CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Wednesday, 22nd January, 1958, at 10:30 a.m.

Present:

The Right Hon. R. A. BUTLER, M.P., Secretary of State for the Home Department and Lord Privy Seal (in the Chair).

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 MAUDLING, M.P., Paymaster-General.

The following were also present:

The Right Hon. JOHN BOYD-CARPENTER, M.P., Minister of Pensions and National Insurance (Item 2).

The Right Hon. DERICK WALKER-SMITH, Q.C., M.P., Minister of Health (Item 2).

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

Secretariat:

Mr. B. ST. J. TREND.

Mr. J. M. WILSON.

Mr. I. P. BANCROFT.

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1. The Home Secretary said that the debate on the Report of the Tribunal of Enquiry into the alleged premature disclosure of the decision to raise Bank Rate would take place in the following week. The Cabinet would need to discuss, before the debate, the Government's attitude to the problem of the conflict of loyalties to which a member of the Court of the Bank of England might be subjected if he was required, while discharging his normal obligations to his partners and associates in business, to be party to the discussion, within the Bank, of matters of such consequence as an increase in Bank Rate.

In discussion it was suggested that the Government's supporters in the House of Commons might wish to table amendments to the formal Government Motion on which the debate would be based, in order to emphasise the undesirability of any attempt by Members of the House of Commons to take advantage of Parliamentary privilege in order to impugn the personal honour of individuals who, not being Members of Parliament, were unable to make any effective reply. It was agreed that amendments of this nature need not be discouraged provided that they were so worded as not to embarrass the Government in supporting them.

The Cabinet—

(1) Agreed that the debate on the Report of the Tribunal of Enquiry into the alleged premature disclosure of the decision to raise Bank Rate should take place on 30th January.

(2) Invited the Chancellor of the Exchequer to circulate, before this debate, a memorandum discussing the Government's policy towards the problem of the conflict of loyalties to which members of the Court of the Bank of England might, in certain circumstances, be subjected.

2. The Cabinet resumed their discussion on the level of Government expenditure in 1958-59.

The Chancellor of the Exchequer said that the fresh scrutiny of Departmental Estimates which the Cabinet had invited him to undertake had revealed new economies of slightly more than £1 million, which could be further supplemented by a saving of £1 million, or possibly £2 millions, on the Estimate for the Assistance Board. He was satisfied that it would not be possible to reduce ordinary Departmental expenditure any further without taking wholly unwarranted risks. In addition, however, if it proved possible to reduce to 350,000 or 325,000 the level of unemployment to be assumed in 1958-59 for the purpose of calculating the deficit on the National Insurance Fund, that deficit would be reduced from £23 millions to either £16 millions or £14 millions.

On these assumptions Government expenditure in 1958-59 would remain in excess of its level in the current year by an amount of the order of £68 millions or £66 millions. If this increase was to be reduced to a figure significantly below £50 millions, there was no alternative to a substantial increase in the National Health Service contribution; and after further consideration he had reached the firm conclusion that this contribution should be increased by 8d. as from 1st July. An increase of this order would suffice to achieve the Government's objective in 1958-59 and would provide a margin from which to meet, without any further increase in the contribution,

* Previously recorded in a Confidential Annex.
subsequent increases in the cost of the National Health Service. It would not infringe the principle that not more than 20 per cent. of the cost of this Service should be financed by contributions and charges; and, if it was apportioned between employer and employee in the ratio of 2d. and 6d., the payment required of the latter would still be marginally less than 10s. 6d. It was now politically essential to achieve some identifiable economy in the social services, and of all the possible courses which the Cabinet had discussed an increase in the National Health Service contribution was the least open to objection.

The Minister of Labour said that, after discussing with his advisers the incidence of unemployment to be assumed in 1958–59, he had reached the conclusion that a figure of 350,000 could properly be adopted. This hypothesis, which provided for a small increase of 25,000 in unemployment in the forthcoming year, would reduce the emerging deficit on the National Insurance Fund to £16 millions.

The Minister of Pensions and National Insurance said that an increase of 25,000 unemployed persons in an insured population of some 23 millions was so marginal that he would feel justified in assuming that the deficit on the National Insurance Fund in 1958–59 would not exceed £14 millions. This figure had been quoted in recent Parliamentary debates and it would be impolitic to modify it in the absence of any significant alteration in the economic factors by reference to which the change could be publicly justified.

In discussion it was suggested that, although it would be unwise to imply that the Government's economic policies were liable to produce a substantial degree of unemployment, it would be no less undesirable to indicate that these policies were likely to have no effect in reducing the pressure on the labour market. Nor should it be assumed that, if an industrial recession developed in the United States, the level of employment in this country would remain unaffected. On a balance of these considerations, the higher figure of £16 millions might be the more appropriate measure of the probable deficit on the National Insurance Fund; but the question should be further considered by the Chancellor of the Exchequer in consultation with the Minister of Labour and the Minister of Pensions.

In further discussion there was general agreement that an increase in the National Health Service contribution, of the order proposed by the Chancellor of the Exchequer, was probably unavoidable if the Government were to demonstrate beyond question their ability to limit the increase in their expenditure in 1958–59 to a sum appreciably less than £50 millions. The increase in this contribution was admittedly open to considerable objection. It would be ill-received by public opinion, which would regard it as little more than the equivalent of a regressive poll-tax; and its announcement, at the moment when the latest increase in the National Insurance contribution would be first coming into effect, would be unfortunately timed. Nevertheless, there was no longer any possibility that re-examination of Departmental Estimates would secure the required economies; and, in these circumstances, the proposed increase in the National Health Service contribution must be accepted. Its apportionment as between employer and employee would, however, need further consideration, together with the proposal that the deficit on the National Insurance Fund might be financed by the realisation of part of the invested balances of the Fund.

The Cabinet—

(1) Agreed in principle that the element in the National Insurance contribution which was attributable to the National Health Service should be increased by 6d. with effect from 1st July, 1958.

(2) Agreed that this increase should be announced immediately before the publication of the Vote on Account.
(3) Invited the Chancellor of the Exchequer to give further consideration, in consultation with the Ministers concerned, to the apportionment of this increase between employer and employee.

(4) Invited the Chancellor of the Exchequer to submit to the Cabinet in due course his detailed proposals for bringing this increase into operation.

(5) Invited the Chancellor of the Exchequer, in consultation with the Minister of Labour and the Minister of Pensions and National Insurance, to give further consideration to the incidence of unemployment in 1958–59 to be assumed for the purpose of calculating the deficit on the National Insurance Fund in that year.

(6) Agreed to resume, at a later meeting, their consideration of the proposal that the deficit on the National Insurance Fund in 1958–59 might be financed by realising part of the invested balances of the Fund.

Arts Council.

3. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (58) 14) about the grant to the Arts Council for 1958–59. The Chancellor of the Exchequer said that the Exchequer grant to the Arts Council had risen rapidly in recent years until it now stood at a level of £985,000. The Council had indicated that, while the activities which they at present supported could continue on a grant of £1,100,000 in 1958–59, any lesser grant would probably compel them to bring to an end their support of Sadler’s Wells and of a number of symphony orchestras. In that event Sadler’s Wells would probably have to be closed and the orchestras disbanded. Nevertheless, there was no case in existing circumstances for conceding the Council a grant of more than £1 million; and a decision to this effect would provide striking evidence of the Government’s determination to enforce all possible economies in public expenditure. The Gulbenkian Foundation might, however, be disposed to supplement an Exchequer grant of £1 million, at least during the interval until they received the report of the enquiry which they had recently instituted into the whole problem of the financial support of the arts in this country.

In discussion the following points were made:—

(a) The closure of Sadler’s Wells would remove one of the outstanding attractions which this country had to offer to foreign tourists. It would also be criticised by public opinion, which would tend to regard the administration of Covent Garden as offering more appropriate scope for economy.

(b) A saving of some £200,000 to £250,000 might be achieved by the abandonment of the scheme, to which the Government were not pledged, for the preservation of the Colcutt Tower as part of the Commonwealth Institute Building.

The Cabinet—

(1) Agreed that the Exchequer grant to the Arts Council for 1958–59 should not exceed £1 million.

(2) Invited the Chancellor of the Exchequer to seek to arrange for this sum to be supplemented by a grant from the Gulbenkian Foundation on such a scale as would avoid, if possible, the closure of Sadler’s Wells.

(3) Invited the Chancellor of the Exchequer to report further, at a subsequent meeting, on the possibility of securing a substantial economy in respect of the Colcutt Tower.
4. The Cabinet had before them memoranda by the Foreign Secretary (C. (58) 9 and 13) dealing respectively with relations with the Soviet Union and the reply to Mr. Bulganin's letter of 9th January, 1958.

The Foreign Secretary said that in a recent message the Prime Minister had suggested that, in this further reply to Mr. Bulganin, he should offer to visit Moscow himself to discuss with the Soviet leaders the timing and agenda for a meeting of Heads of Government. While there was a clear need for some imaginative new initiative to break the present deadlock on the question of further negotiations with the Soviet Union, a proposal on these lines would be likely to provoke anxiety and suspicion among our Allies and to be interpreted in this country as indicating a weakening in the attitude hitherto adopted by the Government. After consultation with the Home Secretary, he had conveyed to the Prime Minister these objections to his proposal and had suggested that the further reply to Mr. Bulganin should concentrate on the topics which we should be prepared to discuss at a meeting of Heads of Government and on the preparatory arrangements which would be needed to ensure that the meeting produced positive results.

In discussion the Cabinet endorsed the view that it would be advisable for the Prime Minister to propose a personal visit to Moscow. There might be less objection to a visit by some other Minister in order to assess whether the Soviet leaders genuinely desired to enter into negotiations or were merely proposing a further meeting of Heads of Government for purposes of propaganda.

The Cabinet next considered the terms of the draft reply to Mr. Bulganin.

The Foreign Secretary explained that the items for discussion had been set out in considerable detail with a view to convincing public opinion, particularly in the uncommitted countries, that we had reasonable counter-proposals to those put forward by the Soviet leaders. The subjects which we had in mind would, however, have to be agreed with our Allies, many of whom were doubtful about the advantages of further discussions with the Soviet Union. It would probably help us to obtain their agreement to the procedural proposals in the later part of the draft reply if the suggested topics for discussion were described in reasonable detail.

In discussion it was suggested that the general tone of the reply should be rather less contentious than in the draft annexed to C. (58) 13, since the main objective was to alleviate the present sense of frustration about the possibility of an improvement in the relations between the Soviet Union and the Western Powers. To this end it would be preferable to give greater emphasis to our genuine desire to enter into negotiations with the Soviet Union and to abbreviate the reply without sacrificing the substance of the present draft. For example, under certain headings it would be possible merely to refer to previous statements of our views on a particular question without repeating them in detail. It might also be desirable to prepare a shorter and less ambitious list of topics for an initial meeting, on the understanding that there would be further discussions if this initial meeting was successful. We should accept the Soviet suggestion about the location of a meeting and we should seek to reach agreement on the timing. In our reply we should suggest that the meeting should be held "in the mid-year." If agreement could be reached on the place and date for a meeting, the Western Powers would be in a position to place on the Soviet leaders the onus for any delay if they refused to agree to reasonable preparatory arrangements.

In further discussion the following points were made:—

(a) It might be preferable to alter the present order of the draft reply by inserting paragraphs 12–15 immediately after the two opening paragraphs. We should thus avoid the implication in the existing
draft that Soviet acceptance of the proposed list of topics for
discussion was a prerequisite to the holding of a meeting, while
making it clear that the meeting should discuss not only the items
which the Soviet leaders had suggested but also the points of interest
to the West.

(b) In paragraph 4 (a) it would be preferable to omit the existing
reference to “a joint effort to prevent the use of outer space for
military purposes,” since we had only offered, in the Western
disarmament proposals, to set up a committee of experts to study this
problem. Any control of outer space could only be contemplated as
part of a comprehensive disarmament agreement since, pending such
an agreement, the use of ballistic missiles would be essential to the
maintenance of an effective deterrent.

(c) It would be desirable to refer specifically to the Middle East
as one of the suggested topics for discussion.

(d) The reference to the question of trade with the Soviet Union
might need to be expanded, and further consideration should be given
to this problem.

The Home Secretary said that the draft reply, amended in the
light of the discussion, would be submitted to the Prime Minister.
Members of the Cabinet might welcome an opportunity to reconsider
the revised text in the light of the Prime Minister’s comments.

The Cabinet—

(1) Invited the Foreign Secretary to prepare a revised draft reply
to Mr. Bulganin in the light of their discussion and to
arrange for it to be submitted to the Prime Minister.

(2) Took
note that the Home Secretary would arrange for the
revised draft to be circulated when the Prime Minister’s
comments had been received.

(3) Invited the President of the Board of Trade to circulate a
memorandum on trade with the Soviet Union.

The Foreign Secretary referred to a recent Soviet announcement
about the establishment of an area in the Middle East in which nuclear
weapons would be banned. He suggested that Her Majesty’s
Ambassador at Moscow should be authorised to enquire whether this
announcement constituted a formal proposal by the Soviet
Government; whether there would be a corresponding zone in the
southern part of the Soviet Union; and whether the proposal
comprised adequate arrangements to ensure that its provisions would
be implemented. Our Allies in the North Atlantic Treaty
Organisation could not reasonably object to an initial enquiry on these
lines.

The Cabinet—

(4) Approved the Foreign Secretary’s proposal.

The Foreign Secretary said that during his forthcoming visit
to Ankara for the meeting of the Council of the Bagdad Pact he would
discuss with the Turkish Government their objections to our latest
proposals for constitutional development in Cyprus and would explore
further the possibilities of devising some form of federal institutions
for the Island and of arranging for Turkey to enjoy a military base
there. He would also propose to indicate that, while we intended to

* Previously recorded in a Confidential Annex.
honour our undertaking about the right of the Turkish Cypriot community to determine its future status and were prepared, if necessary, to embody this undertaking in a formal treaty, we maintained our view that the partition of the Island was a solution which we were prepared to consider only in the last resort. He would seek to enlist the co-operation of the United States Secretary of State, who would also be in Ankara for the Baghdad Pact meeting and had indicated that he supported our proposals. If, however, the Turkish Government remained obdurate, it would be necessary for him, before he left Ankara, to seek guidance from the Cabinet, as a matter of urgency, on the tactics to be adopted.

In discussion there was general agreement with these proposals. The following points were made:

(a) The Turkish Government had objected to the Governor of Cyprus visiting Ankara for discussions if he also intended to visit Athens. Nevertheless, it would be desirable for the Governor to take part in the discussions at Ankara and the Foreign Secretary should make renewed efforts to this end.

(b) The discussions should be so conducted as not to exclude the possibility of partitioning the Island, if necessary, at an earlier point than was envisaged, as a hypothesis, in our latest proposals. If terrorism broke out again in Cyprus, we could not afford indefinitely to devote military resources to its repression.

(c) The Turkish economy depended to a considerable extent on the provision of United States aid. The United States Secretary of State should therefore be able to exercise a proportionately greater influence on the Turkish attitude towards our proposals.

(d) The Canadian Government should be informed, at the appropriate time, of developments in the situation; and the Prime Minister would no doubt inform the Australian and New Zealand Governments of the position during the course of his visit to these two countries.

The Cabinet—

(1) Invited the Foreign Secretary to be guided, in his forthcoming discussions with the Turkish Government about Cyprus, by the considerations which had emerged during their discussion.

(2) Agreed to resume their consideration of constitutional developments in Cyprus at a future meeting in the light of the results of the Foreign Secretary's discussions in Ankara.

6. The Foreign Secretary said that a meeting of the Council of the Baghdad Pact was to be held in Ankara from 27th-30th January. The United States Government would offer a contribution of $10 millions towards expenditure arising in connection with the Pact. There was no need for the United Kingdom to make any further funds available at the present time, especially since the assistance which we had already offered had not yet been fully committed. The question of a further United Kingdom contribution could be examined in due course.

The Cabinet—

Took note, with approval, of the Foreign Secretary's statement.
7. The Cabinet had before them a memorandum by the Minister of Transport (C. (58) 15) about a request by the Transport and General Workers' Union that the Minister of Labour should set up a committee of enquiry into the current London bus dispute.

The Minister of Transport said that, following a statement by the London Transport Executive (L.T.E.) that they could not afford to make any offer in response to the claim by their bus crews for a wage increase of 25s. 0d. a week, the union had refused to accept arbitration and had requested that a committee of enquiry should be established. A rejection of this request would be contrary to precedent and would be liable to precipitate a strike of bus workers, which might well extend to dockers and railway workers. If, however, it was decided to constitute the committee, two courses were open. The L.T.E. might state, at the outset, that in no circumstances could they afford to implement any increases which might be recommended: but it would probably be necessary for the Government to issue a direction to them in this sense. Alternatively, they could make it clear in their evidence that they had not asked for the committee to be set up, that they could not undertake to be bound in advance by its findings, and that they could not afford to make any offer of an increase in wages. It would be understood, in any event, that the L.T.E. would consult the Government before reaching a decision on the findings of the committee. If the committee recommended only a modest increase in wages, the Government might need to issue a public direction to the Executive not to implement it.

In discussion it was suggested that it would be difficult to refuse the request of the union, particularly as it had been made with the concurrence of the L.T.E. and it was generally assumed that, in these circumstances, the Minister of Labour would agree to establish the committee. Public confidence in the Government's adherence to their disinflationary policy was not likely to be shaken, provided that it was made clear that neither the Government nor the L.T.E. were committed to accept the committee's findings, which would, in any case, be addressed to the parties to the dispute and not to the Government. Moreover, the committee might prove unable to reach unanimous conclusions or might decide to make no precise recommendations. Alternatively, their recommendations might be either so inflated as to be capable of being rejected outright by the L.T.E. or so low as to be refused by the union. In any of these eventualities the Government's position would be strengthened rather than weakened, whereas a refusal to establish the proposed committee would be liable to provoke widespread industrial unrest, directed not against the employers but specifically against the Government for failing to follow the accepted pattern of negotiation. If industrial agitation of this nature had to be settled in the end by the appointment of a committee, the Government's authority would be undermined.

On the other hand it was argued that a decision by the Government to set up the committee would be widely interpreted, both in this country and abroad, as a sign of retreat from the disinflationary policy. This was the first major wage claim of the present series and, particularly since it concerned a nationalised industry, would be regarded as a test of the Government's determination to secure wage restraint. If the proposed committee recommended only a modest increase in wages, the Government might find difficulty in directing the L.T.E. not to implement this recommendation, since it would represent the considered opinion of an independent body set up by the Government themselves. The bus workers' claim was unlikely to command the support of public opinion generally: and it might therefore be wiser to refuse to establish the committee on the ground that such an enquiry could

* Previously recorded in a Confidential Annex.
serve no useful purpose in the light of the Transport Executive's repeated statement that they could not afford to concede any increase in wages. As an alternative, the parties might be invited to establish their own committee or to submit the issue to arbitration. While both these courses were open to objection—the first because it might not be practicable, the second because it might result in a higher award—they had the advantage that the Government would avoid becoming directly involved in the dispute.

The Home Secretary, summing up the discussion, said that the Government's attitude towards the bus workers' claim might exercise a decisive influence on the success of the policy of wage restraint. The Cabinet would therefore need to give further consideration to the issues involved.

The Cabinet—

Agreed to resume their discussion at a subsequent meeting.

8. The Foreign Secretary said that the Central Office of Information had sponsored the production of a film of the recent United Kingdom thermo-nuclear tests in the South Pacific. It would be inopportune, however, to release this film for public exhibition at the present time in the light of the public expectation that the projected discussions with the Soviet leaders might result in genuine progress towards disarmament.

The Cabinet—

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

The Home Secretary informed the Cabinet that an announcement would be made on 24th January of the recent achievement of a controlled thermo-nuclear reaction at the Atomic Energy Research Establishment. It was desirable that Ministers, in any public reference to this announcement, should describe it in terms which, while in no way diminishing the significance of this further advance by the United Kingdom in the development of nuclear energy, would not excite premature expectations of its commercial application or imply that we had necessarily established a decisive advantage over other countries with whom we sought to co-operate in nuclear research.

The Cabinet—

(2) Invited the Chancellor of the Duchy of Lancaster to circulate a memorandum indicating the terms in which Ministers might appropriately refer in public to the achievement of a controlled thermo-nuclear reaction by the Atomic Energy Research Establishment.

Cabinet Office, S.W. 1.
22nd January, 1958.