CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 25th September, 1958, at 11 a.m.

Present:
The Right Hon. HAROLD MACMILLAN, M.P., Prime Minister
The Right Hon. VISCOUNT KILMUIR, Lord Chancellor.
The Right Hon. VISCOUNT HAILSHAM, Q.C., Lord President of the Council.
The Right Hon. LORD MILLS, Minister of Power.
The Right Hon. GEOFFREY LLOYD, M.P., Minister of Education.

The following were also present:
The Right Hon. JOHN BOYD-CARPENTER, M.P., Minister of Pensions and National Insurance (Item 1).
Mr. J. K. VAUGHAN-MORGAN, M.P., Minister of State, Board of Trade (Items 2-3).

Mr. J. E. S. SIMON, Q.C., M.P., Financial Secretary, Treasury.

Secretariat:
The Right Hon. Sir NORMAN BROOK.
Mr. B. ST. J. TREND.
Mr. M. REED.
<table>
<thead>
<tr>
<th>Minute No.</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pensions</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Tin</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>Aluminium</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Far East</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Cyprus</td>
<td>6</td>
</tr>
<tr>
<td>6</td>
<td>Middle East</td>
<td>7</td>
</tr>
</tbody>
</table>
1. The Cabinet had before them:—

(i) a memorandum by the Minister of Pensions and National Insurance (C. (58) 189), to which was annexed a revised draft of the projected White Paper on the new pensions scheme;

(ii) a memorandum by the Lord Chancellor (C. (58) 191) discussing the desirability of publishing, through the agency of the Stationery Office, a popular version of the White Paper, prepared by the Central Office of Information.

The Minister of Pensions said that the draft White Paper embodied various amendments which had resulted from discussion of the text by the Ministerial Committee on Pensions. The only outstanding point of substance arose on Appendix II, which comprised a table illustrating the future income and expenditure of the new scheme. This table indicated that, on the assumption that the first quinquennial increase in contributions took effect from 1st April, 1966, the scheme would incur, in the first three quinquennial periods, an average annual deficit which was rather larger than would be consistent with the basic hypothesis that the Government's proposals had been devised in order to put the finances of National Insurance on a sound foundation. These deficits could be reduced to negligible amounts if the first quinquennial increase in contributions was advanced by one year, i.e., to 1965. The presentational disadvantage of requiring the first increase of this nature at the end of four, rather than five, years from the beginning of the scheme would be reduced if the principle of quinquennial increases was applied also to the Exchequer supplement.

In discussion there was some support for the view that it would be unwise that a scheme which was explicitly designed to restore the financial integrity of the National Insurance system should be seen to operate at an average annual deficit for the greater part of the first two decades of its life. On the other hand, the deficit was insignificant by comparison with that which, as was made clear in the White Paper, would arise if the existing insurance scheme was continued without modification. Moreover, the calculations in Appendix II of the White Paper were based on the assumption that earnings would increase at a rate of only 2 per cent, per annum. In so far as this rate was exceeded, the average annual deficit under the new scheme would be reduced. The balance of political advantage therefore seemed to lie in launching the scheme on the basis of a small measure of deficit financing in its early years rather than in rectifying this anomaly by an arbitrary acceleration of the first quinquennial increase in contributions which would be liable to be resented by contributors on whom the new scheme would, in any event, bear sufficiently hardly. If the initial deficits provoked public criticism, it would be possible to make the necessary adjustment in the scheme before legislation was introduced in Parliament.

A quinquennial increase in the Exchequer supplement would be an additional reinforcement during the early years of the new scheme, in that it would eliminate the residual average annual deficit which would remain even if the first quinquennial increase in contributions was advanced by one year. Moreover, it would have the presentational advantage of preserving the principle, which had been inherent in the National Insurance system from the beginning, that the finances of National Insurance rested on a tripartite partnership of employer, employee and Exchequer, in which each party carried a proportionate share of the burden. On the other hand, the new scheme should yield an average annual surplus in its later years even without a quinquennial increase in the Exchequer supplement; and it was undesirable to inflict an additional burden on the Exchequer.
in order to resolve a temporary and minimal embarrassment of the scheme in the first years of its life. The scheme would benefit from the outset from the fact that the Exchequer supplement which it would receive was higher than the corresponding supplement to the existing system of National Insurance; and the Chancellor of the Exchequer would see strong objection to any further increase in this commitment. The question could, however, be reconsidered before legislation was introduced to bring the scheme into operation.

In further discussion the following points were made:—

(a) The statistical calculations throughout the White Paper were based on an assumption of an average level of unemployment of 3 per cent. This was lower than the figure currently assumed for the purposes of long-term forecasts in relation to the National Insurance scheme. In order to anticipate any misinterpretation of this change, it should be made clear, at the relevant points in the text, that until 1951 the rate of unemployment assumed for such forecasts had been 8½ per cent., that it had been reduced in 1951 to 4 per cent, and that it could now reasonably be reduced still further to 3 per cent.

(b) Appendix II indicated that the assumptions about the level of future unemployment and the probable extent of contracting out under the new scheme were based "on Government instructions." Although this phrase might give rise to some misunderstanding, it should be retained in the text, since the assumed rate of unemployment represented a modification of a hypothesis for which the Government had always accepted responsibility, while the assumption about the degree of contracting out was inevitably, at this stage, insufficiently precise to constitute the basis of actuarial calculation.

Discussion then turned to the advisability of publishing, through the agency of the Stationery Office, a popular version of the White Paper, prepared by the Central Office of Information. It was agreed that precedent, although inconclusive, indicated that the Government would be liable to be challenged about the propriety of publishing, as a charge to public funds, a popular version of proposals which were to be the subject of legislation in the near future. Moreover, it would be tactically unwise to allow public attention to be diverted from a discussion of the merits of the new proposals by an irrelevant controversy on this minor issue.

The Cabinet—

(1) Approved, subject to the amendments agreed in their discussion, the draft White Paper on pensions annexed to C. (58) 189.

(2) Invited the Minister of Pensions to arrange for the publication of the White Paper, as amended, on 14th October, 1958.

(3) Agreed to defer for later consideration the question whether, before legislation on this subject was introduced in Parliament, the date of the first quinquennial increase in contributions should be advanced by one year and the principle of quinquennial increases should be applied to the Exchequer supplement.

(4) Agreed that no further steps should be taken to publish, through the agency of the Stationery Office, a popular version of the White Paper, prepared by the Central Office of Information.

Tin.

(Previous Reference: C.C. (58) 71st Conclusions, Minute 6.)

2. The Cabinet had before them a memorandum by the Minister of State, Board of Trade (C. (58) 190), on the latest developments in the world tin market.

The Minister of State, Board of Trade, said that the floor price of tin had broken on 18th September but that thereafter the price
had not fallen to the extent which had originally been feared. Meanwhile, the International Tin Agreement remained in being and the import restrictions on Russian tin were being maintained. The Soviet Trade Commissioner had recently made representations against these restrictions; but there was some reason to believe that the Soviet Government were in fact contemplating adhering to the Agreement. In accordance with the Cabinet's earlier decision, we had invited the United States Government to consider the possibility of negotiating a reconstruction of the Agreement which would place the scheme on a sounder basis; but it seemed unlikely that they would be willing to co-operate in any venture of this kind.

In discussion it was agreed that the results of the fall in the price of tin had, so far, been less serious than had been expected. Public opinion in Malaya and Nigeria remained unshaken; and there appeared to be no disposition in those countries to blame the United Kingdom for the interruption in trading. Nevertheless, we should continue to seek to enlist the interest and support of the United States Government in creating a more stable and economic basis for international dealing in tin.

The Cabinet—

Invited the Minister of State, Board of Trade, to arrange for further developments in the international tin market to be kept under close review, in concert, so far as possible, with the United States Government.

Aluminium.

3. The Minister of State, Board of Trade, said that, in response to a request from the Canadian Government that we would take action to counter the dumping of Russian aluminium in this country, we had informed the Soviet Government that, unless they were prepared to limit their exports of aluminium to the United Kingdom, we should be compelled to impose an anti-dumping duty. The Soviet Government had now agreed to accept a limit on their exports.

The Cabinet—

Took note, with approval, of this statement by the Minister of State, Board of Trade.

Far East.

(Previous Reference: C.C. (58) 70th Conclusions, Minute 1.)

4. The Minister of State for Foreign Affairs said that the dispute over Quemoy and the offshore islands appeared to have reached a deadlock. Little progress had been made in the discussions in Warsaw between the Ambassadors of the United States Government and the People's Government of China, although the latter seemed unwilling to break off the discussions entirely. Meanwhile, the Chinese Nationalist forces were having considerable success in running the blockade of Quemoy, and could probably maintain their position on the island for some time ahead.

The Prime Minister said that he had agreed to receive that day a deputation from the Trades Union Congress (T.U.C.) to discuss the situation in the Far East. He proposed to say little more than he had already said in his published reply to the recent letter from the Leader of the Opposition, namely, that the dispute should be resolved by peaceful means rather than by force.

In discussion it was agreed that a continuation of the stalemate at Quemoy might offer the best prospect of securing a period of relative tranquillity in the area, during which it might be possible to
arrange for the opposing forces to disengage without loss of prestige. But since the approach by the T.U.C. was prompted primarily by political motives, any communique issued at the end of their interview with the Prime Minister should not be merely non-committal in tone but should indicate that the Prime Minister was in close and active consultation with the President of the United States in an endeavour to promote a peaceful solution of the problem. Provided that a statement of this kind could avoid any implication that we favoured a negotiated withdrawal of the Chinese Nationalist and United States forces from the islands, there would be advantage in indicating that the Western Powers retained the political initiative and were not, as the Socialist Opposition maintained, merely waiting passively on a further deterioration in the situation.

The Cabinet—

Took note that the Prime Minister, in consultation with the Minister of Labour and the Minister of State for Foreign Affairs, would give further consideration, in the light of their discussion, to the terms of the communique which might be issued at the end of his forthcoming interview with leaders of the Trades Union Congress about the situation in the Far East.

5. The Prime Minister said that M. Spaak, the Secretary-General of the North Atlantic Treaty Organisation (NATO), had proposed that the United Kingdom plan for the future of Cyprus should be suspended pending consideration, at a conference of the Governments of the United Kingdom, Greece and Turkey, together with representatives of the two Cypriot communities, of a modified version of this plan prepared by himself and pending the submission to the International Court of Justice of a question on the interpretation of the Treaty of Lausanne, which the Greek Government maintained was infringed by the United Kingdom plan. Meanwhile, it seemed likely that the Turkish Government would accept a suggestion, put forward by the United States, that, as a temporary measure, they should appoint their Consul-General at Nicosia to act as the Governmental representative whom they were entitled, under our plan, to install in Cyprus on 1st October. An arrangement of this kind would represent a welcome conciliatory gesture on the part of Turkey.

In discussion it was suggested that, in view of the alarm engendered among the members of NATO by the Greek threat to leave the Organisation, it might be desirable to accept M. Spaak's proposal for a further conference. There could be no question, however, of our suspending our own plan; nor should we allow public attention to be diverted from it, at this stage, in favour of other solutions which might be put forward. While there might be no objection to the discussion, at an international conference, of possible modifications in our plan, the plan itself must be accepted as constituting the agenda of the conference.

The Cabinet—

(1) Took note that the Prime Minister, in consultation with the Colonial Secretary and the Minister of State for Foreign Affairs, would give further consideration to the reply to be sent to the proposal by the Secretary-General of the North Atlantic Treaty Organisation for an international conference on Cyprus.

(2) Invited the Attorney-General, in consultation with the Minister of State for Foreign Affairs, to submit an Opinion on the interpretation of the Treaty of Lausanne in relation to the United Kingdom plan for Cyprus.
6. The Minister of State for Foreign Affairs informed the Cabinet that the new President of the Lebanon, General Chehab, had appointed the Leader of the former Opposition Party to be Prime Minister. As a result the Lebanese Government were likely to send an early request to the United States Government to withdraw their forces from the Lebanon.

The report of the Secretary-General of the United Nations on his recent visits to the Lebanon and Jordan was to be presented to the General Assembly on 30th September. Meanwhile, the Secretary-General was pressing the Egyptian Government to comply with the Assembly's resolution of 21st August, which was directed to preventing interference by the Arab nations in each other's affairs. If the Egyptian response was satisfactory, it might become possible, and desirable, to consider the withdrawal of our forces from Jordan.

The Cabinet—

Tog note of this statement by the Minister of State for Foreign Affairs.

Cabinet Office, S.W.1,