CABINET

CONCLUSIONS of a Meeting of the Cabinet held at Admiralty House, S.W.1, on Thursday, 20th December, 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. IAIN MACLEOD, M.P., Chancellor of the Duchy of Lancaster
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. JOHN HARE, M.P., Minister of Labour
The Right Hon. FREDERICK ERROLL, M.P., President of the Board of Trade
The Right Hon. MICHAEL NOBLE, M.P., Secretary of State for Scotland
The Right Hon. SIR EDWARD BOYLE, M.P., Minister of Education
The Right Hon. WILLIAM DEEDES, M.P., Minister without Portfolio

The following were also present:
The Right Hon. RICHARD WOOD, M.P., Minister of Power (Items 3–4)
The Right Hon. NIALL MACPHERSON, M.P., Minister of Pensions and National Insurance (Item 3)
The Right Hon. THE EARL OF DUNDEE, Minister of State for Foreign Affairs (Items 4–6)
The Right Hon. MARTIN REDMAYNE, M.P., Parliamentary Secretary, Treasury

Secretariat:
Mr. A. L. M. CARY
Mr. N. J. ABERCROMBIE
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1. The Cabinet invited the First Secretary of State to send to the Prime Minister on their behalf a message of encouragement and support in his current discussions with the President of the United States.

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

3. The Cabinet had before them a memorandum by the Chancellor of the Exchequer and the Chief Secretary, Treasury (C. (62) 206) showing the total amount of Departmental Estimates for 1963–64 and proposing measures for controlling the increase of public expenditure.

The Chancellor of the Exchequer said that the increase in the total amount of public expenditure, which had been over 8 per cent for 1962–63 and would be over 10 per cent in 1963–64, was unprecedented. Considered as a percentage of the gross national product, the increase to 23.8 per cent was no less alarming. In view of the immediate problems caused by the temporarily high level of unemployment in the country he was not proposing to ask his colleagues for drastic reductions in the Estimates for 1963–64, but this meant that the financial situation of the country in 1964 would be very dangerous. The current rate of increase in public expenditure was entirely out of proportion with any possible increase in the national income.

The Chief Secretary, Treasury, drew attention to the central recommendation of Lord Plowden's Committee on the Control of Public Expenditure, viz., that major decisions of policy should only be taken in the light of the fullest available information of the national resources and the various competing demands upon them. In accordance with this recommendation, the Defence Budget and the finances of the National Health Service had already been made subject to a general rule whereby increases in Estimates were judged against a previously approved annual rate of expansion, based upon detailed annual costings of Departmental programmes. It was proposed to extend this form of financial control to cover a wide range of services for which other Ministers were responsible. It was not claimed that this technique afforded a water-tight system of financial control, but it should greatly improve the completeness of the criteria upon which such special cases as Ministers might wish to bring before the Cabinet might be judged. If the new system of control was to be effective in time for the 1964–65 Estimates, it ought to be introduced now.

For the Estimates for 1963–64, it was accepted that major economies could not now be made: he was, however, asking Ministers to agree to accept the highest practicable measure of compression, which might be interpreted as implying strict financial restraint in the application of approved policies and the submission of Estimates to the closest possible scrutiny in detail.

In discussion the following points were made:

(a) The Chancellor of the Duchy of Lancaster drew attention to the number of publicly-announced measures of limitation on Government expenditure which had in recent years proved to be unenforceable. He considered that the proposals in C. (62) 206 tended to increase the restrictive power of the Treasury while degrading the function of the Cabinet in the determination of public policy. While the steadily increasing level of public expenditure...
could be justified by reference to accepted social principles, the failure of the Government to ensure a corresponding increase in revenues was the more significant aspect of the present situation. In his view, public opinion was ready to accept an increase in the proportion of the gross national product taken up by public expenditure, and the consequent high level of taxation.

(b) Other Ministers, while expressing sympathy with some of the views expressed by the Chancellor of the Duchy of Lancaster, considered that the adoption of the technique recommended by the Plowden Committee would be much less dangerous if (as was intended) the predicted annual rates of expansion in the various sectors of Government expenditure were not announced. They were ready to accept the Committee’s recommendation that major decisions should only be taken in the light of the best available knowledge of the Government’s commitments and resources. The technique had proved its value in application to the Defence Budget and to the finances of the National Health Service, and was suitable for extension to a variety of other services, although in some cases, for instance foreign aid, it would be impossible to lay down in advance any particular rate of growth. It was essential that the determination of an average annual rate of expansion should take full account of the special factors in each case, and that Ministers should remain free to bring before their colleagues the arguments for exceptional expenditure to meet a wide range of unforeseen circumstances.

(c) Several Ministers drew attention to the dangers involved in the process of compressing the Estimates for 1962–63: reductions in the amounts to be made available for small and apparently insignificant services might have disproportionate effects and lead to serious criticism.

(d) The Chancellor of the Exchequer explained that measures approved for the purpose of reflating the economy in present circumstances would do more harm than good if their effects were allowed to persist into the period after 1963 when it must be expected that the economy would again be buoyant. Without wishing to insist on the termination of all such expenditure before the end of the calendar year 1963, he must stress the importance of ensuring that all such measures were restricted to the short term.

Summing up the discussion the First Secretary of State said that there appeared to be a wide measure of agreement that the methods of financial control recommended by Lord Plowden’s Committee on the Control of Public Expenditure should be applied to Departmental Estimates more widely than hitherto. Average annual rates of expansion should be calculated with the fullest regard to the special circumstances of the various Departments and should in no case be made public. The Chancellor of the Exchequer had agreed that there must be some measure of elasticity in the interpretation of the system.

The Cabinet—
Approved the proposals in C. (62) 206.

4. The Cabinet had before them a memorandum by the Chief Secretary, Treasury (C. (62) 207) about the declared intention of Messrs. Stewarts and Lloyds to acquire control of the Whitehead Iron and Steel Company.

The Chief Secretary, Treasury, informed the Cabinet that, according to the advice he had received, Messrs. Stewarts and Lloyds would almost certainly succeed in their attempt to take over the Whitehead Iron and Steel Company unless Messrs. Richard Thomas...
and Baldwins (R.T.B.) were allowed to make a counter-bid. If the original bid succeeded the financial loss to R.T.B. would be severe, and the Government would be subject to criticism for allowing this publicly-owned company to lose money. There would also be a considerable measure of consequential unemployment among R.T.B.'s workpeople in West Wales and in North Lincolnshire, which would give rise to further criticism. It was possible, though not certain, that some satisfactory compromise could be reached with Messrs. Stewarts and Lloyds if R.T.B. were able to make a counter-offer for Whitehead Iron and Steel. Such an offer, if it were accepted, would cost about £3½ million. In this case, besides protecting the interests of the nationalised company, the Government would have secured the assets of Whitehead Iron and Steel; the transaction could on balance be regarded as reasonably profitable. This course of action would, however, lay the Government open to the criticism that it was re-nationalising Whiteheads, contrary to their general policy of de-nationalising the steel industry.

In the course of discussion some Ministers suggested that it might still be possible for R.T.B. and Whiteheads to reach an agreement which would have the effect of safeguarding R.T.B. against the more damaging effects of a takeover of Whiteheads by Stewarts and Lloyds. It was also suggested that the broader economic interests of the industry might be at least as well served by Stewarts and Lloyds taking over Whiteheads as by the continuance of the existing relationship between Whiteheads and R.T.B.

Nevertheless, Ministers considered that there could be no justification for denying to R.T.B. the freedom to defend themselves in the way in which any independent company in their position would do, namely, by making a competitive counter-offer for control of Whiteheads. Once R.T.B. had been empowered to proceed in this way it seemed likely that Stewarts and Lloyds would either withdraw from the field or agree to compromise.

It was certain that a Government decision to support R.T.B. in this way would quickly become known: it would therefore be necessary to defend this course of action even in the event of a compromise solution.

The Cabinet—

(1) Agreed that efforts should be made to prevent Messrs. Stewarts and Lloyds from acquiring control of the Whitehead Iron and Steel Company.

(2) For this purpose authorised the Chief Secretary, Treasury, and the Minister of Power to empower Messrs. Richard Thomas and Baldwins to make a competitive offer for the Whitehead shares.

5. The First Secretary of State said that as agreed by the Cabinet in earlier discussion he had made a statement in the House of Commons on the preceding day acknowledging Nyasaland's right to withdraw from the present Federation in Central Africa. A similar statement had been made in the House of Lords by the Lord Chancellor. At the same time the Federal Prime Minister, Sir Roy Welensky, had published a White Paper dealing with the negotiations which had led up to the present position. In breach of all precedent and of the normal rules governing relations between Governments this White Paper contained what purported to be accounts of confidential discussions between Sir Roy Welensky and
himself both in London and in Salisbury. He had not himself been consulted before the publication of the White Paper nor had his agreement been sought to the disclosures. He would be grateful for the support of his colleagues in making a strong formal protest to the Federal Government. This would not, however, dispose of the main problem. In the light of their failure to obtain a last-minute postponement of the statement about Nyasaland’s right to secede Sir Roy Welensky had alleged, both in his own Parliament and through intermediaries in London, that the United Kingdom Government had been guilty of a serious breach of faith; specifically that in the course of the Lancaster House Conference in 1953 the Government had undertaken not to allow any territory to secede from the Federation without the agreement of all the Governments concerned. The proceedings of the Lancaster House Conference of 1953 had been quoted by Sir Roy Welensky and he was himself due to answer a Question in Parliament that day asking whether the Government would publish the relevant documents in full. He would be grateful for the advice of the Cabinet on the form of his reply. It would not in the time available be possible to publish a White Paper; on the other hand publication of the documents without explanation might tend to confirm the impression that some kind of pledge or undertaking had been given.

In discussion the following points were made:

(a) There would be some advantage in refusing to contemplate publication of any of the documents concerned on the ground that this would constitute an intolerable breach of the recognised conventions. It could be said that Sir Roy Welensky had himself been guilty of such a breach by making public confidential documents and discussions out of context and in such a way as to create a misleading impression; and that the Government were determined not to make matters worse by following suit.

(b) On the other hand such a course might serve to deepen suspicion that the documents were damaging to the Government’s case. The Government had never given any pledge not to legislate for changes in the structure of the Federation without the consent of the Federal Government. There was a clear distinction to be drawn between the inalienable right of the Government to take legislative action, on which no kind of pledge had ever been given and the desirability of agreement on the need to take such action on which certain undertakings had been given. It might be desirable to explain this more clearly at some later stage with the support of the relevant documents, and it would therefore be advisable to keep open the possibility of publication at this stage. The consent of the other parties concerned would of course be needed.

Summing up, the First Secretary of State said that it would be undesirable to reopen that day the question of the pledge which he had dealt with on the preceding day. He would prefer to confine his answer strictly to the terms of the Question put to him, i.e., to the publication of the relevant documents. In the light of the Cabinet’s discussion he would propose to say in his reply that it would be important to respect the confidential nature of the documents and that he would also need to consider the position of the other parties concerned.

The Cabinet—

(1) Authorised the First Secretary of State to send a formal protest to the Federal Government of Rhodesia and Nyasaland about the publication of a White Paper containing material confidential to the two Governments concerned without the agreement of the United Kingdom Government.

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(2) Took note that the First Secretary of State would reply on
the lines indicated in his summing up to a Parliamentary
Question asking whether the Government would
publish the documents which had been referred to by the
Federal Prime Minister.

6. The Minister of State for Foreign Affairs recalled to the
Cabinet that at their earlier discussion the Foreign Secretary had
described the events leading to the mission of M. Dubuisson, the
Rector of Liege University, to Katanga to persuade the Prime
Minister of Katanga, Mr. Tshombe, to agree voluntarily to some
acceptable division of the Katangan revenues. Mr. Tshombe had
now offered such an agreement, and in spite of his mistrust of the
Congolese Monetary Council had undertaken to pay to the Council
the whole of the revenues which he was at present receiving, on the
understanding that the Council would repay to the Union Minière
sufficient sums for the conduct of their commercial operations and
that half the balance, within defined limits, would be repaid to
Katanga. This offer now presented the only basis on which
agreement by negotiation might still be reached. The hope was
slender, because on all evidence relations between Katanga and the
Central Government of the Congo were now close to breaking
point. The Katangan Government were more than ever determined
de facto secession and the Central Government were equally
determined to incorporate Katanga in the rest of the Congo. The
Prime Minister of the Central Government, Mr. Adoula, was
convinced that before long the United Nations, with the support of
the United States, would have recourse to sanctions in his support:
it was disquieting that the United States Government were taking
steps to supply the United Nations forces in the Congo with more
transport aircraft and were prepared to make good deficiencies in
their equipment. The Union Minière were also being obstructive,
and the Belgian Government were bringing pressure to bear on them.
Failing agreement on the basis of Mr. Tshombe's offer the best hope
probably lay in a protraction of negotiations to the point at which
financial pressure would cause the United Nations to withdraw
before hostilities had actually broken out.

The Cabinet—
(1) Took note of this statement.

The Minister of State for Foreign Affairs said that the United
States Government had now announced their intention to recognise
the Republican Government of the Yemen. Their main reason for
doing so had been the fear that continued support to the royalists by
the present Government of Jordan and Saudi Arabia might have led
to popular revolutions in those countries also. The United Arab
Republic had agreed to withdraw their forces from the Yemen if
foreign intervention ceased. It was, however, doubtful if President
Nasser could afford to withdraw in present circumstances; he was
deply committed to ensuring the success of the republicans and
present evidence seemed to show that without Egyptian support they
would not be able to maintain their present hold on the more settled
and populated parts of the country.

Our own attitude was complicated by the effect which
recognition of the republican régime would have on our supporters
in Aden. The Foreign Secretary would wish to review the position
on his return. One possible course would be to defer recognition
until such time as the Egyptian forces had actually withdrawn. In

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the meantime, the Egyptians were bombing undefended villages in the Yemen with aircraft based on Cairo. In other circumstances such conduct would have called forth public denunciation and protest, and our friends in the Middle East found it difficult to interpret our silence.

The Cabinet—

(2) Took note of this statement.