CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 12th July, 1955, at 11.30 a.m.

Present:

The Right Hon. Sir Anthony Eden, M.P., Prime Minister.

The Most Hon. the Marquess of Salisbury, Lord President of the Council.


The Right Hon. Viscount Woolton, Chancellor of the Duchy of Lancaster.

The Right Hon. Gwilym Lloyd-George, M.P., Secretary of State for the Home Department and Minister for Welsh Affairs.

The Right Hon. the Earl of Home, 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. Duncan Sandys, M.P., Minister of Housing and Local Government.

The Right Hon. D. Heathcoat Amory, M.P., Minister of Agriculture, Fisheries and Food.

The Right Hon. Sir Walter Monckton, Q.C., M.P., Minister of Labour and National Service.

The following were also present:

The Right Hon. Geoffrey Lloyd, M.P., Minister of Fuel and Power (items 3-4).

The Right Hon. Sir Reginald Manningham-Buller, Q.C., M.P., Attorney-General (items 4-6).

Secretariat:

The Right Hon. Sir Norman Brook.

Mr. F. A. Bishop.

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1. The Prime Minister drew the Cabinet’s attention to the statement which had recently been published by a number of independent scientists on the dangers of continuing the manufacture of nuclear weapons. Lord Russell, who had organised the preparation of this declaration, had invited him to give public expression to his views on the matter. In his reply to Lord Russell he proposed to welcome the fact that it was recognised in this declaration that it was war itself, not merely nuclear weapons, that must be abolished and that the renunciation of nuclear weapons must form part of a general reduction of armaments; and to point out that this was in full accord with the policy which the United Kingdom Government had consistently followed.

The Cabinet—

Took note, with approval, of the terms of the letter which the Prime Minister proposed to send to Lord Russell commenting on the recent declaration by a number of independent scientists on the dangers of nuclear weapons.

2. The Cabinet considered a memorandum by the Foreign Secretary (C.P. (55) 70) proposing that, if the European Payments Union gave place to a European Fund, the privileges and immunities previously accorded to the former should be extended to the latter and also to any Multilateral Compensation Agency which might be established in connection with it. These immunities would apply to the organisations themselves, not to individuals employed by them.

In discussion it was recognised that the international agreements establishing the European Fund and any Multilateral Compensation Agency should include provisions defining the privileges and immunities to be accorded to these organisations. It was, however, suggested that no action need be taken to confer these privileges and immunities in the United Kingdom if, as seemed likely, neither organisation wished to establish any branch or agency in this country.

The Cabinet—

(1) Authorised the Foreign Secretary to support the inclusion, in the Agreements establishing the European Fund and any Multilateral Compensation Agency, of provisions designed to confer on these organisations privileges and immunities similar to those extended to the European Payments Union.

(2) Agreed that, if in due course either of these organisations proposed to establish agencies in the United Kingdom, steps should be taken by Order in Council to secure for those agencies the privileges and immunities prescribed in the Agreement.

3. The Cabinet had before them (i) a note by the Chancellor of the Exchequer (C.P. (55) 68) covering a report by officials on the balance of payments prospects and (ii) a memorandum by the Chancellor of the Exchequer: (C.P. (55) 65) commenting on the economic situation and indicating some of the measures which he was disposed to take to remedy it.

The Chancellor of the Exchequer said that, in itself, the deterioration in the balance of payments was not critical. It was largely due to a continuing increase in the demand for imports arising from the growth of national prosperity. The trade returns for June showed a marked increase in the excess of imports over exports.
To ensure a satisfactory level of exports it was essential that manufacturing costs should remain competitive, and there was need for a greater measure of control over the total level of demand in order to prevent the development of inflation. The prospects were that we should achieve barely a balance in our overseas accounts. That was not enough, since the deterioration in the overseas balance had come about at a time when world conditions were favourable, and we needed to earn a substantial surplus if we were to meet all our commitments and responsibilities.

Although the loss to the reserves in the coming months was not likely to be very large, there was a danger that confidence in sterling and in the strength of the national economy might be adversely affected. The Government must therefore make it clear that they were determined to handle the economic situation firmly.

The measures which had already been taken to restrict credit were beginning to have some effect. The Clearing Banks were ready to co-operate fully in implementing this policy, but they were anxious that the Government should give some public indication of their support of the action which the Banks were taking and that they should also show that they were prepared to restrain expenditure in the public sector.

It would be possible to supplement the existing credit restrictions by tightening hire-purchase facilities, e.g., on motor-cars. This course would be preferable to an increase in the purchase tax.

The policy of credit restrictions, even with some further measures of this kind, might not prove adequate to restrain the inflationary pressure. In that event it would be necessary to consider some direct attack on consumer expenditure. The recent increase in coal prices would help in this direction, but other similar measures, e.g., the removal of the bread subsidy, might also be needed.

The following were the main points raised in the Cabinet’s discussion:—

(a) It was generally agreed that, if unpopular measures were needed, they should be taken soon. Of the measures which had been suggested for reducing demand some were clearly more controversial than others. Such measures as restricting facilities for hire purchase might be taken first, while others (e.g., increasing the price of bread) might be deferred for consideration later.

(b) The Government should be able to demonstrate that any further measures introduced to correct the balance of payments were necessary in order to help exports. There was no doubt that, although the rate of exports had been increasing, it was not as high as it should be because of the pull of the home market.

(c) Expenditure in the public sector should not be exempt from the policy of credit restriction. Substantial expenditure by the nationalised industries had been made possible by Bank advances which the nationalised industries were in some cases now attempting to pay off by market issues.

(d) It was argued that the Government’s efforts should be concentrated on measures to reduce consumption rather than investment. Restrictions which affected investment were bound to do some harm to export industries, and would delay the industrial re-equipment needed to restore the competitive strength of the economy. In this connection, it was pointed out that the investment programmes for the modernisation of roads and railways were still in their earliest stages; to modify those programmes now would not result in any appreciable saving of expenditure and would seriously prejudice development which would be remunerative in the future.

(e) The Cabinet were reminded that they were to consider the future level of housing subsidies at their next meeting.

(f) The abolition of the bread subsidy would add 2d. to the cost of the 7d. loaf and would represent an addition of 1s. 8d. per week to the average household budget. It would, however, save £40 million in the current year. It was suggested that this change could best be made in a Budget, when it could be accompanied by compensating
reliefs, or at a time when other measures were being taken to reduce demand. It might, at the same time, be possible to adjust the milk subsidy so as to encourage increased consumption of liquid milk.

(g) A direct attack on consumer expenditure, e.g., by an increase in the price of bread, would increase the pressure for higher wages. There would be an increase (which it was hoped would be temporary) of two points in the Interim Index in the current month, and a further increase later on account of the increases in coal prices. Other price increases would make it even more difficult for employers to resist the wage claims which would follow the autumn conferences of the Trades Unions.

(h) Another factor which made it difficult to restrain the pressure for higher wages, and to persuade the public that measures to restrict consumer expenditure were justified, was the continuing boom on the Stock Exchange. There were many causes for this boom, including the fact that most companies held good reserves because of the long period of dividend restraint. Investors generally were beginning to realise, with a continual fall in the value of money, that equities were a better investment than fixed-interest stocks.

(i) Among other means of reducing expenditure on consumption, consideration should be given to the possibility of giving further encouragement to small savings. Could savings loans be made more attractive to the small saver? Means might be found of enabling investors in savings loans to share the benefits available to those who were investing directly in equities.

The Chancellor of the Exchequer said that, in the light of the Cabinet's discussion he would proceed as follows. As regards expenditure in the public sector, he would discuss with the Ministers concerned the possibility of restraining expenditure by the nationalised industries, and would arrange for the Treasury, with the Departments concerned, to examine the whole field of Government expenditure, at home and overseas. In consultation with the President of the Board of Trade, he would consider what further restrictions of hire-purchase facilities could be brought into operation at an early date. He would consider the question of the bread subsidy with the Minister of Food. He would report to the Prime Minister whether there was any practicable means of curbing the Stock Exchange boom. He would also consider what statement he might make to indicate the Government's support for the policy of restricting credit and restraining expenditure.

The Cabinet—

Invited the Chancellor of the Exchequer to make a further report on the economic situation in the light of the consultations which he had proposed to hold.

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4. The Cabinet considered memoranda by the Minister of Housing and Local Government (C.P. (55) 66) and the Chancellor of the Exchequer (C.P. (55) 71) on a point of policy which had arisen in the preparation of the Clean Air Bill.

The Minister of Housing said that, as drafted, the Bill would enable a local authority to prescribe, by an Order subject to the Minister's approval, a “Smoke Control Area” in which the emission of smoke would be an offence. The question now at issue was whether the provisions of the Bill should extend to smoke from domestic chimneys and, if so, to what extent house-owners should be required to defray the cost of adapting fireplaces for burning smokeless fuel. The Bill at present provided that half of this cost should be met from public funds—37.5 per cent, by the Exchequer and 12.5 per cent, by the local authority—and that, in addition, local authorities should have discretion to pay, without Government grant,
all or part of the remaining 50 per cent. He had been invited by the Home Affairs Committee to submit for the Cabinet's consideration two alternative proposals for reducing the financial burden which this would impose on owners of house property. The first of these was that the Bill should not apply to existing houses, and should do no more than require that new houses should be equipped with fireplaces suitable for burning smokeless fuel. The alternative was that 75 per cent. of approved expenditure on the adaptation of domestic fireplaces should be met from public funds—50 per cent. by the Exchequer and 25 per cent. by the local authority.

The Minister said that he could not recommend the first of these courses. The Government had undertaken to introduce legislation to implement the recommendations of the Beaver Committee; and the measures for dealing with domestic smoke were an essential part of those recommendations. The Committee had found that nearly half of all the smoke in the air came from domestic chimneys, and the Government would not be justified in requiring industry to take costly steps to control smoke from factory chimneys if they proposed to take no action in respect of smoke from existing houses. Organised industry would withdraw their support for the clean air policy if it ceased to apply to domestic, as well as industrial, smoke. If therefore the provisions of the Bill were to be altered, he must advise the Cabinet to adopt the second of the two courses set out in paragraph 6 of C.P. (55) 66.

The Chancellor of the Exchequer said that he had reviewed this matter further since his memorandum was circulated, and he was now prepared to consider a compromise by which the cost of adapting fireplaces in existing houses would be divided equally between the Government, the local authority and the householder.

In discussion the following points were made:

(a) The cost of adapting domestic fireplaces was likely to be substantially larger than the estimate (£10) given in the report of the Beaver Committee. Moreover, the cost would be highest in respect of the oldest classes of property, which were the least remunerative to the owner.

(b) It was important that the contribution which the local authority would make towards this cost should be not less than that to be made by the property-owner.

(c) While a solution could probably be found on the general principle that the Exchequer, the local authority and the owner each paid one-third of the cost, it was undesirable that the Exchequer contribution should be reduced below 37\(\frac{1}{2}\) per cent., since this figure had already been mentioned in discussions with local authority associations.

The Cabinet—

Agreed that the financial provisions of the Clean Air Bill should be drawn on the principle that the cost of adapting fireplaces in existing houses so as to comply with the provisions of the Bill should be borne in roughly equal shares by the Exchequer, the local authority and the owner of the property; and invited the Chancellor of the Exchequer to settle, in consultation with the Minister of Housing and Local Government, detailed provisions designed to give effect to that principle.

5. The Colonial Secretary said that during his visit to Cyprus he had satisfied himself, by personal discussion with the Governor, that special powers were needed to break up the terrorist organisation which was threatening to disrupt the administration by acts of violence. The Government's initiative in convening a conference with representatives of the Greek and Turkish Governments should, in
his view, be supplemented by firmness in maintaining law and order in the island. There was ample evidence of a conspiracy to foment disorder by acts of violence, and the Governor could best defeat this by taking power to arrest and detain those responsible for organising it. The law which the Governor proposed to enact for this purpose would be limited, in its application, to persons who had been active in the furtherance of an association which had been responsible for organising acts of violence directed against the administration of the Island.

The Lord Chancellor observed that, from the discussions which had recently been held on the general question of security in Colonial territories, it appeared that the Governor of Cyprus had not hitherto accorded a high priority to security and intelligence measures. It was to be hoped that he would now revise his earlier judgment on the importance of these measures.

The Cabinet—

(1) Authorised the Colonial Secretary to arrange for the Governor of Cyprus to introduce, as a temporary measure, a special law enabling him to arrest and detain persons believed to have been active in the furtherance of associations responsible for organising acts of violence in the Island.

(2) Invited the Foreign Secretary to authorise Her Majesty’s Ambassadors in Athens and Ankara to inform the Greek and Turkish Governments (at their discretion and not before the law had been promulgated in Cyprus) of this action and of the reasons for it.

6. The Cabinet considered a memorandum by the President of the Board of Trade (C.P. (55) 69) on the line to be taken by Government spokesmen in the forthcoming debate in the House of Commons on the report of the Monopolies Commission on collective boycott and exclusive dealing.

The President of the Board of Trade said that, as requested by the Cabinet on 7th July, he had discussed this question with the Cabinet Committee which had been appointed to consider this report by the Monopolies Commission. The Committee had accepted his proposal that the Government spokesmen in the forthcoming debate should steer a middle course between the majority and minority reports of the Commission on the lines indicated in paragraph 4 of C.P. (55) 69. Subject to the Cabinet’s views, he proposed that he should open the debate on those lines. The Attorney-General would reply to the debate.

In discussion there was general support for the recommendations put forward in C.P. (55) 69.

The Cabinet—

(1) Took note with approval of the terms of the motion, as set out in the Annex to C.P. (55) 69, to be moved on behalf of the Government in the debate in the House of Commons on 13th July.

(2) Agreed that Government spokesmen in the debate should speak on the lines proposed by the President of the Board of Trade in C.P. (55) 69.
7. The Cabinet had before them a memorandum by the Lord Privy Seal (C.P. (55) 63) on the progress made with the preparation of Bills included in the legislative programme for the current session.

The Lord Privy Seal said that some of the Bills which were to have been introduced before the summer recess could not now be ready for introduction before the adjournment. It was, however, important that as many as possible of these Bills should be introduced before the House rose, even though they could make no progress before the recess, so that Parliament might be able to proceed with them immediately after it reassembled in the autumn.

In discussion the following points were made:

(a) The Family Allowances Bill might now be ready for introduction before the end of July.

(b) It should be possible to complete the preparation of the Clean Air Bill in time for it to be presented before the recess.

(c) Every effort should be made to present the Bill on Health, Welfare and Safety in Agriculture and Forestry before the recess, so that its Second Reading might be taken early in the autumn.

(d) It now seemed likely that a Pensions Increase Bill would be required in the autumn.

The Cabinet—

(1) Took note of the report by the Lord Privy Seal (C.P. (55) 63) on the state of the legislative programme.

(2) Invited the Ministers concerned to continue their efforts to ensure that the Family Allowances Bill and all the Bills noted in the Appendix to C.P. (55) 63 (with the exception of the Channel Islands (National Service) Bill, the Inventions and Designs (Defence) Bill, and the Water Bill) were introduced before Parliament rose for the summer recess.

Cabinet Office, S.W. 1, 