CABINET

CONCLUSIONS of a Meeting of the Cabinet held at Admiralty House, S.W. 1, on Tuesday, 24th July, 1962, at 11 a.m.

Present:
The Right Hon. R. A. BUTLER, M.P., First Secretary of State (in the Chair)
The Right Hon. VISCOUNT HAILSHAM, Q.C., Lord President of the Council and Minister for Science
The Right Hon. REGINALD MAUDLING, M.P., Chancellor of the Exchequer
The Right Hon. DUNCAN SANDYS, M.P., Secretary of State for Commonwealth Relations and Secretary of State for the Colonies
The Right Hon. PETER THORNEYCROFT, M.P., Minister of Defence
The Right Hon. ERNEST MARPLES, M.P., Minister of Transport
The Right Hon. JOHN BOYD-CARPENTER, M.P., Chief Secretary to the Treasury and Paymaster General
The Right Hon. J. ENOCH POWELL, M.P., Minister of Health
The Right Hon. Sir KEITH JOSEPH, M.P., Minister of Housing and Local Government and Minister for Welsh Affairs
The Right Hon. LORD DILHORNE, Lord Chancellor
The Right Hon. HENRY BROOKE, M.P., Secretary of State for the Home Department
The Right Hon. IAIN MACLEOD, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. JOHN HARE, M.P., Minister of Labour
The Right Hon. FREDERICK ERROLL, M.P., President of the Board of Trade
The Right Hon. WILLIAM DEEDES, M.P., Chief Secretary to the Treasury and Paymaster General
The Right Hon. JOHN BOYD-CARPENTER, M.P., Chief Secretary to the Treasury and Paymaster General
The Right Hon. SIR EDWARD BOYLE, M.P., Minister without Portfolio
The Right Hon. MARTIN REDMAYNE, M.P., Parliamentary Secretary, Treasury
Mr. A. L. M. CARY
Mr. J. H. WADDELL

Secretaria: 

The Right Hon. Sir NORMAN BROOK
Mr. A. L. M. CARY
Mr. J. H. WADDELL
## CONTENTS

<table>
<thead>
<tr>
<th>Minute No.</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Congo Republic</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Parliament</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Employment</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Sale of Christchurch Aircraft Factory</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Incomes Policy</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Colonial Development Corporation</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Shipping</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>International Monetary Fund</td>
<td>8</td>
</tr>
</tbody>
</table>
1. The Cabinet were informed that there was still a serious risk of international disagreement over the Congo. If no further progress could be made towards an agreement between the central Government and Katanga, there would be increasing pressure for a discussion in the Security Council, and 10th August had been mentioned as a possible date for such a debate. Efforts were now being made to convince the Prime Minister of Katanga, Mr. Tshombe, that such a discussion was likely to result in a resolution supporting the application of economic sanctions to Katanga. At the same time, consultations were being held with the United States Government with a view to enlisting their support for a milder form of resolution; but it must be recognised that in Washington there was a good deal of sympathy with the view that the Government of Katanga could be induced by economic pressures to come to terms with the central Government.

In discussion the point was made that, if this matter came to an issue before the summer recess, doubts would be publicly expressed about the expediency of continuing our financial contribution towards the cost of the United Nations operations in the Congo. Parliament would be reluctant to endorse continued financial support of the United Nations if the Government had felt obliged to dissociate themselves from the policy which the Organisation were pursuing in the Congo.

The Cabinet—
Agreed to resume their discussion of this question at a later meeting.

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

3. The Cabinet had before them a memorandum by the President of the Board of Trade (C. (62) 122) about the disposal of an aircraft factory at Christchurch which was owned by the Ministry of Aviation.

The President of the Board of Trade said that the British Oxygen Company had been in negotiation with his Department for the lease of a factory at Dumbarton to accommodate the Company's light engineering production, which was at present carried on at Edmonton. The factory would cost about £2 million and, on the advice of the Board of Trade Advisory Committee, the Company had been offered a grant of £300,000 under the Local Employment Act, 1960. Unemployment in the Dumbarton area was high and the plans for the factory, which had already received wide publicity, had been warmly welcomed in Scotland. The Company had, however, now decided that they would in no circumstances go to Dumbarton and there was ground for supposing that they had taken this decision only after they had reached agreement to buy from the Ministry of Aviation a vacant aircraft factory at Christchurch. The Board of Trade had already refused to issue an industrial development certificate for expansion by the Company in the south of England, but each of the Departments had been unaware of the Company's negotiations with the other. The contract for the sale of the Christchurch factory had not yet been signed and the question for consideration was whether the transaction should be allowed to proceed.
There was some unemployment in the Christchurch area and the use of the factory by the British Oxygen Company would be welcomed locally. The sale would also be financially advantageous to the Ministry of Aviation, since the next best offer which had been received was £200,000 less than the British Oxygen offer. But, if the sale were allowed to proceed, the Government would appear to be undermining their own policy on the location of industry. It was true that there was no means of preventing this Company from buying and using another factory in the south of England, but it would be particularly unfortunate that the Company should frustrate Government policy by taking over a factory which was within the Government's own control. The President recommended that the sale should not be allowed to proceed.

In discussion the following points were raised:

(a) At a time when the Government's economic policies involved contraction in coal mining and the railways and there was substantial unemployment in some of the development districts, everything possible should be done to support rather than weaken the arrangements for the proper distribution of industry. The worsening employment situation in Scotland, which was attracting much public attention, would not be eased by refusal to complete the sale of the Christchurch factory, since the Company were evidently determined not to go to Scotland in any event. But refusal would demonstrate the Government's willingness to suffer some financial disadvantage rather than abandon their general policy.

(b) Although there would be economic advantages for the Company in using the Christchurch factory, which would enable them to reach full production two years earlier than if they had to move to Scotland, it seemed unlikely that they would be substantial losers if they did not obtain that particular factory.

(c) The Government might be made to look foolish if refusal to complete the sale at Christchurch were soon followed by the establishment of the Company at some other factory in the south of England. But this would have to be faced. It would be inexpedient to allow the sale to proceed and to explain the Government's action by reference to the Company's stated decision against going to Scotland. In the prevailing climate of opinion any such explanation would be unconvincing.

(d) The Company's behaviour in the parallel negotiations with the Board of Trade and the Ministry of Aviation had been reprehensible and it would be salutary that their attempts to circumvent established Government policy should fail, and be seen to fail. But there would be criticism of the Government on a number of points, which should be taken into account in the presentation of the decision. The Company would probably explain their abandonment of Dumbarton as partly due to the inadequacy of the grant they had been offered. The Government would also be criticised for failing to deal effectively with unemployment in the Christchurch area, which was attributable to their own policy of concentration in the aircraft industry, and for frustrating the most efficient production by the British Oxygen Company. Some increase must also be expected in pressures for the building of advance factories in the development districts.

(e) This episode illustrated a weakness of present distribution of industry arrangements, namely that the Government had no power to prevent existing privately-owned industrial premises from being sold for industrial use. Legislation would be required to remedy this, and effective measures of control might be expensive in terms of compensation to property owners. The general policy should be further examined by the appropriate Ministers, who should consider inter alia how far it was right to maintain the decision taken in October 1961 to dispose of surplus Government property at the highest price it would fetch on the open market.
SECRET

C.C. 49 (62)

Incomes Policy
(Previous Reference: C.C. (62) 46th Conclusions. Minute 3)

(1) Steps should be taken to set up a procedure among Departments which would ensure that a firm could not frustrate Government policy on the distribution of industry by carrying on simultaneous negotiations with more than one Department.

The Cabinet—

(1) Agreed that the sale of the aircraft factory at Christchurch to the British Oxygen Company should not proceed.

(2) Invited the President of the Board of Trade, in consultation with the Minister without Portfolio and the Minister of Aviation, to arrange for the Company to be informed of this decision; and to consider, in the light of their discussion, how it could best be presented publicly.

(3) Invited the President of the Board of Trade, in consultation with the other Ministers concerned, to review the procedure adopted among Departments on the sale of Crown land for industrial purposes.

(4) Invited the President of the Board of Trade to arrange for a general review of distribution of industry policy to be put before the appropriate Ministerial Committee.

4. The Cabinet had before them a memorandum by the Prime Minister (C. (62) 124) on the presentation of the Government’s incomes policy to Parliament.

The Chancellor of the Exchequer said that in the light of further confidential discussions it was now clear that the Trades Union Congress would not welcome the establishment of a National Incomes Commission: they were unlikely to do more than acquiesce reluctantly in its appointment. If the Commission were given powers to review claims with the consent of only one of the parties concerned, the Congress would be likely to come out in open opposition to it. He therefore supported the proposal, in paragraph 4 of the Prime Minister’s memorandum, that the idea of unilateral reference to the Commission should be mentioned as a point of importance on which further consultation would be required with both sides of industry before a decision was reached.

Discussion showed that there was general agreement in the Cabinet with this proposal. The absence of unilateral reference would however weaken the Commission’s power to influence claims under discussion in the private sector and would put more weight on the deterrent effect of ex post facto enquiries. Until experience had been gained, the degree to which the prospect of an ex post facto enquiry would induce the parties to a dispute to bring their case to the Commission for review must remain a matter of judgment; much would depend on the timing, and if the Commission could produce their reports quickly their effect would be correspondingly enhanced. Past experience with courts of enquiry appointed by the Minister of Labour was encouraging in this respect.

The Chancellor of the Exchequer said that the relations between the Burnham Committee and the Commission should involve little difficulty. In the event of disagreement in the Committee, both sides might be prepared to agree to reference to the Commission. The Commission’s views would not be binding on either party and it would be possible in this way to introduce a greater measure of
flexibility into the negotiating procedure. There would, however, be more difficulty about the relations with the review committees under Lord Kindersley and Lord Franks. On balance he supported the course proposed by the Prime Minister in paragraph 6 of his memorandum. It would be unfortunate if the impression were created that doctors, dentists, and senior civil servants would be exempted from the Government's incomes policy. The need to establish some association between these review committees and the Commission should therefore be recognised, with the proviso that the precise nature of the association would need to be discussed both with the committees themselves and with representatives of the professions concerned. It should also be implied that the association would be developed over a period of time. The position of the Kindersley Committee would certainly be raised in debate in the absence of any statement of the Government's intention, and it would be desirable that the Prime Minister should deal with this point in his opening speech.

The Minister of Health said that, while a reference to the Kindersley Committee on the lines proposed would be likely to arouse less hostility from the doctors and dentists, he must warn the Cabinet that a sharp reaction must be expected. The representatives of these professions had been induced to accept the establishment of a review body on the understanding that it would operate independently and would not be committed to the Government's point of view. The Kindersley Committee had started its first review and to say at this stage that it was to be brought into association with the new Commission would be represented as a breach of faith and as an attempt to interfere with the Committee's current review. He would prefer, for this reason, that no reference should be made to the Kindersley Committee at all in presenting the Government's proposals.

In discussion there was general agreement that it would not be possible to avoid any reference to the relations between the Commission and the standing review committees of which the Franks Committee, the Kindersley Committee, and the Burnham Committee were the most important. The reference could, however, be in general terms and could emphasise the Government's intention to do no more at this stage than to consider, in consultation with the parties concerned, the form that such association might most usefully take. It could also be made clear, in order to avoid any suggestion that the Government were intervening in current negotiations, that the association would be developed over a period of time.

The Cabinet—

1. Agreed that the possibility of empowering the National Incomes Commission to review wage or salary claims with the agreement of only one of the parties concerned should be mentioned in the Government's presentation of the powers and functions of the Commission as being a point on which full consultation would be required with both sides of industry before a final decision was reached.

2. Invited the Prime Minister to include in the speech in which he would be presenting the Government's new incomes policy to Parliament a reference to the Government's intention to consider, in association with the parties concerned, what form of association between the National Incomes Commission and standing review committees, particularly the Kindersley Committee, could most usefully be developed in the future.
5. The Cabinet had before them a memorandum by the Commonwealth Secretary (C. (62) 123) proposing legislation to widen the terms of reference of the Colonial Development Corporation.

The Commonwealth Secretary said that the activities of the Corporation were at present confined to dependent territories. It seemed desirable to widen its terms of reference (without, however, increasing the statutory ceiling of Exchequer lending) to enable it to undertake new projects in any former British colonial or mandated territory which after 1948 had achieved or might achieve independence within the Commonwealth. Legislation for this purpose would be generally welcomed, and he sought authority to announce to Parliament before the summer recess that such legislation would be introduced in the following session.

In discussion there was general agreement that the Corporation's terms of reference should be widened. The following points were raised:

(a) Although the Bill was not likely to be controversial, it would take up time on the floor of the House. Its place in the legislative programme should be considered at a meeting of the Future Legislation Committee which would be held later that week.

(b) An announcement might be better made in the Queen's Speech on the Opening of Parliament than in the last few days before the summer recess. It was, however, understood that the staff of the Corporation had been unsettled about their future and that an early announcement would help to reassure them. The Chairman of the Corporation should be asked whether sufficient reassurance would be given if the staff concerned were privately informed of the Government's intentions.

(c) The proposed extension of the Corporation's scope had been based on the assumption that India, Pakistan and Ceylon should not be included, since there were already adequate means of assisting these territories. But further thought might be given to the question whether the extension of its scope should in form be limited to territories whose independence had been achieved since 1948.

The Cabinet—

(1) Approved in principle the proposal in C. (62) 123 for extension of the terms of reference of the Colonial Development Corporation.

(2) Invited the Commonwealth Secretary to bring before an early meeting of the Future Legislation Committee the proposal to include a Bill for this purpose in the legislative programme for 1962-63.

(3) Invited the Commonwealth Secretary to consider further, in consultation with the Chairman of the Corporation, the need for an early announcement of the Government's decision.

6. The Cabinet had before them a memorandum by the Minister of Transport (C. (62) 120) on the future of the British shipping industry.

The Minister of Transport said that the British merchant marine totalling 29½ million tons was still the largest in the world, with a greater carrying capacity than it had before the war. The average age of our ships was less than 10 years; we were carrying about 60 per cent of our total exports and 50 per cent of our imports.
Nevertheless, the present state of the industry gave rise to serious concern. In terms of the balance of payments, its earnings had fallen from a surplus of about £150 million to a deficit of over £60 million. Shipping companies were barely covering depreciation and their difficulties had been increased by substantial increases in wages. Shipping rates were in general low, in some cases lower than at any time since the war.

The general state of the shipping industry also affected shipbuilding. British shipowners were ordering new shipping at a rate which represented only one-third of the rate required to maintain the British merchant marine at its present strength. This would maintain only about half the present shipbuilding industry and, if the rate of ordering did not improve, serious contraction would be inevitable. The total world capacity for building ships was about twice the highest likely level of demand. The state of the docks and ports of the United Kingdom had been under study by an advisory committee. Their report would be published in the autumn and its recommendations would be radical. There was undoubtedly scope for considerable improvement, but the report would be unpopular with the interests concerned.

The Minister said that for the time being he sought the authority of the Cabinet to proceed on the lines set out in his memorandum. This would involve the appointment of a shipping advisory panel including, under his chairmanship, representatives of both sides of the shipping industry, of other industry and of the Board of Trade; the establishment of a research unit; the encouragement of technical research covering both shipbuilding and the organisation of shipping and cargo handling; and the promotion of measures of standardisation. He attached particular importance to the first proposal; there was at present far too little contact between the two sides of the shipping industry and no forum in which their common problems could be discussed.

In discussion there was general support for these proposals. Their financial implications should be discussed with the Treasury, but within the limits of such expenditure as might be agreed the resources of the Department of Scientific and Industrial Research would be available to help with the work. Labour relations and labour practices in docks and shipyards were still causing difficulty, but there had recently been signs of some improvement and it was to be hoped that this would continue.

The Cabinet—

(1) Authorised the Minister of Transport to proceed with the establishment of a shipping advisory panel and with the other measures for training and research set out in C. (62) 120.

(2) Took note that action to improve the organisation of docks and ports in the United Kingdom could not be taken until the report of the advisory committee on ports had been received.

7. The Chancellor of the Exchequer reminded the Cabinet that in August 1961 the Government had negotiated with the International Monetary Fund a drawing equivalent of $1,500 million and a one-year stand-by arrangement for a further $500 million. Of this drawing about $1,000 million had been repaid. It was now proposed to repay the balance of the drawing amounting to about $500 million, and to negotiate at the same time a renewal of the stand-by arrangement for $1,000 million instead of the $500 million negotiated in August.
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The effect of this transaction would be to show a fall of over £180 million in the published reserves. As against this the reserves would still stand at over £1,000 million and would be reinforced by the new stand-by. In fact we should have converted over £180 million of the first-line reserves into a stand-by of an equal amount and acquired in addition a further stand-by for the same amount. It would also be taken as evidence of the general soundness of the United Kingdom's position that we should have repaid in full within one year the largest single drawing ever granted by the Fund.

The Cabinet—

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

Cabinet Office, S.W.1,