CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 31st July, 1958, at 10·30 a.m.

Present:

The Right Hon. HAROLD MACMILLAN, M.P., Prime Minister.


The Right Hon. Selwyn Lloyd, Q.C., M.P., Secretary of State for Foreign Affairs (Item 1).

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.

The Right Hon. IAIN MACLEOD, M.P., Minister of Labour and National Service.

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 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. HENRY BROOKE, M.P., Minister of Housing and Local Government and Minister for Welsh Affairs.

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 Right Hon. REGINALD MAULDING, M.P., Paymaster-General.

The following were also present:

The Right Hon. JOHN BOYD-CARPENTER, M.P., Minister of Pensions and National Insurance (Item 4).

The Right Hon. DEREK WALKER-SMITH, Q.C., M.P., Minister of Health (Items 4–9).

The Right Hon. EDWARD HEATH, M.P., Parliamentary Secretary, Treasury.

Secretariat:

The Right Hon. Sir NORMAN BROOK.

Mr. J. M. WILSON.

Mr. M. REED.
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1. The Foreign Secretary said that the Governments of Pakistan, Persia and Turkey were likely to announce that day their recognition of the new regime in Iraq. He proposed that the United Kingdom Government should take similar action on the following day. The Cabinet agreed that, as Parliament would then be adjourning, it was unnecessary that the first announcement should be made to Parliament.

The Foreign Secretary said that there were as yet no indications of any further weakening in King Hussein's position in Jordan, but it was difficult to forecast how the situation might develop. If United Nations observers could establish themselves in Amman, this might have some effect in discouraging dissident elements. But there was little doubt that the Egyptian Government could, if they chose, stir up disaffection on the West Bank.

In discussion some anxiety was expressed about the situation in which the British troops in Amman would be placed if the whole weight of the Jordan Army were turned against them. It was desirable that they should be provided with the anti-tank weapons and other heavy equipment which they would need to meet such an attack. It would become easier to supply them with this equipment when a line of communication by land had been opened.

The Cabinet—

(1) Invited the Minister of Defence to consider what steps could now be taken to supply heavier anti-tank weapons to the British forces in Amman.

Meeting of Heads of Governments.

The Cabinet were informed that, as a result of further exchanges with the United States Government and discussions in the North Atlantic Council, some changes had been made in the text of the Prime Minister's proposed reply to the latest message from Mr. Khruschev. The main change of substance was that the reply would not exclude the possibility that the proposed meeting of the Security Council, attended by Heads of Governments, might be held in Europe.

The Cabinet—

(2) Approved the terms of the revised text of the Prime Minister's reply to Mr. Khruschev, and authorised its immediate despatch to Moscow.

(3) Took note that the text of the reply would be embodied in a statement which the Prime Minister was to make in the House of Commons that afternoon.

2. The Cabinet were informed that Parliament would adjourn for the summer recess on 1st August. An assurance would be given that Parliament would be re-convoked during the recess if the international situation developed in such a way as to make this desirable. Subject to this, Parliament would meet and be prorogued on 23rd October, and the new session would be opened on 28th October.

The Lord Privy Seal said that he would be considering during the recess what evidence he should give to the Select Committee on Procedure. If Ministers had any suggestions to make to him on this, or any comments on the evidence already given to the Committee, he hoped they would communicate with him.
3. The Prime Minister said that The Queen had given her consent to the televising of the forthcoming Opening of Parliament, and an announcement to this effect would be made in both Houses of Parliament later that day. There were indications that the division of opinion on this question in the House of Commons was sharpening but, even so, there was little doubt that the Government's decision would command a broad measure of support.

The Cabinet were informed that the question might be raised whether television of this ceremony would contravene Section 41 of the Criminal Justice Act, 1925, which made it an offence to take photographs in a court of law. The Lord Chancellor said that he was satisfied that there was no substance in this suggestion. The judicial functions of the House of Lords were subsidiary to its main function; and it was clear that on the occasion of the Opening of Parliament the House of Lords was not a court within the meaning of this section of the Criminal Justice Act.

The Cabinet—

Took note that it would be announced that afternoon in both Houses of Parliament that facilities would be given to the British Broadcasting Corporation for televising the forthcoming Opening of Parliament.

4. The Cabinet had before them a memorandum by the Minister of Pensions (C. (58) 165) to which was annexed a draft White Paper on the development of the National Insurance scheme.

The Prime Minister recalled that the Ministerial Committee on Pensions had been invited to examine certain unresolved issues of detail in the compromise pensions scheme which the Cabinet had approved in principle (a graduated scheme with contracting out and the existing flat-rate scheme for those contracted out and the self-employed). The principal issues were the treatment of the National Health Service contribution and the method of deriving additional revenue from the graduated scheme to compensate for the loss of contributions from those who were contracted out. The Committee had agreed that the National Health Service contribution should be at a flat rate, but the draft White Paper before the Cabinet reflected a compromise between divergent views on other questions: the National Health Service contribution was to remain unequally divided between employer and employee but merged with the National Insurance contribution, and the level of earnings to which the minimum contribution would be related and above which the graduated scheme would operate (the cross-bar) should be raised from £8 to £9.

The Chancellor of the Exchequer said that he would prefer that the National Health Service contribution, divided unequally between employer and employee, should be kept separate from the National Insurance contribution. With this arrangement the scheme would be simpler to present, and it would be easier to increase the National Health Service contribution if that became necessary at any time in the future. If the National Insurance contribution were fixed at 8 per cent instead of 7½ per cent, as originally proposed, the scheme could be presented as financially sound and the cross-bar could be retained at the level of £8 a week, which represented minimum earnings at the present time. If the cross-bar were raised to £9 the scope of the graduated scheme would be unduly narrowed and there would be little room for manoeuvre if, by the time the scheme was introduced, minimum earnings had risen and the...
Government had in consequence decided to raise the rate of benefit. Moreover, the compromise proposed would have the effect that the contribution for insurance benefits would be a higher percentage of earnings for higher-paid than for lower-paid workers, a principle which might be politically dangerous, and that women would receive a higher pension than men on the same earnings level, and receive it five years sooner, although they would be paying lower contributions.

The Minister of Pensions, on the other hand, favoured the inclusion of the National Health Service contribution within a total percentage contribution of 8½ per cent. of earnings and, in order to bring in the additional revenue required, the raising of the cross-bar to £9. The element of the total contribution which related to industrial injuries benefit must be at a flat rate in order to avoid pressure for graduated benefits and it followed from this that, whether or not the National Health Service contribution were included within the total, the portion of the total which related to insurance benefit (excluding industrial injuries) must represent a higher percentage of earnings for the higher-paid than for the lower-paid workers. Since, however, the total percentage was the same for all within the graduated scheme, this was little more than a presentational point. The contributions and benefits for women could probably be so adjusted as to avoid the anomaly to which the Chancellor of the Exchequer had referred.

Discussion showed that opinion in the Cabinet was divided on these issues. The effect of the Chancellor's proposals would be that at the maximum level of earnings in the graduated scheme (£15 a week) the present employee's contribution of 9s. 11d. would be raised by about 4s., as against an increase of less than 3s. entailed by the original proposals of the Minister of Pensions (including an even split of the National Health Service contribution). While the higher cross-bar of £9 might be thought preferable on social and political grounds, it would pre-empt the possibility of raising the cross-bar to finance any subsequent increase in the basic pension rate and so greatly add to the future difficulties of the scheme.

In further discussion on the draft White Paper the following points were made:

(a) The inherent merits of the graduated scheme should be more clearly presented.

(b) The background material contained in Parts I to IV of the draft should be so rearranged as not to obscure the impact of the Government's proposals.

(c) The examples illustrating the effect of these proposals on contributors should be set out more clearly and forcibly. In particular, some examples in the present draft were misleading in that they did not reveal the extent to which women were more favourably treated than men.

(d) Some diagrammatic representation of the effect of the emerging deficit might be included.

(e) The White Paper should be published at the end of September or early October, before the Conservative Party Conference.

The Prime Minister, summing up the discussion, said that further consideration should be given to the issues of policy which remained unresolved. Meanwhile, a draft Bill should be prepared on the basis of the compromise put forward by the Ministerial Committee: this could, if necessary, be amended in the light of later
decisions. At the same time, the draft White Paper should be revised in order to present the Government's proposals in a form as attractive and intelligible as possible.

The Cabinet—

(1) Agreed that further consideration should be given to the treatment of the National Health Service contribution and the level of the cross-bar.

(2) Authorised the Minister of Pensions to arrange for a Bill to be drafted, provisionally and subject to Conclusion (1) above, on the basis that the National Health Service contribution should remain unequally divided between employer and employee and should be merged in the total percentage contribution and that the level of the cross-bar should be £9 a week.

(3) Invited the Minister of Pensions to prepare a revised draft White Paper on the same provisional basis taking account of the points agreed in their discussion.

The Chancellor of the Exchequer recalled that on 24th July the Cabinet had invited him to submit a list of measures which could be introduced, with immediate and selective effect, to redress a decline in industrial production and employment. There were some indications that the decline in employment had been checked during the past month. He had, however, come to the conclusion that it would be wise to inject into the economy at this stage an additional expenditure of about £30 millions on projects which would quickly provide employment, especially in areas where unemployment was relatively high. He therefore proposed that authority should be given for work to be started on an additional 7,500 houses in England and Wales, and he also proposed the expenditure of £9 millions on maintenance and equipment of hospitals, £1 million on maintenance of Government buildings and £5 millions on miscellaneous local government projects, including roads and some minor educational works, in areas of high unemployment. In selecting these measures account had been taken of the cuts imposed on these programmes in the past, the extent to which additional expenditure in the current year would relieve the investment overload in future years, and the need to direct additional work to areas of high unemployment. It was hoped that about one-third of the total would be placed in such areas, providing work for about 10,000 people. On present forecasts expenditure of this amount should suffice to meet the situation. If, however, the level of unemployment increased unexpectedly, it would be possible to authorise further short-term projects which could be undertaken quickly.

The Chancellor of the Exchequer said that he also proposed that, towards the end of August, there should be a relaxation of control over the initial deposits on hire purchase arrangements over a wide range of industrial products, particularly machinery and plant.

In discussion there was general agreement that it would be expedient to inject into the economy an additional amount of investment expenditure of the order of £30 millions. Although the primary aim was to provide additional employment in areas where unemployment was relatively high, some of the measures proposed were designed to help the national economy as a whole. The size of the provisional allocation for hospital maintenance took account of the fact that the hospital programme had been severely cut. But, by the same criterion, there was a strong case for some further
increase in the education programme, where many minor works could be started quickly. The possibility of increasing the allocation to such projects should be considered further.

There was also general support for the proposal to relax controls on hire purchase. In view of the indications of a fall in demand for engineering projects, it was suggested that these relaxations might subsequently need to be extended.

It would be undesirable that any general announcement should be made about the proposals for additional investment during the current year. These should be put into operation separately, by administrative action. It would, however, be necessary to announce the relaxations in the control over hire purchase. That announcement might be made during the week beginning 25th August.

The Cabinet—

1. Agreed that an additional £30 millions of investment expenditure should be undertaken in the public sector in the current financial year.

2. Invited the Chancellor of the Exchequer to discuss further with the Ministers concerned whether a larger proportion of this expenditure could effectively be applied to minor works under the education programme and a lesser proportion to maintenance work on hospitals.

3. Invited the President of the Board of Trade to arrange for the proposed relaxation in hire-purchase control to be announced during the week beginning 25th August.

6. The Home Secretary made an interim report on his consultations with the other Ministers concerned on the scope of increased investment in the social services in future years. A constructive policy on the social services was both necessary and politically valuable, but it must not be pressed forward at the risk of imperilling the country's finances. The main features of the programme should be pensions, schools, hospitals and prisons. No capital investment would be required for the first. The competing claims of the others, in the years 1959-60 and 1960-61, must be settled within the total investment programme agreed in principle by the Cabinet.

In discussion it was suggested that, in the sphere of housing, the main advance should now be made in connection with house purchase rather than through local authority programmes.

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3. Invited the President of the Board of Trade to arrange for the proposed relaxation in hire-purchase control to be announced during the week beginning 25th August.

7. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (58) 166) on the Government's proposals for assistance for the small farmer.

The Chancellor of the Exchequer said that these proposals had now been discussed with the National Farmers Unions and, as a result, the supplementary scheme (which had originally been designed to provide assistance on a temporary basis both to farm businesses
not likely to be viable in the foreseeable future and to those which, though fundamentally viable, were not yet able to embark on any comprehensive programme of improvement) had been modified to exclude the non-viable businesses, except those covered by the existing marginal production schemes. The effect would be to reduce the total number of farmers eligible for assistance from 130,000 to 90,000. The schemes would enable the Government to claim a net credit of some £5 millions at the next Annual Review but would involve the Exchequer in additional expenditure on fertilisers and on the ordinary subsidies for ploughing-up to the extent of about £3½ millions.

The Minister of Agriculture said that the only point on which there had been substantial disagreement with the Unions was their desire to have part of the assistance in the form, not of grants, but of interest-free loans, the capital for which would be provided outside the Annual Review. This could not be accepted, partly because of the objection to providing additional funds for agriculture outside the Annual Review and partly for practical reasons of administration. Assistance by way of grants might, however, enable the farmers themselves to negotiate loans through the banks, which would have considerable political as well as financial advantages.

In discussion there was general agreement with these proposals. The Government were virtually committed by the last White Paper on the Annual Review to introducing the necessary legislation during the 1958–59 session and it should be passed early in the session in order that credit for the new schemes could be taken at the 1959 Annual Review. Arrangements should therefore be made to draft the Bill and the accompanying White Paper without delay.

The Cabinet—

Approved the proposals in C. (58) 166.

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8. The Cabinet had before them a memorandum by the Minister of Transport and Civil Aviation (C. (58) 170) on the negotiations between British Overseas Airways Corporation (B.O.A.C.) and Kuwait Airways.

The Minister of Civil Aviation said that protracted negotiations with Kuwait Airways by both B.O.A.C. and Hunting Clan had failed to produce any satisfactory commercial agreement. He had therefore asked the Corporation to conclude an agreement on the best terms possible, even if this involved them in a loss; and a contract had been signed in time for operations to begin early in June. Although the agreement was likely to involve the Corporation in a loss of £100,000, at any rate in the first year, it would serve the national interest by averting the risk that an Egyptian airline would establish itself in Kuwait.

The Cabinet—

(1) Took note, with approval, of C. (58) 170.

The Cabinet also had before them a memorandum by the Minister of Transport and Civil Aviation (C. (58) 172) on the degree of noise which would be made by jet aircraft in the approaches to London Airport.

The Minister of Civil Aviation said that the agreement for reciprocal services between Moscow and London by British European Airways (B.E.A.) and Aeroflot had been made on the explicit understanding that the noise level of the Soviet jet TU-104 aircraft would be subject to our approval before the services began.

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It appeared that Aeroflot had not been able to fit noise suppressors to the TU-104 without a substantial loss of power. They had, however, opened operations between Moscow and Amsterdam and Moscow and Brussels and would shortly operate to Paris. Thus the projected service by B.E.A. to Moscow was being held back while their competitors on the continent were able to operate such a service. He therefore proposed to inform the Soviet Government that he would be prepared to allow the TU-104 to operate to and from London Airport, subject to fairly severe restrictions designed to reduce disturbance caused by the noise of its engines. This concession would mean that at a later date other big jet aircraft would also have to be allowed to use London Airport, but the operating conditions in each case would be adjusted to the noise characteristics of the particular aircraft. These restrictions on foreign jet aircraft should work to the advantage of the Comet, which had a much lower noise level.

The Cabinet—

(2) Approved the proposals in C. (58) 172.

9. The Prime Minister said that during August and the first half of September the Standing Committees of the Cabinet would not meet for the transaction of ordinary business: urgent business on subjects normally handled by them would be dealt with by the Cabinet itself. For emergency business, especially business arising from the situation in the Middle East, meetings of the Defence Committee or the Cabinet would be held as necessary; and these meetings would be attended by such Ministers as were in London or within easy reach of it. Ministers directly concerned with the handling of that situation would need to adjust their holiday plans in the light of developments; but other Ministers need not at present make any change in the arrangements which they had made for the first part of the recess. Throughout August there would be enough Ministers in the United Kingdom to enable the essential urgent business of the Cabinet to be carried on. If the situation changed, and different arrangements had to be made, a further notification would be sent to the individual Ministers concerned.

10. The Cabinet were informed that the sterling area reserves of gold and dollars had suffered no net loss during July. Sterling had remained remarkably strong in the face of recent events in the Middle East. It was likely that, owing to seasonal factors, there would be some drop in the reserves in August and September.