CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Monday, 5th September, 1955, at 2.45 p.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. James Stuart, M.P., Secretary of State for Scotland.

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 following were also present:

The Right Hon. Lord De L'Isle and Dudley, Secretary of State for Air (Item 3).

The Right Hon. Patrick Buchan-Hepburn, M.P., Parliamentary Secretary, Treasury.

The Right Hon. L. Boyd-Carpenter, M.P., Minister of Transport and Civil Aviation (Items 5–8).

Mr. H. A. Watkinson, M.P., Parliamentary Secretary, Ministry of Labour and National Service (Items 5–8).

LORD CARRINGTON, Parliamentary Secretary, Ministry of Defence (Items 1–8).

Secretariat:

Mr. H. O. Hooper.

Mr. F. A. Bishop.
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1. The Cabinet had before them a note by the Foreign Secretary (C.P. (55) 117) covering a draft memorandum of the views of Her Majesty's Government in regard to the constitutional development and the international status of Cyprus which he proposed to place before the Tripartite Conference during the course of that week. The Cabinet also had before them a memorandum by the Minister of State for Colonial Affairs (C.P. (55) 115) covering the outline of a form of liberal constitution for Cyprus.

The Foreign Secretary said that, although slow, the discussions in the Tripartite Conference during the previous week had led to encouraging results in two important respects. First, all the three Governments concerned had set before the Conference a clear statement of their respective positions in the matter, and the Greek and Turkish Governments had been persuaded to agree that their views, along with those of the United Kingdom, should be set out in a joint communiqué which had been published. This was a considerable gain. The Greek Government, as had been expected, were hoping to achieve internal self-government for Cyprus on terms which would lead, within five years or so, to self-determination in favour of union with Greece. But they had abandoned their pressure for union forthwith and for a plebiscite designed to achieve this. This was the second most important outcome of the Conference to date. The Turkish Government wanted neither internal self-government nor self-determination for Cyprus and were strongly against any change in the present status and administration of Cyprus. If there were to be any change in status they were against the transfer of sovereignty to anyone but themselves. They took the view that the Treaty of Lausanne could not be modified piecemeal without reference to questions relating to Thrace and the Dodecanese Islands which had also been regulated by that Treaty. It was not an unreasonable view for Turkey to hold that Cyprus, which covered the “back door” of entry into Turkey, should not fall into weak hands.

We for our part were prepared to concede self-government but not self-determination. Self-determination was the crucial issue because he had no doubt that the Turkish authorities, while not specially favouring self-government, would be quite willing to support us on this if they were fully satisfied that we had no intention of yielding on the international status of the Island. It was therefore for the Cabinet to decide how the question of self-determination should be handled in the further stages of the Conference. On the assumption that it would not be practicable to announce categorically that self-determination could never be conceded he was not in favour of accepting any commitment to consult again on the question of self-determination at any specific date in the future, say in ten years’ time; that would certainly be taken to imply that the eventual right to self-determination had been conceded and would simply encourage the Greeks to press continuously for an earlier date for consultation on this issue. He considered it would be less dangerous to run the risk of having the matter raised at any time in the standing tripartite machinery for consultation on Cyprus questions which his memorandum proposed should be set up and, if the matter were to be raised, to maintain the position we had already indicated. He could not tell, however, whether the Greeks would be prepared to agree to his proposals and, unless we were prepared simply to surrender to them, he foresaw a long and difficult period ahead in Cyprus which would have to be handled as a joint political and military operation aimed at getting the moderate people on our side and at isolating the extremists. It was with this in mind that he proposed to set up a special tripartite committee which would serve as a standing instrument of consultation between the three Governments on the problems which would arise in introducing a constitution. He thought that with such a body known to be in constant session the risk of the situation deteriorating to the point of a general breakdown of administration or even revolution c ought
to be greatly lessened. He intended to put the proposals in his memorandum orally to the Conference in the first instance. He was certain, however, to be pressed on the question of self-determination.

Discussion in the Cabinet turned mainly on this issue.

The Colonial Secretary said that it was a remarkable step forward to have reached some agreement with the Greeks on the question of a constitution. But, unless there was an acceptance of the principle that at some time the Cypriots would be given an opportunity to express themselves on the question of self-determination, he thought the constitution would fail. As he had not had an opportunity of himself assessing the strength of the Turkish position, he did not dissent from the Foreign Secretary’s proposals, but he would prefer some commitment to be willing to discuss the question of self-determination if and when the international situation might improve. As the views of the Turkish Government on Cyprus were, he thought, governed mainly by their concern for the security of their southern ports, he wondered whether they could not be induced to agree to such a solution. If not, he thought that, at the least, it would be helpful if the Foreign Secretary were to make some reference to eventual further discussion of the “future status” of the island. The Cypriots themselves had a vested interest in their future and would not want to see the Island swamped by the Greeks.

The Prime Minister said that the Cabinet must bear in mind that this was not merely a question whether a country should be allowed to govern itself but an international issue of the most explosive character. The leader of the Turkish delegation had made it clear to him that the Turks would support us as long as we remained firm on the question of self-determination. But as soon as there were any indication that the Island might go to Greece at some future date there would undoubtedly be a breach between the Turks and the Greeks and an end to the Greco-Turkish Alliance. It was essential to avoid leaning so far towards the Greeks as to risk alienating the Turks. The Conference would have the effect of making it clear to international opinion that this was not purely a Greek issue. The Greeks, he thought, were now more doubtful of the strength of their position. He himself saw no choice but to follow the course proposed by the Foreign Secretary.

It was the general view of the Cabinet, after further discussion, that in putting his proposals to the Conference the Foreign Secretary should give no undertaking which would imply any willingness to make concessions in the future on the question of self-determination. The Cabinet, in considering the Foreign Secretary’s memorandum (C.P. (55) 117) and various amendments which he proposed to it, agreed that the references to self-determination in relation to the future international status of Cyprus in paragraphs 3 and 11 should be deleted and agreed that the undertaking to call the Conference together again when a new constitution had come into working order in Cyprus should simply be a commitment to “review the situation in all its aspects including the question of security in the Eastern Mediterranean.” It was also agreed to abandon altogether the proposal in paragraph 7 of the memorandum providing for the appointment of Greek and Turkish representatives to reside in Cyprus to observe the application of the new constitutional arrangements on the ground that this would encourage the Cypriots to look too much to these representatives. The Cabinet also agreed with other drafting amendments which the Foreign Secretary proposed.

The Prime Minister informed the Cabinet that the Ministers concerned were meeting that night to consider further steps for strengthening internal security in the Island. This was likely to prove a difficult problem.
The Cabinet—

Endorsed the proposals contained in C.P. (55) 117 subject to the amendments which had been agreed in the Cabinet’s discussion.

2. The Foreign Secretary said that Her Majesty’s Minister at Washington had now presented a strongly worded note protesting against the decision of the United States Government to reject the tenders made by a British firm for contracts for equipment for the Chief Joseph Dam. It had been intended that the text of this protest should be published after a suitable interval during which the United States Government might wish to reply to it, but it was argued that publication would play into the hands of protectionist interests in the United States. The Government would in any case have an opportunity of making their views known in due course, since Questions on this matter were bound to be asked when Parliament reassembled.

The Chancellor of the Exchequer said that the extent to which the United States was in fact carrying out the liberal trade policy that had been proclaimed by the President was extremely disappointing, and he proposed to make strong representations to this effect to the Secretary of the United States Treasury at the forthcoming meeting of the International Monetary Fund in Istanbul. Unless the United States Government were prepared in fact to follow more liberal policies we might be forced to make a substantial reappraisal of our external economic policy, and in that event would have to express plainly our disappointment with the trade policy of the United States.

Further discussion showed that it was the general view of the Cabinet that the question whether or not to publish the text of the protest should be decided in the light of any reply which might be received from the United States Government and of the response of the Secretary of the United States Treasury to the representations which the Chancellor of the Exchequer intended to make to him.

The Cabinet—

Agreed to resume consideration of this matter at a later meeting.

Supply of Arms to the Middle East.

French Aircraft.

(Previous Reference: C.M. (55) 27th Conclusions, Minute 2.)

3. The Foreign Secretary said that, in spite of the objections which we and the United States had raised in the Middle East Arms Co-ordinating Committee, the French authorities had gone ahead with their proposal to supply swept-wing French Mystere aircraft to Israel. Both we and the United States considered it inadvisable that fast aircraft of this type should be in the possession of Middle East countries and were not prepared to supply them ourselves. The French had now requested staging facilities in Cyprus for the delivery of these aircraft, of which the first batch of six was due to go later this month. This placed us in something of a dilemma. It would have a bad effect on the Arab States and would also be disturbing to Turkey for Israel to possess these aircraft. On the other hand, as an air power, it was in our general interest that transit facilities all over the world should be accorded without hindrance and it might set a precedent with damaging repercussions if we were to refuse to accord the French facilities in Cyprus. In any case, we could not prevent the French from delivering the aircraft since they might be found to have the range to fly direct or could be crated. The current disturbances in Gaza might, however, provide us with an opportunity for a diplomatic approach to the French and the United States
Governments suggesting that they should join with us in imposing a ban upon the delivery of all arms while the present dispute lasts. This would be a temporary solution.

The Prime Minister said that it was unfortunate that the French should insist on breaking rules which we were prepared to keep. The supply of these aircraft would alter the balance of military power in the Middle East. He hoped that the matter could again be referred to the Co-ordinating Committee and meanwhile agreed with the proposal that we should try to secure a temporary ban on the supply of all arms.

The Cabinet—

Agreed that, in order to prevent the early delivery of French Mystere aircraft to Israel and to give time for further consideration of the matter, a diplomatic approach should be made to the French and United States Governments suggesting a ban on the shipment of all arms to Israel and Egypt while the present frontier disturbances continued.

4. The Colonial Secretary informed the Cabinet that an amnesty would be announced by the Government of Malaya on 8th September, to become effective on 9th September. It would be made clear in it that restrictions would have to be placed on the liberty of some of those who surrendered, and it was gratifying that Malayan Ministers had agreed to this condition being included.

The Cabinet—

Took note of this statement.

5. The Cabinet continued their review of the current economic situation. In addition to the memoranda on this subject by the Chancellor of the Duchy of Lancaster (C.P. (55) 98) and the Lord President (C.P. (55) 106), they had before them memoranda on the general situation by the Foreign Secretary (C.P. (55) 111) and the President of the Board of Trade (C.P. (55) 118), and a memorandum on housing policy by the Chancellor of the Exchequer (C.P. (55) 116).

The Chancellor of the Exchequer said that during August the reserves of gold and dollars had fallen by $87 millions to $2,457 millions. This fall was considerably less than in July, but there would be a further substantial loss in September, partly on account of the current deficit of £28 millions with the European Payments Union. These losses to the reserves were not, of course, as serious as the fall in 1951, but there was no sign that the situation would quickly right itself. The measures to restrict credit that had already been introduced were undoubtedly taking effect; but the trade figures, although improving, still showed a substantial excess of imports, and it was not certain how long it would be in present economic conditions before the credit restrictions would have their full impact.

To restore confidence in sterling and to avoid a run on the reserves, some further corrective measures were unavoidable. It would be best if these were announced before the annual conferences of the Conservative and Labour Parties, which were to be held early in October. The measures he had in mind would make it necessary to introduce a Budget in the autumn and he therefore proposed that Parliament should be recalled for a few days in the last week of September simply to deal with the economic situation, and should thereafter again be adjourned until 25th October.
To reduce the overload on the economy, the Chancellor outlined a number of measures to reduce expenditure by the Government, local authorities and the nationalised industries, and to restrain consumer demand in general.

As regards Government expenditure, he looked for a reduction in defence, which would release manpower and afford some relief to the metal-using industries. He favoured a substantial reduction in the housing subsidies leading to the eventual elimination of the general needs subsidy. It would not be possible to undertake an extension of the roads programme, and some saving would be obtained by restraining Post Office development and by postponing the construction of large Government buildings. Similarly, some slowing up of the capital investment plans of the nationalised industries, other than atomic development and the coal industry, would be necessary. He also proposed to consult with the Ministers concerned about the terms of a circular letter which should be sent to local authorities stressing the need for economy in their expenditure.

In the private sector, at the request of the Federation of British Industries, he proposed to make an appeal to industry to avoid all unnecessary capital expenditure at the present time.

He had not yet finally decided whether it would be possible to recommend the abolition of the bread subsidy, but its effect was directly inflationary to the extent of £40 millions a year. He also had in mind a reduction in the subsidy on school meals.

As regards fiscal measures, he had it in mind to make an attack on excessive consumption by certain increases in the rates of purchase tax. This was the quickest method of controlling personal consumption. He proposed to discuss with the Ministers concerned how rates of purchase tax could be adjusted in such a way as to achieve this objective and at the same time free supplies for export.

He had discussed with the Prime Minister the problem of balancing these various measures so that the burden would fall equitably on all sections of the community. A capital gains tax would undoubtedly have the merit of attracting support from the trade unions; but he feared that, apart from the serious objections to this tax which had been noted by the Royal Commission on Taxation, the administrative difficulties in the way of introducing it were insuperable. He was therefore inclined to favour the relatively simple course of increasing the tax on distributive profits. Finally, he would naturally bear in mind the possibility of a further increase in the Bank Rate.

The Prime Minister endorsed the proposal to recall Parliament before the end of September, so that further measures could be introduced which would show the country that the Government was dealing with the economic situation firmly and fairly. He said that he saw some danger that the control of moderate elements over the Trade Unions might be weakened: the Government's ability to meet any challenge in this direction might well depend on whether they had convinced the country that they were prepared to keep a fair balance between the interests of different sections of the community.

He agreed broadly with the proposals outlined by the Chancellor of the Exchequer. Housing was one of the most important human needs and he recognised that the proposals relating to the subsidy could not be expected to be popular in the country at large. He felt that increases in purchase tax would be acceptable and could be defended if they were seen to be designed to help exports. He was examining, in consultation with his colleagues, whether the period of National Service could be reduced so as to make more labour available, but it would not be possible to reduce the period immediately to eighteen months. He thought consideration might be given to certain expedients which would have the effect of offsetting somewhat the severity of the burdens which it would be necessary to impose on some sections of the community in order to make the
totality of the measures rather more palatable. An increase in the price of bread would present special complications which put it in a separate category from the other measures proposed.

The Cabinet were in general agreement with the necessity for measures of the character outlined by the Chancellor of the Exchequer. Their discussion turned mainly on the means of achieving a proper balance.

It was argued that an increase in purchase tax, or the abolition of the bread subsidy, would be contrary to the Government's aim of reducing prices; the latter measure, in particular, might be represented as an attack on working-class standards. Such measures would be likely to stimulate the pressure for higher wages, and would also lead to demands for increases in national assistance and pensions rates. On the other hand, if corrective measures were to be successful, they were bound to affect the general body of consumers, and would therefore tend to strengthen the demand for increased wages. The measures ought clearly to be balanced by some action to restrain profits, but this should not be done in such a way as to imply that the Government believed that the inflationary pressure was due primarily to excessive profits.

It might also be possible to offset the effects of some of the proposed measures by compensating vulnerable classes. In this connection the Cabinet were informed that a Pensions Increase Bill would shortly be submitted for their approval.

In further discussion it was argued that the root of the problem still lay in the fact that incomes had been rising faster than output and that the ultimate solution could only be in increased productivity.

The Minister of Housing said that, although it could not yet be claimed that the housing shortage had been overcome, he agreed that it was necessary for the building programme to be slowed down. This could best be done by financial measures, rather than by rationing the number of houses which local authorities could build. The system of housing allocations should therefore be brought to an end, and the general housing subsidy should be reduced from £22 1s. to £10. The subsidy on houses already approved would not be affected, and the subsidy for houses built to re-house slum dwellers or to accommodate overspill should be rounded up to a figure of £24 per house. The rate at which houses were being started to meet general needs with the reduced subsidy could be reviewed at half-yearly intervals and, if it were found that the number of houses being started was still excessive, the possibility of reducing the general subsidy still further could be considered.

This change in the housing subsidy arrangements had already been recognised to be desirable, and it would not be right to present it simply as one of the measures necessary to deal with the present economic situation. With the abolition of the allocation system, the Government ought no longer to be responsible for achieving an annual total housing target; but the rate of house building ought not to be allowed to fall below 250,000 a year. At the same time, the Government ought to make it clear that they recognised the close connection between subsidies and rent control, and should indicate that it was their intention, after the new rating valuations had been introduced, to deal with the problem of rent restriction.

In further discussion the following points were raised:—

(a) The changes in housing subsidy arrangements proposed were not inconsistent with the housing targets already announced, since the number of completions in 1956, and probably in 1957, would still be about 300,000 a year.

(b) Some means should be found of making saving more attractive to small savers. Would it be possible to guarantee to savers that they would be repaid the full original value of their savings, despite any fall in the value of money? The Colonial Secretary said
that he was examining whether encouragement could be given to small savers to invest in Colonial Loans.

(c) Apart from a reduction in the period of National Service, and the possibility of postponing call-up, it was suggested that it might be possible to secure some saving in manpower on defence by making greater use of Colonial troops, not necessarily in their own territories.

(d) If the period of National Service was to be reduced, some stimulus to regular recruiting would be necessary, and this would entail improvements in Service pay and living conditions.

(e) A draft White Paper dealing with industrial relations in the present economic situation was in course of preparation. This might be published in conjunction with the measures to deal with the economic situation.

(f) It was unavoidable that the result of some of the measures proposed would be to discourage investment which was necessary in our longer-term economic interests. The postponement of the development of the transport system was regrettable, and any prolonged delay in expanding the roads programme would be especially harmful.

Finally, the Cabinet considered the time-table for the introduction of the measures to be proposed by the Chancellor of the Exchequer. It was agreed that it would be necessary to recall Parliament for 26th or 27th September, and that notices to this effect would have to be issued on about 21st September. The Leaders of the Opposition Parties would have to be informed of the Government's intention on about 20th September.

The Chancellor of the Exchequer said that he would return from Istanbul on 20th September. He would then be in a position to make final proposals to the Cabinet and would take into account the suggestions made in this discussion.

The Cabinet—

(1) Invited the Lord Privy Seal and the Chief Whip to make recommendations to the Prime Minister about the arrangements necessary for the recall of Parliament on 26th or 27th September.

(2) Invited the Chancellor of the Exchequer, in consultation with the Minister of Labour, to circulate a draft of a White Paper on industrial relations in the present economic situation, with a view to its publication in connection with the measures to deal with the economic situation.

(3) Agreed to resume discussion of the economic situation at a meeting on 22nd September.

The Lord Chancellor said that a Committee of Ministers under his chairmanship would shortly consider a report by officials on the economic, financial, social and constitutional implications of possible schemes of closer association between the United Kingdom and Malta. They would have to consider to what extent it would be necessary for United Kingdom Ministers attending the Round Table Conference to give a lead to the members of the Conference on a number of points which were certain to be raised. The Conference was due to begin on 19th September and the Cabinet should have an opportunity of endorsing the policy to be followed.

The Cabinet—

Invited the Lord Chancellor to circulate a report on the line to be taken by Ministers at the Round Table Conference, for consideration by the Cabinet at a meeting on 15th September.
7. The Cabinet resumed their consideration of the state of the negotiations for a new trade and payments agreement with Japan. They had before them (i) a note by the Chancellor of the Exchequer (C.P. (55) 103) covering a report by officials on the negotiations, (ii) a memorandum by the Minister of State, Board of Trade (C.P. (55) 104) on the question of Japanese access to Colonial markets, and (iii) a memorandum by the Chancellor of the Exchequer (C.P. (55) 108) re-stating the objectives to be sought in the negotiations, together with (iv) a further note by the Chancellor of the Exchequer (C.P. (55) 114) covering a copy of a minute which he had submitted to the Prime Minister, summarising the conclusions reached in Ministerial discussions following the Cabinet's previous consideration of this question.

This minute stated that the Ministers concerned had agreed that it was desirable to obtain certain further undertakings from Japan (described in the Annex to C.P. (55) 114) in addition to the objectives which had previously been set out in paragraph 5 of C.P. (55) 108, in order to provide a safeguard against Japanese discrimination against sterling area exports and to ensure that the import quotas we would obtain from the Japanese would not be frustrated by administrative devices. If all these requirements were accepted by the Japanese it would be less difficult for the Government to defend an agreement which involved an increase in Japanese exports to the Colonies, although there would still be criticism on that score. It was recommended that negotiations should be resumed with a view to obtaining all these objectives, including the additional undertakings. At a later stage, in the light of the Japanese response, Ministers could take a final decision on the question of Japanese access to Colonial markets.

The Cabinet—

Endorsed the conclusions contained in the minute attached to C.P. (55) 114.

8. The Cabinet had before them a memorandum by the Commonwealth Secretary (C.P. (55) 112) reporting the present position about the chiefship of the Bamangwato Tribe in respect of which representations had recently been received from the Labour Party. The memorandum stated that the Tribe had not yet brought themselves to designate a new chief, in place of Seretse Khama who was still in this country, and that Rasbolai was still in process of establishing his position as “Native Authority.” In a discussion with a deputation from the Labour Party, led by Mr. James Griffiths, it had been made clear that the Government could not agree to call a conference of tribal representatives for talks with Seretse Khama as the Labour Party had proposed. The Commonwealth Secretary had since written to Mr. Griffiths pointing out that the Government could not change this policy, but that when a new chief had established himself the possibility of Seretse’s return to the Bamangwato Reserve as a private citizen would be sympathetically considered.

The Cabinet—

Took note with approval of C.P. (55) 112.

9. In reporting briefly on the current situation abroad, the Foreign Secretary informed the Cabinet that the announcement by the United States Secretary of State regarding a settlement of the dispute between the Arab States and Israel and the supporting statement made on behalf of the United Kingdom Government had had a reasonably satisfactory reception. Attention had been concentrated more on the hostilities at Gaza, where the situation was
still somewhat obscure. It had, however, now been agreed that at their next meeting the Security Council of the United Nations should take note of the situation at Gaza.

The Prime Minister said that he was most anxious that everything possible should be done to ensure speedy delivery of the tanks we had undertaken to supply to Iraq, as part of the conditions on which the announcement of the plan for the settlement of the dispute between the Arab States and Israel had been made.

The Cabinet—

Took note of these statements.

10. The Foreign Secretary briefly informed the Cabinet of the progress of the United Nations Disarmament Sub-Committee meeting. The Western representatives had agreed to concentrate on the problem of control. The United Kingdom still adhered broadly to the Anglo-French disarmament proposals, but we acknowledge the difficulty of control of nuclear weapons, as the Russians themselves recognised in their own proposals. The Americans were concentrating on the development of their proposal for an exchange between the United States and the Soviet Union of blueprints of military installations and of aerial surveys; but, if we were to participate in this plan, it would have to be made a multilateral one.

The Cabinet—

Took note of this statement.
Reference

CAB129d/29

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