CONCLUSIONS of a Meeting of the Cabinet held at Admiralty House, S.W. 1, on Thursday, 8th December, 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. 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. Edward Heath, M.P., Lord Privy Seal
The Right Hon. Ernest Marples, M.P., Minister of Transport
The Right Hon. Viscount Kilbride, Lord Chancellor
The Right Hon. the Earl of Home, Secretary of State for Foreign Affairs
The Right Hon. John Macclay, M.P., Secretary of State for Scotland
The Right Hon. Iain Macleod, M.P., Secretary of State for the Colonies
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 Maudling, 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. Christopher Soames, M.P., Minister of Agriculture, Fisheries and Food

The following were also present:
The Right Hon. Reginald Bevins, M.P., Postmaster-General (Item 7)
The Right Hon. Martin Redmayne, M.P., Parliamentary Secretary, Treasury

Secretariat:
The Right Hon. Sir Norman Broek
Mr. F. A. Bishop
Mr. M. Reed
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Parliament

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

The Home Secretary said that the House of Commons had recently passed a resolution calling on the Government to institute an enquiry into the Press. In the debate on the resolution it had been stated that in the Government's view such an enquiry would serve no useful purpose. He now proposed to say, in reply to Parliamentary Questions, that the Government remained of that view.

The Home Secretary said that pressure might develop for a debate to be held before the Christmas recess on the question of capital punishment. The Opposition had, however, tabled an amendment to the Criminal Justice Bill to raise the age below which sentence of death may not be passed and that amendment would afford an opportunity for a full discussion on the death penalty. It would be preferable to avoid having a separate debate on this subject.

The Cabinet—

Took note with approval of these statements by the Home Secretary.

Civil Service Pay

(Previous Reference: C.C. (59) 15th Conclusions, Minute 3)

*2. The Chancellor of the Exchequer said that the Economic Policy Committee had been considering (i) the general question of a new approach to the handling of adjustments in Civil Service pay and (ii) a request for an early increase of pay for grades up to the arbitrable limit. The object of the new approach was to remove or mitigate some of the more unsatisfactory features of the arrangements which had been in force since the acceptance of the recommendations of the report of the Priestley Commission on the Civil Service. In particular the frequency with which individual grades could have access to the Pay Research Unit was to be severely reduced, and the Unit's activities were to be planned in a more co-ordinated way. It was proposed that the Pay Research Unit should in future review individual classes at intervals of not less than five years; and that any adjustments called for meanwhile should be made by means of central pay settlements covering, with only a few exceptions, the entire non-industrial Civil Service up to the arbitrable limit. The criterion for considering whether a central pay settlement was justified would be a rise of five points in the Wages Index by the November following the last previous settlement. Whether there should be adjustment and, if so, the amount of it, would be determined, not solely by reference to the movement in the Wages Index, but in the light of all available information. Any increases would be effective from the following 1st January. The planned operations of the Pay Research Unit would be geared to a "pay research year" running from 1st July to 30th June; and all pay increases derived from surveys by the Unit would be effective from a common operative date, namely 1st January in the middle of the pay research year. This would not entirely eliminate retrospection, but the amount of back-dating would be much less than had been customary in recent years.

Acceptance of this new procedure by the Staff Side of the National Whitley Council would considerably restrict the freedom of action of the Staff Associations. They might refuse to accept the new procedure unless there were an early pay settlement. Since the last central settlement in December 1958, the Wages Index had gone up by five points and an increase of 4 per cent. could be justified by reference to outside wage and salary movements in the last two—

* Previously recorded in a Confidential Annex.
years. There was a good prospect that agreement could be reached with the Staff Side on an increase of this amount, with effect from 1st January, 1961. The Economic Policy Committee had authorised the Treasury to negotiate such a settlement in conjunction with an agreement on the revised procedure for the review of Civil Service pay.

The Cabinet—

Took note with approval of this statement by the Chancellor of the Exchequer.

3. The Lord Chancellor said that the Government of Iceland were now prepared to accept a settlement of the fisheries dispute on the basis of a 12-mile fishery limit; a transitional period of three or possibly four years during which our fishermen could fish in certain areas within the 6 to 12-mile zone, provided that during that period an area outside the 12-mile limit was reserved for Icelandic fishermen; and immediate changes in certain of the Icelandic base lines for the purposes of the fishery zone but not of the territorial sea. The Icelandic Government would be prepared to give an assurance to the effect that they would continue to work for the implementation of the resolution passed by their Parliament on 5th May, 1959, regarding the extension of fisheries jurisdiction around Iceland: that six months' notice would be given of the application of any such extension; and that in the event of dispute the measures would be referred, at the request of either party, to the International Court of Justice.

It was now unlikely that we should be able to secure a settlement on more favourable terms and the proposed assurance by the Icelandic Government, although unsatisfactory in form, would give us the substantial advantage of the right to refer to the International Court any proposal to extend the Icelandic fishery limits beyond 12 miles. Certain minor amendments of the wording of the proposed assurance, which we regarded as desirable, were likely to be accepted by the Icelandic Government.

Our own fishing industry would have preferred a transitional period of five years; but they especially disliked the proposal to reserve areas for Icelandic fishermen outside the 12-mile limit and in return for the withdrawal of that proposal would be willing to accept a transitional period as short as three years.

If we were to reach a settlement on these lines, H.M. Ambassador should at once be instructed to inform the Icelandic Government that we would accept a settlement on the basis of the assurance offered (subject to certain minor amendments); immediate changes in the base lines for fishery purposes alone; and either a transitional period of five years with an area outside the 12-mile limit reserved for Icelandic fishermen, or a shorter period with no reserved area outside that limit. We should propose that the shorter transitional period should be four years, but should be willing to accept three.

Discussion showed that the Cabinet were in agreement with the course proposed by the Lord Chancellor. A settlement on these terms would in due course entail the need for some compensation to the fishing industry, and consideration would have to be given to the form, such as Government grants for modernisation of vessels and gear, which this might best take.

The Cabinet—

(1) Endorsed the proposals put forward by the Lord Chancellor for a settlement of the fisheries dispute with Iceland.

(2) Invited the Foreign Secretary to instruct H.M. Ambassador in Reykjavik accordingly.
4. The Foreign Secretary said that President Kasavubu's authority in the Congo had been strengthened by the recognition accorded to him in the United Nations. But his followers' maltreatment of Mr. Lumumba had presented the Russians with an opportunity to raise the whole matter again in the Security Council, and we should be confronted there with a hostile resolution which might now command a wider measure of support. We should find increasing difficulty in persuading some of our African friends to join us in resisting the type of resolution which the Russians were likely to bring forward. The best chance of holding the position in the Congo was to persuade President Kasavubu to convene, before the arrival of a conciliation commission, a constitutional conference to consider the relationship of the central Government with the provincial administrations. It was unfortunate that he should have been so slow in proceeding with this project.

The Cabinet—
Took note of this statement by the Foreign Secretary.

6. The Cabinet were informed of certain difficulties presented by the trade agreement which Finland had concluded with the Soviet Union. The terms of this agreement were such that, if Finland were associated with the European Free Trade Association (E.F.T.A.), difficulties would arise under the General Agreement on Tariffs and Trade. Moreover, the Soviet Government might be led to bring further pressure to bear on Austria and Norway to conclude agreements similar to that which Finland had accepted. On the other hand, if Finland's application for a special form of association with E.F.T.A. were rejected, this would tend to drive her into closer association with the Soviet Union, and this political consideration might be thought to be over-riding.

In discussion it was suggested that, before finally agreeing to Finland's association with E.F.T.A., we should seek an assurance from the other members of E.F.T.A. that they would continue to resist pressures for most-favoured-nation treatment for imports from the Soviet Union. It would also be expedient to ascertain that the Governments of Canada and the United States were ready to acquiesce in Finland's association with E.F.T.A.

The Cabinet—
Took note that these questions would be considered at the forthcoming Ministerial Committee of the European Free Trade Association.
7. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (60) 182) on the public investment programmes for 1962–63.

The Chancellor of the Exchequer recalled that the Cabinet had agreed that, to enable investment programmes to be properly planned, minimum programmes should be fixed for 1962–63 within the provisionally agreed programmes for that year, with the intention that such minima should not subsequently be reduced save in the most exceptional circumstances. Minimum figures had accordingly been suggested for a number of programmes, set out in group A of the Annex to C. (60) 182, which included most of the larger projects. If economic conditions allowed, it might be possible in July to increase these amounts within the margins indicated. The investment programmes for the British Transport Commission and the Atomic Energy Authority were currently under review, and in due course it should be possible to apply the same procedure to these. There were various other programmes, set out in group C of the Annex, for which it was not practicable to fix minima at the present time. If the economic situation did not allow the minimum programmes which had been fixed to be increased to the whole extent of the prescribed margins, it might well be necessary to call for adjustments to the programmes in group C.

The total of the public investment now proposed for 1962–63 amounted to £1,810 millions, which represented a considerable increase over the total for 1961–62. It would be necessary to avoid further increases, and to refrain from entering into any commitments for 1962–63 which might involve an excess over the minima now proposed, before final decisions about the level of these programmes were taken in July.

In discussion the following points were made:

(a) The Postmaster-General said that in view of the special commercial circumstances of the Post Office he would wish to discuss further with the Chancellor of the Exchequer the total level of investment for the Post Office in 1962–63.

(b) The Home Secretary said that he proposed to discuss with the Chancellor of the Exchequer the need for a small amount of additional investment for remand centres and magistrates' courts.

(c) If it were decided to proceed with railway modernisation plans which were at present suspended, this would involve a substantial increase in the capital investment programme of the British Transport Commission.

The Cabinet—

(1) Took note that the Chancellor of the Exchequer would discuss with the Postmaster-General the level of the Post Office investment programme for 1962–63.

(2) Took note that the Chancellor of the Exchequer would discuss with the Home Secretary the question of investment on remand centres and magistrates' courts.

(3) Subject to Conclusions (1) and (2) approved the proposals in C. (60) 182.

8. The Cabinet had before them a memorandum by the Minister of Housing (C. (60) 177) containing a number of proposals for inclusion in the Housing Bill which was to be introduced after the Christmas recess.

The Minister of Housing said that the Housing Policy Committee had considered his proposal that power should be taken in this Bill to make Exchequer loans, at the rates of interest currently applicable to borrowing by local authorities, to finance schemes by approved
housing trusts or associations for building dwellings to let at economic rents. In order to safeguard the position of the Exchequer, the Minister proposed that the total of such loans should be limited to £25 millions and that the scheme should be reviewed after five years. The scheme would be wholly under his own control, and houses built under it, being counted against the housing programme in the public sector, would not increase the total Exchequer investment in housing. The Minister was satisfied that there was a genuine need for new houses and flats for people unable to buy, but no accommodation was at present being built for letting except by the local authorities. There was reason to believe that, if a scheme on the lines proposed could demonstrate that a ready market existed, private enterprise would in course of time cease to concentrate wholly on building for sale. From the political point of view the proposed scheme was the only available answer to the Opposition’s policy of municipal ownership.

The Chancellor of the Exchequer said that he had felt it right to make clear in the Housing Policy Committee’s discussions that the proposed scheme involved a concealed subsidy, in that the housing associations would be enabled to borrow at about six per cent. when in the open market they would be obliged to pay eight or nine per cent. But he fully recognised the value of the Minister’s proposal and, more especially as the housing associations were non-profit-making bodies, he would not wish to press the objection. While there would be some risk to the Exchequer, he agreed that the risk was a reasonable one to accept.

In discussion there was general agreement with the Minister’s proposals. The control of the scheme, which would be exercised by the Minister himself, the limit of £3,500 on the value of dwellings to be provided under it and the policy of the housing associations, should together ensure that accommodation provided under the scheme was not let to people whose resources were sufficient to enable them to provide for themselves.

The Cabinet—

(1) Approved the proposal in C. (60) 177 that the Government should take power in the Housing Bill to make loans to housing associations for building dwellings to let.

The Minister of Housing said that the Housing Policy Committee had also considered two proposals designed to encourage landlords to carry out much-needed improvements to their property and to increase the amount of accommodation available by effecting conversions. The Committee had agreed that the amount which a landlord might add to the rent after making improvements should be increased from 8 per cent. to 12½ per cent. of his share of the cost. This would help to remove the deterrent to improvements under the existing law and the position of the tenants would be protected, since no improvements could be carried out without their consent.

The Committee had, however, felt some difficulty about the proposal to reduce from ten to three years the period during which there was a restriction on the rents of grant-aided conversions and of decontrolled houses in which grant-aided improvements had been made. This proposal would not in fact be a breach of the undertaking given at the time of the General Election that there would be no further decontrol of rents in the present Parliament, since these houses were or would become outside control. Landlords were in any event empowered already to sell the houses for owner-occupation three years after the improvements had been made. The Minister recognised, however, that in the present state of political and public opinion on rents, his proposal might be open to misapprehension and consequent criticism.
In discussion it was agreed that it would be preferable not to aggravate the political difficulties of the Housing Bill by including in it the second of the two proposals put forward by the Minister of Housing.

The Cabinet—

(2) Approved the proposal in C. (60) 177 that the Housing Bill should increase the permitted addition to the rent which might be charged after improvement from 8 per cent. to 12½ per cent. of the owner's share of the cost.

(3) Agreed that the period of restriction of the rents of grant-aided conversions and de-controlled houses improved with the aid of grant should not for the time being be reduced.

9. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (60) 183) on the reform of the Organisation for European Economic Co-operation (O.E.E.C.)

The Chancellor of the Exchequer said that the proposal to transform the O.E.E.C. into a new Organisation for Economic Co-operation and Development had arisen from the need to take account of changing economic conditions and to strengthen the economic ties between Western Europe and North America. The new Organisation, of which the United States and Canada would be full members, would be a valuable instrument for economic co-operation, and would facilitate international consultation on the means of assisting the less-developed countries, whether or not they were members of the Organisation. He and the President of the Board of Trade would be representing the United Kingdom Government at a meeting in Paris on 13th and 14th December, the main purpose of which was to approve the draft Convention of the new Organisation. He sought the Cabinet's authority to sign this Convention.

In discussion it was suggested that these changes would give rise to some misgivings among countries, including some Commonwealth countries, who would not be members of the new Organisation. They feared that it might be concerned to safeguard the interests of the highly industrialised economies of Western Europe and North America. Even so, it was clearly desirable that the United Kingdom should support the establishment of this new Organisation and cooperate fully in its work.

The Cabinet—

Authorised the Chancellor of the Exchequer to sign the Convention of the Organisation for Economic Co-operation and Development on behalf of the United Kingdom Government.

10. The Cabinet had before them a memorandum by the Chancellor of the Exchequer reporting the progress of the negotiations for a commercial treaty with Japan.

The President of the Board of Trade said that the Japanese had accepted the broad principle that a commercial treaty giving them most-favoured-nation rights in respect of quantitative import restrictions should contain safeguards enabling us to maintain restrictions on certain sensitive products and to retain the right to
impose restrictions on other products if necessary. The next stage of the negotiations would be concerned with the method by which this objective should be carried into effect. We could continue to invoke Article XXXV of the General Agreement on Tariffs and Trade (GATT) under which we imposed discriminatory quantitative restrictions on imports of most Japanese manufactures; but in that event the grant of most-favoured-nation rights on both sides would be on a short-term basis, as would also be the bilateral arrangements for safeguarding sensitive products. It would be preferable to negotiate, without commitment, for a more permanent arrangement, under which we would cease to invoke Article XXXV subject to a bilateral agreement which would allow us to retain restrictions on a list of sensitive items and to impose restrictions on any imports which in our judgment threatened to disrupt our market. This agreement would last until terminated by mutual consent or until an acceptable solution for dealing with the problem of market disruption were evolved in the GATT. It would, however, be essential to resist a Japanese proposal that any dispute about the application of the safeguards should be referred to the GATT.

Our ceasing to invoke Article XXXV would have general political advantages, and an agreement on the lines suggested would give our exporters permanent most-favoured-nation rights in the expanding Japanese market. There would be pressure from the Japanese to reduce our list of sensitive items and to limit the time during which these items would be protected. But the list of sensitive items which we had given to the Japanese negotiators was a comprehensive one. The Japanese would also urge that the restrictions necessary to protect Colonial interests in the United Kingdom market should be limited to traditional Colonial products. They had also suggested that the restrictions on goods in the sensitive list and any restrictions necessary to avoid disruption of any market should wherever practicable be operated by the control of exports in Japan. This might be acceptable, provided it was clear that Japanese export control was fully effective.

In discussion it was pointed out that, if restrictions on Japanese exports were effected by means of export controls in Japan, this might well lead to demands by India and Pakistan that the restrictions on their exports of textiles to the United Kingdom should similarly be effected by export controls in their countries. On the other hand, it was recalled that it had been generally accepted that export controls in India and Pakistan for this purpose would be impracticable. Nevertheless, it was essential to maintain the existing arrangements to protect our textile industry, and the Japanese proposal should not be accepted if it would lead to difficulty in this connexion.

The Prime Minister said that it was the general view of the Cabinet that negotiations for a commercial treaty with Japan should proceed on the basis proposed by the President of the Board of Trade. The Economic Policy Committee should be kept closely in touch with the progress of these negotiations, and should be consulted in due course on the content of the list of sensitive items.

The Cabinet—

Approved the proposals put forward in C. (60) 181.

11. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (60) 163) about the disposal of the Government’s holding in the Suez Finance Company.

The Chancellor of the Exchequer said that the Government’s holding in the Company (formerly the Suez Canal Company) represented about one-third of the equity, and was valued at about £17 millions at current share prices. Part of the assets of the
Company consisted of the compensation of £29 millions from the United Arab Republic, of which three annual instalments of £4·1 millions each were still outstanding. There seemed no reason why the Government should retain this holding indefinitely, but the timing of its disposal was a matter of some difficulty. It was obviously desirable to obtain the best price, and at present the shares were thought to be under-valued. Moreover a sale might provoke pressure to supplement the fund of £27·5 millions which had been provided by the Anglo-Egyptian settlement to compensate the former owners of property in Egypt. But the retention of the holding might become embarrassing—if, for example, the United Arab Republic defaulted on the outstanding compensation. On balance it seemed advisable to be ready to dispose of the Government’s holding at the first favourable opportunity.

In discussion it was pointed out that the Company had certain interests in Saharan oil which might turn out to be of considerable value. It was also concerned with the promotion of the Channel Tunnel. It seemed desirable that expert opinion should be obtained on the future prospects of the Company before deciding on an early sale.

The Cabinet

Invited the Chancellor of the Exchequer to arrange for further consideration to be given to the financial advantages and disadvantages of an early sale of the Government’s holding in the Suez Finance Company, and to the method of disposing of the holding.

Ford Motor Company

(Previous Reference: C.C. (60) 58th Conclusions, Minute 3)

12. The Chancellor of the Exchequer said that the Ford Motor Company in the United States had entered into a contract to purchase for dollars the sterling required to enable them to carry through their offer to buy the 45 per cent. shareholding in the Ford Motor Company of the United Kingdom which they did not already own. The United States Company expected their offer to be accepted by the shareholders. Contrary to certain reports, the United States Government had at no time intervened to object to the proposed purchase.

The Cabinet

Took note of this statement by the Chancellor of the Exchequer.

Tourism

13. The Cabinet had before them memoranda on tourism by the President of the Board of Trade and by the Home Secretary (C. (60) 179 and 184).

The President of the Board of Trade said that earnings from overseas visitors formed an important part of our export trade. While there had been a steady increase over recent years, there was still considerable room for improvement, especially in relation to visitors from Europe. Public attention was constantly drawn to certain factors which were regarded as obstacles to the expansion of our tourist traffic—in particular to our system of immigration control, customs control (especially in relation to motor cars), the shortage of hotel accommodation, the poor facilities at many of our seaports and the over-crowding of our holiday resorts because of the peak in our holiday season. The President sought the assistance of his colleagues in reducing these and any other obstacles to the expansion of our earnings from tourism.

The Home Secretary said that a considerable amount of preliminary work had already been done on some of the matters
mentioned by the President. The material prepared could be made available for any further study of the subject which might be instituted. So far as the immigration service was concerned, the facilities at many of the seaports constituted a severe handicap to efficiency, and he was already in communication with the Minister of Transport on this point.

In discussion it was generally agreed that further efforts should be made to expand our tourist trade. This was a form of export more readily capable of expansion than any other, and the objections to offering financial incentives to the expansion of exports generally had little or no application to it. Additional hotel accommodation was now being provided in London, but little was being done to improve the quantity or quality of accommodation in the provinces and special attention should be devoted to this. The most convenient method of working on the problem as a whole might be to appoint a Committee consisting predominantly of junior Ministers, to study methods of expanding tourism in the context of expanding our export trade generally.

The Cabinet—

Took note that the Prime Minister would arrange for a Committee of Ministers to be appointed to study methods of expanding the tourist trade.

Cabinet Office, S.W. 1,
8th December, 1960.