CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1., on Monday, 29th September, 1958, at 11 a.m.

Present:

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

The Right Hon. VISCOUNT KILMUIR, M.P., Lord Chancellor.

The Right Hon. D. HEATHCOAT AMORY, M.P., Chancellor of the Exchequer.

The Right Hon. JOHN MACLAY, M.P., Secretary of State for Scotland.

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.

The Right Hon. SELWYN LLOYD, Q.C., M.P., Secretary of State for Foreign Affairs (Items 1–4).

The Right Hon. ALAN LENNOX-BOYD, M.P., Secretary of State for the Colonies (Item 4).

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. HAROLD WATKINSON, M.P., Minister of Transport and Civil Aviation.

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

The following were also present:

The Right Hon. CHRISTOPHER SOAMES, M.P., Secretary of State for War (Items 1–3).

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

The Right Hon. DEREK WALKER-SMITH, Q.C., M.P., Minister of Health (Item 5).

Marshal of the Royal Air Force Sir WILLIAM DICKSON, Chief of the Defence Staff (Items 1–3).

Secretariat:

The Right Hon. Sir NORMAN BROOK.

Mr. B. ST. J. TREND.

Mr. M. REED.
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1. The Foreign Secretary informed the Cabinet that, during his recent visit to the United States, he had ascertained that supplies to Quemoy and the other Chinese offshore islands were being maintained but that the morale of the defending forces was precarious. There was now some reason to believe that the People's Government of China were not contemplating an early attack on Formosa; and, if the present stalemate could be prolonged, some means might be found of negotiating the neutralisation of the offshore islands. Since, however, the United States Government were unwilling to agree that the People's Government of China should acquire sovereignty over the islands, it would be necessary to find a formula which, while allowing the opposing forces to disengage without loss of prestige, would leave the legal status of the islands undefined.

In discussion it was suggested that, since the negotiations in Warsaw between the Ambassadors of the United States Government and the People's Government of China seemed unlikely to lead to any settlement, the most hopeful course might be some form of negotiation sponsored either by the United Nations or by the Governments mainly concerned. Alternatively it might be preferable to adopt a purely military approach to the problem and to endeavour to persuade the Chinese Nationalist Government to withdraw their forces, on grounds of strategic advantage, to a more tenable position. It would be inadvisable that we should press the United States Government to move towards a solution on these lines more rapidly than they themselves saw fit. But it was for consideration whether the Prime Minister should send a personal message to the Head of the Government, inviting him to use his influence to promote a negotiated settlement about the offshore islands.

The Prime Minister, summing up the discussion, said that the publication of such a message would not necessarily be to our political advantage. It would be preferable that, in continuation of the discussions which the Foreign Secretary had already had with Mr. Gromyko at the United Nations General Assembly, he should suggest to the Soviet Ambassador in London that the Soviet Government should exert their influence to secure the abjuration of force in the Far East.

The Cabinet—

Invited the Foreign Secretary to make representations to the Soviet Ambassador in London on the lines agreed in their discussion.

2. The Foreign Secretary said that the report by the Secretary-General of the United Nations on the situation in the Middle East would be presented to the General Assembly on the following day. This would emphasise the importance of the Assembly's resolution of 21st August calling on the Arab States to refrain from interfering in each other's affairs; and it would propose the establishment of a United Nations Headquarters in Amman, with branches in Beirut and Damascus, and the appointment of a United Nations representative in the Middle East. Meanwhile the internal situation in Jordan appeared to have become more stable and King Hussein now wished to announce on 1st October that the withdrawal of British troops would begin on 20th October. It would be wise that we should take the initiative in this matter rather than postpone the decision until it would appear to have been taken under pressure from the Afro-Asian bloc in the United Nations. It might therefore be appropriate that we should ourselves announce on 1st October that, having considered the Secretary-General's report and taken note of the assurances given by the Arab countries that they would comply with the resolution of
21st August, we had decided that, provided that satisfactory progress was then being made in implementing this Resolution, we would begin to withdraw our troops from Jordan on 20th October and would hope to complete the operation in three weeks.

In discussion the following points were made:

(a) Provided that we could obtain the right to overfly Syria or Israel, or preferably both, it should be possible to complete the withdrawal within three weeks. A decision on overflying was, however, urgent since evacuation by sea would take longer.

(b) Once the withdrawal had begun, it could not be reversed.

(c) Our forces would require ten days' notice of the beginning of the operation. The withdrawal of the United States forces from the Lebanon was to begin on 15th October and completed within 14 days. If our own withdrawal from Jordan did not begin until 20th October there would be a period during which British troops would remain in Jordan when all United States troops had left the Lebanon. Provided that our intention to withdraw our forces was announced on 1st October, the exact date for the beginning of the movement might be further considered; but there would be advantage in accepting, if possible, the date of 20th October which the Jordanian Government had suggested.

(d) It would be undesirable to evacuate locally resident British subjects at the same time. They were probably in no greater danger than British subjects in Iraq, and we should avoid creating the impression that we were now severing all connection with Jordan. This question might, however, need to be reconsidered if the announcement of the withdrawal of our troops was followed by anti-British demonstrations.

The Cabinet—

(1) Invited the Foreign Secretary to give further consideration to the date on which the withdrawal of British troops from Jordan should begin, on the lines indicated in their discussion.

(2) Subject to Conclusion (1), invited the Foreign Secretary to announce on 1st October that the withdrawal would begin on 20th October and should be completed within three weeks.

(3) Agreed that British subjects should not be evacuated from Jordan on the withdrawal of our troops.

3. The Cabinet had before them a memorandum by the Minister of Defence (C. (58) 194) seeking authority to introduce in the following Parliamentary session a Bill to renew the Navy, Army and Air Force Reserves Act, 1954, and to make certain extensions in the powers to call up reservists without a Proclamation.

The Secretary of State for War said that, in the event of global war, all three Services would need to rely on reservists whose liability to recall rested on the Act of 1954, which would expire in June 1959. It was therefore proposed to renew this Act for a further five years, but to restrict its application to men who joined the Forces after 1948, thus excluding the older men called up under wartime powers. In certain circumstances short of global war it would be necessary to recall a certain number of reservists in order to bring units up to full strength and to provide them with the necessary administrative support. It would be convenient if reservists could be recalled for this purpose without a Proclamation. But the Government's powers in this respect were confined to the recall, for

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oversea service, of Section A of the Regular Army Reserve and Category 1 of the Army Emergency Reserve; and the numbers available from these sources were insufficient to meet the probable requirement. It was therefore proposed to establish a new section of the Territorial Army composed of men who, in return for a special bounty, would voluntarily accept a liability to be embodied for service at home or overseas without a Proclamation.

In discussion it was agreed that the mere renewal of the 1954 Act would probably provoke relatively little public or Parliamentary comment. But the proposal to seek new powers to create an additional body of reservists would be liable to provoke enquiry about the Government’s intentions on the future of National Service and the scale of their other preparations to deal with an emergency. It would be premature to reach a decision about the scope of the forthcoming legislation until these issues had been examined in greater detail.

The Cabinet—

(1) Appointed a Committee consisting of:—
Home Secretary (in the Chair)
Minister of Defence
Minister of Labour
Secretary of State for War
Financial Secretary, Treasury
to examine the proposals in C. (58) 194 in relation to the measures which might need to be taken as regards the future of National Service and the introduction of emergency powers legislation.

(2) Invited the Home Secretary to arrange for this Committee to submit an interim report to the Cabinet as rapidly as possible on the scope of the legislation to be introduced in the forthcoming session of Parliament to extend the Navy, Army and Air Force Reserves Act, 1954.

4. The Prime Minister said that he had given further consideration to the proposal made by M. Spaak, the Secretary-General of the North Atlantic Treaty Organisation (NATO), 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 which he himself had prepared. Both the Greek and Turkish Governments had endorsed this proposal in principle and it would be inexpedient for us to reject it. On the other hand, there could be no question of our abandoning our own plan in favour of the scheme which M. Spaak had now put forward. Nor was there any reason why we should change our policy in response to the latest suggestion by Archbishop Makarios that, after an agreed interval of self-government, Cyprus should attain independence guaranteed by the United Nations. Our reply to M. Spaak should therefore indicate that, while we could not agree to suspend the progressive application of the policy which we had announced on 18th June and 15th August, we were prepared to accept in principle his proposal for an international conference on Cyprus, provided that such a conference was held on the basis and within the scope of our own plan. We might also indicate that, as we had repeatedly made clear, we were prepared to consider modifications of this plan provided that they received the unanimous approval of all the three Governments concerned.
In discussion there was general agreement with this proposal. The Greek Government would probably maintain that our insistence that our own plan should constitute the basis of the conference would prejudice the discussions from the outset. But we could not abandon this stipulation without sacrificing the support of the Turkish Government and reviving their demand for a partition of the Island. They had now confirmed that they would be prepared to nominate 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; and this gesture was further evidence of their willingness to adopt a co-operative attitude which we should be unwise to discourage by agreeing, at this late stage, to suspend our plan.

The Cabinet—
Invited the Foreign Secretary to arrange for a reply to be sent, on the lines agreed in their discussion, to the proposal by the Secretary-General of the North Atlantic Treaty Organisation that an international conference on Cyprus should be convened.

5. The Cabinet had before them—
(i) a memorandum by the Financial Secretary, Treasury (C. (58) 196) examining Departmental programmes of social investment in relation to competing claims on investment resources during the next few years; 
(ii) a memorandum by the Minister of Education (C. (58) 197) discussing the effect on educational policy of the reduction in the investment programme for education which was proposed in C. (58) 196.

The Chancellor of the Exchequer said that the Cabinet had already decided in principle that the investment programme for 1960–61 should be higher by £150 millions than the programme for the current year. This represented an increase at the rate of 5 per cent. per annum over the next two years and, since this increase was greater than the assumed annual growth in the national product, it represented the maximum expansion in investment which it would be prudent to envisage in present circumstances. Departmental programmes, however, exceeded the proposed allocation for 1960–61 by some £100 millions, and it was therefore necessary to consider how they should be reduced by this amount. A proportionate reduction in the case of social investment would be of the order of £25–£30 millions, towards which housing must make a major contribution. But the hospitals building programme should be reduced by some £3 millions and the educational building programme by some £8½ millions. A reduction of this order could be reconciled with the forward drive in education which the Cabinet had approved in principle in the light of the agreed provision for expansion of the universities and technical colleges and of the fact that, in the case of primary and secondary schools, resources which had hitherto been allocated to building to meet the “bulge” could henceforward be gradually diverted, as the “bulge” passed out of the schools, to improve the older school buildings.

The Minister of Education said that, if the programme of educational investment was curtailed to the extent proposed by the Chancellor of the Exchequer, it would be impossible for the Government to present, in the autumn, a forward policy giving clear and significant priority to the development of educational facilities. From the point of view of presentation, the amount of building started in a given year was more important than the amount of work done in that year. The programme which he had proposed
envisaged that starts of educational buildings would rise from £46 millions in 1959–60 to £60 millions in 1960–61. The counter proposal of the Chancellor of the Exchequer, however, would confine starts in the latter year to the same level as in 1959–60. The expansion of the universities and technical colleges demanded a corresponding improvement of the primary and secondary schools from which they drew their pupils. And the measures which had recently been announced to increase the supply of trained teachers would fall short of achieving their full purpose, both socially and politically, if they were not matched by a corresponding improvement in school premises. If the educational drive was to be convincing, the 1960–61 programme must be, and must be seen to be, significantly greater than the 1958–59 programme of £51 millions in terms of building starts. The minimum allocation for this purpose would be £55 millions.

The Minister of Health said that the figure of some £3 millions, by which it was proposed to reduce the hospital building programme in 1960–61, was trivial in relation to the investment programme as a whole, but was significant in terms of the long overdue improvement in hospital accommodation. Although a reduction of this order would not prevent some increase in the rate of starts for major schemes, it would imply that the allocation to Hospital Boards for normal projects would be confined to the level of 1959–60, with the result that this allocation would have remained static in money terms, and would have declined in real terms, for four successive years.

The Minister of Housing said that, politically, it would be very damaging to reduce the rate of starts in public authority housing to an annual level of 92,500, as proposed by the Chancellor of the Exchequer. He would be prepared, however, to give further consideration to the possibility of adopting a figure lower than the 120,000 which he himself would prefer.

In discussion there was general recognition of the importance of maintaining an adequate control over the volume of public investment in the interests of the Government's economic policy as a whole. On the other hand, the total provision for social investment as proposed for 1960–61 by the Departments concerned showed an increase of only £3 millions over the provision for the current year. If it was further reduced on the lines suggested by the Chancellor of the Exchequer, the steady decline in social investment in each year since 1956–57, both absolutely and in relation to the total investment programme, would be even more sharply accentuated. Further thought should therefore be given to the possibility of reconciling the limits prescribed by the Cabinet for the investment programmes for 1959–60 and 1960–61 with a forward policy in education and the hospitals service. It might be reasonable that educational building in the latter year should be allowed to rise to a total of some £52 or £53 millions, if necessary at the expense of some reduction in the provision for minor works. It might also be possible to confine the reduction in hospital building to only £1½ millions. These possibilities should be further examined in the context of the current review of the reductions which would need to be secured in the rest of the investment programme, comprising mainly the transport and fuel and power industries; and a final decision should be taken when this review was complete in the latter part of October.

The Cabinet—

(1) Invited the Chancellor of the Exchequer to consider further, in consultation with the Minister of Education, whether starts of educational building in England and Wales in 1960–61 should be raised to a level of £52 or £53 millions.
(2) Invited the Chancellor of the Exchequer, in consultation with the Minister of Health, to consider further whether the curtailment of the hospital building programme in England and Wales in 1960–61 should be confined to a figure of £1½ millions.

(3) Invited the Chancellor of the Exchequer, in consultation with the Minister of Housing, to give further consideration to the level of public authority house-building in England and Wales in 1960–61.

(4) Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Scotland, to consider what alterations in Departmental building programme in Scotland might be made consistently with the modifications envisaged in Conclusions (1), (2) and (3) above.

(5) Agreed to resume their discussion in October when the review of the investment programme as a whole was complete.

6. The Cabinet had before them a memorandum by the Lord Chancellor (C. (58) 195) reporting the results of an examination, by a Committee of Ministers under his Chairmanship, of proposals by the Secretary of State for Scotland and the Minister of Housing and Local Government for the introduction of new measures to facilitate home ownership.

It was proposed that the Government should lend money to building societies participating in the scheme and that the societies should undertake to grant 95 per cent. mortgages on houses valued at not more than £2,500 and built before 1919. The total amount of these loans would, in the case of each society, form the limit of the Government’s loan to the society, subject to an aggregate total of £100 millions for the advances by the Government. In addition, to the extent that their own funds were adequate to meet the demand, the societies would grant 95 per cent. mortgages on houses valued at not more than £2,500 and built between 1919 and 1940. In either case the rate of interest charged would not exceed that payable on the societies’ ordinary mortgages. This rate was currently 6 per cent. The societies borrowed, however, at about 5 per cent., and would hope to obtain advances from the Exchequer on the same terms. But the Government would be vulnerable to criticism if they lent money to the societies at a rate of interest substantially lower than that which they charged to the nationalised industries and the New Towns Corporations and to the local authorities. They would appear not only to be subsidising the building societies, but also to be giving home ownership unjustifiably high priority as compared with the productive investment of the nationalised industries and the whole range of social investment by local authorities. Moreover, they would invite strong pressure from the latter to reduce the rate of interest at which they could borrow from the Exchequer; and the whole of the Government’s interest rate policy would then be jeopardised. For these reasons the new scheme should only be contemplated if the societies could be induced, in negotiation, to agree to pay interest on money borrowed from the Government at a rate not more than ½ per cent. lower than the rate they charged to their own borrowers and if the Government were prepared to resist all pressure to extend similarly favourable treatment to the local authorities and the nationalised industries.

In addition it was proposed that a revised system of improvement and conversion grants should be introduced, under which the local authorities would in future have no discretion to refuse applications for grant and, in the case of certain “standard improvements,” the owner’s share of the cost would, where he took advantage of the new house-purchase scheme, be advanced by the building society.
(2) Invited the Chancellor of the Exchequer, in consultation with the Minister of Health, to consider further whether the curtailment of the hospital building programme in England and Wales in 1960-61 should be confined to a figure of £1½ millions.

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The Minister of Housing said that he would be obliged to make a statement on this subject at the forthcoming Conference of the Conservative Party. He proposed that this should be in general terms, indicating merely that the Government had it in mind to introduce measures to assist people who were unable to buy houses for themselves under the existing arrangements and so to widen the field of house purchase. This would not commit the Government to operating the new scheme either through the building societies or through the local authorities and would thus strengthen their position in negotiating with the former. He would enter into these negotiations immediately after the Conference and would report further to the Cabinet as soon as possible thereafter.

The Cabinet—
Approved the proposals in C. (58) 195.

Cabinet Office, S.W. 1,
29th September, 1958.