CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 24th 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 (Items 1–2)
The Right Hon. The EARL OF HOME, Secretary of State for Commonwealth Relations
The Right Hon. JOHN MACLAY, M.P., Secretary of State for Scotland
The Right Hon. DUNCAN SANDYS, M.P., Minister of Defence (Items 1–2)
The Right Hon. IAIN MACLEOD, M.P., Minister of Labour and National Service
The Right Hon. HAROLD WATKINSON, M.P., Minister of Transport and Civil Aviation
The Right Hon. JOHN HARE, M.P., Minister of Agriculture, Fisheries and Food

The following were also present:
The Right Hon. DEREK WALKER-SMITH, Q.C., M.P., Minister of Health (Items 4–5)
Mr. J. R. BEVINS, M.P., Parliamentary Secretary, Ministry of Housing and Local Government (Items 4–5)

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. Viscount HAILSHAM, Q.C., Lord President of the Council
The Right Hon. SIR DAVID ECCLES, M.P., President of the Board of Trade.
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

Secretariat:
The Right Hon. Sir NORMAN BROOK
Mr. B. ST. J. TREND
Mr. J. M. WILSON
Mr. M. REED
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* Not previously recorded.
1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

The debate on defence for which the Opposition had asked on 28th July had been intended primarily to provide an opportunity for discussion of the White Paper on the Central Organisation for Defence. It would be desirable to seek to confine it, as far as possible, to the issues arising from that White Paper and to prevent any detailed discussion of current military activity in the Middle East.

It was proposed that Parliament should adjourn for the summer recess on 1st August, subject to arrangements for recall should this become necessary.

2. The Home Secretary said that, after reflecting further on the issues raised by the recent debate on Parliamentary privilege, he had reached the conclusion that no useful guidance could be offered to Members of Parliament by the Government in relation to Parliamentary Questions about the nationalised industries. There would be no advantage in promoting further Parliamentary discussion about the permissible scope of such Questions, although he might comment on this point in the evidence which he would give to the Select Committee on Procedure during the autumn.

His forthcoming statement on Parliamentary privilege would therefore be confined to the problem of letters from Members of Parliament to Ministers. He proposed to remind Members of their responsibility to avoid making defamatory statements which they could not justify, or transmitting to Ministers allegations which were mischievous or frivolous. He would also explain that a Member, in communicating to a Minister a malicious letter from a member of the public, would continue to be protected by qualified privilege provided that he was not himself actuated by malice. He would emphasise, however, that Ministers could not satisfactorily investigate criticisms of the administration of public services without referring to the organisations concerned the letters which they received from Members and that, in the absence of an express request to the contrary, they would feel at liberty to do so. At the same time Members could be assured that Departments would be reminded of their responsibility to exercise due discretion in this matter and to deal with letters of this nature in the most circumspect manner appropriate to each case.

In discussion there was general agreement that a statement on these lines would be appropriate.

The Cabinet—

(1) Took note, with approval, of the terms of the statement about Parliamentary privilege which the Home Secretary proposed to make in the House of Commons in the following week.

(2) Took note that the Prime Minister would arrange for Departments to be reminded of the need to exercise great discretion in dealing with letters from Members of Parliament transmitting complaints and criticisms from members of the public.

(3) Invited the Home Secretary to consider the possibility of supplying Members of Parliament with a suitable form of routine letter to be used for transmitting such complaints and criticisms to Ministers.
Middle East.
(Previous Reference: C.C. (58) 62nd Conclusions, Minute 1)
Meeting of Heads of Governments.

3. The Cabinet reviewed the latest developments in the situation in the Middle East.

The Foreign Secretary said that Mr. Khrushchev had now accepted in principle the Prime Minister's proposal that the issues arising from the military intervention by the United States and the United Kingdom in the Lebanon and Jordan respectively should be discussed at an extraordinary meeting of the Security Council, to be attended by Heads of Governments. It would be important to ensure that this discussion was confined to the situation in the Middle East and was not so enlarged as to constitute, in effect, the meeting of Heads of Governments on which we had hitherto been unable to reach agreement with the Soviet Government. It would be for the Security Council to decide which other countries should attend the forthcoming meeting. Mr. Khrushchev's proposal that the Prime Minister of India should be invited to be present should give rise to no difficulty; but it would be necessary to consider more carefully his suggestion that "the interested Arab States" should also be represented. It would be premature to attempt to convene the meeting on 28th July, as the Soviet Government proposed, since it would not be possible to complete by that time the necessary discussions with other Commonwealth countries and our allies. In the meantime, it would be desirable to counter any suggestion that there was a difference of view between the United States and United Kingdom Governments about these arrangements.

The Cabinet—
(1) Took note, with approval, of this statement.

The Foreign Secretary said that negotiations for a solution of the political differences in the Lebanon were continuing under United States auspices. There were indications that the leaders of the various Lebanese Parties were beginning to realise the need to co-operate in reaching a compromise solution in order to maintain the independence and integrity of their country. In the meantime, the Presidential election, which should have taken place that day, had been postponed for about a week.

The Foreign Secretary said that, despite the outward appearance of calm, there was an undercurrent of tension in Amman. The establishment of an overland line of communication through Aqaba, for which arrangements were being made, should help to improve the situation, since it would then be evident that the arrangements for supporting our forces in Jordan were less vulnerable. The objections which the Government of Israel were raising to the overflying of Israeli territory by British transport aircraft en route to Amman probably reflected a division of opinion in the present coalition Government in Israel. Representatives of the more extreme Parties might be attempting to exploit the present situation in order to discredit the Israeli Prime Minister. We were therefore emphasising to the Israeli Government that their obstructive attitude would only serve to encourage the elements in Jordan which were opposed to King Hussein and could have serious consequences for their own security.

In discussion stress was laid on the importance of ensuring the secrecy of the arrangements to establish an alternative supply route through Aqaba. For this reason the transfer of a company of the parachute battalion from Amman to Aqaba should be deferred until a ship carrying supplies to Aqaba had passed safely through the Suez Canal.

The Cabinet—
(2) Invited the Minister of Defence to arrange for the proposed transfer of a parachute company from Amman to Aqaba to be deferred until a ship carrying stores to Aqaba had passed through the Suez Canal.

* Previously recorded in a Confidential Annex.
Iraq.

The Foreign Secretary said that a report from Her Majesty's Ambassador at Baghdad indicated that several members of the new Republican Government in Iraq appeared to be genuinely shocked by the violence which had accompanied the coup d'état. Many of the new leaders might be actuated more by a sincere desire for domestic reform in Iraq than by sympathy with the policies of the United Arab Republic, and it was perhaps significant that the Communists in Iraq had already indicated their opposition to the new régime. Pending the forthcoming discussions with our allies about our future relations with the Republican Government, it would be expedient to maintain our present non-committal attitude.

The Chancellor of the Exchequer said that the Bank of England had been asked by the Central Bank of Iraq whether they were free to continue to draw on their sterling account. At the same time, the Jordanian authorities had requested that no withdrawal from this account should be authorised without their consent since they now claimed to control the finances of the Arab Union. The Bank of England had been advised that the Arab Union had no legal sanction for this request since the sterling account of the Central Bank of Iraq had remained under the control of the Iraqi authorities even after Iraq had acceded to the Union. Any attempt to intervene in the normal relations between the Bank of England and overseas customers would inevitably affect foreign confidence in sterling. Moreover, the Iraq Petroleum Company had so far been permitted to continue their operations and the new régime in Iraq seemed anxious to maintain commercial relations with the United Kingdom. The Bank of England would therefore allow normal business to be transacted through the Iraqi sterling account. They had been asked, however, to report any sudden request for large withdrawals of sterling.

The Prime Minister said that, in accordance with precedent, there would be no official mourning for King Feisal in this country. But consideration was being given to the possibility of arranging a memorial ceremony for the King and the other victims of the insurrection.

The Cabinet—
(3) Took note of these statements.

4. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (E.A. (58) 59) on the level of investment in the public sector in the period 1957–62.

The Chancellor of the Exchequer recalled that, in the autumn of the previous year, the Cabinet had agreed that public sector investment in 1958–59 and 1959–60 should not exceed the level achieved in 1957–58. At that time the latter figure had been estimated at £1,500 millions. In fact, it had proved to be of the order of £1,430 millions, while in the current year public investment appeared likely to amount to about £1,425 millions. So far, therefore, the objective established in the previous year had been broadly achieved. But Departmental forecasts of public sector investments in 1959–60 indicated a total of about £1,520 millions and in subsequent years this figure rose steeply to a level of £1,780 millions in 1962–63. For the year 1959–60 a total of some £1,500 millions would be tolerable. But the programmes at present envisaged for 1960–61 onwards would far exceed the resources likely to be available and would be liable to provoke a recurrence of the inflationary pressure which was only now being brought under control. It would
be reasonable to assume that, in the longer term, the gross domestic product would increase at a rate of about 2\% per cent. a year; and, in the light of the general consensus of opinion that we should devote a larger proportion of our resources to investment, it would be appropriate that in 1959–60 the level of public sector investment should be increased, by some £75 millions over the level in the current year, to a figure of about £1,500 millions; that in 1960–61 this figure should be increased by a further £75 millions; and that, in so far as it was necessary to plan further ahead, an annual growth of £75 millions should be assumed. On this hypothesis, public sector investment would increase at a rate approximately double the rate of the assumed growth in the national product; and, in the light of the other demands on the national resources, particularly in respect of private industrial investment and the essential surplus on the balance of payments, it would represent the maximum allocation of resources to investment in the public sector which could be contemplated with reasonable safety.

A decision of principle on these lines would, however, entail considerable reductions in planned programmes of investment, particularly in those cases where the forecasts indicated a sharp and rapid expansion, e.g., electricity, coal and transport. These programmes would therefore need to be critically examined by the Treasury in consultation with the Departments concerned.

As regards the remainder of the current year, it was debatable whether a total of public sector investment amounting to some £1,425 millions would suffice to prevent any serious under-employment of industrial capacity. If it became clear that unemployment was increasing, it would be possible to introduce measures which would inject into the economy an amount of additional investment expenditure which should suffice to check the decline in activity. These measures, which might include an increase in local authority house-building, could, if necessary, be brought into effect rapidly and without prejudice to the level of public sector investment as a whole in 1959–60.

In discussion the following points were made:—

(a) In the long term the solution of our economic problems would only be found in a renewed increase in production. But this would depend on private, rather than public, investment; and our objective should be to stimulate an expansion of private investment as rapidly as possible. On the other hand an expansion of public investment, in so far as it promoted additional orders for plant and equipment, might represent one of the most effective means of stimulating a revival of investment in the private sector. The nationalised industries might have a particularly important role to play in this respect.

(b) In the shorter term the need was less for an expansion of capacity than for an increase in orders which would enable existing capacity to be fully used. But the measures which might be appropriate for this purpose were also liable, by stimulating consumption, to renew the threat to the balance of payments. This risk would need to be borne in mind if it became necessary to stimulate a limited amount of additional investment to counter an increase in unemployment in the months immediately ahead.

(c) It was undesirable that the limit imposed on investment should be expressed in purely financial terms. In the absence of any margin for increases in costs, Departmental investment programmes had to be subjected to arbitrary and uneconomic modifications and the objective of steady and sustained progress was frustrated. It would be helpful if investment allocations could be assessed in terms of constant prices.

(d) There would also be advantage in distinguishing more clearly between investment which promoted new production and investment...
which comprised merely the replacement or adaptation of existing assets.

(e) Although it must remain one of our main objectives to achieve an adequate surplus on the balance of payments, the figure of £450 millions a year which was now proposed as the measure of a satisfactory surplus represented a considerable increase over any figure hitherto contemplated. If this increase was attributable to the need to make greater provision for investment overseas, it was for consideration whether such investment could legitimately expect to enjoy priority over investment at home. On the other hand, a figure of £450 millions represented no more than reasonable provision for the current surplus on the balance of payments when allowance was made, not only for the increasing demands of Commonwealth countries for development finance, but also for our liability to begin to repay our short-term dollar indebtedness in the following year and to fortify the central reserves of the sterling area at a time when the earnings of its other members were subject to the pressure of a decline in the prices of primary products.

(f) If we were to maintain the growth of the gross national product at an annual rate of 2½ per cent., it would be essential to ensure that manufacturing industry was provided with a steady flow of orders on a sufficient scale. The most effective instrument for this purpose might be a further reduction in interest rates in other European countries as well as in the United Kingdom; and, if the recession in the United States was drawing to its close, such a reduction should assist the European economy to resume industrial expansion more rapidly than normally proved possible after the delayed impact of a decline of activity in the United States.

(g) Unemployment might reach a level of about 3 per cent. by the beginning of the following year. From both the social and the political points of view it would be undesirable that the Government should appear to acquiesce in unemployment on this scale; and they must therefore be prepared to expand investment in the public sector at short notice and in a manner which would provide a selective impetus to a rapid expansion of those industries which were most likely to be adversely affected.

The Prime Minister, summing up the discussion, said that the Chancellor of the Exchequer should now discuss with the Departmental Ministers concerned their investment programmes for the years 1959-60 and 1960-61 on the basis that an increase of £75 millions in the total of public sector investment in each year would appear to be reasonable. It was important, however, that the Government should have ready a programme of short-term measures designed to take immediate effect in sustaining production and thereby ensuring employment. It would be desirable that a list of such measures should be considered by the Cabinet before the recess. If it became necessary to implement them, they should be brought into effect unobtrusively; and Government spokesmen should avoid any major pronouncement of policy which might be interpreted as indicating that the Government apprehended a serious or imminent deterioration of the economy.

The Cabinet—

(1) Invited the Chancellor of the Exchequer to discuss with the Ministers concerned the Departmental programmes of investment in the public sector for 1959-60 and 1960-61 in order to ensure that they could be accommodated within a total of investment expenditure rising by not more than £75 millions in each year.

(2) Invited the Chancellor of the Exchequer to circulate, before the summer recess, a list of measures which could be introduced, with immediate and selective effect, if it
became necessary to take urgent action to redress a decline in industrial production and a rise in unemployment.

5. The Cabinet had before them memoranda by the Minister of Education and the Secretary of State for Scotland (C. (58) 148 and 153) about a forward programme of educational policy, together with a memorandum by the Minister of Health (C. (58) 158) about hospital development.

The Minister of Education said that public opinion was receptive to a further advance in educational policy. The most striking evidence to this effect was provided by the increase in the number of pupils remaining at school after the age of fifteen. This tendency was more pronounced in the grammar schools than in the secondary modern schools; but this comparison was misleading in that relatively few secondary modern schools were adapted to provide instruction appropriate to older pupils, and the majority were in many respects little better than the old-style elementary school. It was this feature of the educational system which was at the root of the current criticism of the eleven-plus examination; and much of this criticism would be allayed if the secondary modern schools were developed on more progressive lines.

For this purpose the Government should promote a five-year programme of school building which would complete the reorganisation of the remaining “all-age” schools, would improve or replace out-of-date primary and secondary schools, would provide for all pupils who wished to continue their education after age fifteen, and would eliminate over-large classes. A programme of this kind, if timed to mature in the years between 1961 and 1965 when the number of pupils in the secondary schools would fall, would enable the Government to secure the maximum of social and political advantage at the cost of an addition of only some £6 millions to the increase in current expenditure on education which the Exchequer would in any case be called upon to meet over that period. It would, however, entail a substantial expansion of the building programme for primary and secondary schools, which would need to rise from its present annual level of £50 millions to £60 millions and eventually to £75 millions. But the impact of this programme would be relatively slight in the year 1960-61 when the other demands of public sector investment would be particularly heavy.

As part of a forward policy of this kind it would be very desirable to continue the current five-year plan of expenditure for technical education, when it came to an end in 1960-61, at approximately the current rate of £15 millions a year. It would also be necessary to offer an increase in the capital grant to denominational schools from its present level of 50 per cent. to a figure of 60 per cent. or, possibly, 65 per cent. The Government would need to maintain the principle that this grant was not applicable to the provision of new denominational schools; but they might concede that it should be extended to such schools of this nature as were needed to provide proper secondary educational facilities to match existing voluntary primary school facilities of the same denomination.

In discussion there was general agreement on the advantage of adopting a forward educational policy. On the other hand, the programme outlined in C. (58) 148 would involve very substantial additional capital expenditure in the period 1960-65; and, if such expenditure was to be accommodated within an investment programme which would be acceptable from the economic point of view, the needs of other services might suffer disproportionately. No new hospital had been completed in England and Wales since the end of the war; and, for the reasons outlined in C. (58) 158, a long-
term programme of hospital building was urgently required. Capital expenditure in connection with penal reform could also claim high priority. And if the Government’s housing policy, as exemplified by the Rent Act and the programme of slum clearance, was to prove effective, house-building must not be unduly restricted. It would be necessary for the educational programme to be considered in more detail in relation to these competing claims on investment resources.

The Cabinet—

(1) Invited the Home Secretary, in consultation with the Chancellor of the Exchequer, the Secretary of State for Scotland, the Minister of Housing, the Minister of Education and the Minister of Health, to examine the proposals in C. (58) 148, 153 and 158 in relation to the competing claims on investment resources during the next few years.

The Cabinet had before them a memorandum by the Minister of Education (C. (58) 149) discussing proposals for increasing the number of places in teacher training colleges.

The Minister of Education said that previous calculations of the number of teachers likely to be required in the next few years had been seriously affected by the emergence of new factors—an increase in the rate of retirement among married teachers, a further rise in the birthrate and an unexpectedly large increase in the number of pupils remaining at school after the age of fifteen. Some permanent expansion of the teacher training colleges was therefore inevitable, irrespective of the decision on the new programme of educational development and school building. The National Advisory Council on the Training and Supply of Teachers would shortly recommend that 16,000 additional places should be provided in the colleges. It would not be feasible to effect so large an expansion in the time available; but a minimum of 12,000 places would certainly be required. Of these, the first instalment of 2,500 had already been announced and it was desirable that a second instalment of 9,500 places should now be authorised at a capital cost of £12 5 millions over the period 1959–62.

In discussion it was suggested that, since even an expansion on the scale proposed was not likely fully to satisfy the additional demand for trained teachers, it would be preferable to adopt the more radical course of abandoning or deferring the introduction of a three-year, in place of a two-year, training course. On the other hand, this change had been announced by the Government less than a year ago and had been accepted by informed opinion as representing a substantial advance in educational policy. It would be politically impracticable to reverse the decision at this juncture, particularly if the Government were shortly to launch a major new programme of educational development. In principle, therefore, the measures proposed in C. (58) 149 should be adopted. But they should be regarded as constituting one element in the Government’s new forward programme; they should be announced simultaneously with the programme of new school building; and the expenditure which they entailed would need to be further examined, together with the expenditure attributable to the programme of school building, in the light of the competing claims of other forms of social investment on the total of investment resources likely to be available during the period in question.

The Cabinet—

(2) Approved in principle an expansion of teacher training colleges on the lines of the proposals described in C. (58) 149.
6. The Colonial Secretary said that, after prolonged examination of the future of the dockyard at Malta, the Malta Committee proposed that it should be transferred to Messrs. C. H. Bailey and Company Limited on 1st April, 1959. The arrangements contemplated would commit the Government to the expenditure of at least £4½ millions in the form of a direct grant and a debenture interest, and would involve them in the risk that the return on their outlay would be dependent on the efficiency of the firm and the co-operation of future Maltese Governments. More substantial companies to whom it had been hoped to transfer the dockyard had, however, been unwilling to assume responsibility for it and its disposal to Messrs. Bailey's was now the only practicable course, unless we were prepared to continue to maintain it ourselves in face of the political difficulties and uneconomic expenditure which such a decision would entail.

In discussion there was general agreement with this proposal. The Chancellor of the Exchequer was willing to accept its financial implications, although he reserved his position on the total amount of the capital grant subsequently to be made available to Malta for purposes of general development.

The Cabinet—

(1) Approved the arrangements proposed for the transfer of the Malta dockyard to Messrs. C. H. Bailey and Company Limited.

(2) Authorised the Colonial Secretary to announce these arrangements in Parliament during the following week.

7. The Prime Minister informed the Cabinet that The Queen had decided that H.R.H. Prince Charles should be created Prince of Wales. An announcement to this effect would be made at the conclusion of the Empire Games in Cardiff on 26th July. Her Majesty had been prevented by ill health from attending the Games in person, but she had recorded an announcement which would be broadcast in the course of the closing ceremony at the end of the Games. It would be made clear in the announcement that the formal ceremony of investment at Caernarvon Castle would not be held until His Royal Highness had grown up.

The Cabinet expressed their gratification at this decision which, they believed, would give deep satisfaction in Wales and throughout the Commonwealth.