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C.C. (61)
58th Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet held at Admiralty House, S.W. 1, on Thursday, 26th October, 1961, at 11 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. JOHN MACLAY, M.P., Secretary of State for Scotland

The Right Hon. HAROLD WATKINSON, M.P., Minister of Defence

The Right Hon. PETER THORNEYCROFT, M.P., Minister of Aviation (*Items 1–4*)

The Right Hon. REGINALD MAUDLING, M.P., Secretary of State for the Colonies

The Right Hon. EDWARD HEATH, M.P., Lord Privy Seal

The Right Hon. ERNEST MARPLES, M.P., Minister of Transport

The Right Hon. VISCOUNT KILMUIR, Lord Chancellor

The Right Hon. The EARL OF HOME, Secretary of State for Foreign Affairs

The Right Hon. HENRY BROOKE, M.P., Chief Secretary to the Treasury and Paymaster General

The Right Hon. IAIN MACLEOD, M.P., Chancellor of the Duchy of Lancaster

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

The Right Hon. LORD MILLS, Minister without Portfolio

The Right Hon. JOHN HARE, M.P., Minister of Labour

Dr. The Right Hon. CHARLES HILL, M.P., Minister of Housing and Local Government and Minister for Welsh Affairs

The Right Hon. CHRISTOPHER SOAMES, M.P., Minister of Agriculture, Fisheries and Food

The Right Hon. FREDERICK ERROLL, M.P., President of the Board of Trade

The following were also present:

The Right Hon. JOHN PROFUMO, M.P., Secretary of State for War (*Item 3*)

The Right Hon. RICHARD WOOD, M.P., Minister of Power (*Items 4–5*)

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

Secretariat:

The Right Hon. Sir NORMAN BROOK
Mr. F. A. BISHOP
Mr. J. H. WADDELL

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Foreign Affairs

Berlin

(Previous Reference: C.C. (61) 56th Conclusions, Minute 1)

1. *The Foreign Secretary* said that tension in Berlin had increased on the previous day, when East German authorities had sought to prevent American civilians from crossing into East Berlin without passes. Allied troops had made a show of force in protest against this action; but a meeting was to be held that day in Berlin to discuss the situation. The United States authorities believed that it would be resolved, in view of the assurance they had received from the Soviet Foreign Minister that existing procedures in Berlin would remain unchanged so long as discussions were proceeding with a view to finding a basis for negotiation.

The Foreign Secretary added that it had been the practice for British civilians voluntarily to show passes when crossing into East Berlin.

Congo Republic

(Previous Reference: C.C. (61) 55th Conclusions, Minute 1)

The Foreign Secretary said that Mr. Tshombe, the Prime Minister of the provincial Government of Katanga, had now sent two junior officials to Elizabethville. Though this was not a very forthcoming approach there were indications that Mr. Adoula, the Prime Minister of the Central Congo Government, might be ready to negotiate now, because he was becoming apprehensive about the intentions of Mr. Gizenga, the Deputy Prime Minister. Steps were therefore being taken to ensure that Mr. Tshombe realised that this might be a favourable moment for negotiations.

Laos

(Previous Reference: C.C. (61) 55th Conclusions, Minute 1)

The Foreign Secretary said that the King of Laos was now willing to accept Prince Souvanna Phouma as Prime Minister of a united Laotian Government. He was however reluctant to make any public declaration to this effect until decisions had been taken on the allocation of portfolios in such a Government.

Nuclear Tests

(Previous References: C.C. (60) 28th Conclusions, Minute 2 and C.C. (61) 49th Conclusions, Minute 2)

2. *The Prime Minister* referred to the widespread public anxiety aroused by the recent Russian series of nuclear tests culminating in the explosion in the atmosphere of a bomb with a yield of between 30 and 50 megatons. In the forthcoming Debate on the Address he would be expected to define the attitude of the United Kingdom towards the resumption of nuclear tests. He was in consultation with President Kennedy, and he hoped that it might be possible to reach an Anglo-American agreement on the line to be taken publicly on this question. His own provisional view was that the Western Powers should not stage further nuclear tests in the atmosphere for the mere purpose of outbidding the Russians in propaganda terms. They should confine themselves to such tests as were strictly necessary, on military grounds, to preserve the balance of nuclear deterrence. Many of these could be conducted underground.

Discussion showed that the Cabinet were in agreement with the view expressed by the Prime Minister. Even if it were necessary for the Western Powers to make further tests in the atmosphere for military purposes, it would be preferable that these should be deferred for a time so as to avoid giving any impression that they were being made for propaganda purposes. It was understood that the tests which the United States authorities might wish to make in the near future could be made underground.

The Cabinet—

Took note of the view expressed by the Prime Minister and of the points made in discussion.

Defence

Army Manpower

(Previous Reference: C.C. (61) 56th Conclusions, Minute 4)

3. *The Secretary of State for War* said that, as a result of further consultation with the Minister of Defence, he now proposed to seek power to create within the Territorial Army a special Reserve of volunteers willing to be called up for service in a time of tension without the need for a Proclamation. This Reserve would be open, up to a total of 15,000 men, to National Service volunteers in the Territorial Army or other members of the Territorial Army who had completed at least a year's service. They would be required to accept, for periods of one year at a time, a liability to be called up for service at home or abroad for a maximum of six months. There would be advantage in forming this Reserve within the Territorial Army, which had a well-founded training organisation, rather than in the Army Emergency Reserve. The Chairman of the Council of Territorial and Auxiliary Forces Associations would support the plan. It would provide fully trained men who would form an effective reinforcement for the British forces in Germany.

Provision for the creation of this Reserve could be included in the forthcoming legislation for the retention of National Servicemen in full-time service and for the recall of part-time National Servicemen for further full-time service.

The Chief Secretary, Treasury, said that the details of this plan should be considered by the Treasury. It seemed likely to involve continuing expenditure of about £4 million a year, and this should be accommodated within the total already approved for defence expenditure as a whole. *The Minister of Defence* said that he would do his best to secure this and hoped it could be done.

The Cabinet—

(1) Approved in principle the proposal of the Secretary of State for War for the creation of a voluntary Reserve within the Territorial Army for service in a time of tension.

(2) Invited the Secretary of State for War, in consultation with the Minister of Defence, the Chief Secretary, Treasury, and the Minister of Labour, to formulate a detailed plan for this purpose.

Methane Gas

(Previous Reference: C.C. (61) 54th Conclusions, Minute 2)

4. The Cabinet resumed their discussion of a memorandum by the Minister of Power (C. (61) 144) about a proposal by the Gas Council to import liquefied methane gas from French North Africa. They also had before them a memorandum by the Home Secretary (C. (61) 165) reporting the conclusions reached by a meeting of Ministers which he had been asked to convene to give further consideration to this proposal.

The Home Secretary recalled that in the Cabinet's earlier discussion particular doubts had been expressed about the cost of this proposal in foreign exchange and about the security of Algeria as a source of supply. It had since been ascertained that, if liquid methane were not imported, it would probably be necessary to import instead petroleum-based gases which would be at least as costly in terms of foreign exchange. If the Algerian supplies should be cut off, the installations in this country could be converted to use petroleum-based gases or, in the longer term, supplies of methane gas from Nigeria and other sources. Treasury Ministers had satisfied themselves that there was a good case, on economic and financial grounds, for the methane project. Its rejection would be inconsistent with the Government's declared policy that the nationalised industries should have the greatest possible commercial freedom consistent with their other obligations. Private industry could import methane freely and it would be wrong to deny this freedom to the Gas Council.

particularly when their aim was to secure a substantial reduction in costs.

In discussion it was noted that the Chairman of the National Coal Board had seemed to be unaware that this project for importing methane gas would not displace the need for a Lurgi plant. It should be made clear to him that there would still be room for a large Lurgi plant in the Gas Council's programme.

The Cabinet—

(1) Approved the proposal put forward in C. (61) 144 for the import of methane gas by the Gas Council.

(2) Invited the Minister of Power to consult with the Chancellor of the Duchy of Lancaster on the form in which this decision should be made known to Parliament.

(3) Took note that the Minister of Power would explain to the Chairman of the National Coal Board the basis on which the decision had been reached.

Coal

Price Policy

(Previous Reference: C.C. (61) 35th Conclusions, Minute 3)

5. The Cabinet had before them a memorandum by the Minister of Power (C. (61) 166) on coal prices.

The Minister of Power said that the accumulated deficit of the National Coal Board was now far greater than their internal reserves and there were continuing losses in a number of divisions, which were particularly heavy in Scotland, Wales and the North-West of England. The Board had therefore proposed to increase coal prices in Scotland by an average of nearly 15s. a ton from 1st January, 1962, to increase the price of South Wales anthracite and boiler fuel by 30s. a ton (of which 10s. would become effective at the beginning of the following month and £1 would be added in the course of next year), and to increase the price of coal in the North-Western division by 6s. a ton from 1st January, 1962. These increases should lead to some reduction in demand, which would make it easier to close down high-cost pits. The Board were also considering whether other selective price increases should be made to eliminate other losses on its operations.

Although the selective price increases proposed were admittedly severe, it should be borne in mind that substantial differences in prices, both at the pithead and for delivered coal, already existed. The Chairman of the Board was strongly opposed to any general increases in coal prices, on the grounds that such an increase would impair the confidence of industry in the stability of coal prices and encourage more users to turn to oil, and that it would also increase the difficulties of the low-cost coalfields in competing with other sources of energy. In the light of the White Paper on the Financial and Economic Obligations of the Nationalised Industries (Cmnd. 1337) it would be difficult to deny the Board commercial freedom to make price increases which they thought necessary.

The Chief Secretary, Treasury, said that urgent action was needed to check the increasing losses of the Board. The Scottish division was losing £17 million a year, which meant in effect that the industry there was being subsidised at the rate of £400 a year for each miner. In view of the existing differences in prices, the Board's proposals did not involve any change of principle. The Government had recognised, in the White Paper, that nationalised industries must have freedom to make upward price adjustments especially where their prices were artificially low. Nevertheless he recognised that the proposed increases were severe particularly in respect of Scotland. It might be possible

to impose them gradually, and to phase some to a later date—for example, an increase in the price of house coal could be introduced with less hardship during the summer. The increase proposed in the North-Western division would make it clear that Scotland was not being singled out for exceptional treatment.

The Secretary of State for Scotland said that the Board's proposals would have most serious social and economic implications for Scotland. The present programme of pit closures envisaged the reduction in the number of jobs in Scottish coalfields from 69,000 to 60,000 by 1965, but the price increases now proposed, which would make further closures inevitable, would entail a reduction to 40,000 by that date. The consequences of higher coal prices would be most harmful to the Government's policy for encouraging industry to settle in Scotland. For instance, it would add about £1½ million a year to the cost of Messrs. Colville's new strip mill. Moreover these increases would come at a time when Scottish industry was having to bear the burden of revaluation and rerating. There would be substantial additions to the cost of gas and electricity, and also cement. The effect on private householders, including old age pensioners and those on national assistance, would be particularly severe. While it was true that price differentials already existed, these were based in the main on quality differences or on historic grounds; they did not arise from differences in the costs of production. The uneconomic prospects of the Scottish coal industry arose from the existence of the national wage structure.

In discussion the following points were made:

(*a*) The increases in coal prices which the Cabinet had authorised in the past had not secured the financial stability of the industry. The Cabinet had previously rejected proposals for differential prices, on the ground that it was undesirable for a nationalised industry to discriminate sharply, in its prices, between the different sections of the community.

(*b*) The proper long-term solution lay in the elimination of uneconomic high-cost production. This pointed to the need for a more extensive programme of closing uneconomic pits. But the existing programme was already on a considerable scale; and something like three-quarters of the Scottish pits would have to be closed if Scottish coal production as a whole were to be made economic. Moreover, there was a danger that, if demand were not reduced, the closure of uneconomic pits would lead to the import of coal, which would either be at a high cost because of transport charges or would be of disadvantage to the balance of payments.

(*c*) A rapid run-down of the coal industry in Scotland would mean that much of the heavy social investment that had been made in certain areas would be wasted. On the other hand, it would be unreasonable to burden the coal industry with the expense of maintaining uneconomic production for social reasons.

(*d*) It was possible to exaggerate the effect which increases in coal prices would have on the policy of attracting industry to Scotland. There was a good prospect that industries which did not depend on coal would settle there. This represented the best hope for the industrial future of Scotland.

(*e*) There was general agreement that the objections of the Chairman of the Board to a general price increase were well founded. It would be undesirable, especially in view of the promise of greater commercial freedom for nationalised industries in the recent White Paper, to urge him to change his view on this point.

(*f*) The possibility should be considered that the Trades Union Congress might be persuaded to accept some adjustment in the national wage structure so as to improve the economic prospects of coal production in Scotland and similar areas.

The Prime Minister said that a combination of measures would probably be required for the solution of this difficult problem. On balance, the Cabinet seemed ready to accept some differentiations in coal prices based on variation in costs of production. But the proposed increases were exceptionally severe, and should if possible be limited or phased, even if this entailed a direct Government subsidy specifically attributable to the high cost of production in certain regions. It might also be necessary to consider special concessions for certain industries, including those which had been encouraged to settle in Scotland, for whom the proposed increases would have serious industrial effects.

The Cabinet—

Invited the Minister of Power, in the light of the Cabinet's discussion, to consider this problem further, in consultation with the Secretary of State for Scotland, the Chief Secretary, Treasury, the Chancellor of the Duchy of Lancaster and the Minister without Portfolio, and to submit revised proposals for consideration by the Cabinet.

National Insurance

(Previous Reference: C.C. (59) 11th Conclusions, Minute 5)

Family Allowances for Apprentices

6. The Cabinet had before them memoranda by the Minister of Pensions and National Insurance (C. (61) 167) and the Minister of Labour (C. (61) 170) on a proposal to fix a limit of earnings above which family allowances would not be payable in respect of apprentices.

The Minister of Pensions and National Insurance said that for the purposes of family allowances an apprentice was defined as a person "not in receipt of earnings which provide him, wholly or substantially, with a livelihood". The National Insurance Commissioner had ruled that a child could be regarded as not in receipt of earnings providing him wholly or substantially with a livelihood if his earnings were less than, for example, 89s. 6d. a week when under 18. The Minister proposed, as an economy measure, that provision should be made in the National Insurance Bill to specify for this purpose an earnings limit of 40s. This would reduce the number of apprentices qualifying for family allowances from 75,000 to about 20,000 and would result in a saving to the Exchequer of a little over £1¼ million a year. This proposal would provoke controversy in Parliament. It would be represented as contrary to the Government's policy of encouraging apprenticeship in skilled trades. On the other hand, the decision of the National Insurance Commissioner gave rise to serious anomalies in the comparison between family allowance arrangements and other arrangements in the field of national insurance and national assistance—in particular the earnings rule for national insurance purposes which prevented a wife earning more than 40s. a week from being treated as a dependent. It was plainly not in accordance with the spirit of the original family allowances scheme that allowances should be paid to children who could make a substantial contribution to the family income; and as the amount of the allowance was not large (8s. a week where the apprentice was a member of a two-child family and 10s. in other cases) it was open to doubt whether many prospective apprentices would in practice be discouraged from learning skilled trades.

In discussion attention was drawn to the danger that the proposal would affect adversely, not only the flow of apprentices, but also the number of apprenticeships provided, which was a matter of special importance in helping to secure employment for the large numbers of school-leavers who would be entering industry in the next few

years. Any action which might increase the tendency for young people to seek high wages in unskilled employment was socially and economically undesirable: apprentices were not, and should not be, treated as if they were normal wage-earners. Would it not be better either to fix in the Bill an earnings level which would have a less drastic effect or to take power to fix the limit by regulation?

The general view of the Cabinet was that, if any action were to be taken on the lines of the proposal, it would be better to fix the limit of 40s. in the Bill itself. To adopt any other level would reduce the saving to the Exchequer and would not remove the anomalies. Regulations would provide recurring occasions for pressure and debate.

The Chief Secretary, Treasury, said that the proposal ought to be considered in the light of the Government's general policy of securing reductions in supply expenditure. If the opportunity was not taken of making savings such as this, there would be small prospect of attaining the objective of reducing supply expenditure by £100 million in 1962–63. The adoption of an earnings limit of 40s. would do no more than bring family allowance arrangements into line with the arrangements for child allowances in income tax law.

The Cabinet—

(1) Approved the proposal in C. (61) 167 that provision should be made in the National Insurance Bill for a specific earnings limit of 40s. for family allowances for apprentices.

(2) Invited the Minister of Pensions and National Insurance, in consultation with the Minister of Labour, to arrange for the Trades Union Congress to be informed, shortly before the introduction of the National Insurance Bill, that it would include such a provision.

Shipping

Nuclear Propulsion for Merchant Ships

(Previous References: C.C. (61) 39th Conclusions, Minute 5 and C.C. (61) 56th Conclusions, Minute 5)

7. The Cabinet had before them a memorandum by the Minister of Transport (C. (61) 169) about nuclear propulsion for merchant ships.

The Minister of Transport recalled that the Cabinet had already decided against the construction of a nuclear-powered ship at the present stage. The Chancellor of the Exchequer, in consultation with the Minister for Science, had reviewed the civil research and development programme of the Atomic Energy Authority and had approved the inclusion, within the Authority's programme, of an initial programme of some £3 million in respect of marine nuclear propulsion. He proposed to make an appropriate announcement in Parliament early in the coming session.

In discussion it was agreed that the announcement should take the form of a written answer to a Parliamentary Question and that in its wording care should be taken to avoid any implication that the Government were committed to the development of a prototype vessel.

The Cabinet—

(1) Endorsed the approval given by the Chancellor of the Exchequer for an initial programme of some £3 million for research on marine nuclear propulsion.

(2) Invited the Minister of Transport to consult the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster on the terms in which this decision should be announced in a written reply to a Parliamentary Question.

Wages Policy

(Previous Reference: C.C. (61) 53rd Conclusions, Minute 7)

8. *The Chancellor of the Exchequer* recalled that the wage increases proposed by a number of Wages Councils which could claim that commitments had been accepted before his statement of 25th July were to be brought into operation from 1st January, 1962. The Minister of Labour was now proposing to confirm a wage increase awarded by their Wages Council to workers in the sack and bag making trades. This would be the first occasion on which the Minister had confirmed a Wages Council award on a claim in respect of which no commitment had been accepted before 25th July. He proposed that this increase should be effective from 2nd April, 1962. This would support the argument that the recent Orders for increases operating from 1st January were special cases in which a prior commitment had been accepted. It would also help to avoid any impression that the period of the "pause" in wage and salary increases was not to last beyond the end of 1961.

The Cabinet—

Approved the proposal of the Minister of Labour that the wage increase awarded to workers in the sack and bag making trades should become effective from 2nd April, 1962.

Euston Station

Doric Arch

(Previous Reference: C.C. (61) 56th Conclusions, Minute 7)

9. *The Prime Minister* said that, since the Cabinet's discussion on 17th October, he had received an influential deputation, led by the President of the Royal Academy, which had urged that the demolition of the Doric Arch at Euston Station should be postponed so that further consideration might be given to the possibility of re-erecting it on another site. It was evident that, if the Cabinet adhered to their earlier decision to demolish this Arch, they would encounter strong criticism from persons interested in the preservation of buildings of historical or architectural interest.

Discussion showed that, despite this development, it remained the view of the Cabinet that the balance of public advantage lay on the side of proceeding with the demolition of this Arch.

The Cabinet—

Reaffirmed their earlier decision that the demolition of the Doric Arch at Euston Station should not be delayed.

Cabinet Office, S.W. 1,
26th October, 1961.