CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Thursday, 20th October, 1955, at 11 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. HAROLD MACMILLAN, M.P., Secretary of State for Foreign Affairs.
The Right Hon. A. T. LENNOX-BOYD, M.P., Secretary of State for the Colonies.
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. OSBERT PEAKE, M.P., Minister of Pensions and National Insurance.

The following were also present:
The Right Hon. GEOFFREY LLOYD, M.P., Minister of Fuel and Power (Item 7).
The Right Hon. NIGEL BIRCH, M.P., Minister of Works (Item 7).
The Right Hon. LORD STRATHCLYDE, Minister of State, Scottish Office (Item 7).

Secretariat:
Mr. H. O. HOOPER.
Mr. J. M. WILSON.
Mr. F. A. BISHOP.
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1. The Foreign Secretary reviewed the situation in the Far East. There had been a relaxation of tension in the area of the Formosa Straits, and it was encouraging that the Russians had not availed themselves of the opportunity of creating difficulties over the failure of Viet Nam to implement the Geneva Agreements. Admittedly there had also been breaches of these Agreements in Laos. Though Diem had again repudiated any obligation under these Agreements, he had now taken certain steps which could be represented as constituting a reply to Viet Minh on the question of elections to determine the future of the two countries. In the meantime, Diem had arranged for elections within Viet Nam, mainly in order to strengthen his own position and for this he had been denounced by the Emperor, Bao Dai.

It had been felt that celebrations which were being organised in Macao in honour of the fourth centenary of Portuguese occupation might provoke hostile reactions from China with consequent repercussions for Hong Kong. It had therefore been suggested to the Portuguese Government that the scope of these celebrations might be limited.

No progress had been made in persuading the Chinese Nationalists to hand over Chou Chu, who was wanted in connection with the bomb explosion in the Indian aircraft carrying passengers to the Bandung Conference. The Chinese Nationalists had replied that there was no legal ground for our request since no treaty of extradition existed. Our Consul was being instructed to make a further request to the Chinese Nationalists for the release of Chou Chu pointing out the adverse effect on world opinion of their continued refusal to hand him over. The American State Department was also being asked to exert pressure on the Chinese Nationalists.

In discussion the Cabinet agreed that it was important to continue to press for the handing over of Chou Chu. Quite apart from our interest in establishing responsibility for this incident, which might have had far more serious consequences, the continued detention of certain witnesses who were being held in Hong Kong to testify in the trial of Chou Chu was causing difficulty. In the approach to the Americans the point should be made that a failure on their part to bring pressure on the Chinese Nationalists for the release of Chou Chu would adversely affect world opinion. This might react against them when the question of Chinese representation in the United Nations next came up for consideration.

The Cabinet—

Took note of these statements by the Foreign Secretary.

The Foreign Secretary said that in the Middle East the Russians had clearly embarked on a deliberate policy of opening up another front in the cold war. It would be wrong, however, to be too despondent about the position. The Suez Treaties had created a vacuum in the Middle East and it was a common reaction for a nation which had been controlled by another for a period to turn against it on first obtaining freedom. This initial reaction might be expected to give place eventually to a more balanced view. In the meantime we should adopt a policy of moderation in our dealings with Egypt and we should endeavour to persuade the Americans to do the same. We should concentrate on helping other Arab States who behaved loyally, while at the same time demonstrating that there were limits to the extent to which we could be provoked.

The Prime Minister said that the main objective of our policy should be to protect our vital oil interests in the Middle East. From
this point of view the strengthening of the Northern Tier defence arrangements was more important than the attitude of Egypt. Turkey was the pivot to the Northern Tier defence. This factor should be kept in mind in all considerations of the Cyprus question. It must be admitted that Egypt had not received any large supplies of arms from the United Kingdom and some of the supplies which had been approved for release had been held up through lack of agreement in the Near East Arms Co-ordinating Committee. In view of Nasser’s dependence on the support of the Army in Egypt, his decision to accept the Soviet offer was understandable if regrettable. But Persia’s adherence to the Baghdad Pact, although not of military significance, could be held to offset this decision in completing the chain of protection across the route to the oil. The allocation of the Egyptian High Aswan Dam project to the European consortium, if it could be secured, would be of immense value in restoring the prestige of the West and particularly of the older European Powers in the Arab world generally. In our dealings with Egypt it could be a trump card.

In discussion the following points were made: —

(a) A policy of attempting to reduce tension in the Middle East by limiting the supply of arms could only succeed if the Middle East States could not obtain supplies from countries who were not signatories of the Tripartite Declaration of 1950.

(b) It was the normal practice of the International Bank to require international tenders for any project which they supported; and the risk that this procedure might result in the High Dam contract being let to a Russian or satellite firm could not be excluded. The Chancellor of the Exchequer said that he recognised the political advantages of this project being undertaken by the European consortium. He was concerned, however, about the size of the United Kingdom’s commitment. In view of the interest of the International Bank in the matter it would be advisable, before any further steps were taken, to consult with the United States Government with a view to securing their support for a policy with regard to international tender which would be acceptable to the Bank. In its present context such an approach might also result in getting further direct American support for the Egyptian economy.

(c) It would be necessary at some point to consult with the French and German Governments about the proposed arrangements for the High Dam project, but this should be deferred until further progress had been made with the International Bank.

Summing up, The Prime Minister said that at the forthcoming Meeting of Foreign Ministers in Geneva the Foreign Secretary should take the opportunity of impressing on M. Molotov the dangers of the recent Russian moves in the Middle East, which would upset the delicate balance in military strength which the Western Powers had been endeavouring to maintain in this area of tension. There was a real danger that war might break out between Israel and Egypt in which the Americans would be likely to support Israel. Once such a war had started it might well spread into a world-wide conflict.

The Cabinet—

(1) Took note with approval of the statements on Middle East policy made by the Prime Minister and the Foreign Secretary.

(2) Agreed with the proposal of the Chancellor of the Exchequer recorded in paragraph (b) above for handling the financing of the High Aswan Dam project.

(3) Invited the Foreign Secretary to emphasise to M. Molotov at the forthcoming Meeting of Foreign Ministers the dangers inherent in an arms race in the Middle East.
Spain.

(Previous
Reference:
C.M. (55) 16th
Conclusions,
Minute 8.)

2. The Cabinet considered a note by the Foreign Secretary (C.P. (55) 147) covering a memorandum on our relations with Spain.

It was recommended in the memorandum that we should seek to bring about a progressive improvement in our relations with Spain by supporting her applications for membership of the United Nations and (assuming that difficulties over qualification were overcome) of the Organisation for European Economic Co-operation (O.E.E.C.). We should explain to the Spanish Government that these decisions had been taken in the belief that closer association of Spain with the economic and political life of the free world was desirable and would lead to an improvement in Anglo-Spanish relations. But we should at the same time invite them to re-examine their regulations affecting Gibraltar and make it clear that, while we were not seeking to strike a bargain, no policy designed to improve Anglo-Spanish relations could in fact succeed while abnormal restrictions at the Gibraltar frontier continued. We should also consider sympathetically any eventual Spanish request for admission to the Council of Europe, but the balance of advantage lay against any move to bring Spain into the North Atlantic Treaty Organisation at present. We should inform the United States Government of this policy.

The Cabinet also had before them a note by the Parliamentary Under-Secretary of State for the Colonies (C.P. (55) 157) setting out opinions expressed on relations with Spain by political leaders in Gibraltar during the recent visit of the Colonial Secretary.

The Colonial Secretary said that he supported the proposals in C.P. (55) 147, notwithstanding the attitude still maintained by the Spanish Government over Gibraltar. If the Spanish authorities could not be induced to modify their frontier restrictions, Gibraltar would be deprived entirely of Spanish labour from the mainland within ten or fifteen years. He agreed, however, that it would be a mistake to attempt to bargain our support of Spanish candidature for membership of international organisations against the removal of the frontier restrictions. Political opinion in Gibraltar supported this view. But he felt strongly that there should be no room for doubt about our intention to retain sovereignty over Gibraltar and that we should create a suitable opportunity for making a public declaration to that effect.

In discussion the following points were made:—

(a) It would be difficult for Spain to qualify for membership of the O.E.E.C. unless she could increase significantly the very small proportion of her import trade which was at present liberalised.

(b) While it should be made clear to the Spanish authorities in discussion that we had no intention of relinquishing Gibraltar, the prospects of success for our policies would not be enhanced if the proposed approach to the Spanish Government were preceded by a public declaration to that effect.

(c) It was understood that all the labour needed to maintain Gibraltar could be housed on the Rock if a further 2,000 homes could be provided. If this could be done and the permanent labour force in Gibraltar appropriately strengthened it would not be necessary to rely upon daily labour from the mainland. The Colonial Secretary undertook to enquire further into this question.

The Cabinet—

(1) Approved the recommendations contained in the memorandum attached to C.P. (55) 147.
(2) Agreed that no public statement of our intentions with regard to the sovereignty of Gibraltar should be made in advance of the proposed approach to the Spanish Government.
(3) Invited the Colonial Secretary to circulate a memorandum on the point recorded in paragraph (c) above.
3. The Cabinet considered a memorandum by the Foreign Secretary (C.P. (55) 158) recommending that, subject to the addition of Spain to the list, we should now support the Canadian proposal that an understanding should be reached with the Soviet Government for the admission of seventeen new members to the United Nations.

The Foreign Secretary recalled the previous discussion of this matter in the Cabinet on 15th September. The Canadian proposal, which provided for the admission to the United Nations of virtually all possible applicants, except divided States, would create as well as solve problems, and he had hoped that the proposal might have been abandoned, if only because of the objection of the United States to the admission of certain Eastern European countries and Outer Mongolia. Nevertheless, it appeared that the Canadians were likely to insist on putting their proposal forward and the Russians had now given an indication that they would be prepared to agree to the admission of both Spain and Japan. In these circumstances, for the reasons given in his memorandum, it became desirable that we should now support the Canadian proposal. Apart from our direct interest in securing the admission of such well-qualified States as Italy, Finland and Portugal, it was certainly not in our interests that Ceylon, together with other Asian and African candidates, should be given grounds for holding that we had obstructed their admission.

The Colonial Secretary said that, while he did not dissent from these conclusions, he must warn his colleagues that the admission of all the countries in the list would almost certainly lead to a complete change in the balance of voting in the United Nations on colonial issues. In his view, we should not thereafter be able to mobilise sufficient support to prevent, on grounds of non-competence, the inscription on the United Nations agenda of questions relating to our own overseas territories. We should then be left with no alternative but to withdraw from the discussion of colonial issues inscribed on the agenda against our will. This would not be a satisfactory situation.

It was the general view of the Cabinet that, notwithstanding the probable consequences which the Colonial Secretary had outlined, the balance of advantage must now lie in supporting the Canadian proposal.

The Cabinet—

Approved the recommendation in paragraph 5 of C.P. (55) 158 on the admission of new members to the United Nations.

4. The Cabinet considered a memorandum by the Foreign Secretary (C.P. (55) 159) on the possible consequences of the forthcoming referendum in the Saar.

The Foreign Secretary said that the referendum was due to be held on 23rd October. If its outcome were favourable the Saar would achieve a European status, linked with Western European Union under a Commissioner responsible for foreign affairs, defence and certain internal functions. (In this event there might well be a request for the nomination of a British Commissioner.) If, however, there were an adverse vote the Franco-German Agreement of October 1954, would fall to the ground; legally the Saar would then revert to the position of French occupied territory with France responsible for its defence and for the representation of its interests abroad. In reality the situation would be one in which the majority of the Saar population would be opposed to their Government and would be without any means of constitutional self-expression until 1957, since Herr Hoffman, the present Prime Minister, had declared that if the Statute were rejected his Government would not hold further elections until the end of the present Landtag's normal term.
Though the French were confident of a positive vote, other observers considered that a negative majority was more likely. The attitude of the French had prevented the sending of an international police force into the Saar so that, if any disturbances now broke out, French troops would probably be used to restore order. This would certainly have an inflammatory effect on Franco-German relations, and it would be particularly unfortunate for such events to occur at the start of the Meeting of Foreign Ministers at Geneva. He suggested therefore that in the event of an adverse vote the United Kingdom should take the initiative in trying to find some legal means of providing for the Saar the benefits which would have resulted had the Statute been adopted, and of ensuring adequate safeguards for democratic principles in the Saar, such as preventing the suppression of pro-German parties and newspapers and providing for free elections to a new Landtag at the earliest possible date.

In discussion the Cabinet agreed on the importance of urging restraint on the French in the event of an adverse vote on the Saar referendum. The result would be known while the Western Foreign Ministers were meeting in Paris before the Geneva Conference and if necessary a personal message might be sent to M. Faure by the Prime Minister.

The Cabinet—
Endorsed the proposals put forward by the Foreign Secretary in C.P. (55) 159.

Four-Power Talks.

5. The Prime Minister informed the Cabinet that he had discussed with the other Ministers concerned the policy to be pursued by the Foreign Secretary at the Meeting of Foreign Ministers which was due to open at Geneva on 27th October.

On the main issue of the relationship between European Security and German unity, it would be right that the offer of a Security Pact should contain guarantees for the Russians; but any concessions we offered should only be made in return for, and at the same time as progress was made towards, German reunification. There would be full agreement between the Western Powers on this policy.

The Cabinet—
Took note of this statement.

Disappearance of two Foreign Service Officers.

(Previous Reference: C.M. (55) 35th Conclusions, Minute 1.)

6. The Cabinet were informed that the Labour Opposition had been told that the Government were prepared to have a debate as soon as possible on the questions arising out of the disappearance of the two Foreign Service officers, Burgess and Maclean. In discussing the line to be taken by Government spokesmen in the debate, the Cabinet considered the Foreign Secretary’s proposal that the Government should offer to hold a public enquiry on the conditions set out in his memorandum C.P. (55) 161.

The Foreign Secretary said that there was strong pressure from several quarters for some form of enquiry. He was convinced that there was nothing to be said for holding an inquest into the past. This would give currency to a stream of false and misleading statements which could never be overtaken and corrected in the public mind. But he saw certain positive advantages in an enquiry directed to examine what further safeguards were needed to ensure the security of national interests in the future.

This problem went further than the security of documents and the loyalty of officials. Even now it was possible for Communist labour leaders to penetrate, in the course of trade union business, into establishments where secret work of the highest importance was being carried on. There was therefore a security question in relation
to certain secret establishments. Moreover, in regard to the employment of Government officials generally, there might be need for further powers or a clearer definition of the powers available and the circumstances in which they could be exercised.

Secondly, much of the criticism of the failure to prevent breaches of security in the past implied a criticism of the law as it stood. Additional safeguards could only be furnished if the law were first amended, and an enquiry would bring out into the open the essential conflict which lay between security and individual freedom.

In discussion the following points were made:

(a) If an enquiry were held, it would be difficult to limit it to the question of ensuring security in the future. An attempt would be made to hold an inquest, not merely into the breaches of security which had occurred, but into circumstantial matters of the conduct of individuals and the reasons for their continued employment.

(b) The Home Secretary said that any tribunal of enquiry would wish to carry out some examination into the working of the Security Service. He therefore saw considerable objection to a tribunal constituted on the lines proposed by the Foreign Secretary and containing, e.g., representatives of industry and the trade unions. He would prefer that, if there was to be an enquiry, it should be conducted by a small body of Government and Opposition leaders.

(c) The question of publicity would also present a dilemma. For only a public enquiry would satisfy public opinion, but this would throw a spotlight on a number of matters which might prejudice future security. For example, it was not desirable to give publicity to the limited degree of security which could at present be exercised at industrial establishments.

(d) It might be possible to consider requiring people engaged on secret work to give an undertaking not to leave the country without permission. Such an undertaking could not, however, be enforced without the power of arrest. A previous enquiry had shown that new powers would have to be taken to prevent a suspect, whether he had given such an undertaking or not, from leaving the country.

(e) Public opinion was notoriously uncertain on this kind of issue. The House of Commons, as experience had recently shown in the debates on the Atomic Energy Bill, were extremely reluctant to provide the Government with powers which departed in any way from the traditional principles of English law.

(f) It was suggested that the broader purposes of an enquiry would be achieved if the Government were to state in debate the dilemma which the security problem presented and invite the Opposition and the House to consider what solution would be generally acceptable to public opinion.

The Prime Minister said that at the heart of this matter lay the question of the suitability of the machinery of a public enquiry for an investigation which would be concerned with the fundamental principles of our national life. If, in our concern for security, it was now necessary to probe deeply into these issues, it was for Parliament itself to conduct the enquiry and to reflect public opinion on the dilemma which the issues presented. It would be wrong therefore to offer to set up a public tribunal of enquiry. If, in the course of debate, it became clear that the House felt need for the kind of assurance, especially on the working of the Security Service, which a private enquiry might yield, the Government could consider proposing a confidential enquiry by Government and Opposition leaders.

The Cabinet—

(1) Decided that pressure for a public enquiry of any kind should be resisted in the forthcoming debate in the House of Commons, and that the Government should make no offer of an independent enquiry of the kind proposed in C.P. (55) 161.
(2) Agreed that further consideration should be given to the desirability of a confidential enquiry, to be conducted by Government and Opposition leaders, should the course of the debate indicate that such an enquiry would serve a useful purpose in reassuring public opinion.

7. The Chancellor of the Exchequer informed the Cabinet of the measures which he proposed to announce to the House of Commons on 26th October.

As regards expenditure by local authorities, he said that the terms of the circular (set out in C.P. (55) 156) which would be sent to reach local authorities on the day following his statement had been agreed with the Ministers concerned. He would also announce the new arrangements for capital finance for local authorities, as proposed in his memorandum C.P. (55) 131. He would indicate in his speech, the relevant parts of which would be shown to the Ministers concerned, the extent to which particular sectors of expenditure would not, in the Government’s view, fall to be included in the review which local authorities would make.

He would also describe what reduction in expenditure would be achieved by restricting the investment plans of certain nationalised industries such as gas and electricity, and, to a smaller degree, coal. Although it could be claimed that since 1951 there had been a significant reduction in the proportion of the national product devoted to Government expenditure, it would be difficult to show that the Government would be making any further substantial reduction in their direct expenditure. The immediate saving through the reductions in the rates of housing subsidy would not be large. He proposed to announce that work would be held up on certain Government buildings (i.e., the new Colonial Office, the offices in Horseferry Road, and the Embassy building in Washington), and he would also mention the saving which would result from the reorganisation of Post Office finances. But, failing some such step as a reduction in the number of teachers or the imposition of further charges under the National Health Service, a substantial reduction in Government expenditure could only be obtained if the bread subsidy were to be abolished.

To encourage savings, he would mention the new Defence Bond issue, and would announce an increase in the maximum permissible holding of Savings Certificates.

He was doubtful whether, on balance, the foreign travel allowance should be reduced to £75. In many ways this would be a retrograde step, but there would be some direct saving of foreign currency, and it might be psychologically valuable as a balance to other measures.

The adjustments he proposed to make in the purchase tax, which included alterations in the rates of tax on textiles, with an increase of one-fifth in the general rates of tax and inclusion of domestic utensils, would yield £75 millions. These adjustments would be of constructive value, since by abolishing the “D” scheme, and bringing silverware and cut glass into a different category, they would help exports.

He also proposed to announce an increase in the rate of tax on distributed profits. It was for consideration whether the rate should be increased from 22½ per cent. to 27½ per cent. (which would yield £38 millions) or to 30 per cent. (which would yield £57 millions).

The Chancellor of the Exchequer said that all these measures, in addition to the credit restrictions already introduced, would show that the Government were determined to maintain the strength of sterling by restraining excessive demand, due to both investment and consumption.

In discussion it was argued that the inflationary pressure was due to too much investment, and not only to too much consumption. There was excessive demand particularly on the machine-tool and
heavy engineering industries, with the result that manufacturers in these industries were discouraged from exporting, even though there were valuable overseas markets available, such as Canada. On these grounds, a case could be made out for abolishing the investment allowance which was instituted in 1954. On the other hand, private industry was already subject to the credit restrictions; and it would be unwise to withdraw the investment allowance which had been introduced so recently or to take further measures to cut investment by private industry, since this would have the effect of hindering our export industries from renewing their factories and equipment.

As regards the foreign travel allowance, the view was expressed that a reduction to £75 would not prevent many people from continuing to travel. This measure, although of no great financial consequence, would show that the Government disapproved of unnecessary spending abroad.

Bread Subsidy.

The Cabinet again reviewed the arguments for and against the abolition of the bread subsidy.

The Chancellor of the Exchequer said that the subsidy was economically indefensible, and that its removal would be taken as a sign that the Government were determined to check inflation. This would materially assist in maintaining foreign confidence in sterling. Moreover, only by checking inflation could the Government hope to halt the continuing increase in wages. The effects on the poorer sections of the community of removing the subsidy could be offset by some increase in National Assistance.

The Minister of Labour said that, if the bread subsidy were not abolished, it could be hoped that, despite the effect of the other measures on the cost of living, responsible trade union leaders would help to restrain the pressure for higher wages. But an increase in the price of bread would make the Government’s proposals, taken as a whole, unacceptable to organised labour, who would be united in pressing not only the wage claims that were at present under consideration, but further claims as well. There would be a grave danger of a serious deterioration in industrial relations’ during the coming winter.

The Minister of Pensions said that if the subsidy were abolished some increase in National Assistance, which might otherwise be avoidable, would become necessary. If this increase were one of 2s. 6d. a week it would cost £13 millions a year, but the increase might have to be as much as 5s. a week. The abolition of the subsidy would not only mean that expenditure on National Assistance would be substantially increased, but that the number of people receiving assistance, which had been falling this year, would again rise. This would not be helpful from the point of view of confidence. In his opinion it would be wrong for measures to reduce consumption to be directed against essentials such as bread.

In discussion, it was suggested that, as the bread subsidy was generally recognised to be undesirable, the present would be the best time to abolish it. The other measures contemplated would in any case provide plenty of arguments for claims for higher wages, and the addition of an increase in the price of bread would not be material in this respect. On the other hand, it was argued that it would be easier to remove the bread subsidy at a time when concessions which would compensate most of the people affected could be made; an increase in National Assistance would only provide for the poorest sections of the community. It would be wrong, at a time when there had been recent price increases, as on coal, and when other measures which would increase the cost of living were to be introduced, to increase the price of bread also.

The Prime Minister said that the measures which the Government proposed to deal with the economic situation would be acceptable to
the country if they were thought to be equitable. An increase in the price of bread would undoubtedly be represented as unfair, and might indeed be regarded as unjustified. He was concerned with the effect which such a step would have on wage negotiations and industrial relations. He would therefore like to discuss this measure further with the Chancellor of the Exchequer, taking into account the views expressed by the Cabinet.

In connection with the announcement of the measures to deal with the economic situation, the Cabinet had before them a memorandum by the Minister of Housing (C.P. (55) 160) suggesting the terms in which, in stating the Government’s policy on housing subsidies, he proposed to refer to the problem of rent control.

The Prime Minister said that he felt that any reference to rent control should not imply that the Government had decided that changes in the existing system should be made.

There was general agreement with this view, and it was decided that this reference should be as follows—

“The Government recognise that the level of rents of council houses and that of comparable privately-owned houses are inter-related. It is therefore necessary to review the whole structure of the Rent Acts. We shall announce our conclusions in due course.”

The Cabinet—

(1) Took note that the Prime Minister and the Chancellor of the Exchequer would consider further the question of the abolition of the bread subsidy, in the light of the views expressed in the Cabinet’s discussion.

(2) Invited the Chancellor of the Exchequer to inform them at their next meeting of his final proposals concerning the bread subsidy, the foreign travel allowance, and the rate of tax on distributed profits.

(3) Invited the Minister of Housing to include in his announcement about the housing subsidies the reference to rent control approved in the Cabinet’s discussion.

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