CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Wednesday, 21st September, 1955, at 10.30 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. Selwyn Lloyd, Q.C., M.P., Minister of Defence.
The Right Hon. Peter Thorneycroft, M.P., President of the Board of Trade.

The Right Hon. Sir David Eccles, M.P., Minister of Education.

The following were also present:

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

Mr. G. R. H. Nugent, M.P., Joint Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food (Items 3–4).

Secretariat:

The Right Hon. Sir Norman Brook,
Mr. H. O. Hooper.
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>International Bank and International Monetary Fund</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Meeting at Istanbul.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Import of United States Fruit</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Commercial Policy</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Review of the G.A.T.T.</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Cyprus</td>
<td>9</td>
</tr>
</tbody>
</table>
## CONTENTS

<table>
<thead>
<tr>
<th>Minute No.</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Economic Situation</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>International Bank and International Monetary Fund Meeting at İstanbul</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Import of United States Fruit</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Commercial Policy</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Review of the G.A.T.T.</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Cyprus</td>
<td>9</td>
</tr>
</tbody>
</table>
1. The Cabinet resumed their discussion of the current economic situation. In addition to a note by the Prime Minister (C.P. (55) 123) covering a draft of a White Paper on Industrial Relations, they had before them memoranda by the Chancellor of the Exchequer on local authority borrowing and on capital expenditure by local authorities (C.P. (55) 131 and 132) and a memorandum by the Minister of Housing (C.P. (55) 128) on housing subsidies.

The Chancellor of the Exchequer said that it was likely that during September the reserves of gold and dollars would fall by not less than $150 millions. This compared with a loss of $136 millions in July and $87 millions in August, and was due partly to the need to settle an adverse balance with Europe of $60 millions, partly to a deficit on current commercial transactions of $65 millions and partly to withdrawals caused by lack of confidence in sterling. Moreover, there would be a further adverse balance with Europe of about $100 millions which would have to be settled in October. On 17th September the reserves amounted to $2,349 millions, compared with about $2,500 millions at the beginning of 1954 when the level was still rising.

The cost of seasonal purchases had mostly been absorbed, and confidence in sterling had been strengthened by the assurances he had given at the recent meeting of the International Monetary Fund in Istanbul. But he could not be sure that confidence would be maintained or that the adverse balance of trade, with imports remaining at a very high level, would improve. Further corrective measures were essential and urgent; and he recommended that arrangements should be made to recall Parliament on 27th September, so that a comprehensive plan could be announced for reducing expenditure by the Government, by local authorities and by the nationalised industries, and for restraining consumer demand. He proceeded to describe the various measures which should, in his view, be included in this plan.

First, as regards defence, he hoped that the Prime Minister would be able to announce some reduction in the demands of National Service on the nation’s manpower, whether by a decrease in the numbers called up or by a reduction in the period of service. It would not, however, be right to include in such an announcement any reference to improvements in Service pay, since this would be inconsistent with the general purposes of the corrective measures.

As regards the housing subsidies, he was in general agreement with the proposals put forward by the Minister of Housing in C.P. (55) 128, but he would prefer that the revised subsidy figures should be announced at once as part of the economy measures. He considered that the Government should also foreshadow their intention to deal with the problem of rent restriction, though he recognised that Scottish legislation on this subject might have to be deferred until later than the legislation applying to England and Wales.

To secure a reduction in capital expenditure by local authorities (other than expenditure on housing) the Chancellor proposed that a circular on the lines of Annex A to C.P. (55) 132 should be sent to all local authorities, after further consultation with the Ministers directly concerned. He thought it would be unwise to exclude any particular service from the scope of this circular; but it could be left to the local authorities to decide on what services the necessary savings could best be secured. He appreciated that it would be particularly difficult for the Government to press for savings in the programmes for building hospitals and schools.

As a further measure to restrain capital expenditure by local authorities, he proposed to change the present system under which local authorities could choose the source from which they borrowed, without limit to the amount that they could raise from the Exchequer through the Public Works Loan Board (P.W.L.B.). He would limit these demands on the Exchequer by instructing the P.W.L.B. to
grant loans to the larger local authorities only when they were satisfied that the local authority could not borrow the money in the stock and mortgage markets. Furthermore, he would prescribe rates for the P.W.L.B. based, not on Government credit, but on the credit of local authorities of good standing in the market. These proposals were described in detail in C.P. (55) 131.

As regards expenditure by the nationalised industries, it had been agreed that the investment programmes of the coal and atomic energy industries should not be reduced, and the development programme of the railways had not yet commenced. The restraint on nationalised industries would therefore fall mainly on gas and electricity.

The Chancellor also proposed that the bread subsidy should be abolished, but that this should be offset by increases in the scales of National Assistance. It was likely that some increase in these scales would be needed in any event, and it would be worth while bringing these forward to coincide with an increase in the price of bread.

As regards the encouragement of savings, the Chancellor proposed to make an early issue of Defence Bonds bearing interest of 4 per cent. encashable at three months' notice. He was also considering a suggestion that the interest on holdings in the Post Office Savings and Trustee Savings Bank should be exempt from income tax up to a limit of between £10 and £15 per annum.

A further possible measure would be to reduce the foreign travel allowance to £75 a year. This would, however, save only about £3 millions of foreign exchange, and it was perhaps doubtful whether it would be worth doing—especially as it would shortly become known that we should be unable to fulfil our obligation to reach a level of liberalisation of 90 per cent. with O.E.E.C. countries.

The Chancellor said that he also proposed to make changes in purchase tax. He intended to abolish the “D” scheme and to make alterations in the rates of tax on textiles: this would have the effect of leaving the total yield of tax on textiles unchanged while encouraging the production and export of quality goods. At the same time he would increase the general rates of tax by one-fifth, and would bring certain articles of domestic use within its scope. The total effect of these proposals would be to increase the yield of the tax by £75 millions a year.

Finally, he proposed to increase the tax on distributed profits. This seemed to be the only measure which could be taken to restrain profits. The change which he had in mind would yield about £60 millions a year, and could be expected to curb any further boom on the Stock Exchange.

The Cabinet first discussed the substance of the various measures proposed by the Chancellor of the Exchequer. In this part of the discussion the following points were raised: —

(a) There was general agreement that the proposals for reducing public expenditure on housing would make a valuable contribution, both in their practical effect and in their impact on public opinion, towards the reduction of inflationary pressure. There was also support for the view that this part of the proposed statement should foreshadow the Government’s firm intention to proceed thereafter to overhaul the existing system of rent control.

The Minister of Housing said that it was important that the Government should do their utmost to secure the acquiescence of local authorities in the proposed adjustments in housing subsidies. He would have an opportunity to prepare the way for this at a meeting of the Association of Municipal Corporations on the following day. He proposed to give a preliminary warning then that local authorities must expect some reduction in the level of subsidies and must be ready to consider means of charging more realistic rents for their houses. Thereafter he would wish to hold
consultations with the local authority associations on the actual reductions to be made in the subsidies, and he strongly urged that the proposed new level of the subsidies should not be announced until after those consultations had been held.

(b) The Minister of Housing pointed out that the proposals on capital finance for local authorities, put forward by the Chancellor of the Exchequer in C.P. (55) 131, would have the effect of increasing by about a quarter per cent. the rate of interest on local authority borrowing. This increase in interest rates would make it more difficult to secure their acquiescence in the proposed reduction of housing subsidies.

(c) In discussion of the draft circular on capital expenditure by local authorities, annexed to C.P. (55) 132, it was suggested that local authorities might expect rather more guidance from the Government on the directions in which the desired economy should be sought. It was doubtless desirable that local authorities should be left with some discretion to apportion the cuts between their various services, but this was a point on which they would expect some general guidance from the Government.

The Chancellor of the Exchequer said that, while he would prefer that no particular service (other than housing) should be specifically excluded from the scope of this circular, he was ready to discuss with the Ministers directly concerned the comments which they had offered on the terms of the present draft.

(d) The Minister of Labour said that he was doubtful about the expediency of discontinuing the bread subsidy at the present time. This would involve an increase of 1·33 points in the cost-of-living index, and was bound to enhance the pressure for wage increases. Moreover, it was likely to alienate those trade union leaders who had hitherto been willing to heed the Government’s plea for the exercise of restraint in wage claims. He believed that, on balance, this measure was more likely to increase inflationary pressures than to reduce them.

The Minister of Pensions said that he was also doubtful about this proposal. If the price of bread remained unchanged, an increase in National Assistance scales was not inevitable. If, however, the bread subsidy was discontinued, the Assistance Board would be obliged to propose an increase in their scales. This would militate the efforts which the Government had made, so far with marked success, to reduce the numbers on public assistance by increasing National Insurance benefits. The numbers receiving National Assistance were now lower than for some years past; and it would be most unfortunate if this trend were now reversed in consequence of the abolition of the bread subsidy.

In discussion it was recognised that the bread subsidy ought, on merits, to be discontinued and that no better opportunity of abolishing it was likely to present itself. On the other hand there was strong support for the view that its abolition at the present time would be open to serious objections, on both economic and political grounds.

(e) There was general agreement that, from the point of view of preserving a balance between the various measures proposed, there would be advantage in including among these measures a reduction in the allowance for foreign travel.

The Cabinet next considered whether Parliament should be recalled on 27th September, as envisaged by the Chancellor of the
Exchequer, so that these proposals could be announced without delay.

This part of the discussion turned mainly on the question whether the sudden recall of Parliament might have the effect of weakening confidence instead of restoring it. There was support for the view that the recall of Parliament would in itself create an atmosphere of crisis and would give the impression that the situation was even more serious than it was. It would come as a shock to the public generally, who were quite unprepared for such a development. It might also tend to destroy the credit which the Government had gained for restoring the economy to a healthy footing and avoiding successive economic crises. Moreover, Parliament, once recalled, might well wish to debate these and other issues beyond the appointed time.

On the other hand it was argued that, as the publication about 3rd October of the September figures for the reserves would show a further substantial loss, the Government would be exposed to criticism and pressure for action if no steps to remedy the situation had been announced by then and confidence would be likely to decline further on that account. The discussion of economic issues at the forthcoming Party Conference would also be difficult to handle. The Chancellor of the Exchequer was due to make a speech at the Mansion House on 4th October, and it would be possible for him to make a strong statement then which would indicate the Government’s intention to take such further measures as were needed to combat inflation. Confidence abroad had been restored by the Chancellor’s recent statement in Istanbul. It would in any event be some time before the full effect of the proposed measures on the internal situation would be felt. Parliament could be recalled a week earlier than 25th October. Would a general announcement on 4th October hold the position for the intervening two weeks?

Some Ministers felt that an announcement in general terms might have an unsettling effect on opinion at home and abroad unless it were accompanied by a comprehensive statement of the measures to be taken. It was clear, however, that the programme of measures proposed must be announced in the first instance to the House of Commons. Nor would it be practicable to give a broad indication of the Government’s intentions with special emphasis on some of the proposed lines of action. It was important that the programme should be presented as a comprehensive plan for dealing with the situation. It might fail in its purpose if this were not done. On matters of such public importance and interest as the housing subsidies and purchase tax it would not be practicable for the Government to take action without first informing Parliament.

The Chancellor of the Exchequer, summing up this part of the discussion, stressed the importance of disclosing all the elements in the programme simultaneously. Moreover, there were risks in holding such a programme in abeyance for a further month. It was true that the reserves were not yet in a critical state and it might be possible to hold the position by making a general announcement on 4th October. But he still felt that, if the situation were to be brought under control, the right course was to follow up the effect which his Istanbul speech had had on foreign opinion by prompt action on the home front. He was therefore disposed to favour recalling Parliament on 27th September, but he recognised the weight of the considerations that had been urged against this course and suggested that the Cabinet should postpone a final decision until the following day in order to allow time for further reflection.

The Cabinet—

Agreed to resume their discussion at a meeting on the following day.
2. The Chancellor of the Exchequer said that at the recent meeting of the International Bank and Fund at Istanbul he had held some useful discussions with Mr. Humphrey, Secretary to the United States Treasury, and with representatives of Commonwealth Governments. In his talks with Mr. Humphrey he had expressed his misgivings about the recent trend of United States trade policy as illustrated by the raising of the bicycle tariff, the award of the contract for the Chief Joseph Dam and the application of the "Buy American" Act. In response to these representations Mr. Humphrey had taken the line that each country must consider how its trade interests could best be defended and must be free to take the necessary measures to that end. He was ready to accord the same freedom to the United Kingdom; and he had, in particular, recognised that we should be justified in abandoning the obligation to bring discrimination to an end within twelve months from the date on which sterling was made convertible.

The Chancellor said that with an election year approaching in the United States the situation would remain difficult and he did not expect the Administration to make much further advance towards more liberal trade practices. For our part, we should continue to make firm representations if faced with United States actions (as recently in the case of oil and tobacco) which adversely affected our interests, but we should endeavour to do so in such a way as to avoid inflaming relations. In view of this he was not now in favour of publishing at the present time the protest we had made about the award of the contract for the Chief Joseph Dam.

In spite of the disappointing trend of United States trade policy, the Commonwealth representatives whom he had consulted were not in favour of abandoning the pursuit of our objectives of removing trade barriers and freeing payments but they considered that, in the circumstances, it might be wise to pursue these objectives at a somewhat slower pace. He had had some difficulty in convincing the Canadian representative on this last point. He had been informed that Australia and New Zealand, who were both facing inflation, were about to reimpose import restrictions. He had, however, obtained a favourable response to his representations that such restrictions should bear as lightly as possible upon textiles. It appeared that, in addition, both Western Germany and France were faced with the need to consider measures to combat inflation.

The Cabinet—

Took note of this statement by the Chancellor of the Exchequer.

3. The Cabinet had before them a note by the Financial Secretary, Treasury (C.P. (55) 129) covering a report by officials reviewing the extent to which imports of United States fruit into the United Kingdom under Mutual Aid programmes might be authorised during the current season, after taking into account the need to safeguard the special interests of West Indian producers.

The Chancellor of the Exchequer said that he would be prepared to take under Mutual Aid programmes United States fruit up to the values shown in paragraph 11 of the report attached to C.P. (55) 129, namely $19 millions for fruit other than citrus and $4·5 millions for citrus fruit, subject to the limitation that of this not more than $1 million should be spent on fresh grapefruit and $1 million on canned grapefruit. He was not prepared to assign any free dollar resources for these purposes. He agreed that the allocation of aid resources to canned grapefruit should be subject to further consultation with the British West Indies.
The Colonial Secretary said that the proposals relating to canned grapefruit presented unusual difficulties. This trade, although of no great significance to the United States, was of vital importance to the West Indies. At his suggestion the West Indian producers had already reached agreement with the Florida producers on an arrangement which would be mutually satisfactory to both trade groups, only to find that the agreement was held to be contrary to United States law because the trade would be limited to certain United States suppliers and prices would be fixed. In his view the West Indian Ministers must be given a further opportunity of trying to reach with the United States interests a different agreement which would be acceptable under American law. This was primarily a matter for the United States interests themselves. If such an agreement could not be reached, he felt that the import of canned grapefruit should not be authorised. It was most important to avoid a bad atmosphere for the forthcoming negotiations with the West Indies over price assistance for their citrus fruit industry.

In discussion it was pointed out that, although we did not need American citrus fruit, we should run the risk of impairing our relations with the United States in other fields if we resisted the application of an unused balance remaining from last year's aid appropriation to a commodity on which the United States had laid special emphasis. The citrus lobby was strong in the United States and was anxious to regain a foothold in the United Kingdom market. Moreover, the scheme agreed between the West Indian and United States producers was not merely contrary to American law but contravened our own import policy. On the other hand, it was the general feeling of the Cabinet that we should go as far as possible in attempting to safeguard the interests and susceptibilities of the West Indian fruit producers and that we should not exclude the possibility of dispensing with imports of canned grapefruit from the United States.

The Cabinet—

(1) Agreed that up to $19 millions of United States aid funds should be allocated to the import during the current season of United States fruit other than citrus fruit.

(2) Agreed in principle that, in determining whether United States citrus fruit might be licensed for import into the United Kingdom and on what basis, full account should be taken of the need to safeguard the interests of West Indian producers of canned grapefruit and in particular of the need to avoid creating a situation unfavourable for the forthcoming negotiations on price assistance for West Indian producers.

(3) Invited the Chancellor of the Exchequer to arrange for Ministers of the Departments concerned to examine the issues further in the light of the Cabinet's discussion and to report to the Cabinet at their next meeting.

4. The Cabinet had before them a memorandum by the President of the Board of Trade (C.P. (55) 126) recommending that the United Kingdom Government should now sign the Protocols of Amendments to the General Agreement on Tariffs and Trade (G.A.T.T.).

The President of the Board of Trade reminded the Cabinet of the approval which they had already given on 30th March to a statement of policy welcoming the outcome of the Review of the G.A.T.T. A number of countries would be taking the opportunity to sign the Amendments at the next inter-sessional meeting of the G.A.T.T. due to take place in Geneva shortly, and it would be convenient if the
Amendments were signed on behalf of the United Kingdom at the same time.

The Cabinet—

Approved the proposal put forward in C.P. (55) 126.

5. The Foreign Secretary said that the United States Government had now indicated their readiness to support the view that it would be inappropriate that the question of Cyprus should be inscribed on the agenda of the current meeting of the General Assembly of the United Nations. This being so, there was now a reasonable prospect that the attempt to raise the matter at the Assembly would be defeated. The question would be put to a vote in the General Committee that day, and the Committee's recommendation would come before a plenary session of the Assembly on 23rd September. It would be preferable, therefore, that no further action should be taken before 23rd September to limit the freedom of the Bishop of Kyrenia.

The Cabinet—

Agreed that no action should be taken before 23rd September to limit the freedom of the Bishop of Kyrenia.

Cabinet Office, S.W. 1.
21st September, 1955.