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3rd Conclusions

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CABINET

*CONCLUSIONS of a Meeting of the Cabinet held at Admiralty House, S.W. 1,
on Thursday, 10th January, 1963, at 11 a.m.*

Present:

| | |
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| The Right Hon. HAROLD MACMILLAN, M.P., Prime Minister | |
| The Right Hon. R. A. BUTLER, M.P., First Secretary of State | The Right Hon. THE EARL OF HOME, Secretary of State for Foreign Affairs |
| The Right Hon. VISCOUNT HAILSHAM, Q.C., Lord President of the Council and Minister for Science | The Right Hon. LORD DILHORNE, Lord Chancellor |
| The Right Hon. REGINALD MAUDLING, M.P., Chancellor of the Exchequer | The Right Hon. HENRY BROOKE, M.P., Secretary of State for the Home Department |
| The Right Hon. DUNCAN SANDYS, M.P., Secretary of State for Commonwealth Relations and Secretary of State for the Colonies | The Right Hon. IAIN MACLEOD, M.P., Chancellor of the Duchy of Lancaster |
| The Right Hon. PETER THORNEYCROFT, M.P., Minister of Defence | The Right Hon. JOHN HARE, M.P., Minister of Labour |
| The Right Hon. EDWARD HEATH, M.P., Lord Privy Seal | The Right Hon. ERNEST MARPLES, M.P., Minister of Transport |
| 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 Right Hon. J. ENOCH POWELL, M.P., Minister of Health | The Right Hon. Sir EDWARD BOYLE, M.P., Minister of Education |
| The Right Hon. Sir KEITH JOSEPH, M.P., Minister of Housing and Local Government and Minister for Welsh Affairs | The Right Hon. WILLIAM DEEDES, M.P., Minister without Portfolio |

The following were also present:

| | |
|--|---|
| The Right Hon. NIALL MACPHERSON, M.P., Minister of Pensions and National Insurance (<i>Item 4</i>) | The Right Hon. MARTIN REDMAYNE, M.P., Parliamentary Secretary, Treasury |
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Secretariat:

Sir BURKE TREND
Mr. A. L. M. CARY
Mr. J. H. WADDELL

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Prime Minister

1. *The First Secretary of State* tendered to the Prime Minister the Cabinet's warm congratulations on the sixth anniversary of his accession to office and assured him of the Cabinet's continued support.

The Prime Minister expressed his gratitude for the Cabinet's good wishes and his appreciation of the help and encouragement which he derived from their collective counsel.

Foreign Affairs

Congo
Republic
(Previous
Reference:
C.C. (63) 2nd
Conclusions,
Minute 2)

2. *The Foreign Secretary* informed the Cabinet that Mr. Tshombe, the Prime Minister of Katanga, had now returned to Elisabethville. But although he had initially indicated that he would be prepared to make a fresh attempt to reach agreement with the Central Government, he had subsequently renewed his threat to resort, if necessary, to a policy of guerilla warfare. The local representatives of the United Nations had retaliated by putting him under house arrest; but he had now escaped and his intentions were uncertain. If he fulfilled his threats to destroy the mining installations in Katanga, he would inflict very severe damage on the economy of the Congo as a whole.

In discussion it was generally agreed that we should continue to refrain from intervening in the increasingly confused situation in the Congo. Mr. Tshombe enjoyed some support in this country, particularly among a section of the Government's supporters in the House of Commons who were apt to regard him as a symbol of patriotic resistance to an untimely attempt by the United Nations to impose a solution by force. Nevertheless, he had behaved with increasing duplicity; and it did not lie with us to seek to find a solution for a situation which was the result of ill-judged action by both Mr. Tshombe and the United Nations. We had done our best to promote a reconciliation between them; it was their fault that we had failed; and we now had no alternative but to await the outcome of events.

Saudi Arabia
(Previous
Reference:
C.C. (62) 75th
Conclusions,
Minute 1)

The Foreign Secretary informed the Cabinet that it now appeared likely that we should resume diplomatic relations with the Government of Saudi Arabia during the following week. The Government of Saudi Arabia had attached no conditions to their agreement, either as regards the Buraimi oasis or in any other respect.

Indonesia
(Previous
Reference:
C.C. (62) 38th
Conclusions,
Minute 1)

The Foreign Secretary said that there were indications that the Indonesian Government were considering some form of intervention in the Portuguese colony of Timor. They might also be contemplating action on the Borneo border, over which they were carrying out aerial reconnaissance. It would be necessary to keep developments under close review and to consider what policy we should adopt if the threat in either area became more substantial.

The Cabinet—

Took note of these statements by the Foreign Secretary and of the points made in discussion.

**Federation of
Rhodesia and
Nyasaland**
(Previous
Reference:
C.C. (62) 75th
Conclusions,
Minute 5)

3. *The First Secretary of State* informed the Cabinet that he would shortly circulate for their consideration the draft of a White Paper, rebutting the allegations by the Federal Prime Minister, Sir Roy Welensky, that the Government's policy towards the Federation constituted a breach of certain pledges given to the Federal Government when it was first constituted in 1953. He

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would welcome the Cabinet's endorsement of this White Paper before he paid his forthcoming visit to the Central African territories; but there would be advantage in resisting Parliamentary pressure for its publication until he returned from that visit and there had been an opportunity to reconsider the text in the light of his consultations with the other Governments concerned.

The Cabinet—

Took note with approval of this statement by the First Secretary of State.

**Pensions and
National
Insurance**
(Previous
Reference:
C.C. (63) 1st
Conclusions,
Minute 2)

4. The Cabinet had before them a memorandum by the Minister of Pensions and National Insurance (C. (63) 2) comparing the cost and the effect on contributions of raising the single rate of national insurance benefit by 7s. 6d. and by 10s. respectively.

The Minister of Pensions said that an increase in the single rate of benefit by 10s. would not only make a greater impact on public opinion than an increase of 7s. 6d. but would restore the relationship between rates of benefit and average earnings to that which obtained in 1946 and should also avoid the need for any further increase in rates of benefit during the present Parliament. The additional weekly payment by employees contributing to the flat-rate scheme would be 1s. 1d., i.e., 4d. more than would be required for a 7s. 6d. increase; but in the case of almost all contributors to the flat-rate scheme this would be less than the proportionate increase in their earnings in the relevant period. On a strictly proportionate basis a self-employed man would be called upon to contribute an additional 2s. 2d. a week; but this increase could be limited in practice to 2s.

The Chancellor of the Exchequer said that the Ministerial Committee on Pensions and National Insurance under his chairmanship favoured an increase of 10s. in the single rate of benefit. This would, however, be generous in relation to the movement of earnings (which, on a strict computation, would not require an increase of much more than 5s.); and this feature of the proposals should be emphasised when they were announced. He also agreed that the self-employed contribution should be raised by no more than 2s.; but the question whether the increase in the national assistance scale rate should be 5s. or, as had been suggested, 6s. needed further examination. The latter figure would cost the Exchequer an additional £6 million a year; and account must be taken of complex considerations about the proper relationship between insurance benefits and assistance rates and about the extent to which an increase in the scale rate would involve additional indirect burdens on the Exchequer.

In discussion the following points were made:

(a) The Ministerial Committee had recommended that the upper limit of earnings for the graduated pensions scheme should be extended from £15 to £18 per week. This extension of the range would complicate the administration of the graduated scheme in the case of certain classes of individuals who had contracted out of it; and it would entail an increase in contribution of up to 3s. 8d. a week, which would be liable to be regarded as an unreasonably heavy additional burden. On balance, however, the increase could be defended as enabling larger benefits to be paid under the graduated scheme and as maintaining the present degree of subvention from graduated scheme contributions to benefits under the flat-rate scheme. Moreover, an increase of 3s. 8d. would be less disadvantageous than the alternative course of requiring flat-rate contributors to pay a further 7d. in addition to the 1s. 1d. already envisaged.

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(b) It would be desirable to synchronise (at 27th May) payment of increased retirement pensions, war pensions and national assistance. The national assistance increase, however, would not be announced until after the Bill to deal with national insurance had been introduced; and it was therefore unnecessary to decide immediately whether scale rates should be increased by 5s. or 6s.

(c) Further consideration should be given to the suggestion that the Government should publicly undertake to review the national insurance scheme as a whole. Such a review might do more harm than good.

The Cabinet—

- (1) Agreed that the Bill to increase national insurance and related benefit rates should be based on an increase of 10s. in the single rate of benefit.
- (2) Agreed that the increase in contributions from a man who was self-employed should be limited to 2s.
- (3) Took note that the Chancellor of the Exchequer would arrange for the Ministerial Committee on Pensions and National Insurance:
 - (i) to consider whether the related increase in the national assistance scale rate should be 5s. or 6s.;
 - (ii) to consider whether it would be expedient to promote a comprehensive review of the existing national insurance scheme.

**Population and
Employment**
(C.C. (62) 73rd
Conclusions,
Minute 8)
North-East
England

5. *The Prime Minister* informed the Cabinet that, after careful consideration, he had decided that, in the light of the level of unemployment in North-East England, it would be appropriate that the interests of the area should be represented in the Cabinet by a Minister charged to make a comprehensive review of the local situation and to prepare plans for the re-development of the area as a whole. He had invited the Lord President of the Council to accept this assignment.

In discussion the Cabinet endorsed the action taken by the Prime Minister and extended to the Lord President of the Council their good wishes and the assurance of their support in his difficult and important task.

In further discussion the Cabinet were informed that, partly as a result of the severe weather, the number of persons unemployed (which would be published in the near future) might show an unusually sharp increase. If so, the peak of unemployment would probably occur in January rather than in February; but it might still remain below the critical figure of 3 per cent.

Europe
Common
Market
Negotiations
(Previous
Reference:
C.C. (62) 73rd
Conclusions,
Minute 9)

6. *The Lord Privy Seal* said that Ministerial discussions on the terms of the United Kingdom's entry into the European Economic Community would be resumed in Brussels on Monday, 14th January. There had recently been a marked change in the atmosphere of the negotiations; and the member countries of the Community, with the exception of France, were again earnestly seeking to reach a settlement on terms acceptable to the United Kingdom. It would therefore be to our advantage to try to maintain the momentum of the discussions and to enlist the support of the member countries other than France. In order to achieve this it

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would be necessary to demonstrate to them our own determination to reach agreement, if possible; to preserve flexibility in negotiation; and to avoid a situation in which major decisions were allowed to emerge piecemeal. Concessions would have to be made by both parties; and the final settlement should be presented, and judged, as a whole.

The following were the more important points on which final decisions had still to be taken:

(i) *Tariffs*.—This issue was now of major interest only to the Commonwealth. We should not allow the reasonable nature of the solutions now in sight to be obscured by the publicity which would undoubtedly be given to the differences between the final terms and those which we had originally put forward.

(ii) *Commonwealth temperate foodstuffs*.—The special position of New Zealand had been recognised, subject to reservations on the part of the French Government; and, although no practical proposals for this purpose had yet been put forward, there were grounds for hoping that a reasonable settlement could be reached.

(iii) *Domestic agriculture*.—The special committee under the chairmanship of the Vice-President of the European Commission, Dr. Mansholt, had prepared the way for a possible solution by identifying five major outstanding problems—the extent and timing of changes in agricultural price levels in the United Kingdom as a result of our accession to the Community; the upper and lower limits of the prices to be fixed by the Community for wheat; the length of the transitional period; the effectiveness of the arrangements for intervention in the event of the disruption of a particular commodity market; and the arrangements for horticulture.

Other matters which would also need to be settled and might be the subject of hard negotiation included the voting arrangements in the enlarged Community; agreements to cover the position of Hong Kong and Central Africa; and the provisions of the Financial Regulation. The difficulty of safeguarding the position of the neutral countries who were members of the European Free Trade Area might be overcome if they accepted a suggestion that they should rely on those of their present partners who intended to accede to the Community to safeguard neutral interests after accession.

The Minister of Agriculture said that the committee under Dr. Mansholt, by compelling the French Government to deploy their views in detail, had demonstrated the formidable difficulties with which we should be confronted if we were required to adapt to the practice of the Community, at short notice, our own fundamentally different system of agricultural price support. The implications of such a change in terms of wheat would be to increase the United Kingdom market price by £11–£12 a ton and the price to producers by about £5 a ton. Changes of the same order of magnitude would be involved for other commodities. It was therefore essential that the transition from our present system to eventual harmonisation with the policies of the Community should be carried out gradually and that the transitional period should be sufficiently long to enable us to effect the necessary adjustment in the balance of our agricultural industry with the minimum of dislocation. In addition, the method of transition should be consistent with the maintenance of the provisions of the 1957 Agriculture Act; firm long-term assurances should be obtained for livestock producers; and satisfactory arrangements should be made for horticulture.

If concessions on our part were required, we might consider reducing the transitional period, provided that we were satisfied that the arrangements to be made during that period were adequate for our purposes. In any event, however, it would be important in relation to Parliamentary and public opinion in this country to

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avoid premature disclosure of agreement on individual agricultural items, in order that the agricultural provisions of the final settlement should eventually be seen in relation to the rest of that settlement as a whole.

In discussion the following points were made:

(a) *The First Secretary of State* emphasised the importance of reaching a satisfactory agreement on the upper and lower price limits for wheat. Current United Kingdom prices were well below even the lowest price now ruling in the Community; and the effect on public opinion if our accession to the Community resulted in a large and immediate increase in the price of wheat in this country and in consequent over-production would be liable to be very serious. We should also seek to avoid any arrangements under which it could be held that increased prices in the United Kingdom were being used to subsidise agricultural imports into this country from the Community or from third countries. Such a situation would be politically embarrassing.

The Lord Privy Seal said that, for internal political reasons, it would be difficult for the Federal German Government to accept a further reduction in the lowest Community price for wheat on the United Kingdom's entry into the Community; but a solution might be found by recognising informally an extension of the present price range on the understanding that during the transitional period the United Kingdom would gradually raise its prices to the ruling Community levels. In any event this important issue should not be considered in isolation; and its eventual solution would be liable to be affected by other factors, including the operation of commodity agreements, the effect of which would not become evident for some years.

(b) *The Commonwealth Secretary* said that it would be difficult to reconcile existing price levels in the Community with the assurances which we had been given by the Community in the summer of 1962 and had ourselves elaborated to Commonwealth Governments. The essence of those assurances had been that the Community would pursue a price policy which would offer reasonable opportunities in its markets for exports of temperate agricultural products. It could not be maintained that at present price levels those opportunities would exist; and in default of some change in the Community's policy it might be necessary to re-open discussion on questions of major principle which were now regarded as having been settled.

The Cabinet—

- (1) Took note of these statements and of the points made in their discussion.
- (2) Invited the First Secretary of State to arrange for the exposition of the United Kingdom case during the forthcoming discussions in Brussels to be considered in greater detail by the Common Market Negotiations Committee.

*Cabinet Office, S.W. 1,
10th January, 1963.*

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