CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Thursday, 17th March, 1960, at 10 a.m.

Present:

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

The Right Hon. R. A. BUTLER, M.P., Secretary of State for the Home Department (Items 2-4)

The Right Hon. SELWYN LLOYD, Q.C., M.P., Secretary of State for Foreign Affairs

The Right Hon. The EARL OF HOMM, Lord President of the Council and Secretary of State for Commonwealth Relations (Items 2-4)

The Right Hon. VISCOUNT HAILSHAM, Q.C., Lord Privy Seal and Minister for Science

The Right Hon. HENRY BROOKE, M.P., Minister of Housing and Local Government and Minister for Welsh Affairs (Items 2-4)

The Right Hon. LORD MILLS, Paymaster-General

The Right Hon. EDWARD HEATH, M.P., Minister of Labour

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

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

The Right Hon. IAIN MACLEOD, M.P., Secretary of State for the Colonies

The Right Hon. SIR DAVID ECCLES, M.P., Minister of Education

The Right Hon. REGINALD MAULDING, M.P., President of the Board of Trade

Dr. The Right Hon. CHARLES HILL, M.P., Chancellor of the Duchy of Lancaster

The Right Hon. MARTIN REDMAYNE, M.P., Parliamentary Secretary, Treasury

The following were also present:

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

The Right Hon. RICHARD WOOD, M.P., Minister of Power (Item 1)

Secretariat:

The Right Hon. SIR NORMAN BROOK

Mr. F. A. BISHOP

Mr. F. W. GLAVES-SMITH

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1. The Cabinet had before them a memorandum by the Prime Minister (C. (60) 53) setting out the three possible courses of action in relation to the report of the Guillebaud Committee, viz.,

   (i) a statement by the Government promising the implementation of the Guillebaud report, on the expectation that the unions would co-operate, as from the date of the report;

   (ii) a statement in similar terms but making no specific reference to a date;

   (iii) allowing the next round of negotiations to proceed in the first instance between the British Transport Commission, acting under Ministerial direction, and the railway unions.

The general view of the Cabinet was that there was little to be said in favour of the second course. It lacked both the presentational advantage of a clear initiative by the Government to settle the wages question quickly, and the constitutional advantage of allowing a settlement to be reached through the normal negotiating machinery.

In favour of the first course it was argued that this would be the best way of demonstrating that the Government intended to retain control over the situation. It would be accepted by public opinion as a bold but reasonable approach to the problem. If it were possible to gain public support in this way at an early stage, this would be of great value both in averting the danger of a strike and in carrying through the Government's proposals for reorganisation. On the other hand, the unions were likely to regard it as a provocative act and a denial of their rights of negotiation. It would involve the Government in taking a public position on a wages negotiation, from which it would be difficult for them to retreat. While the Government might count on having public opinion behind them in resisting a strike threat on the issue of retrospection, this support would be less certain if it appeared that the Government had provoked the threat.

In favour of the third course it was pointed out that this was the procedure which the Transport Commission would normally follow and they expected that the unions would agree to it. Negotiations on the implementation of the report would last some weeks and, when the final settlement came, retrospection to the date of the report would look more attractive than it did at present. This method of proceeding would also avoid provoking the unions and would secure a better atmosphere for the reorganisation that was needed. On the other hand, there was the risk that, by leaving the problem to negotiations between the Commission and the unions, the Government would in the end be in a weaker position to resist concessions on retrospection and on other matters. There was also the danger that this might create the impression that the Government were not prepared to underwrite the full implementation of the report and public sympathy might be lost. This was not a negotiation of the usual kind: it was essentially a question of the extent to which the Government were prepared to find the money for the settlement.

In discussion the following points were made:

(a) There was some doubt whether the unions would ask for retrospection to be settled early in the negotiations. It seemed likely that they would press for early payment of the flat-rate increases recommended, in advance of any settlement of differentials. The Chairman of the Commission would be having a further talk with the unions on the following day, after which the position might be clearer.

(b) The Guillebaud Committee had made it clear that they regarded their regrading proposals as an integral part of the wages settlement. It was of great importance that the Transport Commission should ensure that the flat-rate increases and the proposals for regrading were dealt with together.
Summing up the discussion, the Prime Minister said that the best course seemed to be to give the Transport Commission written instructions on the conduct of the negotiations with the unions. These should say that the Government wished the discussions to be kept within the normal negotiating machinery, but would point out the importance they attached to securing acceptance of the report as a whole and would suggest that the date for any wage increase should be left until a later stage in the negotiations. It would suggest that in an opening statement to the unions the Chairman of the Commission should refer to the statement made in the House of Commons on 10th March and to the obligations which should be accepted by the Commission, the railway workers and the public in regard to the reorganisation of the industry, that he should go on to refer to the Government's acceptance of the objective underlying the Guillebaud report, and should say that it was now for the Commission and the unions to discuss the recommendations of the report in detail, and that in the light of the Government's statement it should be possible to reach a satisfactory agreement on the basis of the report.

The Cabinet—

(1) Invited the Minister of Transport, in consultation with the Chancellor of the Exchequer, the Paymaster-General, the Minister of Labour and the Chancellor of the Duchy of Lancaster, to prepare written instructions for the Chairman of the Transport Commission on the conduct of the negotiations with the railway unions on the recommendations of the Guillebaud report.

(2) Invited the Minister of Transport, in consultation with the Chancellor of the Exchequer, the Paymaster-General and the Minister of Labour, to settle as quickly as possible the composition of a group of advisers on the reorganisation of the British Transport Commission and its undertakings.

The Chancellor of the Exchequer said that there were a number of indications in the economy which suggested that early action should be taken to moderate slightly the current rate of economic expansion. First, the prospects for the balance of payments in 1960 were unfavourable. It was particularly disquieting that the rate of increase in imports was still in excess of the rate of increase in exports. Second, there were indications that the current round of negotiations on wages and hours of work would on the average result in an increase in wage rates which might endanger price stability. Third, there were increasing signs of labour shortage. Finally, the continuing expansion in credit, particularly in personal bank loans and hire purchase, might result in too large an increase in consumer expenditure in the coming year. There was certainly no call to reverse the gradual expansion of the economy, but the present rate of increase might lead to a dangerous situation in the second half of 1960. If we failed to take some restraining measures now, more drastic action would be necessary later.

Discussion showed that the Cabinet were in general agreement that any necessary action should be taken in good time to avert any risk of a balance of payments crisis in the latter part of 1960. A full report on the balance of payments prospects would shortly be available. It was provisionally estimated that the surplus on current account would not exceed about £160 millions in 1960 and that, with a net long-term capital outflow estimated at £365 millions, there would be a deterioration in the monetary position of a little over £200 millions. It was not possible to predict how far this would be reflected in the movement of the reserves.

* Previously recorded in a Confidential Annex.
It was pointed out that a large part of the deterioration was due to the increase, of nearly £100 millions, in the net capital outflow which would result from a substantial increase in economic assistance, from a net increase in oil investment overseas of £40 millions, and from a net increase in other private investment overseas of £30 millions. It was also pointed out that the assumption that the rate of stockpiling in 1960 would be higher than in 1959 might prove wrong.

As regards the internal position, the view was expressed that the rate of economic expansion was not so high as to be dangerous, and that any overload on economic resources was limited to a few areas and a few industries, notably the building industry. The rate of unemployment varied greatly between districts, and there were certain factors, such as the ending of National Service and the increase in the number of school-leavers, which would substantially increase the labour force over the next year or two. It was also pointed out that the average increase in wage rates from the round of negotiations which was now almost complete, calculated on a weighted percentage basis and taking account of reductions in hours worked, was about 4-2 per cent., and that the settlements had covered a period of more than eighteen months. Moreover there had been a very substantial increase in production during that period. It was also pointed out that there had been a substantial net increase in personal savings over the last year, even when account had been taken of the increases in personal bank advances and in hire-purchase.

It was the general view of the Cabinet that, while some early action might be prudent, particularly in view of possible balance of payments difficulties later in the year, it would be important to avoid taking measures which would undermine confidence in productive investment. The rate of increase in productivity in the United Kingdom was still lower than that in many other countries, and a further increase should not be discouraged. It seemed that the most appropriate measures would be such as would directly discourage consumption. It was suggested that the increase in imports was due partly to the removal during recent months of most of the remaining quantitative restrictions, including those on dollar imports, and that our policy in this respect might be reviewed.

Among the immediate difficulties was the need to meet substantial increases in the cost of the social services, such as health and education, and the likely increase, on account of wages, in the deficit of the British Transport Commission. It was the general view of the Cabinet that public opinion would understand that these increases would have to be met out of taxation or by increased contributions. Action to this end, taken on the merits in each case, would be more acceptable than the imposition of general restraints on economic activity at a time when our economy was generally thought to be in a prosperous condition. On the other hand, the public ought to be brought to understand that the particular economic circumstances of this country made it inevitable that small adjustments should frequently be made by means of general financial controls.

It was generally agreed that the presentation of any measures that might be necessary would need most careful consideration. It would be highly undesirable to give the impression, at this stage in the life of Parliament, that the Government wished to administer a general check to the economy. Such early measures as might be necessary could be presented as a cautious and prudent provision against the increasing costs of certain services. On the other hand, if in view of the balance of payments prospects some general restrictive action became necessary, there were a number of measures, of varying effectiveness, which might have to be used. The reimposition of restrictions on hire-purchase would act directly on consumption, but it would be desirable for this form of action to be combined with
measures to restrict bank lending. In this connexion it was pointed out that the special deposit system had not yet been tried, and its value would depend largely on the co-operation of the clearing banks.

Summing up, The Prime Minister said that it was important to avoid giving the impression that the economy was under a strain or that serious balance of payments difficulties might develop later in the year. A loss of confidence could do much more harm than the deterioration in the monetary position which was expected to develop during the year. In view of the substantial increase in the costs of certain services, there was a good case for early action to make a prudent provision which would be directly related to this expenditure. General measures to check the present rate of economic activity should, in his opinion, be considered as a separate problem, especially as it was possible to introduce measures of that kind at any appropriate time.

The Cabinet—

Invited the Chancellor of the Exchequer to take note of the points made in their discussion.

3. The Cabinet had before them a memorandum by the Home Secretary (C. (60) 49) reporting the results of the examination which the Education Policy Committee had made of the report of the Central Advisory Council for Education (the Crowther Report). The Committee had reached the conclusion that it would be impracticable for the Government to undertake at this stage to implement the main recommendations of the Crowther Report, viz., that the school-leaving age should be raised to 16 by a specified date within the next eight years; and that, within four or five years thereafter, county colleges should be established for the provision of compulsory part-time education up to the age of 18. The Committee recommended, however, that the Government should intensify their efforts to reduce the size of school classes; and that, for this purpose, they should undertake to provide 8,000 additional places in teacher training colleges at a capital cost of £12.5 millions over four years starting in 1962 and a recurrent annual expenditure of £4.5 millions from 1965. They recommended that announcements to this effect should be made in the debates on the Crowther Report which were to be held in both Houses of Parliament in the following week.

The Cabinet also had before them a memorandum (C. (60) 52) by the Chancellor of the Exchequer drawing attention to the rising cost of the existing educational programme and suggesting that, in view of the many other competing claims for increased public expenditure, no further commitment for the training of additional teachers should be accepted at the present time.

In support of the recommendation made by the Education Policy Committee the following points were made:

(a) The principles of compulsory full-time education up to 16 and compulsory part-time education up to 18 were embodied in the Education Act, 1944. The Government had put education in the forefront of their Election programme and, in the face of the recommendations in the Crowther Report, it would be difficult for them to admit that they had no practical plans for putting those principles into effect. If, however, they could promise a substantial expansion in the supply of teachers, they could at least hold out a prospect of reducing the size of school classes and of reaching, before the end of the present Parliament, a situation in which a decision might be taken about the raising of the school-leaving age.

(b) The demand for teachers was bound to grow over the next decade. A rising birth rate would increase the school population in this country. Apart from that, it must be assumed that there
would be an increasing demand for teachers overseas. At the Commonwealth Conference on Education the United Kingdom Government had undertaken a commitment to provide by 1963 a total of 400 teachers in Commonwealth countries overseas. Provision must be made to enable them to honour that undertaking.

(c) Many women teachers left the profession on marriage, but a proportion of these would be willing to re-enter it at a later stage if facilities for refresher courses were available in the training colleges.

(d) In paragraph 6 of C. (60) 52 it was suggested that the true cost of this proposal should be determined, not by the cost of the additional training facilities alone, but by reference to the ultimate cost in terms of pay and pensions of the additional teachers trained. As against this it was argued that if these additional numbers of teachers were required in the second half of the seventies, they would have to be provided in any event; whereas, if it were foreseen that fewer numbers would suffice, the training facilities could be reduced.

(e) No expenditure on additional training facilities would actually be incurred until the financial year 1962-63.

On the other side the following considerations were put forward:

(f) It now appeared that, even under existing policy, public expenditure on education (excluding universities) would rise from £816 millions in 1959 to £1,472 millions in 1974—an increase of 80 per cent. It had been suggested that the present proposal would involve an addition of less than 2 per cent; but it was for serious consideration whether it would be justifiable to add anything to the cost of a programme which was already expanding so rapidly.

(g) It was estimated that, under the existing programme, education expenditure by local authorities would be doubled over the next 15 years. This expenditure already represented about 7s. Od. in the pound on local rates. Rateable value could not expand as rapidly as taxable capacity; and it was already doubtful whether local authorities would be able to bear the rising cost of the existing programme.

(h) There were many other claims on public expenditure, some of which were listed in paragraph 4 of C. (60) 52. It was evident that they could not all be met, and priorities would have to be established. There seemed to be a real risk that this mounting expenditure on education would preclude other desirable developments, in the social services and in other fields.

The Prime Minister, summing up the discussion, said that in the light of the Cabinet’s discussion it would be inexpedient for Ministers to undertake, in the forthcoming debates on the Crowther Report, any firm commitment to carry through, in the years 1962-65, a building programme designed to provide additional places in teacher training colleges. Ministers speaking in these debates should take the opportunity of bringing out the scope of the Government’s existing policy for education and the demands which it would make on the national income over the next decade. This should have the effect of bringing into perspective the recommendations of the Crowther Report. Reference could however be made to the importance of reducing the size of school classes and, for this and other reasons, increasing the supply of teachers; and it could be stated that it was the Government’s aim to provide an additional 8,000 places in training colleges at the earliest practicable date.

The Cabinet—

(I) Agreed that, in the forthcoming debates in Parliament on the Crowther Report, Ministers should avoid entering
into any firm commitment to provide, by any specified future date, a further 8,000 places in teacher training colleges.

(2) Subject to Conclusion (1) above, agreed that Ministers should re-affirm in these debates the Government's determination to reduce the size of school classes and their recognition of the importance, for this and other reasons, of increasing the supply of teachers.

Parliament.

4. The Cabinet were informed of the business to be taken in the House of Commons in the course of the following week.

Cabinet Office, S.W.1.