed a Committee consisting of the Lord Privy Seal, the Home Secretary, the Colonial Secretary, the Minister of Housing and Local Government and the Chancellor of the Duchy of Lancaster to consider the Colonial Secretary’s report in detail and to frame specific proposals for approval by the Cabinet in the second half of January.

2. The Prime Minister informed the Cabinet of the arrangements made for his forthcoming visit to Washington and Ottawa. The Foreign Secretary, who would not be accompanying him to Ottawa, was expected to return to London on 13th January. The Prime Minister himself hoped to be back in this country by 20th January.

The Chancellor of the Exchequer said, with reference to the Cabinet’s discussion of 11th December (C.C. (51) 16th Conclusions, Minute 7), that soon after the Prime Minister’s departure for Washington an announcement would be made regarding the financial aid to be made available to this country by the United States Government under their Mutual Security Act during the current American fiscal year. This would amount to $300 million; but, under the provisions of the Act, 10 per cent. of this would be granted as a loan on which no interest would be payable for the first four years. It was satisfactory that this matter would have been settled before the Prime Minister reached Washington.

3. The Cabinet resumed their discussion of the following memoranda on civil investment in 1952:

C. (51) 45: a note by the Chancellor of the Exchequer covering a report on the investment programme prepared by officials at the request of the Sub-Committee of the Economic Policy Committee;
C. (51) 52: by the Chancellor of the Exchequer commenting on the proposals in the officials’ report;
C. (51) 43: by the Minister of Housing and Local Government on the effect of these proposals on the housing programme and the building industry.
C. (51) 44: by the Minister of Housing and Local Government on the provision, within the approved housing programme, of houses urgently required by other Government Departments.

The Cabinet first considered those aspects of the proposals for reductions in civil investment in 1952 made in C. (51) 52 and in C. (51) 45 which did not concern the housing programme. The broad consequences of the recommendations before the Cabinet were that building work, excluding housing, would be set at approximately the same level in 1952 as in 1950; and that reductions would be made in the programme approved by the previous Government for essential basic industries, such as fuel and power and railways; for manufacturing industry (which would bear the main weight of the
reductions); for public services, such as water and sewerage, education and the health services; and for miscellaneous buildings for social and trading purposes.

The Chancellor of the Exchequer suggested that, while the Cabinet might approve reductions in the investment programme broadly of the size and character proposed in C. (51) 45, he should in the near future discuss the details of the revised programme with those of his colleagues who might feel difficulty about particular aspects of it, with a view to reaching such agreed adjustments as might be practicable. In so doing he would have regard to suggestions which had been made for mitigating the reductions proposed in relation to electricity generation, rural electrification and other more important forms of investment at the cost, if necessary, of greater reductions in the less important parts of the programme. As regards electricity generation, the Cabinet asked that every effort should be made to achieve the greatest possible capacity, with the allocation of money and materials available, by improvisation and simplification in the construction of generating stations.

The Cabinet—

(1) Approved reductions broadly of the size and character proposed in C. (51) 45 in the level of investment in 1952 in directions other than housing; and invited the Chancellor of the Exchequer to examine those reductions in detail with the Ministers concerned with a view to making such adjustments as might appear practicable.

As regards housing, the Chancellor of the Exchequer said that since the Cabinet's meeting on 20th December he had discussed the programme with the Ministers concerned. He thought that the objective of a rate of construction of 300,000 houses a year could be achieved in three years' time, but that further study of the implications of accepting this aim might be undertaken by a group of officials under the chairmanship of the Chancellor of the Duchy of Lancaster. He was willing to accept the immediate aim of completing 230,000 houses in 1952 subject to three stipulations, viz.: (i) that the labour force engaged on house building should not be increased above its present level; (ii) that no increase should be made in the amount of steel allocated for house building unless we were successful in obtaining a substantial alleviation of the present shortage through supplies from the United States; and (iii) that the provision of softwoods costing dollars, which would have to be increased in the latter part of 1952, should not go beyond a level to be determined later by the Cabinet after the Chancellor of the Duchy of Lancaster had studied this aspect of the programme.

The Minister of Housing and Local Government expressed agreement with the proposals made by the Chancellor of the Exchequer, but asked that the Cabinet should decide forthwith—though no announcement should be made until it became necessary—that it was their policy to reach a level of production of 300,000 houses a year as rapidly as possible, having regard to the limited resources of manpower and materials which could be made available; and that they should endorse his provisional aims of completing 230,000 houses in 1952 and 260,000 houses in 1953. These figures should be regarded as objectives, to be improved upon if possible, and not as limits.

The Cabinet—

(2) Endorsed the objective of completing 300,000 houses a year as rapidly as possible, having regard to the resources available; and endorsed a provisional aim of completing 230,000 houses in 1952 and 260,000 houses in 1953 without at present increasing the labour force employed or the allocation of steel.
3. Invited the Chancellor of the Duchy of Lancaster to examine with officials concerned the implications of adopting this programme, particularly on the requirements of scarce materials; and to report to the Cabinet on the extent to which imports of softwoods would have to be increased and on any other matters which he might wish to bring to their attention.

4. Approved the proposals in C. (51) 44 for building, within the approved housing programme, houses required to meet the urgent needs of other Government Departments.

4. The Foreign Secretary said that, partly as a result of suggestions by the Canadian Government, further changes had been made in the form of the warning statements which were to be issued if an armistice were concluded in Korea without effective arrangements for supervision. The latest version, which he read to the Cabinet, was satisfactory from our point of view and was likely to be approved by all concerned.

5. The Cabinet had before them a memorandum by the Minister of Health (C. (51) 56) reporting the progress made by the Steel Committee in preparing a plan for returning the iron and steel industry to private enterprise. It was the view of the Committee that the Bill, which was in preparation, should include provision for winding up the Iron and Steel Corporation; for transferring ownership of the steel companies to a Realisation and Management Agency; and for the supervision of prices and development in the industry by a Board including independent members as well as representatives of the industry, of trade unions and of consumers. The Committee's proposals would be acceptable to the Iron and Steel Federation.

The Colonial Secretary doubted whether it would be expedient to give the Minister wide powers to carry out schemes of development at public expense. Would it not be preferable to rely for this on special legislation which would be introduced only if the need arose for the Government to participate directly in the industry? The Cabinet were, however, informed that the Steel Committee contemplated such public intervention only in the case of developments which were required on strategic or social grounds and could not reasonably be undertaken by private investors on a commercial basis.

Attention was drawn to the bearing which the Workers' Charter issued by the Conservative Party might have on the arrangements for the return of the industry to private enterprise. The Minister of Supply said that he had already opened discussions with the Iron and Steel Federation on certain matters of this kind: he would pursue these further and consult with the Steel Committee upon them.

The Cabinet—


2. Invited the Steel Committee to consider further with the Colonial Secretary the point which he had raised in the discussion regarding development and expansion in the industry.

6. In connection with the discussion recorded in the preceding Minute the Cabinet considered the timing of legislation on road and rail transport. The Secretary of State for Co-ordination of Transport, Fuel and Power, in consultation with other Ministers concerned, was now examining a scheme of reorganisation which involved more
radical changes in the road haulage industry than had previously been contemplated and a new approach to the financial problems and relationships of road and rail transport. A scheme of this character was much to be preferred to lesser measures affecting only part of the road haulage industry, but it would require careful study, especially in its financial aspects, and it could not be cast in the form of a Bill in a few weeks. On the other hand, to delay reform of the transport industry until a later session would be damaging to the efficiency of the industry, to the morale of those engaged in it and to the credit of the Government. It now seemed likely that an Iron and Steel Bill could be introduced soon after Parliament reassembled and might be passed before the Summer Recess. It would therefore suffice if a Transport Bill were to receive its Second Reading in the early summer and were passed through its later stages after the Summer Recess. On this basis the Government could take longer time to study the plan for transport.

The Cabinet—

(1) Invited the Prime Minister to appoint a Cabinet Committee to examine proposals for the reorganisation of road and rail transport.

(2) Agreed that this Committee should prepare legislative proposals for introduction and Second Reading in the House of Commons in the early summer, with a view to their passage through their remaining stages after the Summer Recess.

Food Imports.

7. The Cabinet considered a memorandum by the Lord President and the Minister of Food (C. (51) 60) on food imports in 1952.

The Lord President said that the Government must set themselves to make more food available as quickly as possible, even though this meant some increase in overseas expenditure. Paragraph 7 of the memorandum indicated some of the directions in which increased supplies might be sought, and the measure of the cost involved.

The Chancellor of the Exchequer said that the various proposals outlined in paragraph 7 of the memorandum, taken together, would go a long way towards cancelling the savings on overseas expenditure which were to be secured by the cuts in food imports which the Government had authorised soon after they took office. In view of the continuing deterioration in the balance of payments he could not contemplate so large an increase in overseas expenditure at this stage. He was, however, willing that meat offals should be bought in the sterling area, without any financial limit, and from the Argentine subject to a financial limit which could be settled in consultation between himself and the Minister of Food. He would also be ready to support the Minister of Food in an attempt to end the rationing of cheese and eggs. As regards animal feeding-stuffs he saw no prospect of doing more than maintaining the existing ration: even to do this an additional £15 million in dollars would have to be spent in the current year.

The Prime Minister said that all practicable steps should be taken to increase the pig population in this country.

The Cabinet—

Invited the Lord President, together with the Minister of Food and the Agriculture Ministers, to consult with the Chancellor of the Exchequer regarding the measures which could be taken to increase food supplies in 1952, and to submit a plan of action for approval by the Cabinet towards the end of January.
8. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (51) 57) to which was annexed a general account of the sterling balances prepared in accordance with the Cabinet's decision of 1st November.

The Cabinet—

Took note of the statement on the sterling balances annexed to C. (51) 57.

9. In his covering note to the memorandum on sterling balances (C. (51) 57) the Chancellor of the Exchequer invited the Cabinet to agree that he should not withhold from Egypt the sterling releases for which she was expected to ask on 1st January, 1952, under the Agreement made earlier in the year. Denunciation of the Agreement would be a serious economic sanction. If we were to embark on economic sanctions against Egypt, we should do so with a full appreciation of what was involved and with a determination to make them as complete and as powerful as possible. But the Cabinet had on 7th December decided against imposing economic sanctions against Egypt, and that still appeared to be the right decision. The withholding of sterling releases might moreover provoke retaliation against the Lancashire cotton industry by the withholding of raw materials. It might also have an adverse effect on world confidence in sterling and would be an unfortunate prelude to the meeting of Commonwealth Finance Ministers.

On the other hand it was pointed out that financial pressure was one of the few weapons in our hands in dealing with the Egyptian Government. It was most distasteful, at a time when they had denounced the 1936 Treaty and were encouraging activities in the Canal Zone which did not fall far short of war, to make available to them sterling resources which they had built up during the last war and to which they had little claim in equity. If we withheld the sterling releases we could indicate that a later change in our attitude would depend on a change in theirs.

The Foreign Secretary drew attention to the wording of the Sterling Releases Agreement, which did not refer to any specific date in 1952 but to releases to be made "in each of the years 1952 to 1960." It might be possible to withhold payment at the beginning of 1952, on the footing that this involved neither breach nor denunciation of the Agreement, and to indicate privately to the Egyptian Government that our ability to make the agreed releases in the course of 1952 would be governed by future developments in the relations between the two countries. If this were to be done, we should take no initiative to give publicity to the deferment of the releases, in order if possible to avoid provoking the Egyptians into retaliation.

Mention was also made of the Sterling Payments Agreement, providing for trade between Egypt and the sterling area and for the use of sterling by Egypt outside the sterling area. This agreement would expire on 31st December, 1951, and the Egyptians had sought to open discussions on the arrangements which should replace it. The Chancellor of the Exchequer said that it would be possible to place new restrictions on the use made by Egypt of the sterling accruing to her from current trade; but, if such restrictions were enforced, this also would amount to an economic sanction and would be open to similar objections to those applying to denunciation of the Sterling Releases Agreement. He agreed that in the case of the Sterling Payments Agreement it would be best to keep the Egyptians in uncertainty by delay in discussing new arrangements with them.

The Cabinet—

(1) Invited the Chancellor of the Exchequer, if after further consultation with the Foreign Secretary it appeared practicable to do so, to defer for the time being any release of Egyptian sterling balances on the ground that the Sterling Releases Agreement provided for releases, not on any named date, but in each of the years 1952 to 1960.
(2) Invited the Foreign Secretary to inform the United States Ambassador in London privately of the attitude which we were adopting towards the release of Egyptian sterling balances.

(3) Invited the Chancellor of the Exchequer to delay for the time being the settlement of any fresh arrangements to replace the Sterling Payments Agreement with Egypt.

The Foreign Secretary invited the attention of the Cabinet to the recent appointments by King Farouk of Hafiz Ali Pasha to be Chief of the Royal Cabinet and of Abdel Fattah Amr Pasha to be Adviser on Foreign Affairs attached to the Royal Cabinet. Both were well disposed towards us, and these appointments were therefore an encouraging sign, even though there were still considerable disturbances in Egypt. The Foreign Secretary had asked His Majesty's Ambassador in Cairo to ascertain privately how we could best help the King to diminish tension, perhaps by such measures as the avoidance of public statements on both sides.

The Cabinet—
(4) Took note of the Foreign Secretary's statement.

10. The Cabinet considered a memorandum by the Commonwealth Secretary (C. (51) 58) seeking authority (i) to negotiate release from our obligation to pay up to £500,000 a year under the Assisted Passage Agreement with Australia, and (ii) to introduce legislation extending the Empire Settlement Acts until 1957. They also had before them a memorandum by the Minister of Labour (C. (51) 61) on the impact of Australian migration policy on the supply of skilled man-power in the United Kingdom.

The Minister of Labour said that, so long as we made some contribution towards the cost of assisted passages to Australia, we had some power to influence the choice of emigrants and to restrain the Australian Government from taking an undue proportion of skilled workers whose services were urgently required in this country. He would not, however, oppose the Commonwealth Secretary's proposal if he could be assured that the Australian Government could be persuaded by other means to act reasonably in their selection of emigrants.

In further discussion it was suggested that the United Kingdom Government should convene at an early date a conference with representatives of the Commonwealth Governments principally concerned with a view to formulating a considered policy on migration within the Commonwealth.

The Cabinet—
(1) Authorised the Commonwealth Secretary to open negotiations with the Australian Government with a view to securing our release from the Assisted Passage Agreement with Australia, on the understanding that satisfactory arrangements would be made to ensure that assisted emigrants from this country to Australia would not include an undue proportion of skilled workers.

(2) Agreed that legislation extending the Empire Settlement Acts until 1957 should be passed in the current session, and invited the Commonwealth Secretary to submit a draft Bill to the Legislation Committee.

11. The Prime Minister said that while he and the Foreign Secretary were in North America the Minister of Health, as Leader of the House of Commons, would preside over meetings of the Cabinet.