CABINET

CONCLUSIONS of a Meeting of the Cabinet held at Admiralty House, S.W. 1,
on Tuesday, 18th October, 1960, at 10.30 a.m.

Present:
The Right Hon. HAROLD MACMILLAN, M.P., Prime Minister
The Right Hon. R. A. BUTLER, M.P., Secretary of State for the Home Department
The Right Hon. SELWYN LLOYD, Q.C., M.P., Chancellor of the Exchequer
The Right Hon. VISCOUNT HAILSHAM, Q.C., Lord President of the Council and Minister for Science
The Right Hon. DUNCAN SANDYS, M.P., Secretary of State for Commonwealth Relations
The Right Hon. HENRY BROOKE, M.P., Minister of Housing and Local Government and Minister for Welsh Affairs
The Right Hon. PETER THORNEYCROFT, M.P., Minister of Aviation
The Right Hon. REGINALD MAULDING, M.P., President of the Board of Trade
The Right Hon. EDWARD HEATH, M.P., Lord Privy Seal

The Right Hon. VISCOUNT KILMUIR, Lord Chancellor
The Right Hon. EARL OF HOME, Secretary of State for Foreign Affairs
The Right Hon. JOHN MACLAY, M.P., Secretary of State for Scotland
The Right Hon. HAROLD WATKINSON, M.P., Minister of Defence
The Right Hon. SIR DAVID ECCLES, M.P., Minister of Education
The Right Hon. LORD MILLS, Paymaster-General
The Right Hon. JOHN HARE, M.P., Minister of Labour
Dr. The Right Hon. CHARLES HILL, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. ERNEST MARPLES, M.P., Minister of Transport (Items 5-6)

The following were also present:
The Right Hon. JOHN BOYD-CARPENTER, M.P., Minister of Pensions and National Insurance (Items 5-6)
The Right Hon. MARTIN REDMAYNE, M.P., Parliamentary Secretary, Treasury (Items 5-6)

Secretariat:
The Right Hon. SIR NORMAN BROOK
Mr. F. A. BISHOP
Mr. M. REED
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1. The Foreign Secretary said that the General Assembly of the United Nations had now completed its general debate on world affairs, and Mr. Khrushchev had left New York. It was perhaps too early to assess the effect of his personal intervention in the Assembly. But, to the extent that he had hoped to draw the smaller uncommitted countries into the Communist camp, his visit had probably been unsuccessful. The representatives of those countries had, for the most part, reacted unfavourably to his approach; and his tactics had probably had the effect of discouraging those countries from closer contact with the Soviet Union. On the other hand, there were indications that the pressures which Mr. Khrushchev had initiated for a reorganisation of the United Nations Secretariat would be maintained.

2. The Foreign Secretary said that the political position in the Congo remained confused. There was, however, some hope that a degree of order and stability might be restored if the local representatives of the United Nations were willing to co-operate with the more reliable leaders. Some of the foreign Governments which had been supporting Lumumba now appeared to be losing confidence in him, and there seemed to be some chance that the authority of more reliable leaders, like Mobutu, might increase.

The Cabinet were informed of certain developments which might indicate that the Government of Ghana were contemplating some further initiative in the Congo. These developments should be carefully watched.

The Cabinet—

Took note of this statement.

3. The Foreign Secretary said that, following the meetings which the Prime Minister and he had held with President Nasser in New York, it was likely that progress could now be made towards restoring normal diplomatic relations between the United Kingdom and the United Arab Republic. He would consult the Colonial Secretary about the extent to which President Nasser wished to establish consulates in our Colonial territories.

President Nasser was, however, adopting an increasingly threatening attitude towards Jordan, and this made it more difficult to restrain King Hussein's inclination to stir up trouble in Syria. Any intervention in Syria, even if it were occasioned by internal unrest there, would not be in Jordan's true interests at the present time.

The Cabinet—

Took note of this statement by the Foreign Secretary.

4. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (60) 145) on the next steps towards the denationalisation of the steel industry.

The Chancellor of the Exchequer recalled that the Government had declared their intention to return the steel industry, including Richard Thomas and Baldwins, Ltd. (R.T.B.), to private ownership during the present Parliament. Further progress in this direction was, however, complicated by the need for substantial capital to finance the expansion of R.T.B. In addition to a loan of £70 millions to be made by the Minister of Power, they would require a further £120 millions to finance their expansion programme. It had been
intended that £50 millions of this should be found by the issue of new debentures in the company, and the Iron and Steel Holding and Realisation Agency had consulted their advisers in the City about the form which such an issue might take. It now appeared that a straight debenture issue would not be attractive to private investors at present, because the interest cover available at this stage of R.T.B.'s development would be inadequate, and that any scheme for making a debenture issue more attractive by linking it with the disposal of some part of the equity would not secure the best possible price for the sale of these assets. For these reasons the Economic Policy Committee recommended that it would not be desirable to proceed with a debenture issue in R.T.B. at this stage, and that it would be preferable to sell the prior charges in the other steel companies. This sale might yield between £75 millions and £100 millions by the end of 1961, and this could be added to the loan of £70 millions which the Minister of Power was able to make to R.T.B. There would still remain the possibility of raising about £30 millions of short-term capital from the banks, if necessary. The question of returning R.T.B. to private ownership should be reviewed in 12 to 18 months' time.

Discussion showed that there was general support for these recommendations. It was desirable that the Agency should proceed rapidly with the disposal of its other holdings. This would help to reconcile Government supporters to the postponement of the sale of R.T.B. It would in any case be necessary to explain to them the disadvantages of disposing of R.T.B. at the present stage of its development, and to confirm that it was still the Government's intention to return this company and the other nationalised assets of the steel industry to private ownership during the present Parliament. At the same time, care should be taken to avoid any firm commitment to do this whatever the circumstances.

The Cabinet—

Approved the recommendations put forward in C. (60) 145.

5. The Cabinet had before them a memorandum by the Lord Chancellor (C. (60) 146) recommending increases in retirement pensions and in the scale rates of national assistance.

The Lord Chancellor recalled that the Cabinet had asked the Social Services Committee to consider the form, amount and timing of the increase in retirement pensions to which the Government were committed by their Election Manifesto. While the introduction of differential rates of retirement pensions would have certain attractions, the Committee had concluded that this would be open to conclusive objections, both practical and political, and that the next pension increase should take the customary form of an all-round increase of benefits. This they proposed should be 7s. 6d. on the present rate of 50s. (single) and 12s. 6d. on the 80s. rate (married). This was the largest increase which could be made if the contribution payable for the minimum level of benefits under the new graduated pensions scheme was not to exceed the contribution payable at present. The Committee also took the view that a pension increase of less than 7s. 6d. (single) and 12s. 6d. (married) would not be politically acceptable. They proposed that the increase should take effect from the following April and that the necessary legislation should be introduced immediately the new session opened.

A pension increase must be accompanied by an increase in the scale rates of national assistance. There was reason to believe that, if pensions were increased by the amount proposed, the National Assistance Board would recommend increases in assistance rates of
The Chancellor of the Exchequer concurred in these proposals, which, taken together, would cost the Exchequer some £15 millions a year.

In discussion it was pointed out that the effect of the graduated pensions scheme would be to raise the contribution of a man earning £15 a week from 9s. 11d. to 13s. 5d. and that the proposal now before the Cabinet would involve a further addition of 1s. 5d. to the employee's contribution. The Government had undertaken that under the graduated pensions scheme the minimum contribution payable, by men earning £9 a week or less, would be less than that payable at present. With the increase in contribution now proposed, it would be represented that the Government had failed to fulfil this undertaking, since the minimum contribution from the following April would be only twopence less than the present contribution. The increase in contribution could, however, be justified by reference to the substantial increase in benefits now proposed, which included sickness, unemployment and other benefits as well as retirement pensions.

If the Bill were introduced at the beginning of the new session, it would be technically possible to bring the increased benefits into operation in the following February and there would no doubt be pressure for that or an even earlier date. This pressure should, however, be resisted. There would be serious administrative inconvenience if two changes in the rates of contribution were to be made within two months, especially at a time when final decisions on contracting out of the new pensions scheme might not all have been made.

The Cabinet—

(1) Approved the proposals in C. (60) 146 for increases in retirement pensions and other benefits and, if recommended by the National Assistance Board, in the scale rates of national assistance.

(2) Agreed that the necessary legislation should be introduced at the beginning of the new session.

The Chancellor of the Exchequer said that between 1959–60 and 1962–63 Supply expenditure was expected to rise by £1,000 millions; over the same period the gross cost of the National Health Service was expected to rise by more than £125 millions, and by nearly £200 millions over the period from 1958–59. In these circumstances it was desirable to secure a substantial increase in the revenue derived from the National Health Service contribution. He therefore proposed that the weekly contribution should be increased by 1s., divided as to 10d. from the employee and 2d. from the employer. This would yield about £50 millions a year. The necessary legislation should be introduced early in the new session in order that the increase could take effect from the following April. He recognised that this could be represented as an increase in taxation which would...
fall disproportionately on the lower-paid worker. But an increase in the contribution would be the best way of bringing home to the public that the money must be found to meet the rising cost of the Service. It would hardly be possible to avoid increasing the contribution before the end of the present Parliament and, while the decision was an unwelcome one at any time, the following April would be a convenient time, and no more politically embarrassing than any other, for the increase to take effect. At that date, when the new graduated pensions scheme and the increase in benefits now approved by the Cabinet came into operation, there would be a sharp increase in the national insurance contributions payable by the higher-paid workers. The addition of 10d. to the National Health Service element in the worker's contribution would not significantly add to the public reaction which must be expected in any event. Nor would the proposal involve a breach of faith with the lower-paid workers, whose contributions the Government had undertaken to reduce when the new pensions scheme came into operation, since the Health Service element in the total contribution had no essential connexion with the national insurance element, to which the Government's undertaking had related. If the proposal were accepted, about 22 per cent. of the gross cost of the Health Service would be borne by contributions and patients' charges, as compared with the 20 per cent. which had, from the beginning of the Service, been accepted as the right proportion to be borne from non-Exchequer sources.

Discussion showed that there was a substantial measure of support for the proposal that the amount of the weekly contribution should be raised. A fiat-rate contribution, though in theory a form of regressive tax, had been an integral part of the financial structure of some of the social services for many years, and the principle of increasing the Health Service contribution to meet rising costs had been accepted since 1957. Means must be found of relieving the Exchequer of some of the growing burden of the Service, especially if there were to be any question of further increasing it, by allowing private patients to obtain their medicines on National Health Service terms. Moreover, the alternative of an increase in direct taxation would be contrary to the Government's general policy, and to find the money from indirect taxation would be hardly less regressive than to increase the contribution.

On the other hand it was generally recognised that, if an increase in contributions were to be made, the timing of it presented a very difficult problem. Although it should be possible by careful presentation to make clear at the time the distinction between the National Health Service element and the National Insurance element in the total contribution, there was no doubt that the increase in insurance benefits now approved would be less than was generally expected and the simultaneous increase in the total contributions payable would involve the Government in some political embarrassment. Moreover, the Minister of Health was hoping to be able to put before the Cabinet certain proposals for effecting economies in the National Health Service and it might be more difficult to secure general acceptance of these if the prospective increase in the cost of the Service had already been largely met by increased contributions. Nor would it be easy, if the Minister's proposals were such that they could be represented as reducing the scope of the Service, to justify first increasing payments towards the cost of the Service and then reducing the service paid for. On the other hand, it might be no less difficult to justify increasing contributions after the scope of the Service had been reduced. It would therefore be easier to decide whether to increase the contribution if it were known what economy measures the Minister of Health had in mind. The Cabinet were also reminded that a report was expected shortly from a committee of officials which had been studying a number of alternative methods of financing the Service.
It was suggested that an increase in the Health Service contribution might be more acceptable if it were larger than the Is. now proposed but were accompanied by abolition of the present prescription charge, the yield of which was some £12 millions. This would provide a favourable context for the proposed concession to private patients. In this connexion the Cabinet reaffirmed the conclusion reached at their earlier discussion that, while there was a danger that the concession might in time lead to a deterioration in the standard of service given to those who did not choose to be private patients, it was hardly possible on political grounds to avoid making the concession at the earliest time compatible with the other developments under discussion. An increase in the contribution was likely to aggravate the pressure for the concession to private patients. On the other hand, the Government would lay themselves open to criticism if this concession coincided in time either with an increase in the contributions or with drastic economies in the Health Service, or with both.

Summing up the discussion, the Prime Minister said that the Cabinet appeared to be generally in favour of some increase in the National Health Service contribution. But the timing of the increase required further consideration. It would be helpful if the Cabinet could be supplied with an analysis showing the contributions at present payable by different types of employee and the changes resulting from the introduction of the new pensions scheme, the increased benefits now agreed and the increase in the National Health Service contribution proposed by the Chancellor. The Cabinet should resume their discussion of this proposal at an early meeting, when the proposed concession to private patients could also be further considered.

The Cabinet—

(1) Invited the Minister of Pensions and National Insurance to circulate an analysis of the contributions payable by employees, on the lines indicated by the Prime Minister.

(2) Agreed to resume their discussion of C. (60) 148, 150, 151 and 137 at an early meeting.

Cabinet Office, S.W. 1.
18th October, 1960.