CABINET

CONCLUSIONS of a Meeting of the Cabinet held at Admiralty House, S.W. 1, on Thursday, 16th May, 1963, at 10.30 a.m.

Present:

The Right Hon. HAROLD MACMILLAN, M.P., Prime Minister
The Right Hon. R. A. BUTLER, M.P., First Secretary of State (Items 1-4)
The Right Hon. VICOUNT HAILSHAM, Q.C., Lord President of the Council and Minister for Science
The Right Hon. REGINALD MAULDING, M.P., Chancellor of the Exchequer
The Right Hon. PETER THORNycroft, 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 following were also present:

The Right Hon. JULIAN AMERY, M.P., Minister of Aviation (Item 5)
The Right Hon. GEOFFREY RIPpon, M.P., Minister of Public Building and Works (Item 5)
Mr. ALAN GREEN, M.P., Minister of State, Board of Trade (Items 7-8)

The Right Hon. THE EARL OF HOME, Secretary of State for Foreign Affairs (Items 1-7)
The Right Hon. LORD DILHORNE, Lord Chancellor
The Right Hon. IAIN MACLEOD, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. EDWARD HEATH, M.P., Lord Privy Seal
The Right Hon. CHRISTOPHER SOAMES, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. MICHAEL NOBLE, M.P., Secretary of State for Scotland
The Right Hon. Sir EDWARD BOYLE, M.P., Minister of Education (Items 6-8)
The Right Hon. WILLIAM DEEDES, M.P., Minister without Portfolio

Secretariat:

Sir BURKE TREND
Mr. A. L. M. CARY
Miss J. J. NUNN
<table>
<thead>
<tr>
<th>Minute No.</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Parliament</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Foreign Affairs</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Iceland</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>International Currency Support</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Federation of Rhodesia and Nyasaland</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Housing Policy</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>Satellite Communications</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Agricultural Policy</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Shipbuilding: Proposals for Government Assistance</td>
<td>8</td>
</tr>
</tbody>
</table>
1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

2. The Foreign Secretary said that our relations with the Icelandic Government might be subjected to renewed strain as the result of a recent incident involving a United Kingdom trawler, a vessel of the Icelandic coastguard service and one of Her Majesty's ships. He was concerting with the First Lord of the Admiralty the terms of a communication to the Icelandic Government which might suffice to dispose of the incident; but this was not certain. A dispute with the Icelandic Government at the present moment might have unfortunate repercussions on the forthcoming conference to consider the major issue of fishing rights in European and North Atlantic waters.

The Cabinet—
Took note of this statement by the Foreign Secretary.

3. The Chancellor of the Exchequer said that it seemed unlikely that any substantial progress would be made in the near future in developing the proposals, which he had put forward in the previous year at the meeting of the International Monetary Fund, for securing a more liberal and flexible supply of international credit, although the United States Government were now showing increased interest in this general problem. In the meantime it would be to our advantage to enter into an arrangement with the United States Government under which either Government would, at the request of the other, undertake to hold sterling or dollars respectively to an amount equivalent to $500 million. The United States had already entered into arrangements of this kind with other Governments, although for smaller amounts. A suitable announcement would be made when the detailed negotiations had been concluded.

The Cabinet—
Took note, with approval, of the statement by the Chancellor of the Exchequer.

4. The First Secretary of State informed the Cabinet that, as a result of further discussions between the United Kingdom High Commissioner in Salisbury and the Prime Minister of Southern Rhodesia, Mr. Field, it was now proposed that the grant of independence to Southern Rhodesia should coincide with the dissolution of the Federation of Rhodesia and Nyasaland, that separate discussions should be arranged between the Governments of the United Kingdom and Southern Rhodesia about the terms on which the Colony should attain independence and that such constitutional changes as might be agreed as a result of these discussions should be put into effect by legislation in the Parliament of Southern Rhodesia rather than by legislation in the Parliament at Westminster. It would be appropriate that we should now formally confirm to Mr. Field that we were prepared to proceed on this basis, subject to eventual agreement about the terms on which Southern Rhodesia should attain independence. Early discussion of these terms would be desirable; and, in the interests of reaching finality as soon as possible, it would be necessary to issue simultaneously the invitations to all the Governments concerned to attend the projected
conference on the dissolution of the Federation. If the discussions on
the terms of independence for Southern Rhodesia had not been
completed at the point when this conference assembled, they would
have to be resumed subsequently.

The Cabinet—

Tucked note, with approval, of the statement by the First
Secretary of State.

5. The Cabinet had before them memoranda about housing
policy by the Secretary of State for Scotland and the Minister of
Housing and Local Government (C. (63) 80) and by the Minister of
Health (C. (63) 84).

The Minister of Housing and Local Government said that the
policy outlined in the draft White Paper annexed to C. (63) 80 should
be considered against a background of increasing population and
rising standards. At the present rate of building, output was barely
keeping pace with the growth of population and the decay of existing
houses. In order to overcome shortages and to rebuild the slums a
construction rate of 450,000 houses a year would be required. This
was impracticable; but the Government should aim at increasing
output to at least 350,000 houses a year and should announce this
target in the White Paper.

This programme should comprise an increase in the number of
houses built, otherwise than by local authorities, for letting. The
Building Societies Association were prepared to support the formation
of housing societies for this purpose; and building societies would be
willing to contribute two-thirds of the cost of such building, if the
Government would provide the remaining third. It was therefore
proposed to establish a Housing Corporation in order to develop
housing societies. This Corporation would be empowered to borrow
from the Exchequer, at the Government's current rate of interest, and
to lend to approved housing societies the balance of the finance which
they would require.

In addition, further steps must be taken to secure the improvement
of existing houses. It was therefore proposed that both landlords and
owner-occupiers should be compelled to improve their property, at
the request of the tenant or on a change of occupancy, by installing the
basic amenities.

Finally, the maintenance of the existing stock of houses required
a realistic policy on rents, which were at present below the level at
which landlords could be expected to keep their property in repair.
The White Paper should therefore indicate that, while the Government
did not envisage any further block decontrol of rents, it would
probably be necessary to allow rents to rise sufficiently to enable
landlords to undertake necessary maintenance. In addition, future
assessments of housing subsidies should assume that local authorities
would be prepared to charge rents which bore a proper relation both
to the cost of the housing and to the ability of the tenants to pay.

The Minister of Health said that he doubted the wisdom of
measures which might be held to run counter to the normal operation
of the machinery of supply and demand. The case for the proposed
Housing Corporation rested on an assumption that philanthropy
would provide the enterprise which elsewhere required to be rewarded
with profit. This was a questionable assumption, which did not justify
the creation of a new agency, guaranteed by the Government.
Moreover, the proposal that the improvement of existing houses
should, if necessary, be effected by compulsory powers, was alien to
the Government's political principles. Finally, it would be dangerous
to announce a target figure for the new housing programme, since the
majority of houses were built by private firms or individuals over
whom the Government had no effective control.
In discussion the following main points were made:

(a) While there might be some risk in announcing a target figure for new house construction, it would be difficult to avoid indicating the Government's intentions in this respect; and the balance of advantage lay in stating them in the White Paper. The figure of 350,000 houses was not unrealistic in relation to the rising output of the building industry.

(b) But, since the construction of 350,000 houses a year would not meet the full requirement, it was essential that the productivity of the building industry should be improved. There was relatively little prospect of securing an increase in the numbers employed by the industry; but active consideration was already being given to measures designed to improve its efficiency.

(c) There was some evidence that the building industry itself would welcome the formation of new housing associations. The large number of applications received by existing associations suggested that there was an ample demand for houses to let at economic rents, which private enterprise would not be likely to satisfy so long as houses could readily be sold.

(d) The proposal to require owners of houses, particularly owner-occupiers, to improve their property was more arguable. The public interest admittedly required the nation's stock of houses to be properly maintained; and it was difficult to insist that a landlord must improve his property if a neighbouring owner-occupier was not subject to similar compulsion. On the other hand, changes in occupation of owner-occupied houses were relatively infrequent; and the number of such properties which would become available for compulsory improvement would be out of proportion to the amount of criticism likely to be attracted by a proposal to compel owner-occupiers to install amenities which they might be content to forgo.

(e) In Scotland the multiple ownership of tenement blocks created a special problem, since an intransigent owner of one part of a block could frustrate the improvement of the rest. Here, however, compulsion was likely to be accepted by all but a small minority of owner-occupiers, provided that the proposed financial assistance was made available.

(f) The White Paper rightly stressed the importance of a realistic approach to the question of the cost of housing. But it would be advisable to omit the paragraphs discussing the possibility of a further relaxation of rent control, since the dilemma implicit in this issue could not be usefully examined until the results of the current survey of London housing were available.

The Prime Minister, summing up the discussion, said that, since it seemed unlikely that houses would henceforward be built for letting by private enterprise on any substantial scale, the encouragement of housing associations might prove to be the most effective step that could be taken to implement the Government's housing programme. The balance of advantage probably lay in retaining a clear target figure for that programme as a whole. But it would be preferable not to extend to the owner-occupier the measures of compulsion to secure the improvement of existing houses; and it might be wiser to refrain, at this stage, from any reference to the possibility of further decontrol of rents. Subject to amendment on these points, the White Paper, which was an important statement of policy, should be published as soon as possible.

The Cabinet—

(1) Approved, subject to the amendments agreed in their discussion, the proposals in the draft White Paper appended to C. (63) 80.
6. The Cabinet had before them a memorandum by the Lord Privy Seal (C. (63) 83) about satellite communications.

The Lord Privy Seal said that it had now been agreed between the French Government and ourselves that two conferences on satellite communications should be arranged, the first in Paris on 20th May and the second in London in mid-July. Preliminary discussion of the agenda for the initial conference, however, had revealed a fundamental difference of view between the French Government and ourselves about the part to be played by Europe in the establishment of satellite communications. It would be our intention, in accordance with the Cabinet's earlier decision, to seek to promote the concept of a global satellite communications system, organised on as comprehensive an international a basis as possible, on the understanding that the United Kingdom would be given an opportunity to make an appropriate contribution to its development, provision and operation; and, although it would be premature to declare, before we had explored the subject further with the United States, that we would in no circumstances seek to promote a system independently of them, we should in fact envisage from the outset a system which would be created in full co-operation with United States interests. The French Government, however, appeared to contemplate collaboration with the United States for only a limited period, after which they would seek to establish a separate European system under their own leadership. This proposal was unlikely to be practicable in the longer term; nor would it secure the maximum of bargaining advantage for Europe in the initial stages of the development of satellite communications. We should therefore ensure that this fundamental difference of approach between ourselves and the French Government would be brought out into the open at the outset of the forthcoming conference. Thereafter, we should maintain our own attitude, which would probably enlist the support of other European countries; and we should resist French pressure in favour of the establishment of a formal European organisation in this context.

In discussion the following main points were made:

(a) It might be premature to seek to reach, at this early stage, a definitive decision in favour of a single, global system of satellite communications. Such a system might comprise several separate sub-systems, provided that they were technically compatible.

(b) The more practical objective would be to seek to secure for Europe a reasonable share in the first system to be brought into operation, which would inevitably be largely provided and controlled by the United States. But United States interests would be unlikely to recognise the claims of Europe in this respect unless the European countries were united on the points on which they would seek satisfaction. The French concept of a separate European system, largely controlled by themselves, might well prove economically unrealistic, particularly in the light of the technological advantage which the United States already possessed and would retain. But this fact might be left to become apparent in due course; for the
immediate purpose of negotiation with the United States about the initial system, Europe could not afford disunity between the French and ourselves.

(c) On the other hand, if we were to establish the right to contribute to, and therefore partly to own and to control, the initial system, we should concentrate on realising this objective in agreement with the United States from the outset. We should not be diverted from this purpose by an alternative concept of a separate European system, which would lack both the resources and the technological expertise to compete with a purely United States system, organised from the outset on a global basis and effectively dominating the world market.

(d) It would be equally unwise to acquiesce in the creation of a formal European organisation, which would be committed to promoting a specifically European policy, would be liable to be largely dominated by the French Government and could not be expected to have regard to the Commonwealth interests which we should be concerned to safeguard. Some form of intergovernmental consultative machinery should suffice at this stage.

The Prime Minister, summing up the discussion, said that our main purpose in the forthcoming conferences should be to try to secure for ourselves the most realistic and advantageous basis of subsequent negotiation with the United States. The means by which we should best do so were not yet clear. In principle, we should endorse the concept of a single global system; and we should not commit ourselves at this stage to the alternative concept of a separate European system. But the global system itself might well prove to consist of a number of sub-systems, one of which might be provided by Europe; and we could not, in any event, ignore the fact that it might prove impossible to secure the agreement of the United States interests to arrangements which would ensure a reasonable degree of effective European participation in a global system. It would be necessary to give further consideration to these conflicting factors after the forthcoming conferences.

The Cabinet—
Invited the Lord Privy Seal to arrange for the representatives of the United Kingdom Government at the forthcoming conference on satellite communications to be guided by the considerations indicated by the Prime Minister in his summing up of their discussion.

7. The Minister of Agriculture invited the Cabinet to approve the draft of a public statement indicating, in accordance with their earlier decisions, that future agricultural policy would be based on the introduction of standard quantities for domestic production under flexible guarantee arrangements, together with the negotiation of an effective system of control of imports. This statement would be the necessary prelude to the international negotiations which would now have to be undertaken before legislation could be introduced to give effect to the new policy.

In discussion certain amendments to the draft were agreed.

The Cabinet—
(1) Approved, subject to the amendments made in their discussion, the statement in which the Minister of Agriculture proposed to announce the main lines of the Government's future agricultural policy.
SECRET

(2) Invited the Minister of Agriculture, in consultation with the Chancellor of the Duchy of Lancaster and the Minister without Portfolio, to consider the most appropriate occasion for the issue of this statement, whether in Parliament or otherwise, and to concert arrangements for ensuring that it should receive suitable publicity.

8. The Chancellor of the Exchequer said that it had become necessary to provide some support for the shipbuilding industry, which was suffering from a serious recession of demand. Orders for the first three months of 1963 had amounted to only 88,000 tons, by comparison with a normal rate of ordering of about 1 million tons a year.

There were substantial objections to a direct subsidy, apart from the fact that it would not be welcome to the shipbuilders themselves, who realised the need to rationalise the industry and to reduce its size. Nor would a policy of "scrap and build" be appropriate to the needs of the situation; it would place fresh financial obligations upon the shipowners and would do nothing to increase the competitive strength of the industry. He had therefore reached the conclusion that it would be right to make temporary arrangements under which the Government would provide credit, at the Government lending rate, to the Shipbuilding Mortgage Corporation, which would in turn undertake to finance, at the same rate of interest, shipbuilding orders placed within a given period of time. This would rectify the existing anomaly that, under arrangements provided by the Export Credits Guarantee Department, foreign shipowners could obtain credit for orders placed with British yards on more favourable terms than those available to British shipping companies. Legislation would be required to give effect to a scheme on these lines.

The Minister of Transport said that he endorsed this proposal which, although unlikely to stimulate any substantial volume of new orders, might accelerate orders which would otherwise be liable to be deferred. It would be desirable to announce a decision before the Whitsun Recess, in view of the current Parliamentary criticism of the lack of any action by the Government to help the industry.

The Cabinet—

(1) Authorised the Chancellor of the Exchequer to make arrangements under which the Government would provide credit, at the Government lending rate, to the Shipbuilding Mortgage Corporation, to be used to finance shipbuilding orders placed within a given period of time.

(2) Invited the Chancellor of the Exchequer, in consultation with the Chancellor of the Duchy of Lancaster, to consider the most appropriate means of securing legislative authority for these arrangements, whether by means of the Finance Bill or otherwise.

Cabinet Office, S.W. 1,
16th May, 1963.

SECRET