CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Tuesday, 6th May, 1952, at 11.30 a.m.

Present:
The Right Hon. WINSTON S. CHURCHILL, M.P., Prime Minister (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 and Secretary of State for Commonwealth Relations.
The Right Hon. Sir DAVID MAXWELL FYFE, Q.C., M.P., Secretary of State for the Home Department and Minister for Welsh Affairs.
The Right Hon. the EARL ALEXANDER OF TUNIS, Minister of Defence.
The Right Hon. JAMES STUART, M.P., Secretary of State for Scotland.
The Right Hon. OLIVER LYTTELTON, M.P., Secretary of State for the Colonies.
The Right Hon. Sir WALTER MONCKTON, Q.C., M.P., Minister of Labour and National Service.
The Right Hon. R. A. BUTLER, M.P., Chancellor of the Exchequer.
The Right Hon. LORD WOOLTON, Lord President of the Council.
The Right Hon. LORD SIMONDS, Lord Chancellor.
The Right Hon. LORD LEATHERS, Secretary of State for Co-ordination of Transport, Fuel and Power.
The Right Hon. VISCOUNT SWINTON, First Lord of the Admiralty (Items 1–2).
The Right Hon. ANTONY HEAD, M.P., Secretary of State for War (Item 2).
Mr. GURNEY BRAITHWAITE, M.P., Parliamentary Secretary, Ministry of Transport (Items 8–9).
Admiral of the Fleet Sir RHODERICK McGRIGOR, First Sea Lord and Chief of Naval Staff (Item 1).

Secretariat:
Sir NORMAN BROOK.
Mr. T. PADMORE.
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The Cabinet were informed of the course of the discussions which the Chiefs of Staff had been holding with Admiral Fechteler, the United States Chief of Naval Operations, regarding the nature of the Allied Naval Command to be established in the Mediterranean. Admiral Fechteler accepted the need for an Allied Naval Commander-in-Chief who would be responsible for all naval operations in the Mediterranean (including operations by carrier-borne aircraft) but he considered that this officer should be responsible to Admiral Carney, the Commander-in-Chief of the southern sector of the Supreme Allied Command in Europe. He was concerned solely with the command structure under the North Atlantic Treaty Organisation, and was unwilling to take into account the needs of the Middle East, since it was outside the area of N.A.T.O. The British Chiefs of Staff had strongly resisted this proposal, which would put the lines of communication to the Middle East under the control of an officer concerned primarily with support for the land battle in Europe. In their view it should be the duty of the Allied Naval Commander-in-Chief in the Mediterranean to support both the campaign in Europe and any campaign in the Middle East; and on that account he should be responsible directly to the Standing Group, who alone could reconcile the needs of these two theatres.

The Minister of Defence said that, although he had not taken part in these discussions, he had taken a separate opportunity to impress upon Admiral Fechteler the need to find a solution which would be acceptable to British public opinion. The Royal Navy had controlled the Mediterranean for many years past; and the British people would not readily agree that an American Admiral should control the waterway to the East which contained the British bases and garrisons of Gibraltar, Malta, Tripoli and Cyprus, especially at a time when 70,000 British troops were actively engaged in the Suez Canal Zone.

The Foreign Secretary said that he was disturbed at these indications that the United States military authorities regarded the Mediterranean only as a support area for the land battle in Europe and that they were also reluctant to contemplate support for any British military activities which were not directly under N.A.T.O. command.

The Prime Minister said that this question must be considered against the background of the concession already made over the Naval Command in the Atlantic. He was quite unprepared to accept the views which had been put forward by Admiral Fechteler in these discussions; and he would, if necessary, address a personal communication on this subject to President Truman. Meanwhile, he asked that a written report on the conversations should be submitted for the information of the Cabinet.

The Cabinet—

Invited the Minister of Defence to circulate to the Cabinet a report on the discussions which the Chiefs of Staff had held with Admiral Fechteler regarding the Allied Command in the Mediterranean.

Malaya.

(Previous Lord of the Admiralty (C. (52) 142) reporting the results of the enquiries made into the publication in the Daily Worker of a photograph showing a Royal Marine Commando holding the severed head of a Malayan shot during a jungle Patrol. It had been ascertained that this was a genuine photograph taken in April 1951; and there was no question of instituting proceedings against the newspaper in respect of its publication. The Cabinet were also informed that British troops in Malaya were at present authorised to decapitate
bandits who had been killed and to bring their heads back for purposes of identification, if it was not practicable to bring back the body or a photograph of it. The High Commissioner in Malaya had strongly urged that this authority should not be withdrawn, since he thought it militarily important that the Police should be enabled to identify as many as possible of the bandits killed in these operations.

The Cabinet's discussion turned mainly on the question whether this practice of decapitating bandits for purposes of identification should be allowed to continue. Their general view was that the political odium which it involved outweighed any military advantage gained, and they agreed that British troops in Malaya should be instructed to discontinue this practice.

The Cabinet—

(1) Invited the Colonial Secretary to arrange for the High Commissioner in Malaya to cause instructions to be given to British troops in Malaya that bandits killed in operations should not in future be decapitated for purposes of identification, even when other methods of ensuring their identification were not practicable.

(2) Authorised the Colonial Secretary to make a statement about this incident, in reply to a Parliamentary Question in the House of Commons, and to announce in that statement the decision recorded in Conclusion (1) above.

3. The Minister of Health said that he had received from the Board of Control a full report on the circumstances in which a patient had recently escaped from Broadmoor. He was satisfied that the security precautions taken at Broadmoor were no less effective than they had been when the institution was under the control of the Home Office. He recognised, however, that this escape and the publicity which it had attracted had given rise to widespread public anxiety; and it might well be that this could best be allayed by an early promise of an independent enquiry. In discussion there was general agreement with this view.

The Cabinet—

Invited the Minister of Health to announce in the House of Commons that afternoon his intention to arrange for a further independent enquiry to be held into the security precautions at Broadmoor.

4. The Cabinet took note with approval of the terms of a statement which the Prime Minister was to make in the House of Commons that afternoon on the co-ordinating functions exercised by the Lord President and the Secretary of State for Co-ordination of Transport, Fuel and Power.

5. The Cabinet took note, with approval, of the reply which the Lord Privy Seal proposed to give later in the day to a Question by Viscount Samuel asking for a statement of the intentions of Her Majesty's Government in relation to the reform of the House of Lords.

6. The Cabinet resumed their examination of the suggestions made in a memorandum by the Chancellor of the Exchequer (C. (52) 135) regarding the pressure in the House of Commons for concessions relating to purchase tax on textile goods. Since the Cabinet's previous discussion, the Chancellor of the Exchequer had consulted a number of his colleagues, who had agreed that the proposals which
he had in mind represented the best means of dealing with this situation. He had to take into account the importance of avoiding any change in the incidence of purchase tax on textiles which would bring into question the whole structure and general level of the purchase tax.

The Cabinet—

Approved the proposals relating to purchase tax made by the Chancellor of the Exchequer in C. (52) 135.

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7. The Cabinet had before them two memoranda by the Chancellor of the Exchequer (C. (52) 134 and C. (52) 148) proposing modifications which he had in mind to make in the Excess Profits Levy in the light of current Parliamentary criticism.

The Chancellor of the Exchequer said that since the Cabinet's previous discussion he had conferred with certain of his colleagues, who had accepted a number of his proposals, namely those to introduce an alternative standard based on capital employed; to increase the minimum standard to £5,000; to increase the allowance on profits ploughed back into the business and on new capital from 10 per cent. to 12 per cent. (with increases in the additional allowances given on metal mines and oil wells); and to give an additional allowance of 4 per cent. on borrowed money. In addition he had considered—

(i) The argument for including 1950 in the standard. He had concluded that he could not do this, but proposed instead that the trader should be given the option of basing his standard on any two of the three years 1947, 1948 and 1949; and that the overriding maximum of the tax should be reduced from 18 per cent. to 15 per cent. For companies operating in Malaya and the Far East, however, the standard would be based exceptionally on 1949 and 1950.

(ii) The desirability of exempting altogether all companies operating overseas. It seemed to him that this concession would be unjust to companies operating at home and to those operating overseas through subsidiaries. He therefore proposed to examine further the possibility of extending to oil and certain other minerals the output allowance proposed for metal mines. He would also consider reducing the overriding maximum to 10 per cent. for companies operating overseas.

(iii) The proposal to give relief to avoid the "double taxation" of investment income. He would accept a concession on this point for investment companies.

The total cost of all these concessions would be £56 million, which would reduce the net yield of the levy, allowing for the concessions made on profits tax, to £44 million. This yield would be indefensibly low. The rate of profits tax on distributed profits should therefore be fixed at 22½ per cent. instead of 17½ per cent. The net yield of the levy would then become £76 million.

Discussion turned mainly on the effect of the tax on British companies operating overseas, particularly in Commonwealth countries. The Commonwealth Secretary and The Colonial Secretary, while recognising that the Chancellor's proposals went a long way towards meeting the difficulties of those companies, were apprehensive that in spite of them the tax would provide a powerful incentive to companies to move their control overseas. In the case of extractive and productive industries in particular, Commonwealth opinion might be that an undue share of the profits of such enterprises conducted in their territories was being taken for the United Kingdom Exchequer, to the detriment of further investment in those territories by United Kingdom companies. It might be desirable, therefore, at least to consider extending to other forms of production concessions similar to those which the Chancellor of the Exchequer had in mind for some mining and extractive industries. The position of "pioneer"
companies, which were entitled to special concessions in relation to Colonial taxation, would require examination to ensure that the excess profits levy did not operate so as to offset those concessions.

The Cabinet—

(1) Approved in principle the proposals relating to excess profits levy made in C. (52) 134 as modified by C. (52) 148.

(2) Invited the Chancellor of the Exchequer to consider the points made in discussion, in relation particularly to the taxation of British companies operating in the Common­wealth; and to submit his proposals for final approval by the Cabinet.

8. **The Prime Minister** informed the Cabinet that the Chancellor of the Exchequer had suggested that, as the proposals in the draft White Paper on Transport Policy might be substantially modified before they passed into law, the concluding paragraph of the Paper might indicate that it was intended rather as a basis for public discussion than as a statement of Government decisions. The Secretary of State for Co-ordination of Transport, Fuel and Power, on the other hand, was reluctant to accept this suggestion: he feared that a concluding paragraph on those lines would be taken as a sign of irresolution and would cause delay.

The Prime Minister said that, while the Government should be ready to profit by public discussion and to adjust their policy in the light of informed criticism, he thought it would be unwise to invite critical comment from the outset.

The Cabinet—

Agreed that the White Paper on Transport Policy should be presented in the form approved by them on 1st May.

9. The Cabinet had before them a memorandum by the Lord President (C. (52) 140) suggesting amended terms of reference for the proposed Departmental Committee on the operation of the Road Traffic Act, 1930.

The Prime Minister said that he doubted whether it would be wise to appoint a Departmental Committee to review the working of this Act. While it might be able to tender useful advice, it would not, however constituted, strengthen the hands of the Government in putting forward amending legislation. He would prefer that further study should be given to the licensing decisions now coming before the Minister of Transport on appeal, with a view to devising acceptable principles which might govern the determination of a large proportion of those appeals and might limit the area of study which it was necessary to refer for further enquiry.

The Cabinet—

Agreed to consider at a later meeting the proposal to set up a Departmental Committee to review the operation of the Road Traffic Act, 1930.

*Cabinet Office, S.W. 1.
6th May, 1952.*