CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Wednesday, 3rd March, 1954, at 11.30 a.m.

Present:

The Right Hon. Sir WINSTON CHURCHILL, M.P., Prime Minister.

The Right Hon. ANTHONY EDEN, M.P., Secretary of State for Foreign Affairs.

The Right Hon. LORD SIMONDS, Lord Chancellor.

The Right Hon. R. A. BUTLER, M.P., Chancellor of the Exchequer.


The Right Hon. VISCOUNT SWINTON, Secretary of State for Commonwealth Relations.

The Right Hon. Sir WALTER MONCKTON, Q.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. 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. FLORENCE HORSBRUGH, M.P., Minister of Education.

The Right Hon. OSBERT FEAKE, M.P., Minister of Pensions and National Insurance (Item 5).

The following were also present:

The Right Hon. DUNCAN SANDYS, M.P., Minister of Supply (Item 4).

The Right Hon. A. T. LENNOX-BOYD, M.P., Minister of Transport and Civil Aviation (Item 4).

The Right Hon. PATRICK BUCHAN-Hepburn, M.P., Parliamentary Secretary, Treasury (items 1-4).

Secretariat:

The Right Hon. Sir NORMAN BROOK.
MR. G. MALLARY
MR. R. M. J. HARRIS.
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Parliament.

1. The Cabinet were informed of the business to be taken in the House of Commons in the following week. It would be announced during the week that the Chancellor of the Exchequer would open his Budget on 6th April.

   It was hoped that the Second Reading of the Judges' Remuneration Bill might be taken in the House of Commons in the week beginning 15th March.

Kenya.

2. The Commonwealth Secretary drew attention to a telegram from the Colonial Secretary (Kenya Telegram No. 189) giving the terms of a statement issued in Nairobi that morning, indicating that General China was being allowed to make contacts with Mau Mau leaders which might result in widespread surrenders. It had not been found necessary to include in this statement any reference to the fact that those who surrendered would not be prosecuted for offences committed previously, though an undertaking to this effect would be given privately to the rebel leaders when contact was made with them. It had been separately announced that General China's death sentence had been commuted.

   The Commonwealth Secretary suggested that a corresponding statement should be made that afternoon in each House of Parliament.

   It was the view of the Cabinet that the Government spokesmen should at this stage decline to answer any supplementary questions asking whether rebels who surrendered would be immune from prosecution.

   The Cabinet—

   Invited the Commonwealth Secretary to arrange for statements to be made that afternoon in both Houses of Parliament repeating the substance of the announcement already made in Nairobi regarding General China's attempt to arrange widespread surrenders of Mau Mau rebels in Kenya.

Sudan.

3. The Foreign Secretary said that, since the Cabinet's discussion on 1st March he had verified that responsibility for preserving law and order in the Sudan now rested with the Sudan Government and the Governor-General had no power to intervene unless circumstances arose which justified him in proclaiming a constitutional emergency by reason of imminent financial collapse or breakdown in law and order. This situation had not arisen. The Foreign Secretary had, however, informed the Governor-General that British troops could be sent to Khartoum at short notice if required.

   It seemed clear that no positive action could be taken at the moment. The situation must be allowed to develop.

   The Cabinet—

   Took note of the Foreign Secretary's statement.

Germany.

4. The Cabinet had before them a memorandum by the Foreign Secretary (C. (54) 79) on the manufacture of civil aircraft in Germany. The Foreign Secretary said that when the European Defence Community (E.D.C.) came into force the Germans would be allowed to manufacture military aircraft if they obtained the unanimous consent of the other members of the E.D.C. At this point they would also be free to start a civil airline and there was no real safeguard
against their reviving a civil aircraft industry. There were indeed already signs that the Germans were planning to revive this industry, and the Americans were encouraging them in this in the hope that they would capture this market for their civil aircraft. British manufacturers, on the other hand, had been forbidden to enter into any discussions with these potential German manufacturers. The Americans and the French could not be persuaded to support us in opposing the revival of this industry, and our present policy would therefore have the result of denying us the benefit of a German market in aircraft and aircraft components and leaving the way open to our American competitors. In these circumstances he hoped the Cabinet would agree that British manufacturers should now be allowed sufficient latitude in their contacts with potential German manufacturers to safeguard their position if, as seemed inevitable, the German aircraft industry was eventually revived.

The Minister of Supply and the Minister of Civil Aviation supported the Foreign Secretary's recommendation.

The Cabinet—

Agreed that United Kingdom manufacturers should now be given sufficient latitude in their contacts with potential German aircraft manufacturers to safeguard their position if the German civil aircraft industry was eventually revived.

5. The Cabinet had before them a memorandum by the Minister of Pensions (C. (54) 82) recommending increases in rates of benefit payable to seriously disabled men.

The Minister of Pensions said that there could be no increase in the standard rates of pension under the National Insurance scheme until the findings of Sir Thomas Phillips's Committee were available towards the end of the year. Meanwhile, there were strong grounds for making immediate increases in the rates of benefit payable to disabled pensioners whose disabilities were such that they were unable to undertake regular employment. There were some 20,000 war pensioners in this category. About two-thirds of these enjoyed, apart from casual earnings, from 62s. 6d. to 90s. a week, comprising basic pension of 27s. 6d. to 55s. plus an "unemployability supplement" of 55s. There were some 17,000 industrially disabled men who were too unwell to work regularly and received, apart from disablement pension, an allowance at the rate of 32s. 6d. a week. He recommended that the "unemployability supplement" of these war pensioners and the allowances of those with severe industrial injuries should alike be increased by 10s. a week. The total cost of the increases would be about £1 million in a full year, of which half would be payable from the Industrial Injuries Insurance Fund.

The Chancellor of the Exchequer agreed that there were strong grounds for making the increases which the Minister recommended. The timing of this award should, however, be carefully considered in relation to other concessions in pay and pensions payable from public funds which were already in train or in prospect.

The Home Secretary said that there was a small number of police and firemen pensioners in like case for whom corresponding increases would be justified.

The Cabinet—

(1) Approved in principle the proposed increase of 10s. a week in the rate of "unemployability supplement" payable to war pensioners and in the rate of allowance payable to men whose industrial injuries rendered them permanently incapable of work.
(2) Authorised the preparation, in due course, of the necessary legislation to amend the Industrial Injuries Acts.

(3) Invited the Chancellor of the Exchequer and the Minister of Pensions to decide when these increases should be announced.

(4) Invited the Home Secretary to discuss with the Chancellor of the Exchequer and the Minister of Pensions whether corresponding concessions should be made at the same time to police and firemen pensioners whose circumstances were comparable.

6. The Cabinet considered a memorandum by the Minister of Housing and Local Government (C. (54) 78) recommending deferment of the date for the coming into force of new valuation lists for rating purposes.

The Minister of Housing and Local Government said that, as he had warned the Cabinet on 29th December, it would be necessary, before the new valuation lists were brought into force, to pass further legislation to improve the existing law and statutory procedure and provide a new method of assessing gas undertakings. Such legislation could not now be undertaken before the 1954–55 Session and, as it was necessary for rating authorities to receive the new lists by the end of the December preceding the April in which they were to take effect, it seemed that the date for bringing the new lists into force must be deferred from 1st April, 1955, to 1st April, 1956. He therefore sought the authority of the Cabinet to make the necessary Order, which would not be subject to affirmative or negative resolution, under the New Valuation Lists (Postponement) Act, 1953.

The Chancellor of the Exchequer supported this proposal.

The Cabinet—

Authorised the Minister of Housing to make an Order under the New Valuation Lists (Postponement) Act, 1953, deferring from 1st April, 1955, to 1st April, 1956, the date for the coming into force of new valuation lists for rating purposes.

7. The Cabinet considered memoranda by the Chancellor of the Duchy of Lancaster (C. (54) 22) and the Chancellor of the Exchequer (C. (54) 83) on the level of taxation and on the possibility of financing some part of current public expenditure by borrowing.

The Chancellor of the Duchy of Lancaster said that it should be a main object of Government policy to reduce the current level of taxation. This would bring political and social, as well as economic, advantages. National prosperity depended on a comparatively small number of people who could exploit inventions, open up new markets and devise means to increase production. The present level of taxation was curbing their initiative and their willingness to take risks. It was also denying industry the opportunity to accumulate reserves for new ventures. And, by the pressures which it exercised towards tax evasion of various forms, it was tending to undermine business morality. If the present level of taxation were to continue indefinitely, the prospects for our commercial and industrial prosperity would be bleak. He therefore suggested that the Government should set themselves the aim of reducing taxation to a point at which no one would be required to pay more than 15s. in the £. He recognised that this aim could not be achieved immediately; but he believed that steady progress in reducing taxation was more likely to be achieved if a definite target were set.

The particular suggestions which he had made in the second part of his paper for financing some public services by borrowing were put forward because the Chancellor of the Exchequer had, in an earlier
discussion, invited practical suggestions for reducing the volume of
current public expenditure. He recognised that they might be open
to some of the objections advanced by the Chancellor of the
Exchequer in C. (54) 83; but he doubted whether those were a
sufficient reason for rejecting altogether the device of spreading over
a number of years the cost of public projects which created valuable
capital assets for the nation.

In discussion the following points were made on the particular
suggestion that some part of current public expenditure might be
financed by borrowing.

(a) The Chancellor of the Exchequer said that, if the principle
were adopted of financing by loan those services whose benefit
accrued over a period of years, the same principle should in logic be
applied to the revenue side of the Budget. Thus, if the Exchequer
financed by loan the creation of a strategic reserve of materials, it
could not properly credit to current revenue its receipts from the sale
of foodstocks on the termination of controls or, for that matter, the
proceeds of death duties. But, if the principle were applied to
revenue as well as to expenditure, the net result would be to make the
position look worse rather than better in the Budget.

(b) The Chancellor of the Exchequer said that, although he had
not closed his mind to the possibility of financing certain services by
borrowing, the present would not be an appropriate moment at which
to resort to this device. There was no economic advantage in having
recourse to it in a period of relative prosperity: indeed, it would then
have the positive disadvantage of encouraging inflationary tendencies.
This method of financing public expenditure would be more
appropriate in a time of trade recession.

(c) The Lord President said that he was concerned at the con­
sequences of applying the principle that borrowing was justified only
for those services which earned a cash revenue. That principle had
been held to justify financing by loan the large capital developments
undertaken by gas and electricity undertakings. But it would
presumably preclude borrowing for road development. It was likely
therefore that the improvement of our road system would be delayed
because of the heavy burden which it would impose on current
revenue. This, he believed would give rise to increasing public
dissatisfaction.

The Chancellor of the Exchequer undertook to give further con­
sideration to this point.

On the wider question of the level of taxation the following
points were made in discussion: —

(d) The Cabinet were informed that the cost to the Exchequer of
imposing an upper limit of taxation of 15s. in the £ would not be
more than £30 millions. There was no doubt that such a limitation
would have the effect of increasing national prosperity; and a strong
case could be made on economic grounds for imposing an upper limit
of this order. But no Government could introduce such a limitation
without encountering the gravest political difficulties.

(e) The Chancellor of the Exchequer said that the level of public
expenditure would shortly become a major political problem for the
Government. The combined cost of current policies on defence,
social services, agriculture and housing was more than the national
economy could bear. If these policies continued unchanged, he
would be faced, when framing the 1955 Budget, with a choice between
reducing expenditure or increasing taxation. Of these alternatives he
would wish to choose the first, and he would welcome opportunities
for a dramatic reduction in public expenditure. If, however, he was
to avoid increasing the level of taxation in 1955, early consideration
would have to be given to policy changes designed to secure
substantial reductions in public expenditure, particularly on the
services which he had mentioned.
(f) Significant savings in defence expenditure could only be secured by reducing the size of the armed forces and this, in turn, would involve reduction of our overseas commitments. The Foreign Secretary said that the Middle East was the only theatre in which he saw any early prospect of reducing commitments.

(g) British industry was likely to find it increasingly difficult to maintain current earnings from exports, and the high level of taxation was one of the main obstacles in the way of an expansion of our exports.

(h) The Chancellor of the Exchequer had asked his colleagues to adopt all practicable economies in framing their Estimates for 1954. This appeal had met with a disappointing response. It was suggested that Ministers would find it easier to co-operate in securing a substantial reduction in public expenditure if they were required to reduce their Estimates by a specified percentage or to show cause why this could not be done. It was also suggested that the same procedure of a percentage cut could with advantage be applied for the purpose of securing a reduction in the size of the Civil Service.

The Cabinet—

(1) Agreed that in the course of 1954 means must be found of securing a drastic reduction in public expenditure in 1955.

(2) Invited the Chancellor of the Exchequer to submit to the Prime Minister proposals on the procedure to be followed in discussing policy changes designed to secure the necessary reduction in public expenditure.

Cabinet Office, S.W. I.,
3rd March, 1954.