CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 3rd July, 1958, at 11 a.m.

Present:
The Right Hon. HAROLD MACMILLAN, M.P., Prime Minister
The Right Hon. R. A. BUTLER, M.P., Secretary of State for the Home Department and Lord Privy Seal
The Right Hon. SELWYN LLOYD, Q.C., M.P., Secretary of State for Foreign Affairs
The Right Hon. The EARL OF HOME, Secretary of State for Commonwealth Relations
The Right Hon. VISCOUNT KILMUIR, Lord Chancellor
The Right Hon. D. HEATHCOAT AMORY, M.P., Chancellor of the Exchequer
The Right Hon. Alan LENNOX BOYD, M.P., Secretary of State for the Colonies
The Right Hon. Sir DAVID ECCLES, M.P., President of the Board of Trade
The Right Hon. HENRY BROOKE, M.P., Minister of Housing and Local Government and Minister for Welsh Affairs
The Right Hon. IAIN MACLEOD, M.P., Minister of Labour and National Service
The Right Hon. The EARL OF HOME, Secretary of State for Commonwealth Relations
The Right Hon. VISCOUNT HAILSHAM, Q.C., Lord President of the Council
The Right Hon. HENRY BROOKE, M.P., Minister of Housing and Local Government and Minister for Welsh Affairs
The Right Hon. JOHN HARE, M.P., Minister of Education
The Right Hon. LORD MILLS, Minister of Power
The Right Hon. GEOFFREY LLOYD, M.P., Minister of Education
Dr. The Right Hon. CHARLES HILL, M.P., Chancellor of the Duchy of Lancaster
The following were also present:
The Right Hon. JOHN BOYD-CARPENTER, M.P., Minister of Pensions and National Insurance (Item 7)
Mr. NIALL MACPHERSON, M.P., Joint Parliamentary Under-Secretary of State for Scotland (Item 6)
The Right Hon. EDWARD HEATH, M.P., Parliamentary Secretary, Treasury

Secretariat:
The Right Hon. Sir NORMAN BROOK
Mr. B. ST. J. TREND
Mr. M. REED
## CONTENTS

<table>
<thead>
<tr>
<th>Minute No.</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Parliament</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Parliament</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Parliamentary Privilege</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Nuclear Energy</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Amendment of United States Legislation</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Egypt</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Financial Negotiations</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Economic Situation</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>Prison Reform</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>Pensions</td>
<td>6</td>
</tr>
</tbody>
</table>
1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

2. The Home Secretary said that the Government might face a difficult situation in the forthcoming debate in the House of Commons on the two reports of the Committee of Privileges resulting from the proceedings for libel threatened by the London Electricity Board against Mr. G. R. Strauss, M.P., in connection with a letter which he had written to the Paymaster-General. The first report had recommended that letters from Members of Parliament to Ministers should be regarded as privileged and had concluded that the London Electricity Board had therefore committed a breach of privilege. The second report had recommended that no action should be taken in this particular case. The latter recommendation was likely to be generally endorsed; but the findings of the earlier report would be strongly opposed by a section of the Government's supporters. As Leader of the House of Commons and Chairman of the Committee of Privileges he had no alternative but to move that both reports be adopted. He would, however, explain in his speech the arguments for and against the findings of the first report; there would be a free vote; and he was content that members of the Government should vote as they judged right.

In discussion it was pointed out that, if the recommendation in the Committee's first report was adopted, it would extend the degree of privilege already enjoyed by Members of Parliament to include cases where the representations which they sponsored were founded on intentional malice. But the courts were unlikely to uphold the view that, in any legal action which resulted, the plaintiff was guilty of a breach of privilege. It was undesirable that the courts should be brought into collision with Parliament in this matter. It was also undesirable that the House of Commons should appear to be seeking to enlarge unnecessarily the scope of Parliamentary privilege. On balance, therefore, it was preferable that the first report of the Committee of Privileges should not be adopted. It would be convenient if some members of the Government abstained from voting on it, though any who wished to do so would be free to vote against it.

In further discussion there was general agreement with these views. It was suggested, however, that the issues involved might with advantage be referred to a Select Committee.

The Cabinet—

(1) Agreed that members of the Government should vote in favour of the second report of the Committee of Privileges on the case of Mr. G. R. Strauss, M.P., but should be free either to vote against the first report of the Committee or to abstain from voting on it.

(2) Invited the Home Secretary to consider the desirability of proposing the appointment of a Select Committee to examine the issues of privilege raised by these reports.
3. The Prime Minister informed the Cabinet that the United States Atomic Energy Commission had agreed to omit, from the preamble to the bilateral agreement between the United States and the United Kingdom about the exchange of information on nuclear energy, any reference to the purpose of this agreement which might imply that its scope extended to the civil, as well as the military, application of nuclear energy. The agreement was, therefore, now acceptable to us, and it was hoped that it might be executed and laid before Congress that day. Thereafter it would need to be published in this country as a White Paper.

The Cabinet—

Took note, with approval, of this statement.

4. The Chancellor of the Exchequer said that he had given further consideration to the best means of anticipating renewed pressure on the Government in connection with the claims of British subjects for compensation in respect of loss of, or damage to, their assets in Egypt. If possible, the forthcoming debate on this subject in the House of Lords should be postponed; and, if it would be of advantage in this connection, he would be prepared to consider extending to claims in respect of business assets the existing arrangements for making ex gratia advances which had hitherto been confined to claims in respect of private property. This possibility might be indicated confidentially to the spokesmen of the claimants when he met them, together with the Foreign Secretary, later that day. But it would be necessary to impress on them that the Government would not be prepared to contemplate a concession on these lines unless the negotiations with the Egyptian Government, which were due to be resumed in the near future, had failed to reach a satisfactory conclusion after a reasonable interval and that, in the meantime, the Government's intentions should not be made public.

The Cabinet—

Took note, with approval, of this statement.

5. The Chancellor of the Exchequer said that he proposed, subject to the approval of the Cabinet, to announce that day certain modifications of the Government's economic policy which could be made without impairing the fundamental objectives of strengthening sterling and checking the wage-price spiral. After the end of July the banks would no longer be required to restrict the total level of their advances to a prescribed figure and, for the future, bank credit would be controlled by normal monetary measures, reinforced by a new arrangement under which the Bank of England would, if necessary, restrict the liquidity of the banking system by calling for special deposits. This would be a temporary arrangement, pending the report of the Committee on Monetary Policy. In addition, a revised directive would be issued to the Capital Issues Committee, which would enable them to take a longer view of proposals put before them, would relieve them of the obligation of considering the appropriateness of bank finance for capital purposes and the duty of dealing with bonus issues and the capitalisation of reserves, and would restore the exemption limit to the former level of £50,000.
In discussion there was general agreement that these proposals were appropriate to the uncertain economic prospect which lay ahead. It was suggested, however, that this relaxation of restrictions in the private sector would make it more difficult to resist the growing pressure for increased public expenditure, especially on housing and education. On the other hand, foreign opinion was particularly alert to detect any premature easing of the control over the Government's own expenditure; and, in the light of the need to preserve overseas confidence in sterling, it was too early to adopt a deliberate policy of relaxation in the public sector.

The Cabinet—
Approved the proposals of the Chancellor of the Exchequer for a moderate relaxation of restrictions in the field of credit control.

6. The Cabinet had before them a memorandum by the Home Secretary (C. (58) 136) on prison reform.

The Home Secretary said that conditions in many of the prisons were in urgent need of improvement. The buildings were unsuited to modern conceptions of penal treatment and disproportionately expensive to maintain; and overcrowding, which was both an effect and a cause of the current increase in crime, had reached a point at which constructive work by prison staffs had become almost impossible. He therefore proposed to discuss with the Chancellor of the Exchequer, as part of the current review of capital expenditure, the possibility of building new prisons and other accommodation for the treatment of both adult and young offenders. In addition he was contemplating methods of reducing the number of persons who were sent to prison by providing more adequate facilities for the examination and appropriate treatment of offenders. Some of these measures would involve legislation, for which it might be difficult to provide time during the 1958-59 session. It would therefore be appropriate that, as an initial step, the Government's proposals should be published in a White Paper, for subsequent implementation as opportunity offered.

In discussion it was generally agreed that, while increased capital expenditure was overdue in other social services, notably the hospital service, a White Paper on penal reform would be timely and appropriate. The Cabinet were informed that the Secretary of State for Scotland wished to be associated with the discussions on capital expenditure but to reserve his position on the question whether proposals for the improvement of Scottish prisons would best be announced in a joint White Paper or separately.

The Cabinet—
(1) Invited the Home Secretary and the Secretary of State for Scotland to discuss with the Chancellor of the Exchequer the possibility of making increased capital available for the prison service.
(2) Invited the Home Secretary, after consultation with the Secretary of State for Scotland, to circulate the draft of a White Paper on penal reform.
7. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (58) 137) about pensions.

The Prime Minister said that the Cabinet should seek to reach a decision on future pensions policy in the light of the fact, emphasised in C. (58) 137, that it would not be permissible to consider financing the emerging deficit on the National Insurance Fund for a short period by realising the invested balances of the Fund unless it was reasonably clear, by the date of the 1959 Budget, that legislation to remedy the defective finances of the existing scheme would be enacted and brought into operation in the relatively near future.

The Chancellor of the Exchequer said that, in response to the suggestion of the Cabinet at their last discussion, he had ascertained that it should be possible to devise a modification of the September Plan which, while retaining the features of that Plan which were politically attractive, would also increase its prospect of solvency in the longer term. For this purpose it would be desirable to prescribe annual increases of 3d. in the flat-rate contribution instead of the quinquennial increases of 1s. which the Plan had hitherto assumed. It would also be necessary to assume that the long-term unemployment rate in the future would be 2 per cent., by comparison with the rate of 4 per cent., which was assumed for the purpose of the existing National Insurance scheme. Since the present scheme, which was also the lower tier of the September Plan, already charged the contributor more than the actuarial contribution which was justified by an assumed rate of unemployment of 4 per cent., this modification would increase the element of "overload" in the contribution. Provided that this result was politically acceptable, the September Plan, if modified as he had suggested, should remain approximately in balance for some twenty years.

On the other hand it remained open to substantial objections of principle. First, it achieved its solvency by assuming future increases in the present flat-rate contribution without increasing the existing flat-rate benefits and by employing the income of the new scheme to support the existing scheme without making any provision to finance the emerging costs of the latter. In neither respect was it defensible by comparison with the August Plan, which would redress the emerging deficit under the existing scheme without creating any serious new deficit of its own. Moreover, the September Plan would make it compulsory for all employees earning over £10 a week to make provision for old age in addition to the basic pension provided by the State. The August Plan, on the other hand, was confined to the satisfaction of basic needs and left employees free to make supplementary provision for themselves on the scale, and by the means, which they considered appropriate to their circumstances. Finally, the September Plan could not be fairly represented as enabling occupational schemes to enjoy immunity from interference by the State. A scheme which contracted out of the Plan would become subject to continuous State control, and many of the existing schemes would need to be modified in greater or less degree before they could satisfy the criteria for this purpose.

The August Plan, on the other hand, had been criticised in respect both of its treatment of self-employed persons and of the problems of abatement of occupational schemes. But these criticisms were exaggerated. Many self-employed people would pay little more, or even less, than at present; while the recent consultations with industry had confirmed that the difficulties of abatement might well be less than the difficulties of contracting out. Moreover, if the August Plan was thought to imply too great an encroachment on the private sector, it would be possible to adjust it in several ways in order to confine it to a more limited conception of basic provision. Even so, it would retain the decisive merit of avoiding a provision for contracting out, which would entail grave and increasing administrative difficulties without securing any compensating political advantage.
The Minister of Pensions said that any significant curtailment of the August Plan, by making it virtually indistinguishable from the existing scheme, would be politically unrealistic. On the other hand, the Plan, considered in its present form, compared unfavourably with the September Plan. The difference between the two conceptions was not primarily financial; it lay in the fact that the August Plan could not fail to inflict considerable damage on occupational schemes, whereas the September Plan, by providing for contracting out, would reduce the adjustment of those schemes to the minimum which industry recognised as inseparable from any new pensions policy. The precise manner in which the periodical increase in contributions under this Plan would best be adjusted would need further consideration; but if an adjustment of this kind would, in principle, satisfy the needs of the Exchequer, the case for the September Plan was made out.

It was possible, however, to envisage a compromise scheme which would, in effect, introduce the September Plan in respect of those industries which wished, and were able, to exercise a right of contracting out and would apply the August Plan to the remainder of the employed population. Such a scheme would be less attractive than the September Plan in as much as it would involve accepting, in respect of the majority of the working population, the principle of redistributive taxation which was inherent in the August Plan. Nevertheless its administrative implications—for example, in connection with the transferability of pension rights on change of employment—should be no more formidable than those of the September Plan itself. It might therefore deserve further consideration.

In discussion it was suggested that a compromise of this kind would have certain advantages. In effect, it would preserve the principle of contracting out within the framework of the financially sounder of the two Plans hitherto envisaged; and it would largely resolve the problems associated with the treatment of self-employed persons and the abatement of occupational schemes. On the other hand it might constitute an increased incentive to the more highly paid worker to contract out and might therefore prove to be less economic in its long-term operation than the August Plan.

The Prime Minister, summing up the discussion, said that it would be desirable for the compromise scheme to be further examined. Without prejudice to the result of this examination, the September Plan should also be reconsidered with particular reference to the administrative implications of contracting out, since it was mainly by reference to its practicability that the Plan must be judged.

The Cabinet—

(1) Invited the Home Secretary to arrange for the Ministerial committee on pensions policy to examine in greater detail:—

(i) the compromise scheme mentioned during their discussion;

(ii) the administrative feasibility of contracting out.

(2) Agreed to resume their discussion, in the light of the results of the enquiry under Conclusion (1) above, at a meeting in the following week.

Cabinet Office, S.W. 1.