CONCLUSIONS of a Meeting of the Cabinet held at Admiralty House, S.W. 1, on Thursday, 3rd August, 1961, at 11.30 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. TAIN 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 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. CHRISTOPHER SOAMES, M.P., Minister of Agriculture, Fisheries and Food

The following were also present:

The Right Hon. J. ENOCH POWELL, M.P., Minister of Health (Item 1)
The Right Hon. REGINALD BEVINS, M.P., Postmaster-General (Item 1)
The Right Hon. MARTIN REDMAYNE, M.P., Parliamentary Secretary, Treasury

Secretariat:

The Right Hon. Sir NORMAN BROOK
Mr. F. A. BISHOP
Mr. M. REED
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1. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (61) 128) on wages policy.

The Chancellor of the Exchequer recalled that, in asking for a pause in increases in wages and salaries generally, the Government had undertaken to give a lead by securing a pause in those sectors for which they were directly responsible. Unless such a pause could be achieved in the employments under the Government’s direct control, particularly the Civil Service and the National Health Service, it would not be secured elsewhere. A difficult problem arose, however, in respect of arbitration in the public sector. If this continued unchanged, there could be no assurance that the arbitrators would take sufficient account of the policy announced by the Government and so secure a pause by their own awards. Moreover, unless some steps were taken to control arbitration, there was a great danger that the policy would result in discrimination against those employees who had no right to arbitration, for example, the teachers and the armed forces.

One course would be to continue to allow access to arbitration but to be prepared, without any announcement in advance, to reject awards or to defer their implementation. This course would arouse much criticism and opposition, and the Government would be accused of duplicity. A second course would be openly to suspend arbitration for a period. This would involve the suspension of the Whitley agreement on arbitration in the Civil Service, and it would be consonant with such a policy that pay negotiations should also be suspended in those sectors where arbitration was not applicable, including the proposed review of the pay of the armed forces. This course also would provoke great unrest and there would be serious danger of long-term harm to the currently accepted machinery of negotiation. A third possibility would be to allow the negotiating machinery to continue to function but to announce that, while access to arbitration would continue, the Government intended to control the timing and if necessary the stages of the implementation of any increases awarded. While this course would be a breach of existing understandings, it would enable the Government honestly to make their position clear and would maintain the principle of arbitration. It would also be flexible in operation, and was consistent with the philosophy of a pause, as distinct from a freeze, in wages and salaries. On the other hand, it might lead arbitrators to discount the possibility that the Government would defer implementation of their awards, and so result in a number of higher awards which would have to be accepted after an interval.

On balance, this last course seemed to be the one open to least objection. It would in any case, in accordance with the policy announced by the Government, be necessary to fulfil existing pay commitments; these would include cases where pay settlements had already been reached in negotiation or where awards had already been made or were awaited under arbitration proceedings. A commitment should also be recognised in a case where an offer had been made and rejected and a claim was on the way to arbitration; for example, any arbitration award made to the Post Office Engineering Union which did not exceed the 51 per cent increase already offered should be put into effect, though any award in excess of that amount might be deferred during the period of the pause.

The Minister of Labour agreed that the third course proposed by the Chancellor of the Exchequer was to be preferred. Even this might do considerable harm to the machinery of arbitration, but it would at least enable the Government to continue the process of negotiation, by discussing the timing and phasing of an arbitration award. An announcement of this policy would have the advantage of making it clear to arbitrators that the Government intended to carry out their policy of a pause.
Discussion showed that there was general agreement that the practical choice was between this course, in which the Government would seek to maintain the principle of arbitration but reserve control over the timing and phasing of awards, and that of continuing to accept the results of arbitration as at present in those cases in which awards were binding, whether by formal agreement or by long understanding, while at the same time concentrating the Government’s efforts on imposing a pause in all other cases over which they had control.

In favour of the latter course it was pointed out that only about 7 per cent. of wage claims were decided by arbitration. The best means by which the Government could influence the great mass of wage negotiations, which were not subject to compulsory arbitration, lay in refusing to agree to excessive claims in those cases in the public sector in which arbitration was not binding. These would include claims in the National Health Service, where the Minister of Health could reject arbitration awards. The Minister of Labour, also, could return or delay recommendations from Wages Councils. It was urged that the Government ought not now to assert their freedom to control the implementation of arbitration awards in those cases in the public sector in which arbitration had previously been regarded, by formal agreement or long understanding, as binding. It was, on the other hand, pointed out that the Government had always reserved the right to withhold cases from arbitration “on grounds of policy”; this right had been invoked only in relation to equal pay, family allowances, cost-of-living bonuses, and the balance of civil pay in war-time. There was considerable support for the view that, as the Government had decided as a matter of policy that there must be a pause in increases in wages and salaries, this justified reserving for the Government’s decision the timing and phasing of awards made at arbitration.

It was also pointed out that there was a serious danger that private employers and local authorities would regard the Government as having failed in their duty to give a lead in restraint if they took no steps to control arbitration in the public sector. There would then be virtually no chance of securing their co-operation in the Government’s policy. Wage restraint was crucial if the balance of payments difficulties were to be overcome and the future of the economy restored. One of the main purposes of a pause was to allow time to formulate a longer term policy for containing increases in profits, wages and salaries within the growth of productivity. There would be great difficulty in deciding what average increase in incomes should be allowed, and there was the further problem of providing, within an average increase, for the betterment of certain sections. It was hoped that in the forthcoming consultations concerning the better co-ordination of economic planning means would be found of securing objective and authoritative advice on these matters.

In further discussion it was suggested that the adoption of the course favoured by the Chancellor of the Exchequer and the Minister of Labour might enable the Minister of Education to state, consistently with the policy of a pause, that, while salary increases for the teachers must for the moment be contained within the total of £42 millions, it should be possible at a later stage to accept the addition of the further £51 millions which the local education authorities had been ready to offer. This would ease relations with the teachers.

The Cabinet were, however, informed that any course involving interference with arbitration arrangements might lead to acute difficulties in the nationalised industries, with a serious risk of strikes in the railway and power industries later in the year.

The Home Secretary said that there were great difficulties in adopting a policy which encroached substantially upon the existing arbitration arrangements in the public sector, especially since it did
not seem possible to announce this before Parliament rose for the summer recess. It was important to show that the Government were approaching the questions of wages policy and the related economic problems on a national basis, and there would be great advantage from this point of view if there could be early legislation to bring short-term speculative capital profits into the field of taxation.

The Prime Minister said that it would clearly be inadvisable to interfere with arbitration arrangements in cases where commitments had already been made, and it would be important to define clearly what these were. But as regards new cases, there were strong arguments to justify the Government in asserting control over the timing and phasing of arbitration awards on the ground that a pause was an essential element in the Government’s policy. It would, however, be necessary to consider very carefully how such a policy, if it were adopted, should be announced. It would be desirable for the Cabinet to resume their discussion on the following day, when they could have before them a draft of the statement on wages policy in the public sector which the Chancellor of the Exchequer would like to make.

The Cabinet—

1. Invited the Chancellor of the Exchequer to prepare a draft statement on wages policy in the public sector.

2. Agreed to resume their discussion on the following day.

2. The Cabinet had before them a memorandum by the Lord Chancellor (C. (61) 126) on future relations between the United Kingdom and South Africa.

The Lord Chancellor said that the Africa Committee had considered a wide range of questions on which decisions affecting our future relations with South Africa were needed. They had adopted as the guiding principle that we should avoid continuing to give South Africa “Commonwealth treatment” unless it was clearly in our own interests to do so.

On the question of nationality, the Committee considered that in future most South Africans must be treated as aliens. An arrangement on the lines of that applied to citizens of the Irish Republic (under which, though aliens, they were not subjected to the ordinary restrictions applicable to aliens) would be unjustifiable in relation to South Africa and unacceptable to most of the other countries of the Commonwealth. The Committee recommended, however, that South Africans who were living in the United Kingdom or Colonies, or were in employment directly based on the United Kingdom, or having connexions by paternal descent with the United Kingdom and Colonies, intended in the future to live there should be at liberty, up to the end of 1965 to register as citizens of the United Kingdom and Colonies.

Our financial and economic interests in South Africa were of great value and, in order to safeguard them and to keep South Africa within the sterling area, it was recommended that we should aim at maintaining our present trade relations as nearly as possible unchanged.

We should also aim to keep unchanged the present relations between the High Commission Territories and South Africa, though it might be possible to improve the working arrangements between them. The South Africa Act 1909, contemplated the possibility of transferring the High Commission Territories (and also the Rhodesias) to South Africa, but the Committee recommended that a decision to
repeal the Act, which might exacerbate feelings in South Africa against the Territories, should be deferred until the balance of advantage could be more clearly assessed.

South Africa should cease to be a member of the Commonwealth Sugar Agreement after the end of the year. It was, however, recommended that we should be prepared to negotiate a bilateral agreement under which we might offer to buy from South Africa the amount of sugar guaranteed under the Commonwealth Agreement at the present or future Commonwealth price, whichever was the lower, and to buy an additional quantity at the world price. An agreement on these lines would be worth some £2½ millions a year to South Africa and should not only make the general negotiations easier but should also safeguard the Swaziland sugar industry.

Finally, it was recommended that we should avoid a comprehensive negotiating conference with South Africa but should take up with them in series the various questions on which agreement was required. The negotiations should be conducted by H.M. Ambassador in Pretoria and should begin, if possible, in the early part of October.

Discussion showed that there was general agreement in the Cabinet with the recommendations put forward by the Africa Committee. The proposed sugar agreement might seem a heavy price to pay for the advantages we hoped to secure in other fields, especially since an embarrassing surplus of sugar was produced in the Commonwealth and we did not need to import it from South Africa. Provided, however, that we did not commit ourselves to the proposed agreement until we were reasonably sure of securing our other objectives, and since we should otherwise have to take from Swaziland the sugar which at present enjoyed a guaranteed market in South Africa, the proposal might be regarded as a reasonably satisfactory bargain.

The Prime Minister said that he was contemplating rearranging Ministerial responsibility on the basis that the Foreign Secretary should become responsible for our general relations with South Africa, that the Colonial Secretary should become responsible for the administration of the High Commission Territories and that H.M. Ambassador in South Africa should continue to combine that function with his function of High Commissioner for the Territories. The timing of these changes would, however, require further thought.

The Cabinet—

(1) Approved the proposals in C. (61) 126.

(2) Took note that the Prime Minister would give further consideration to the timing of changes in Ministerial responsibility for relations with South Africa and the High Commission Territories.

3. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (61) 127) on trade with Japan.

The Chancellor of the Exchequer said that the United Kingdom had benefited more, and Japan less, than had been expected from the current trade agreement which expired on 30th September. In order, therefore, to maintain and develop the improved export market we had found, we must offer the Japanese considerably greater opportunities for their exports in return. The Economic Policy Committee had accepted proposals by the President of the Board of Trade that, on the understanding that the Japanese would enter into a new agreement lasting for a further year, we should remove all restrictions on a wide range of their imports and offer considerable increases in the quotas for most other goods on which we imposed...
restrictions. These increased quotas would include Japanese textiles, but the negotiations for a textile agreement with Hong Kong would have been concluded before the time came to announce the proposed arrangements with Japan.

The Cabinet had already agreed that we should resume negotiations for a commercial treaty with Japan, giving her most-favoured-nation rights in respect of quantitative import restrictions, subject to the safeguards that we should maintain restrictions on certain sensitive products and that both sides would have the right to impose or reimpose restrictions on other products if this became necessary to deal with disruptive competition. The Japanese were unwilling to accept these safeguards without a time limit and were proposing that they should have the same duration as the commercial treaty—in their suggestion, five years with provision for automatic extension. The Economic Policy Committee had agreed that a time limit could be accepted in principle but that we should seek to ensure that the treaty had an initial life of seven years.

The Cabinet—

Endorsed the conclusions of the Economic Policy Committee on commercial relations with Japan, as set out in C. (61) 127.

4. The Cabinet had before them a memorandum by the Foreign Secretary (C. (61) 119) on the financial situation of the United Nations.

The Foreign Secretary recalled that, at their meeting on 22nd June, the Cabinet had decided that the United Kingdom should not join in any initiative for providing interest-free Government loans in order to relieve the financial difficulties of the United Nations. The Cabinet had felt that, if other countries were to take the initiative in proposing loans, we might perhaps agree to contribute but that our contribution should be considerably less than the $15 millions originally contemplated.

Subsequent investigations had disclosed that the sum needed by the United Nations was not $75 millions but $120 millions, and that the prospect of raising commercial loans on this scale was negligible. The only practical means of restoring the finances of the Organisation lay, therefore, in advances or loans by Governments. The United States Government had made it clear that, if the United Kingdom did not participate in a solution on these lines, there would be little chance that other countries would do so and that it was then most unlikely that the United States would be able to bear the cost alone.

On further consideration, since his memorandum had been circulated, the Foreign Secretary proposed that he should himself discuss the whole question with the United States Secretary of State, with a view to reaching some agreement in principle without being committed to a large contribution.

The Cabinet—

Invited the Foreign Secretary to discuss the financial situation of the United Nations with the United States Secretary of State, on the basis that the United Kingdom would pay the assessments to which we were morally committed and would be ready to make available some token assistance over and above that sum.

Cabinet Office, S.W. I.
3rd August, 1961