CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Thursday, 7th May, 1959, at 10-15 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.

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 (Items 4-7).

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

The Right Hon. JOHN HARE, M.P., Minister of Agriculture, Fisheries and Food (Items 1-6).

The Right Hon. REGINALD MAUDLING, M.P., Paymaster-General (Items 3-6).

The following were also present:

The Right Hon. JOHN BOYD-CARPENTER, M.P., Minister of Pensions and National Insurance (Item 3).

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

Secretariat:

The Right Hon. Sir NORMAN BROOK.

Mr. F. A. BISHOP.

Mr. M. REED.

Mr. J. S. ORME.
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1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

It was agreed that special efforts should be made to complete the preparation of the Cotton Industry Bill with a view to its being published, together with the White Paper, before Parliament rose for the Whitsun recess.

2. The Cabinet had before them a memorandum by the Foreign Secretary (C. (59) 81) on the proposal that the Brussels Treaty should be so amended as to enable Germany to undertake the joint production of anti-aircraft missiles.

The Foreign Secretary said that at the meeting of the Council of the Western European Union on 29th April the French had favoured an amendment which would do no more than modify the dimensions to which the Treaty already allowed Germany to manufacture anti-aircraft missiles so as to enable them to take a share in the joint production of the HAWK missile. He was disposed to favour this course, especially if the permitted dimensions were enlarged sufficiently to enable Germany to co-operate in the joint production of the British missile SUPER BLOODHOUND. Such an amendment could be justified to public opinion on the basis that these were strictly defensive weapons, and that it was to the advantage of the North Atlantic Alliance as a whole that this use should be made of Germany's industrial capacity.

In discussion there was general support for the views expressed by the Foreign Secretary.

The Cabinet—

Approved the proposals in paragraph 11 of C. (59) 81.

3. The Cabinet had before them a memorandum by the Home Secretary (C. (59) 80) reporting the conclusions of a Ministerial and National Committee which had been appointed to consider whether any improvement could be made in the rates of retirement pensions or national assistance.

The Home Secretary said that the Committee had considered the possibility of a further increase in the basic rate of retirement pension, but had come to the conclusion that there was at the present time no acceptable method of meeting the cost. Any such increase would have to be extended to other National Insurance benefits and to war pensions and the total cost, on the basis of an increase of 10s. 0d. would amount to not less than £210 millions in the first full year and would rise in every year thereafter. This cost could not be met wholly from the Exchequer and, if it were shared between the Exchequer and the contributors, it would involve an increase of 1s. 9d. a week in the contribution of both employers and employees.

On the other hand, there was a sound case for increasing both the current scale rates of national assistance and the limits below which various types of income were disregarded for the purpose of assessing the applicant's need. The real value of the scale rates had remained almost unchanged since 1948 and that of the disregards had been substantially diminished. An increase of 5s. 0d. for a single person and 9s. 0d. for a married couple would provide help for those who needed it most. This, together with increases in the "disregards," could be presented as a measure of social reform to improve the standard of living of the poorest section of the community.
The Minister of Pensions said that, in his view, this plan to improve national assistance was the least disadvantageous of the alternatives open to the Government. It was, however, important that the plan should be adopted as a whole, since the National Assistance Board, without whose recommendation the scale rates could not be increased, held strongly that any such increase should be accompanied by an improvement in the disregards. In addition, some changes in terminology and administrative procedures might be introduced, with a view to alleviating the stigma which was thought to attach to national assistance.

The Chancellor of the Exchequer said that he was seriously concerned about the cost of this plan. The first forecasts of Government expenditure in 1960-61 showed an unprecedented increase, and it seemed likely that the Government would be faced with a difficult task, later in the year, in reducing the Estimates to manageable proportions. He was therefore reluctant to agree that as much as £32 millions should be added now by a new decision of policy.

In discussion there was general agreement that no further increase could now be made in the basic rate of retirement pension. The plan for improving national assistance might bring the Government little political credit. There was, however, some public uneasiness about the position of the poorest of the retirement pensioners, who would receive no benefit from the recent income tax concessions or from the forthcoming Pensions (Increase) Bill. The proposals now before the Cabinet would be regarded as going some way to meet this. Moreover, so far as concerned the effect on the Exchequer, it was probable that the National Assistance Board would in any event recommend some improvements before the end of the year.

If the plan was to be made politically attractive, some changes in terminology and in payment arrangements should be further considered. It was, however, important that such changes should not accentuate the alleged stigma on recipients of national assistance who were not pensioners.

In further discussion attention was drawn to the difficulty of finding time in the present session for the legislation which these proposals would involve. It was suggested that the increase in the scale rates might be effected at once by regulations and that the Government might announce their intention of introducing legislation to improve the disregards in the next session. Alternatively, it might be possible to pass in the current session a simple Bill empowering the Minister of Pensions to determine the future levels of all disregards by statutory instrument subject to negative resolution. This would not only save Parliamentary time; it would also reduce the danger of pressure to increase the disregards beyond the level which the Government thought right.

Summing up the discussion, The Prime Minister said that the general feeling of the Cabinet was evidently in favour of the full plan to improve national assistance proposed in C. (59) 80. Further consideration should be given to the best method of giving effect to the plan—in particular, to the form and timing of the legislation and statutory instruments which would be required. The possibility of changes in terminology and administrative procedures relating to national assistance should also be further examined.

The Cabinet—

(1) Decided not to proceed with the proposal for an increase in the basic rate of retirement pension.

(2) Agreed to accept proposals by the National Assistance Board for increasing the scale rates of national assistance and adjusting the disregards on the lines indicated in C. (59) 80.
3. Invited the Home Secretary to arrange for the Ministerial Committee on Pensions to consider further the form of the legislation and regulations required to give effect to such proposals.

4. Invited the Minister of Pensions to consider what changes could be made in terminology and administrative procedures with a view to alleviating the stigma thought to attach to national assistance.

4. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (59) 77) outlining the form and scope of the enquiry which he proposed to institute into the principles and practice governing the control of public expenditure.

Discussion showed that some Ministers were doubtful whether it was necessary to initiate such an enquiry, which would occupy a considerable time, in the concluding stages of the present Parliament. As against this, it was argued that a reply to the report of the Select Committee on Estimates was overdue, and that a reply which did not envisage any further enquiry into this subject was unlikely to be acceptable to Government supporters in the House of Commons. Moreover, among other sections of informed opinion, there was some feeling that the existing practices and procedures for controlling public expenditure ought to be brought under review.

The Cabinet—

Invited the Chancellor of the Exchequer to submit, for the approval of the Prime Minister, detailed proposals on the general lines suggested in C. (59) 77 for an enquiry into the principles and practice governing the control of Government expenditure.

5. The Cabinet considered a memorandum by the Minister of Transport (C. (59) 84) proposing the appointment of a Committee to consider the future of rural bus services.

In discussion it was recognised that there was growing pressure for Government action designed to arrest the decline of public transport in rural areas. The Budget concession on excise duty for buses did not discriminate in favour of services in rural areas; and difficulties in the Committee Stage of the Finance Bill would be eased by an early announcement that a Committee was to be appointed to consider other methods of dealing with this problem. On the other hand, there was a real risk that a Committee might make embarrassing recommendations involving direct Government support for rural bus services; and this point should be borne in mind in determining the composition of any Committee.

The Cabinet were also informed that, although this problem was specially acute in certain parts of Scotland, there were no circumstances which warranted the appointment of a separate Committee for Scotland.

The Cabinet—

(1) Agreed that a Committee should be appointed to consider the future of rural bus services throughout Great Britain, and that an early announcement should be made of the Government’s intention to appoint such a Committee.

(2) Invited the Minister of Transport and the Secretary of State for Scotland to settle the composition and terms of reference of this Committee in consultation with the Chancellor of the Exchequer.
6. The Chancellor of the Exchequer said that, with the failure of the negotiations for a Free Trade Area there was a serious danger that, unless the other European countries could work out some common commercial policy, each would eventually be constrained to make the best terms they could with the Common Market. Since we could not ourselves join the Common Market on satisfactory terms, we should become isolated and our trade and economic strength would suffer increasingly. There was therefore advantage to us in co-operating in the Swedish initiative for a European Trade Association (E.T.A.).

The Ministers directly concerned had examined the recommendations of officials on the Swedish proposals and certain concessions which we might have to make on agriculture and fish in this connection. They had reached the conclusion that the proposed E.T.A. was not only a means of preventing other European countries from acceding to the Common Market; it was also the best means of eventually achieving an all-European Free Trade Area. In any case, the project offered considerable advantages for United Kingdom industry as a whole. It was therefore recommended that if the Swedish Government, after sounding the other countries concerned, proposed the establishment of a working party of officials to pursue this project, we should agree to participate in it. We should not be committed to a final decision in principle until a Ministerial meeting was held in, say, June but it was likely that we should eventually have to make certain concessions on agriculture and fish. The most important concession would be to remove the tariff on bacon, in the interests of securing Danish participation.

It would be important that the limited effects of these concessions should be clearly explained to the industries affected. They must also be brought to understand that the project was in the best interests of our economy as a whole. The project would also have some small disadvantages for Canada, as regards certain industrial products, and for New Zealand, as regards blue cheese, and it would also be necessary to meet the apprehensions of these and other Commonwealth countries by full consultation and explanation. A general indication of our attitude to the Swedish proposals had already been given to the Commonwealth officials now meeting in London.

In discussion the following points were made:

(a) While it should be possible to justify the project to Commonwealth countries and to secure their acquiescence in the concessions which we might have to make, it would also be necessary to show that the E.T.A. was a preferable alternative to some closer association between the Commonwealth and Europe. There was considerable public interest in the possibility of such an association, and it would have to be explained that it would, in practice, be difficult to reconcile the commercial interests of the Commonwealth with those of Western Europe.

(b) The immediate Swedish proposals were limited to a free trade area for industrial goods, and the inclusion of Denmark in the E.T.A. was not therefore essential. But, in view of the tradition of Scandinavian unity, it was doubtful whether Sweden and Norway would be prepared to join in the E.T.A. if we were not prepared to make such concessions on agriculture as proved necessary for the purpose of gaining Denmark's adhesion. We must therefore decide what concessions on agriculture we would be prepared in due course to consider. If it were necessary to offer these concessions, and if Sweden and Norway thought them reasonable, there was a good chance that they would join the E.T.A. even if Denmark rejected the concessions as insufficient and refused to join.

(c) It would be easier to justify a concession on bacon if this took the form of a duty-free quota instead of the removal of the tariff. But a duty-free quota would not meet the requirements of the General Agreement on Tariffs and Trade, unless we gave a
corresponding concession to other countries, including members of the Common Market, which we would not wish to do. Removal of the tariff would not seriously affect our pig producers, since their real protection was the price support system. Although removal of the tariff would lead to a reduction in bacon prices, it was not thought that there would be a significant increase in Danish imports at the expense of home production. Moreover there was a further safeguard for our producers in the possibility of a reduction in the quota for Polish bacon. The main effect of the removal of the tariff on bacon would fall on the Exchequer, in the form of both increased price support and loss of revenue.

The Prime Minister, summing up the discussion, said that the industrial strength on which our economy was based would best be preserved by pursuing the Swedish proposals for the E.T.A. It would be right for us to join in working out these proposals if, as was expected, Sweden were to propose a working party of officials for that purpose. Initially, the project should be regarded as one confined to industrial products, and we should not reveal what concessions we might be prepared to make on agriculture and fish until we were asked. But it seemed inevitable that our prospective partners would eventually ask us to offer some such concessions, and we should in that event accept the need to make them. It had to be accepted that, although the concessions were reasonable in themselves, they would meet with considerable opposition from sections of the industries concerned. When it was clear that the negotiations for the E.T.A. would continue, we should take the interests concerned, and particularly the leaders of the agricultural industry, into our confidence. For this purpose he would himself be prepared to see the Chairman of the National Farmers' Union. The Governments of the Common Market countries should also be informed, slightly in advance, of the establishment of the proposed working party. As the project developed, it would be important that we should maintain the closest consultations with all the United Kingdom interests concerned and with the other Commonwealth Governments.

The Cabinet—

Agreed that the Swedish proposals for a European Trade Association should be pursued on the lines indicated by the Prime Minister.

7. The Cabinet had before them memoranda on teachers' salaries by the Minister of Education (C. (59) 82) and the Chancellor of the Exchequer (C. (59) 85).

The Minister of Education said that negotiations were in progress through the Burnham machinery to fix the salaries of teachers for the three-year period from October 1959. Recommendations by the Burnham Committee required his approval, and he had informed the local authority representatives that he would not be able to approve the increase of £15 millions involved if an offer of a minimum of £520 and a maximum of £1,000 (offer "C" of the Annex to C. (59) 82) were made at the Committee's meeting at the end of April. At that meeting a smaller offer ("A") with a minimum of £500 and a maximum of £975 had been put forward and rejected by the teachers. The local authority representatives now considered that, while they could put forward at the Committee's next meeting on 13th May a compromise offer "B," it might eventually be necessary for them to make offer "C" in order to reach a settlement. They would need to know his views before the next meeting of the Committee. He felt that there was much to commend offer "C." It involved increases in differential payments that were fully justified, and there was a strong case for the proposed maximum of £1,000 per annum. The proposed
minimum of £520 a year would represent an increase of 9½ per cent. and, while the cost of living was expected to rise by only about 7½ per cent. during the three-year period from October 1956 to October 1959, wage increases generally seemed likely to amount during the same period to at least 11 per cent. The Chancellor of the Exchequer, while sympathetic to the differentials and maximum salary scales proposed under offer "C," had indicated that he would be unwilling to accept a figure of £520 a year at the minimum of the scale. But, apart from the expected opposition of the teachers themselves, the local authorities might not agree to a minimum of less than £520 and it seemed questionable whether, on this relatively small difference, the Government should accept the responsibility for a breakdown of the negotiations. The adverse effects on the education drive and on the recruitment of teachers might be more serious than the financial burden involved.

The Chancellor of the Exchequer said that on general considerations of wages policy he could not agree that the minimum of the basic scale should be raised to £520. This would represent a further increase of 4 per cent., following last year's interim award of 5 per cent., at a time when there seemed to be a reasonable prospect of keeping the rate of wage increases generally to about 2 per cent. He thought that, for the reasons given in paragraph 1 of C. (59) 85, the local authority representatives should be induced to accept a minimum of £510 a year and, if it were agreed that the Government should not go beyond this figure, he would be prepared to accept proposals comparable to the remainder of those included in offer "C."

Discussion showed that the Cabinet were impressed by the effect which these negotiations might have on the course of industrial wage claims in the current year. On grounds of general economic policy it was important that large increases in industrial wages should be avoided. And the percentage increase represented by a minimum of £520 for the basic scale of teachers would have serious repercussions on industrial wages—especially if it were justified mainly on cost-of-living grounds. There was therefore general support for the view that the local authorities should be encouraged to put forward their suggested compromise offer "B" at the next meeting of the Burnham Committee in the knowledge that, as regards differentials and the maximum of the basic scale, the Government would, if necessary, be prepared to accept increases up to the level of offer "C." They should not, however, be encouraged to think that a minimum scale greater than £510 a year could be approved.

The Cabinet—

Invited the Minister of Education to inform the local authorities' panel of the Burnham Committee that, if necessary, he would be prepared to approve proposals made on the basis of offer "C" in the Annex to C. (59) 82, except that, as regards the minimum of the basic scale, he would not be able to accept a figure higher than £510.