CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Friday, 26th August, 1955, at 2.30 p.m.

Present:

The Right Hon. Sir ANTHONY EDEN, M.P., Prime Minister.
The Right Hon. R. A. BUTLER, M.P., Chancellor of the Exchequer.
The Right Hon. VISCOUNT KILMUIR, Lord Chancellor.
The Right Hon. DUNCAN SANDYS, M.P., Minister of Housing and Local Government.
The Right Hon. HAROLD MACMILLAN, M.P., Secretary of State for Foreign Affairs.
The Right Hon. VISCOUNT WOOLTON, Chancellor of the Duchy of Lancaster.
The Right Hon. the EARL OF HOME, Secretary of State for Commonwealth Relations.
The Right Hon. D. HEATHCOAT AMORY, M.P., Minister of Agriculture, Fisheries and Food.
The Right Hon. Sir DAVID ECCLES, M.P., Minister of Education.

The following were also present:
The Right Hon. JOHN BOYD-CARPENTER, M.P., Minister of Transport and Civil Aviation (Items 1–3).
The Right Hon. A. R. W. LOW, M.P., Minister of State, Board of Trade (Item 3).
Mr. H. A. Watkinson, M.P., Parliamentary Secretary, Ministry of Labour and National Service (Items 1–2).
The Right Hon. HENRY HOPKINSON, M.P., Minister of State for Colonial Affairs (Items 1–9).
The Right Hon. PATRICK BUCHAN-HEPBURN, M.P., Parliamentary Secretary, Treasury.
LORD CARRINGTON, Parliamentary Secretary, Ministry of Defence (Items 4–9).

Secretariat:
The Right Hon. Sir NORMAN BROOK.
Mr. F. A. BISHOP.
<table>
<thead>
<tr>
<th>Minute No.</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Economic Situation</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Industrial Relations</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Trade and Payments Negotiations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>General</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Shipping</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Cyprus</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Public Order</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Broadcasting</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>The Fortnight Rule</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Disarmament</td>
<td>8</td>
</tr>
<tr>
<td>7</td>
<td>Irish Republic</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>Afro-Asian Conference</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Loss of Indian Airliner</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Sudan</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>Food</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Bacon Prices</td>
<td></td>
</tr>
</tbody>
</table>
1. The Cabinet reviewed the current economic situation. They had before them memoranda on this subject by the Chancellor of the Duchy of Lancaster (C.P. (55) 98) and the Lord President (C.P. (55) 106).

The Chancellor of the Exchequer said that there had been no further deterioration in the economic situation since he last reported to the Cabinet. The underlying trade position in July was less unfavourable than might be assumed from the loss to the reserves, which had been due largely to an outflow of short-term capital caused by the expectation that some change was likely to be made in the exchange rate. The loss to the reserves in August was likely to be considerably less, though there would be a considerable deficit with the European Payments Union. There was therefore no cause for alarm, though the time of year was approaching when the balance of trade and payments were seasonally unfavourable.

The measures so far taken to restrict credit were now working effectively, although they were to some extent being offset by the capital requirements of local authorities and certain of the nationalised industries. The clearing banks were responding to the request for a definite and positive reduction in their lending. Nevertheless the economy was still overloaded, and the Government could not expect the public to accept the need for credit restrictions unless it could be shown that these would also be applied to the nationalised industries and to Government expenditure generally. Moreover, we should soon be faced with demands for a further round of wage increases, inspired by overfull employment. Some further corrective action was necessary. He therefore recommended the simultaneous announcement of further measures designed to restrain expenditure in the public sector and to reduce demand still further in the private sector. The timing of the announcement and introduction of these measures would have to be carefully considered, but he did not at present think that an early recall of Parliament would be necessary.

There should be a substantial reduction in expenditure by local authorities. By far the larger proportion of this expenditure was devoted to subsidised housing: in 1954 local authorities had spent £375 millions on subsidised housing, compared with £215 millions for all other purposes. This could not be reduced without a drastic alteration in the housing subsidies which should, in his view, be reduced by about £100 millions. One method of doing this would be to abolish the general housing subsidy, and to confine the subsidy to slum clearance and schemes to prevent overcrowding. This might be combined with a limit on the number of houses which local authorities were allowed to build: the aim might be to reduce the total to about 100,000 a year. It might also be expedient to restore the control over private building. As regards their expenditure for other purposes, it would be desirable that a circular should be sent to all local authorities urging them to reduce wherever possible the burden of their demands on the economy.

Turning to Government expenditure, he hoped that a substantial reduction could be made in the defence programme. As regards transport, he would not be able to authorise an extension of the current roads programme, and he hoped that some of the major schemes in the current programme, as well as expenditure on road maintenance, could be postponed. The substantial expenditure involved in the railways modernisation plan had not yet begun. The investment programmes of the electricity and gas industries should be slowed down, but capital expenditure planned for the coal industry and for atomic development should not be reduced. Even education should make some contribution: schemes for school building should be postponed or slowed down wherever possible. In the private sector, the Federation of British Industries had recommended that the Government should make a public appeal to industry to avoid unnecessary capital investment at the present time.

In addition, the possibility of abolishing the bread subsidy would have to be considered, though the effect of this measure on the cost...
of living and on pressure for higher wages would have to be carefully weighed.

The Chancellor said that, in addition to these proposals, certain fiscal measures might also be necessary. He would prefer that a further increase in the Bank Rate should be kept in reserve for the present. But he was considering an increase in the tax on distributed profits; and he favoured an appeal to industry to do their utmost to avoid increases in dividends, profit margins and prices.

The Chancellor said that in his view no further move towards convertibility should be made until the internal economy had been strengthened. He proposed to discuss with the Secretary of the United States Treasury, at the forthcoming meeting of the International Monetary Fund in Istanbul, the problems which would arise, particularly in the field of import control, if a further move towards convertibility were made in present circumstances.

The Prime Minister welcomed these proposals for early action to remedy the economic situation. He endorsed the views expressed by the Chancellor of the Exchequer on Bank Rate and on a further move towards convertibility. As regards public expenditure, he said that the Service Departments were now working out defence programmes related to a total figure of expenditure proposed by the Chancellor. This would entail reductions in the strengths of the Armed Forces which would provide an addition to the civilian labour force. From his discussions with the National Coal Board he was convinced that any reduction in the capital investment planned for that industry would entail a further loss of coal output. He agreed that the coal industry and atomic energy development should be exempt from the proposed restrictions on capital expenditure. A comprehensive plan on the general lines envisaged by the Chancellor should be made ready by the time Parliament reassembled. This should be a balanced plan and should include measures to show that the Government were prepared to restrain profits. Politically, the Government were now in a position to pursue whatever policy was in the best interests of the country, and it was likely that firm action would command a large measure of public support.

The following is a summary of the main points made in the discussion which ensued.

Housing.

The Minister of Housing said that he was preparing proposals for a substantial reduction in the housing subsidies. He believed that the right course was to discontinue the general housing subsidy but to maintain the subsidy for housing for special needs, such as slum clearance and relief of overcrowding. Indeed, as an earnest of the Government's regard for social requirements, the subsidy for special needs might be slightly increased. This change in the scope of the subsidy would in itself have the effect of reducing substantially the amount of house-building undertaken by local authorities. He would be most reluctant to set a limit to the number of houses which local authorities could build without subsidy. He was also very doubtful about the wisdom of attempting to bring down the annual total of houses built by local authorities to as low a figure as 100,000 a year, especially if it were likely that credit restriction would have the effect of reducing the volume of private house-building. He would deprecate the reintroduction of control over building generally. He believed that the Chancellor's objectives could be achieved by an early announcement that the general housing subsidy was to be withdrawn: it might be expedient that it should be tapered off over a period of, say, two years.

Reduction of housing subsidies was bound up with the question of rent control. If the general housing subsidy were abolished, local authorities would have to increase rates or raise rents. Those who raised rents would be likely to spread the increase over all their houses, and they could be encouraged to arrange differential rent schemes to meet the needs of poor people. An increase in the rents of local
authority houses would, however, widen the disparity between rents charged by local authorities and those charged by private owners; and this would sharpen the demand for relaxation of rent restriction.

The Minister of Transport said that the proportion of the national resources which was being devoted to roads was considerably less than before the war, despite the great increase in traffic. The importance of avoiding further delay in developing the transport system was emphasised in the memorandum circulated by the Lord President (C.P. (55) 106). The current roads plan did not involve exceptional expenditure and could hardly be slowed down. Once a major scheme had been authorised, it was cheaper to complete it as quickly as possible. As regards maintenance, the Exchequer only contributed to the maintenance of major roads, and this work was essential from the point of view of road safety. Economy in the maintenance of minor roads could only be obtained by way of an appeal to local authorities. The Minister said that he had intended to propose an extended roads programme involving the expenditure of £90 millions over the next few years.

In discussion there was support for the view that in present circumstances ambitious plans for road development would have to be postponed.

The following further points were also made in discussion—

(a) It might be desirable to postpone further work on some of the large Government buildings at present under construction.
(b) Steps might be taken to make saving more attractive to small investors.

There was general agreement that the Government’s plan for remedying the situation must hold the balance fairly between the various classes of the community. The view was expressed, and commanded support, that the Chancellor’s present plan was not sufficiently balanced. If house rents were increased and the bread subsidy were abolished and if, in addition, a reduction were to be made in the subsidy on school meals, further restraints should be imposed on profits and dividends. Without these, the balance would not be fairly held between the interests of different sections of the community, and the plan would not succeed in reducing the pressure for higher wages. Various additional measures were suggested with this in view. These included a capital gains tax, a compulsory limitation of dividends, and a withholding tax on the Canadian model. The Chancellor of the Exchequer said that all of these possibilities had been considered but there would be great difficulties in putting them into effective operation. He would, however, consider again in the light of the Cabinet’s discussion how the plan which he had outlined could be modified so as to strike a fairer balance between the interests of the various classes of the community.

The Cabinet—
Agreed to resume their discussion of the economic situation at a meeting on 5th September.

2. The Cabinet were informed that substantial wage claims would be made in the autumn on behalf of workers in a number of industries and that disputes might arise in certain other industries. A major wage claim would be made on behalf of workers in the engineering and shipbuilding industries; and it was the present inclination of the employers to make some concession on wages while resisting pressure for shorter working hours. Agricultural workers were claiming a substantial increase in the minimum weekly wage, and
it was likely that further wage demands would shortly be made by railway workers.

There was danger of a recrudescence of the inter-union dispute when the time came for dock workers to exchange their employment books at the end of September. The dispute in the Yorkshire coalfield might also become more acute. London busmen might strike in the autumn on the question of hours of work.

The wage increases already granted in 1955 amounted to £500,000 a week more than in the whole of 1954. There was little hope of halting this trend unless the Government could make it clear that they were taking effective action to check the rise in the cost of living.

The Cabinet—

Took note of these statements.

3. The Cabinet resumed their consideration of the state of the negotiations for a new trade and payments agreement with Japan. In addition to a note by the Chancellor of the Exchequer (C.P. (55) 103) covering a report by officials on the negotiations, and a memorandum by the Minister of State, Board of Trade (C.P. (55) 104), they also had before them a further memorandum by the Chancellor of the Exchequer (C.P. (55) 108) re-stating the objectives to be sought in the negotiations, and a memorandum by the Foreign Secretary (C.P. (55) 109) recommending that the question of shipping discrimination should not be raised further in the course of these negotiations but should be pursued separately.

The Chancellor of the Exchequer said that the objectives set out in paragraph 5 of C.P. (55) 108 did not represent any significant departure from our original demands. If we could secure those objectives it would be reasonable and consistent with the Government's general economic policy, to undertake to allow the Colonies to import from Japan up to the amount of their requirements. On the other hand, we should be ready to restrict Colonial imports if Japan would not enter into a satisfactory agreement and discriminated in an unjustifiable way against sterling area trade. As had been publicly stated by Ministers, the United Kingdom Government could not ask the Colonies to restrict their imports, contrary to their own interests, unless there were sound reasons for doing so on balance of payments grounds. It would therefore be unwise, at this stage of the negotiations, to threaten to restrict Colonial imports from Japan. To do so would prejudice the chances of securing our objectives and would be contrary to our interests in maintaining trade with Japan at a high level.

The Minister of State, Board of Trade, said that, even if we secured the objectives set out in paragraph 5 of C.P. (55) 108, the advantages which we should obtain would not, in his view, be sufficient to justify a commitment to give Japan free access to Colonial markets. Such a commitment would mean increasing Colonial imports from Japan by about £7 millions, and this was bound to provoke strong criticism in this country in view of the current difficulties of the textile industry in Lancashire and the general balance of payments situation. The Japanese discriminated administratively against imports from the sterling area, and it was unlikely that we should secure reliable assurances that they would cease to do so. Moreover, the negotiations so far had shown that we were not likely to obtain all the trade concessions that we had hoped for when they started. On these grounds it would be wrong to undertake to give Japan any greater access to Colonial markets.

In discussion the following points were made:

(a) It was becoming increasingly difficult to persuade the Colonies to restrict their imports from Japan. There was a growing demand for cheap Japanese textiles.
(b) It was suggested that, in the present state of our balance of payments, it would be possible to urge the Colonies not to increase their imports from Japan, particularly if it was impossible to reach a satisfactory trade and payments agreement.

Shipping.

It was suggested in discussion that the possibility of restricting Colonial imports from Japan might prove a useful bargaining weapon with which to persuade the Japanese Government to stop subsidising the uneconomic expansion of their mercantile marine. As against this it was argued that the shipping question was a long-term problem to which the possibility of restricting Colonial imports was not relevant.

There was general agreement with the recommendation in C.P. (55) 109 that the shipping issue should be pursued separately through diplomatic channels and on other suitable occasions.

The Cabinet—

(1) Accepted the recommendation made in C.P. (55) 109 on the shipping question.

(2) Invited the Chancellor of the Exchequer to discuss with the Minister of State, Colonial Office, and the Minister of State, Board of Trade, the question of Japanese access to Colonial markets, and to report further to the Cabinet at their next meeting.

4. The Cabinet were informed that, in pursuance of their decision of 15th August, the Ministerial Committee on Cyprus had considered what further measures could be taken to ensure the maintenance of public order in Cyprus if disturbances broke out during or after the forthcoming Conference. It had been agreed that a Director of Security should be appointed who could, if a state of emergency occurred, assume operational control of the police and military forces responsible for the maintenance of public order. An acting appointment to this post had already been made. Steps were also being taken to strengthen the police forces in the Island. The Colonial Office were looking for men who had the necessary qualifications and experience through service in Malaya or the Sudan or elsewhere.

The Foreign Secretary said that unless the administration showed themselves firm and resolute, the situation in Cyprus might easily get out of hand. Prompt action should therefore be taken to strengthen the police and security services in the Island. The Prime Minister endorsed this view.

The Cabinet—

Took note of the measures which were being taken to ensure the maintenance of public order in Cyprus.

5. The Prime Minister said that he had recently had correspondence with the Leader of the Liberal Party in the House of Commons regarding the maintenance of the rule requiring the British Broadcasting Corporation to refrain from broadcasting discussions or ex parte statements on any issue which was to be debated, within a fortnight, in either House of Parliament. In this correspondence Mr. Clement Davies had indicated his desire to withdraw his agreement to the maintenance of this rule, and had asked that his position should be made clear by the publication of the correspondence. The Prime Minister had replied that he would
have an early opportunity of explaining his change of attitude to representatives of the other political Parties at a meeting which was shortly to be held to discuss the question of Party political broadcasts under the auspices of the Independent Television Authority. At that meeting there would be an opportunity to ascertain whether the Labour Party would continue to support the maintenance of the rule. The Cabinet could, if necessary, review the matter further after that meeting had taken place.

The Cabinet—

Took note of the Prime Minister’s statement.

6. The Cabinet had before them a note by the Foreign Secretary (C.P. (55) 110) covering a memorandum by officials on a proposal by Mr. Stassen (the special assistant on disarmament to the President of the United States) that the United Nations Disarmament Sub-Committee should appoint a technical panel to consider typical or sample installations of types which would have to be covered by an effective system of inspection.

The Foreign Secretary said that it was recommended in this memorandum that at the forthcoming meeting of the Disarmament Sub-Committee the Minister of State (Mr. Nutting) should give only cautious support to Mr. Stassen’s proposal, and that one of the conditions of our accepting it should be that nuclear production plants should not be included. In his opinion it would be wiser that the United Kingdom representative should not raise difficulties about this American proposal at the present stage. The legislation in force in the United States already prevented the disclosure of atomic or nuclear information.

There was general agreement with this view.

The Cabinet—

Invited the Foreign Secretary to inform the Minister of State (Mr. Nutting) of their view that he should not at present discourage this American proposal.

7. The Prime Minister said that after the Cabinet’s meeting on 15th August he had reviewed, in consultation with the Home Secretary and the Secretary of State for War, the recent raids on Army depots by members of the Irish Republican Army (I.R.A.) and had considered what further precautions should be taken to safeguard arms and ammunition in military installations in this country. It had been agreed that it would be inexpedient to allow sentries generally to carry loaded rifles, but other measures were being taken, unobtrusively, at regular Army establishments which should decrease the risk that further I.R.A. raids of this kind would be successful. Arms and ammunition were, however, held at many other establishments, e.g., for Officers Training Corps at schools and universities and at Territorial Army establishments, at which precautions of this kind could not be applied. The War Office were considering what would be involved in calling in arms and ammunition from such establishments as these, if the situation became more serious.

Meanwhile, the arms and ammunition stolen from the Army Depot at Arborfield had been recovered by the police. Representations about these raids had also been made to the Government of the Irish Republic.

The Cabinet—

Took note of the Prime Minister’s statement.
8. The Foreign Secretary said that it had now been established that the loss of the Indian air liner which had been carrying part of the Chinese Communist delegation to the Afro-Asian Conference at Bandung had been due to sabotage at Hong Kong, a bomb having been placed in the aircraft there by a Chinaman named Chou Chu, who had probably been acting as the agent of a Chinese Nationalist organisation. This man had unfortunately left for Formosa before the authorities in Hong Kong had obtained sufficient evidence to justify them issuing a warrant for his arrest. It was now proposed to issue a warrant, and to bring pressure on the Chinese Nationalists to hand him over so that he might stand his trial on a charge of conspiracy to murder. Information of the issue of the warrant would be given in advance to the Chinese Communist Government, the Indian Government and the United States Government.

The Foreign Secretary said that it was important that the United States Government should have sufficient advance notice to enable them to be ready to rebut any suggestion that a United States agency had been concerned in this act of sabotage.

The Cabinet—
Took note of this statement.

9. The Foreign Secretary said that the disturbances in the Southern Sudan, which had begun with the mutiny of members of the Sudanese Defence Force, reflected the continuing resistance of the southern provinces to domination by the northern Sudanese. There had always been some doubt whether the country could remain united without external rule; and, if it appeared that a division between north and south was inevitable, our policy might have to be reconsidered. Meanwhile, we should continue to support the Government at Khartoum.

The Governor-General would do his utmost to restore order with the troops already available in, or earmarked for, the Sudan. Any reinforcement of the British troops there would have presumably to be matched by a corresponding increase of Egyptian forces; and we should if possible avoid the necessity for bringing more Egyptian troops into the Sudan.

The Governor of Uganda had in a recent telegram (No. 601) offered suggestions for dealing with the current situation. These should be considered in the first instance by the Governor-General of the Sudan, to whom this telegram would now be repeated.

The Cabinet—
Took note of this statement.

Food.

10. The Minister of Agriculture, Fisheries and Food said that during the summer there had been an unusually strong demand for bacon. Imported supplies had declined to some extent, and total supplies continued to be insufficient to meet the demand, even though the retail price had been gradually increased. The price was now 10 or 12 per cent. higher than at the time of decontrol, and the Government were making a profit of nearly £500,000 a week on imported bacon. But even if the price at which imported bacon was released to the trade had not been increased, retailers would doubtless have taken advantage of the strong demand to increase their prices. He was, however, inclined to think that the time had come at which the Government should not further increase the price at which imported bacon was released, even if that made it necessary to allocate supplies to distributors for a short period before demand fell.

The Cabinet—
Took note of this statement.