The Conservative Government and the End of Empire

1951–1957

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The Conservative Government and the End of Empire 1951–1957

Editor
DAVID GOLDSWORTHY

Part III
ECONOMIC AND SOCIAL POLICIES

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Abbreviations: part III

ACEC	Advisory Committee on Education in the Colonies
BDEEP	British Documents on the End of Empire Project
BOT	Board of Trade
CAS	Colonial Administrative Service
CBE	Commander Order of the British Empire
CCTA	Commission for Technical Co-operation in Africa South of the Sahara
CDC	Colonial Development Corporation
CDFC	Commonwealth Development Finance Company
CD(&)W	Colonial Development and Welfare (Act)
CEPS	Central Economic Planning Staff (Treasury)
C-in-C	commander-in-chief
CIC	Capital Issues Committee
CME(CD)	(Advisory) Committee on Mass Education (Community Development)
CO	Colonial Office
Con	Conservative (Party)
CRO	Commonwealth Relations Office
CSB	colonial sterling balances
CSWAC	Colonial Social Welfare Advisory Committee
CUGC	Central Universities Grants Committee
Dept	Department
DO	Dominions Office
DOT	dependent overseas territory
ECA	Economic Co-operation Administration (United States)
ECAFE	Economic Commission for Asia and the Far East
ECGD	Export Credit Guarantee Department (Treasury)
EPC	(Cabinet) Economic Policy Committee
EPU	European Payments Union

FO	Foreign Office
fob	free on board
GATT	General Agreement on Tariffs and Trade
gov	governor
gov-gen	governor-general
HF	Home Finance (Division, Treasury)
HM	His/Her Majesty
HMG	His/Her Majesty's Government
HMOCS	Her Majesty's Oversea Civil Service
HQ	headquarters
IBRD	International Bank for Reconstruction and Development
ICA	International Co-operation Administration (US)
ICFTU	International Confederation of Free Trade Unions
ICI	Imperial Chemical Industries
IF	International Finance (Division, Treasury)
IFC	International Finance Corporation
ILI	International Labour Institute
ILO	International Labour Organisation
IMF	International Monetary Fund
IUC	Inter-University Council (for Higher Education Overseas)
K	knighthood
KBE	Knight Commander Order of the British Empire
KCB	Knight Commander of the Bath
KCIE	Knight Commander of the Indian Empire
KCMG	Knight Commander of the Order of St Michael and St George
KG	Knight of the Order of the Garter
Lab	Labour (Party)
LEA	Local Education Authority
Lib	Liberal (Party)
MCM	Messina Common Market
memo	memorandum
MP	member of parliament

MSA	Mutual Security Agency
NATO	North Atlantic Treaty Organisation
NDO	National Debt Office
OEEC	Organisation for European Economic Co-operation
OEF	Overseas Employers Federation
OF	Overseas Finance (Division, Treasury)
ORD	Overseas Resources Development (Act)
ORIT	Inter-American Regional Organisation of Labour
PFTA	partial free trade area
qr	quarantine restriction
RO	research officer
SDC	(Advisory Committee) on Social Development in the Colonies
S of S	secretary of state
SSA	Social Services (Department) 'A' (CO)
SSD	Social Services Department/Division (CO)
tel	telegram
TOC	(Advisory Committee) on the Treatment of Offenders in the Colonies
Tsy	Treasury
TUC	Trades Union Congress
UK	United Kingdom
UN(O)	United Nations (Organisation)
UNESCO	United Nations Educational, Scientific and Cultural Organisation
US(A)	United States (of America)
USSR	Union of Soviet Socialist Republics
VRP	Volta River project
WFTU	World Federation of Trade Unions

Principal holders of offices 1951–1957: parts I–III

1. *Ministers*

(a) *Cabinet ministers*

Prime minister	Mr W L S Churchill (KG 24 Apr 1953) (26 Oct 1951–5 Apr 1955) Sir Anthony Eden (6 Apr 1955–9 Jan 1957)
Lord president of the Council	Lord Woolton (28 Oct 1951) Marquess of Salisbury (24 Nov 1952–29 Mar 1957)
Chancellor of Exchequer	Mr R A Butler (28 Oct 1951) Mr M H Macmillan (20 Dec 1955–10 Jan 1957)
S of S foreign affairs	Mr R A Eden (KG 20 Oct 1954) (28 Oct 1951) Mr M H Macmillan (7 Apr 1955) Mr J Selwyn Lloyd (20 Dec 1955–27 July 1960)
S of S colonies	Mr O Lyttelton (28 Oct 1951) Mr A T Lennox-Boyd (28 July 1954–14 Oct 1959)
S of S Commonwealth relations	Lord Ismay (28 Oct 1951) Marquess of Salisbury (12 Mar 1952) Viscount Swinton (24 Nov 1952) Earl of Home (7 Apr 1955–27 July 1960)
Minister of defence	Mr W L S Churchill (28 Oct 1951) Earl Alexander (1 Mar 1952) Mr M H Macmillan (18 Oct 1954) Mr J Selwyn Lloyd (7 Apr 1955) Sir Walter Monckton (20 Dec 1955) Mr A H Head (18 Oct 1956–13 Jan 1957)

(b) *Cabinet Committees*

(i) *Committee on Commonwealth Membership*

The Committee was established by a Cabinet decision of 14 Apr 1953. It sat between May 1953 and Sept 1954.

S of S Commonwealth relations (chair), lord president, S of S colonies, minister of

state, FO (Mr Selwyn Lloyd), minister of labour and national service (Sir Walter Monckton), parliamentary under-S of S Commonwealth relations (Mr J G Foster), secretary to Cabinet.

(ii) *Committee on Colonial Policy*
The Committee was established by the prime minister in Oct 1955. It continued into Macmillan's prime ministership.

Prime minister (chair), S of S foreign affairs, S of S Commonwealth relations, S of S colonies, minister of defence.

(c) *Junior ministers*

(i) *Colonial Office*

Minister of state	Mr A T Lennox-Boyd (2 Nov 1951) Mr H L D'A Hopkinson (7 May 1952) Mr J H Hare (20 Dec 1955) Mr J S Maclay (18 Oct 1956–16 Jan 1957)
Parliamentary under-secretary of state	Earl of Munster (5 Nov 1951) Lord Lloyd (18 Oct 1954–18 Jan 1957)

(ii) *Commonwealth Relations Office*

Parliamentary under-secretary of state	Mr J G Foster (3 Nov 1951) Mr A D Dodds-Parker (18 Oct 1954) Mr A H P Noble (20 Dec 1955) Lord J Hope (9 Nov 1956–18 Jan 1957)

(iii) *Foreign Office*

Minister of state	Mr J Selwyn Lloyd (30 Oct 1951–18 Oct 1954) Marquess of Reading (11 Nov 1953–17 Jan 1957) Mr H A Nutting (18 Oct 1954–3 Nov 1956) Mr A H P Noble (9 Nov 1956–9 Jan 1957)
Parliamentary under-secretary of state	Marquess of Reading (31 Oct 1951–11 Nov 1953) Mr H A Nutting (31 Oct 1951–18 Oct 1954) Mr A D Dodds-Parker (11 Nov 1953–18 Oct 1954; 20 Dec 1955–9 Jan 1957) Mr R H Turton (18 Oct 1954–20 Dec 1955)

2. *Civil servants*

(a) *Secretary to the Cabinet*	Sir Norman Brook (1947–1962)

(b) *Colonial Office*

(i) Permanent under-secretary of state	Sir Thomas Lloyd (1947–1956) Sir John Macpherson (1956–1959)

(ii) Deputy under-secretary of state	Sir Charles Jeffries (1947–1956)	joint
	Sir Hilton Poynton (1948–1959)	joint
	Sir John Martin (1956–1965)	
(iii) Assistant under-secretary of state	J M Martin (KCMG 1952) (1945–1956)	
	A B Cohen (1947–1951)	
	C G Eastwood (1947–1952; 1954–1966)	
	W L Gorell Barnes (1948–1959)	
	J J Paskin (1948–1954)	
	J B Williams (1949–1953)	
	S E V Luke (1950–1953)	
	W B L Monson (1951–1964)	
	E Melville (1952–1961)	
	A R Thomas (1952–1964)	
	C Y Carstairs (1953–1962)	
	P Rogers (1953–1961)	
	H T Bourdillon (1954–1959)	
	A N Galsworthy (1956–1965)	

(c) *Commonwealth Relations Office*

(i) Permanent under-secretary of state	Sir Percivale Liesching (1949–1955)
	Sir Gilbert Laithwaite (1955–1959)
(ii) Deputy under-secretary of state	Sir Saville Garner (1952–1956)

(d) *Foreign Office*

(i) Permanent under-secretary of state	Sir William Strang (1949–1953)
	Sir Ivone Kirkpatrick (1953–1957)

(e) *Treasury*

(i) Permanent secretary	Sir Edward Bridges (1945–1956)	
	Sir Norman Brook (1956–1963)	joint
	Sir Roger Makins (1956–1960)	joint

(f) *Defence*

(i) Permanent secretary	Sir Harold Parker (1948–1956)
	Sir Richard Powell (1956–1960)

3. *Chiefs of Staff*

First sea lord	Sir Rhoderick McGrigor (1951–1955)
	Earl Mountbatten (1955–1959)

Chief of imperial general staff	Sir William Slim (1948–1952) Sir John Harding (1952–1955) Sir Gerald Templer (1955–1958)
Chief of air staff	Sir John Slessor (1950–1953) Sir William Dickson (1953–1956) Sir Dermot Boyle (1956–1960)

4. *Select list of ambassadors, high commissioners and governors*

Ambassador to the United States	Sir Oliver Franks (1948–1952) Sir Roger Makins (1952–1956) Sir Harold Caccia (1956–1961)
Ambassador to France	Sir Oliver Harvey (1948–1954) Sir Gladwyn Jebb (1954–1960)
Ambassador to the UN	Sir Gladwyn Jebb (1950–1954) Sir Pierson Dixon (1954–1960)
Ambassador to the North Atlantic Council	Sir Christopher Steel (1953–1957)
Commissioner-gen in South-East Asia	Mr M J MacDonald (1948–1955) Sir Robert Scott (1955–1959)
High commissioner in Malaya	Sir Gerald Templer (1952–1954) Sir Donald MacGillivray (1954–1958)
High commissioner in South Africa	Sir John le Rougetel (1951–1955) Sir Percivale Liesching (1955–1958)
Gov of Cyprus	Sir Andrew Wright (1949–1954) Sir Robert Armitage (1954–1955) Sir John Harding (1955–1957)
Gov of Gold Coast	Sir Charles Arden-Clarke (1949–1957)
Gov of Kenya	Sir Philip Mitchell (1944–1952) Sir Evelyn Baring (1952–1959)
Gov of Nigeria Gov-gen of Nigeria	Sir John Macpherson (1947–1954) Sir John Macpherson (1954–1955) Sir James Robertson (1955–1960)
Gov of Tanganyika	Sir Edward Twining (1949–1958)
Gov of Uganda	Sir Andrew Cohen (1952–1957)

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CHAPTER 6

Economic policies

Document numbers 358–478

358 CAB 129/48, C(51)1 31 Oct 1951

'The economic position: analysis and remedies': Cabinet memorandum by Mr Butler

I wish to put before my colleagues an analysis of the present economic position of the United Kingdom, as evidenced in our Balance of Payments with the dollar area and the rest of the world. I also suggest in this memorandum certain measures for their consideration: I believe that we should take these measures in order to remedy the situation.

I. *The deteriorating position and outlook*

2. We are in a balance of payments crisis, worse than 1949, and in many ways worse even than 1947. Confidence in sterling is impaired, as witness the large discounts on forward sterling in New York, and speculation against it is considerable, increasing the deficits and the drain on our gold and dollar reserves.

3. There are three main indicators of the change in our position. These are by no means all; but they are the best known and the most significant. The change between 1950 and 1951 is first dealt with, and then the outlook for 1952:—

A. *The change between 1950 and 1951*

(i) *The U.K. general balance of payments*

Surplus (+)	*Deficit (−)*		*£ millions*	
1950 January–June			+ 42	
July–December			+ *179*	
		Year		+ 221
1951 January–June			− 122	
July–December	(forecast)		− *350*	
		Year		− 472

Currently, therefore (i.e. in the present half-year) we are running an external *deficit* at a rate of £700 million a year, compared with an annual rate of *surplus* of some £350 million in the corresponding period a year ago—a deterioration of more than £1,000 million per annum.

(ii) *The sterling area gold and dollar balance and the change in reserves*

		£ millions	
		Gold and Dollar [x] *Surplus or Deficit*	*Gain or loss* [x] *of reserves*
1950	January–June (quarterly average)	+ 39	+ 131
	July–December " "	+ 104	+ 157
1951	January–March " "	+ 129	+ 164
	April–June " "	+ 19	+ 39
	July–September " "	− 228	− 214
	October (estimated)	− 90	− 90

x Any difference between the figures of the gold and dollar deficit and the figures of the gain or loss of reserves is accounted for by the fact that the figures of the deficit *exclude* U.S. aid.

The third quarter deficit was inflated by exceptional and seasonal losses, as well as speculative movements. In October, so far, the latter are probably playing an even greater part. Unless a major change of sentiment occurs, at the present rate we face a gold and dollar deficit and a loss of reserves this quarter of over £285 million. (At the end of the year we are due to pay £62 million service on the North American lines of credit, of which £39 million is on account of interest—£23 million being on account of amortisation of the loans; we may be able to claim waiver of payment of the interest.) This would bring them down to *under £900 million by 31st December*, compared with their peak £1,381 million at 31st June—a loss of nearly £500 million in six months. The present drain on the reserves themselves is greater than at any time since the war.

(iii) *The U.K. balance in the European Payments Union (E.P.U.)*
This is, of course, a reflection of the whole sterling area balance on current and capital account with E.P.U. countries.

U.K. net surplus or deficit with E.P.U.

		£ millions
1950	July–December	+ 170
1951	1st quarter	+ 57
	2nd quarter	− 10
	July	− 43
	August	− 67
	September	− 73
	October (estimated)	(− 85)

Speculative factors have almost certainly played a part recently, though we have no idea of their scale. Unless a major reversal of sentiment occurs here, too, we shall run through all the gold-free credit available to us in E.P.U. and be paying gold at increasing rates by November.

B. *The outlook for 1952*
On present trends and policies the following is the outlook for 1952:—

(i) A U.K. general balance of payments deficit of £540 million.

(ii) A deficit in E.P.U. of the order of £300 million.
(iii) A loss of gold and dollar reserves of approximately £750 million.

4. All these forecasts allow for some improvements on present conditions, e.g. a full year's imports and exports at current prices, implying better terms of trade than in 1951, but no worse or better than now, no allowance for further speculative losses, and a slowing up of the increase in sterling area spending in the non-sterling area, particularly in E.P.U. countries. In spite of this, the estimates disclose an insupportable position, one in which even apart from speculative pressure, we stand to lose virtually the whole of our remaining reserves in 1952.

5. These figures mean, in short, that both the United Kingdom and the sterling Dominions are buying more than they can afford to pay for from current earnings. This has been made worse by the loss of confidence in sterling and the additional strain of the loss of Abadan.

II. *The need to restore confidence*

6. This very serious deterioration in our position, coming as it does at the inception and not during the full impact of the rearmament programme, threatens the whole position of sterling and of the United Kingdom and sterling area. It is a clear indication not only that there are serious underlying weaknesses in our position, but also that foreign confidence in our ability to deal with these weaknesses is greatly impaired. The only chance of restoring the position before irreparable harm has been done is to restore confidence. I recommend therefore that the restoration of confidence in sterling and our economic situation should be the first and most important object of our policy.

III. *The urgent need for a comprehensive statement of government policy*

7. The restoration of confidence requires, in my view, an early and comprehensive statement by the Government which shows that it is both ready and able to grip the situation. The statement is required early because the position is deteriorating very rapidly. The statement should be comprehensive because half-measures would not restore confidence and might, in certain circumstances, do more harm than good. It is therefore necessary to consider first the content, and, secondly, the timing of any statement (see IV, V and VI below). I recommend that the need for an early and comprehensive statement be accepted as an essential part of our policy to restore confidence in sterling and our economic situation.

IV. *The international aspects of the statement*

8. It is important that the statement should both give a lead to the Commonwealth and induce them to take action on similar lines, and also assure our United States and Western European Allies that we intend to take any action in a manner which will not create needless economic difficulties for them, and which is indeed designed to make us a stronger partner in the Organisation for European Economic Co-operation (O.E.E.C.), the North Atlantic Treaty Organisation (N.A.T.O.), and the enterprises in which we are jointly engaged.

V. *The content of the statement*

9. It is important that any statement should set out not only the basic position

with which we have to deal but also the objectives which we have in mind. It is also important that it should cover all essential aspects of the question, including the international aspects referred to in IV above.

10. Broadly, the position with which we have to deal is one of an overloaded economy, and our first objective must be to limit the load on the economy to the amount which it can bear and so to provide a solid base on which to carry out the necessary expansion to meet future needs. The statement would not give confidence if it was limited merely to a series of measures designed to restrict the economy, although these measures are necessary and must be taken urgently if we are to stop, and subsequently reverse, the present downward trend.

11. The following are the broad headings of the measures which I ask my colleagues to consider. These measures have been discussed in a preliminary manner with the Ministers mainly concerned who were already appointed.

A. *Import cuts*. I recommend that immediate action be taken, and announced, to reduce external expenditure by £350 million a year—this to be secured by direct cuts in the 1952 import programme, of £300 million, and in the tourist ration to yield £15 million, and the rest to be made up by shipping savings consequent upon the import cuts and a general tightening up on imports and other forms of external expenditure. The general scale of these measures may be related to total estimated imports in 1952, at end-September prices, of some £3,620 million, of which £1,340 million comes from other sterling area countries, which it is not proposed to cut directly at this stage.

The following are my detailed proposals to achieve this:—

(a) *Saving of £150 million by direct cuts on a selected list of imports from European and other non-sterling sources*. About 90 per cent of our imports from Europe are imported without restriction, under the O.E.E.C. "liberalisation" policy. We are entitled at any time to reimpose restrictions which reduce the "liberalisation" percentage to 75 per cent, and we can reimpose further restrictions if we are dangerously in deficit with E.P.U. (as we are), subject to our being prepared to justify our action to O.E.E.C. afterwards. If we cut our imports too drastically, however, we should risk a collapse of the O.E.E.C. liberalisation structure, and reprisals against our exports. This risk must be balanced against the risk of not cutting our expenditure enough, and of thus failing to right our own deficit with the E.P.U., which would also lead to the collapse of the E.P.U. itself.

I therefore propose that we make a selective list of cuts of £150 million, making a sharp cut (generally, but not invariably, about 50 per cent) in each item, and choosing a list in a way which avoids cutting items which would invite reprisal, and not reducing our "liberalisation" percentage below about 60 per cent. This list should include:—

(i) Private imports of unrationed food, including wines and spirits—£100 million. This would include about thirty items, such as canned meat, canned hams, sugar fat mixtures, apples, pears, nuts, non-rationed cheeses, canned tomatoes, etc. An allowance of £5 million for wines and spirits has been made, but this would have to be done by fiscal action and not by direct import cuts. There are already restrictions on fruit and vegetables at times of the year when

the imports would compete with United Kingdom producers. Total imports in this class, from all sources, are estimated at £414 million in 1952.

(ii) Government imports of unrationed food—£20 million. This includes dried fruit, condensed milk, coffee, etc. Total imports from E.P.U. and other non-sterling sources are estimated at £44 million in 1952.

(iii) Private imports of manufactures—£15 million. In this field, total imports from E.P.U. and other non-sterling sources are estimated at £145 million in 1952, but £26 million consists of machinery and £70 million of textiles. In the manufactured field, we are more vulnerable to reprisal than in food, and if supplies are excluded from the United Kingdom they will compete with our exports in Europe and elsewhere. It is believed that a saving of £15 million could be made without damaging repercussions. To save more would involve cutting textiles (over £50 million from Europe alone) which would involve major risks, particularly because textiles are on the O.E.E.C. "common list", in which restrictions are being removed throughout Europe in order to build up a common market.

(iv) Private imports of raw materials—£15 million. The major item is paper, board, and wood pulp for paper. A reduction of £12½ million or more could be made on imports from all sources without damage to the economy (total imports from all sources about £180 million) and without impact on newsprint supplies. But this would involve reimposition of controls on paper distribution in order to safeguard supplies for essential uses, such as export packing.

Introduction of import restrictions would involve administrative difficulty at the outset, but this is in my view inevitable, and I recommend that this action, to a total of £150 million, should be put into effect immediately after the statement in Parliament.

(b) *Saving of £50 million by cutting the 1952 import programme of rationed foods*. It is estimated that we could buy enough to support increases in consumption of wheat and rationed foods in 1952, compared with the average 1951 level, of some £50 million. I recommend that we cut the total programme by £50 million, so that if we get more meat than the 1951 average, we should make corresponding reductions in other rations, such as sugar or oils and fats. The total programme in this class for 1952 is £714 million. It may be convenient to save more on the unrationed foods and less on the rationed foods or vice versa.

(c) *Limiting imports of timber to maintain present consumption only*. To maintain present consumption of soft wood involves imports of about £100 million a year. At present there is no restriction on imports, except from North America and the Soviet bloc which are on Government purchase. It will be necessary to consider the purchasing arrangements for soft wood, i.e. whether all purchase should not return to private account, and I recommend that we should make no cut in our proposed imports but in present circumstances we cannot go further. If we permitted more, it would be an additional expenditure above what is allowed for in the estimates of the outlook for 1952.

(d) *Saving of £100 million by suspension of strategic stockpiling programme*. The present strategic stockpiling programme will cost £147 million in 1952, of which £76 million represents expenditure in the dollar area. By the end of 1951,

we shall have accumulated a strategic stockpile of £140 million—mainly food, tobacco, softwood, rubber. I recommend that we should stop making purchases for this programme and have the programme re-examined with the purpose of saving £100 million in 1952, in purchases from non-sterling sources. I fully appreciate that this involves a defence risk, but on this basis we shall have accumulated some £180 million of supplies by the end of 1952, and in my view the danger to our defence effort of a balance of payments crisis involving inability to buy essential food and new raw materials far exceeds the defence risk of postponing stockpiling.

(e) *Saving of £15 million by reducing tourist ration from £100 to £50.* I recommend this, to take effect from the beginning of the 1952 tourist year. It would be possible to save a little more by introducing this from 1st January, but this would impinge upon commitments already made.

(f) *General tightening up of external expenditure.* I propose to keep a tight check on projects of all kinds involving external expenditure, both in imports and in overseas Governmental and "invisible" expenditure, in order that the maximum possible saving should be achieved by administrative means. I would ask my colleagues to support me in this, and I shall of course bring before them any matters which may involve policy considerations.

B. *Monetary measures.* I am satisfied that it has now become necessary to remove the rigidity in short term interest rates of the last few years, which has limited the power of the authorities to exercise sufficient pressure upon credit policy.

C. *Reductions in government expenditure.* We need an urgent review of all Government expenditure so as to cut out waste, and—far more important—to cut out and slow down expenditure on work which is valuable but not essential in times of crisis. We may have to go further and take some big steps of a kind which no one can welcome. How far this will be necessary depends on how much we can save by our general review. I shall be circulating in a few days a separate paper to my colleagues setting out the steps which I hope they will take in the interests of economy. I cannot ask that major decisions on policy should be taken before my speech on the Address, but I shall wish to inform the House of the general lines on which I have asked them to review their expenditure.

D. *Investment.* The present building programme authorised for 1952 is 10 per cent higher than the work actually carried out in 1950. But in the first half of 1951 the building industry achieved about 4 per cent less than in 1950. This was due to bad weather, shortage of steel, and an attempt to achieve too much with limited labour and materials. There will therefore be a backlog on the 1951 building programme. It is probable that shortage of steel will prevent the output of the building industry in 1952 from rising above the level in 1950. The industry is already overloaded and the first essential is to limit severely any more work being started under the present programme until the overload has been worked off and periods of completion of existing jobs have been shortened. This will increase and not decrease the amount of work completed in 1952.

It is also necessary to reduce the level of home investment in plant, machinery and vehicles in order to make more metal goods available for export.

I therefore propose:—

(i) that the general rule should be that no new starting dates should be given, to

take effect within the next three months, and no firm commitments made for starting dates to operate later in 1952; but that within this general rule special consideration should be given to housing;
(ii) starting dates already granted for operation during the next three months should be reviewed and postponed in all cases except defence, fuel and power, and housing;
(iii) the Headquarters Building Committee should make recommendations to carry out this general decision, including limited provision for exceptions to be granted on their authority;
(iv) officials should prepare a revised Investment Programme for 1952 and 1953, to be ready for consideration by Ministers not later than the end of January, 1952.

12. I have considered whether these steps should be supplemented by fiscal measures in an Autumn Budget. There are some advantages in this, but great practical difficulties in the way of doing anything effective in the time available. I do not believe that an Autumn Budget is necessary to restore confidence, and would advise against one. I therefore recommend that there should be no Autumn Budget.

13. The above are restrictive measures. But our objective is an expanding economy. The first essential for this is to restore confidence in the £. These measures are necessary for that purpose, and to provide the solid base for expansion. What are the measures for expansion? It is quite clear that the two fundamental limitations on the expansion of our economy are, first, coal output, and secondly, the output of the engineering industry which, in turn, depends both on coal and on the availability of steel. Unless something can be done in both these fields then the prospects of expansion are greatly reduced. Decisions and following action on these matters are urgent, but the decisions cannot be taken in time for specific steps to be announced in the statement. Nevertheless, the statement would include a reference to the constructive action which the Government intend to take in the following fields:—

(a) *Coal and Steel*. These are of fundamental importance to the economy, and the Government's intention to see that adequate supplies are available should be stressed, adding that specific steps in this direction will be announced as soon as they are fully worked out.
(b) *Engineering Industry*. The statement should show the expansion which is required in this industry to meet our needs, and which can be made provided adequate supplies are available. The statement would also emphasise that for increased steel supplies we would depend very largely on what the Americans can do for us.
(c) *Exports*. The fundamental question here is the priority to be given to exports as against defence orders. Nothing can be said on this in the statement, but the Government would need to re-emphasise the existing policy of putting full weight behind the export drive.

VI. *Timing of the statement*

14. From the point of view of the balance of payments crisis, the earlier the statement is made the better. Indeed, the longer it is delayed the more reserves we shall lose and the harder it will be to restore confidence.

15. The King's Speech is to be made on 6th November and the Debate will open

the next day. Clearly, the King's Speech will have to contain references to the balance of payments crisis and to the vital need for measures to correct it. Having regard to the seriousness of the crisis and to the need for setting out the full gravity of the situation, further deterioration would inevitably take place unless my statement specified remedial measures. I therefore recommend strongly that I should be authorised in my speech on the address not only to make clear how far the balance of payments position has deteriorated in the last few weeks, but at the same time to announce the steps which are being taken to put the position right. This should include an announcement of the measures summarised in paragraph 11 of this memorandum, with some general indication of those mentioned in paragraph 13.

359 CO 537/7757, no 1 — 1 Nov 1951

[Colonial foodstuffs and raw materials]: minute by Sir H Poynton to C G Eastwood

I told you on the telephone this morning that the Secretary of State had asked that we should quickly prepare a memorandum showing how far it is possible, either to increase the production in the Colonies of foodstuffs and raw materials which the United Kingdom mainly needs, and whether this is a short or long-term problem; and secondly whether there is any possibility of re-routing Colonial exports so that more of their existing production comes to this country instead of going to other less laudable destinations. I think it is largely a question of digging out the paper we wrote at the beginning of this year—E.P.C. (18)51,[1] registered, I believe, on 19875/103/51. The Secretary of State would also like to include in this paper a passage dealing with the kind of action that would be necessary for the Government to take to bring about either of these two results if, in respect of any particular commodity, it was thought desirable to try to do so. This will give us a "lead in" on such questions as long-term contracts, the political dangers of legislation controlling exports by destination and might even extend to the removal of fiscal obstacles created by recent United Kingdom financial policy.

The Secretary of State would like to herald this paper with a short note for the Cabinet saying that it is in preparation, but warning his colleagues not to expect too much in the short term. I attach the draft of such a paper. . . .[2]

[1] The minutes of the Cabinet Economic Policy Committee (9 Mar 1951) on EPC(51)18, 'Production of raw materials in the colonial empire', are reproduced in BDEEP series A, R Hyam, ed, *The Labour government and the end of empire 1945–1951*, part II, 103.

[2] See 360 for the paper submitted to Cabinet.

360 CAB 129/48, C(51)14 — 12 Nov 1951

'Possibilities of increasing the supply of colonial foodstuffs and raw materials to the United Kingdom': Cabinet memorandum by Mr Lyttelton

Figures illustrating Colonial exports of selected commodities in recent years are

given in Appendix I.[1] Present production of most of them is at an "all-time high", partly as the result of the efforts devoted to Colonial development during and since the war, partly under the stimulus of the need to earn or save dollars and partly as a natural response to rising prices. Nevertheless, it is possible that supplies to the United Kingdom of a few such materials can be increased even in the short term. Paragraph 6 of this paper gives a list of these materials and more extended notes on them are contained in Appendix II. There are also some other materials of which the supply could be increased in the longer term. These commodities are listed in paragraph 7 of this paper, and more extended notes on them are contained in Appendix III. The remaining products of the Colonial Empire fall into one of two classes. Either they are already produced in greater quantities than the United Kingdom requires, or the prospect of increasing supplies of them is remote. All the more important commodities in the first of these two classes and a selection of those contained in the second class (in principle those commodities of which we should particularly like to get Colonial supplies) are listed in paragraph 8, notes on them being contained in Appendix IV.

2. These lists are, of course, based on our present knowledge; there is always the possibility of new mineral deposits being discovered or new crops being established, but neither of these processes could lead to very early results.

3. I have also deliberately excluded from this paper any mention of the need for increasing the production of Colonial products for purposes other than increasing the supply to this country, for example increasing the dollar earnings of the sterling area.

4. I have touched only lightly on the possibility of diverting to this country supplies which now go elsewhere. The possibility of action of this kind has been pursued very vigorously during the last few years. The bulk of the Colonial materials in which this country is deficient now comes here. The remainder mostly goes to countries where it earns dollars for the sterling area or to countries, mostly in Western Europe, where it earns us good will. Some diversion from these destinations might in some cases be possible, if it were thought to be on balance desirable, and if consumers here were prepared to pay the Colonial suppliers as good a price as their foreign customers, but it is not likely to affect any large volume of goods.

5. Before I set out the three lists to which I have referred above, I should like to call attention to what can, perhaps, best be called the conditions precedent to the expansion in the supply of such goods to this country.

(a) First, in some cases, particularly in the expansion of the production of agricultural products, it will be necessary to maintain and even expand the technical and advisory services of the Governments concerned. Peasant production plays a large part in Colonial agriculture and if, for example, the African farmer is to produce more cotton, he must be given better planting material and advice on how to use it. This is part of the ordinary functions of the Colonial Office and Colonial Governments, and I need say no more about it.

(b) Second, Colonial Governments must be able to obtain the necessary materials (steel, cement, &c.), and capital equipment to make the improvements and expansions to roads, railways, harbours, power installations, and so on, which are

[1] Appendices not printed.

necessary to enable the increased volume of goods to be handled. I shall present to my colleagues a separate paper in which I will deal with this subject and the cognate subjects mentioned in sub-paragraphs (d) and (f) below, against the background of the balance of payments position of the Colonies, which are in substantial surplus both overall and on dollar account.

(c) Third, as a corollary to this, the Governments and public authorities concerned must be given access to the money market to the extent that this is necessary, to supplement their own resources, and thus enable them to finance these purchases. I would hope to be able to settle with the Chancellor of the Exchequer any points which arise under this heading.

(d) Fourth, to the extent that expanded production is dependent on private enterprise, the individuals and corporations concerned (mining companies, plantation companies, and the like) must be given facilities to procure the machinery and other capital goods which they need to enlarge their undertakings.

(e) Fifth, as a corollary to this, some changes may be required in our fiscal system to encourage the investment of new money in the Colonies. This is obviously a subject which I shall in the first instance have to discuss with the Chancellor of the Exchequer.

(f) Sixth, the producer cannot be expected to increase his efforts if at the end of it all he cannot use the fruit of his labours to buy more of what he needs. It will be necessary, therefore, to ensure that his wants are carefully studied by exporters and that, if the desired goods are scarce, adequate quantities are made available to him.

6. The following is a list of the commodities of which there is some prospect of increasing the supply to this country in the short term (Appendix II):—

Copper.—A substantial increase in supplies from Northern Rhodesia may be expected in the next year or two if more coal can be obtained from Southern Rhodesia.

Cotton.—There are fairly large possibilities of increasing supplies from East and (to a less extent) West Africa.

Manganese.—Some modest increase in production in the Gold Coast can be hoped for and some existing exports could be diverted to this country if its quality demands were less exacting.

Petroleum.—Production is still increasing in Borneo and Sarawak and there are some possibilities of developing new sources of production, particularly in Nigeria.

Pyrites.—There are possibilities of some modest expansion in Cyprus and some additional supplies will shortly be obtained by diversion from other countries.

Sugar.—The output of sugar in the Colonies is steadily rising and the end is not yet in sight.

Timber.—The possibility of bringing larger quantities of Colonial timbers to this country depends chiefly on persuading the users to accept Colonial hardwoods in place of the European and North American softwoods to which they are accustomed, and on expanding transport and saw-milling facilities in West Africa.

Vegetable Oils and Oilseeds.—A considerable increase in production is still possible, as a result mainly of improved production techniques, provided transport difficulties in Nigeria can be overcome.

7. The following is a list of the commodities of which there is some prospect of

increasing the supply to this country in the medium or long term. (Appendix III):—

Aluminium.—No aluminium is at present produced in the Colonies, but massive quantities of the raw material, bauxite, exist, and a very large project for erecting a hydro-electric installation and an aluminium smelter in the Gold Coast is in an advanced stage of preparation. The smelter could not, however, come into production in less than about eight years.

Bananas.—Supplies from Jamaica should be back to the pre-hurricane level within about a year. For further increases in supplies we shall have to look rather to other British Caribbean territories and the British Trust Territory of the Cameroons.

Hides and Skins.—These commodities are by-products and any increase in output is dependent on an increase in livestock populations and outlets for meat and other products. The process is likely to be a fairly slow one.

Iron Ore.—Increases in the supply to the United Kingdom are dependent principally on the development of a known but rather remote mineralised area in Sierra Leone, with considerable consequential capital investment.

Jute and Jute Substitutes.—These are new crops for the Colonies and development will inevitably be slow.

Lead and Zinc.—Present output of these minerals in the Colonies is relatively small. Other deposits are known or suspected but their development will be expensive and slow.

Pulping Materials.—The commodities normally used for this purpose (soft woods) hardly exist in the Colonies. An increase in supplies to this country is dependent partly on softwood plantings and partly on proving the utility of materials hitherto not used for these purposes. The outlook is not very promising.

Tea.—There is already some tea production in East and Central Africa and Malaya, but any increase in the supply of qualities acceptable to the United Kingdom market is dependent upon the production and distribution of suitable disease-free planting material, a rather slow process.

Tobacco.—The Colonies already supply nearly all the pipe tobacco smoked in this country and owing to a change in public taste, the demand for this is going down rather than up. Development of the production of the increasingly popular cigarette tobacco of acceptable quality is a slow process.

Tungsten.—Small deposits are known to exist and others may be found, but output hitherto has been small compared to the needs of the United Kingdom. A small but useful increase is to be expected from Uganda.

8. The following is a list of the principal commodities of which it is unnecessary, or apparently impossible, to increase the supply to this country (Appendix IV):—

Cereals.—On balance the Colonies are importers of rice and wheat and more or less self-sufficient in coarse grains. Prospects of increasing production more quickly than the increase in demand are not good.

Coal.—The best that the Colonies where coal is mined can hope to do, on the basis of present information, is to meet the needs of themselves and adjacent British territories. Even this is uncertain.

Cocoa, Coffee, Rubber, Sisal, Tin, Diamonds.—Colonial production exceeds United Kingdom requirements. This does not, of course, mean that increase of production is not desirable for other purposes, *e.g.*, dollar earning.

Nickel, Natural Sulphur.—These have never been produced in the Colonies and

known deposits are negligible.

Meat.—There are considerable prospects of increased production, but current local demands are much in excess of current supplies and rising at such a pace that it is very doubtful whether an export surplus will ever emerge.

9. To sum up, I see some prospect of an increase in the supply of eight or nine important food-stuffs and raw materials to this country in the relatively short term, and some prospect of increasing the supply of another eight or nine important food-stuffs and raw materials in the medium and long term. I have pointed out that this increase is dependent in most cases on certain conditions being fulfilled and I ask my colleagues to give me all the help they can in ensuring that they are fulfilled.[2]

[2] Lyttelton's brief on this paper dealt solely with the problems of raising loan and investment finance for the expansion of colonial commodity production, as itemised in para 5(c) and 5(e); see 396. For Cabinet's discussion of the paper, see 362.

361 CAB 129/48, C(51)22 19 Nov 1951

'Balance of payments of the colonial territories': Cabinet memorandum by Mr Lyttelton. *Annex*

The memorandum which I attach concerns the balance of payments of the Colonial territories taken as a whole in relation to the crisis of the sterling area. It sets out the particular position of the Colonies and the extent to which this differs from that of the sterling area as a whole. It suggests the course of action to be followed so far as the Colonial territories are concerned. The need to define our policies arises from a number of factors:—

(1) It is urgent to decide whether we must ask the Colonies to take measures corresponding to those which we have decided upon in the United Kingdom or which we may be asking the Independent Commonwealth to take.
(2) Important decisions are about to be taken on the allocation of exports, particularly of steel, to the Commonwealth and the Colonies.
(3) The policy to be followed in respect of the Colonies must be settled well in advance of the Conference of Commonwealth Finance Ministers.[1]

The main implication of this paper is that we should *not* ask the Colonies to increase restrictions on their imports in order to assist the sterling area to correct the overall deficit. The paper goes further and argues that in certain matters they should indeed be given specially favourable treatment. The argument is founded on the facts about the current and expected Colonial surplus. But I want to stress two things.

Firstly, I do not underestimate the vital interest of the Colonies in the health of the sterling area; their economic and currency systems are integrated into the sterling system. Their trade depends in large part upon the multilateral trading system of which the sterling area is one of the principal props. If the sterling area collapsed the economies of most of the Colonial territories would be shaken to their roots.

Secondly, I would stress the political aspects of the problem. We are directly

[1] Held in London on 8–20 Jan 1952.

responsible for the welfare of the Colonial peoples. We have preached and continue to preach the gospel that they must be developed in order to make adequate contribution to the world's needs and to raise their own standards of living, which are for the most part miserably low. A certain amount of progress has been made, but there is undoubtedly a growing feeling of discontent and dissatisfaction at the way in which progress is hampered by decisions taken in the United Kingdom limiting the Colonies' freedom to use fully their monetary and financial resources for their own development. It may be possible to set other technical arguments against some of the technical arguments advanced in the attached paper. But, however that may be, I feel it my duty to warn my colleagues of the serious political consequences which will follow if we cannot go further towards meeting the needs and aspirations of the Colonial peoples on the economic front than we have been able to do so far.

The specific recommendations of the paper for which I seek the support of my colleagues are:—

(i) United Kingdom policies should be based on a recognition of the claim of the Colonies, in present circumstances, to a volume of imports which permits both progress in development to continue and some improvements in standards of living to take place even during the rearmament period. This may mean not only efforts to increase total volume of United Kingdom exports, but also, in appropriate cases, according to exports to the Colonies a higher priority than they at present enjoy, and, if necessary, a higher place than exports to the rest of the sterling area.

(ii) There should be more favourable allocations from the United Kingdom of scarce goods which are subject to allocation, notably steel and tin-plate. As regards the former, 250,000 tons per annum would be the minimum consistent with the general policies advocated above.

(iii) The question of the import policies which Colonial Governments should be asked to follow should be considered between the Treasury and the Colonial Office on the basis that those policies should take account of the special position of the Colonial balance of payments within the sterling area balance of payments, in so far as this is possible without inviting repercussions in the sterling Dominions such as to threaten the unity and stability of the area.

(iv) United Kingdom industry should be encouraged to study more closely and try to meet the present and future demands in the Colonies for consumer goods.

(v) The position should be kept regularly under review interdepartmentally.[2]

Annex to 361: Memorandum on the implications of the colonial balance of payments position

1. Examination of the balance of payments accounts shows that, whereas the United Kingdom and the other independent members of the sterling area have been running since 1950 into rapidly increasing deficits in their current accounts with both the dollar area and the rest of the world, the Colonial territories have

[2] Cabinet 'took note' of these recommendations but did not take specific decisions; nor did Lyttelton ask for any (CAB 128/23, CC 10(51)6, 22 Nov 1951).

maintained, and, if present trends and policies continue, will continue to maintain a substantial surplus.

The principal figures are as follows:—

Sterling Area
Oversea Balance of Payments, 1950–52

	£ *million* 1950 (*actual*)	£ *million* 1951 (*partly forecast*)	£ *million* 1952 (*forecast*)
United Kingdom current account	+221	−472	−540
Independent Sterling Area current account ...	+101	− 34	−355
Bahrain current account	+ 14	+ 23	+ 35
Colonies current account	+131	+212	+ 90
Total Sterling Area current account ...	+467	−271	−770

At the same time the sterling assets of the Colonies in London have now topped the £1,000 million mark, having grown by about £400 million during the past eighteen months.

2. Part of the Colonies' surplus on current account is attributable to United Kingdom military expenditure in the Colonies and direct grants of one type or another to the Colonies. If there were no military expenditure and no direct grants the Colonial surplus would be reduced to £58 million in 1950 and to £124 million (partly estimated) in 1951, whilst the forecast for 1952 would show a slight deficit. On the other hand military expenditure in the Colonies represents services provided by the territories to the forces on the basis of agreed arrangements for sharing defence expenditure throughout the Colonies, whilst grants in aid of Colonial Development and Welfare are made as a result of His Majesty's Government's recognition of the need of the Colonies for financial assistance, in view of the wide differences in the standard of living between the United Kingdom and the Colonies.

3. More detailed statistical information is contained in the appendix. The figures there quoted indicate that both the general movement referred to above and also the very substantial dollar surplus within the general surplus apply to all the main regional groups, though in varying degrees. Statistical information for the period before 1950 is insufficient to enable a detailed comparison to be made between current figures and those of the early post-war years. The probability is, however, that, although there was an increase of some £100 million in the Colonies' sterling balances over the four years 1946–1950, this was more than cancelled out by movements of capital in the opposite direction and by a moderate import surplus, so that the Colonies during that period may have had a moderate balance of payments deficit.

4. The situation since 1950, which stands out in marked contrast has, of course, been due in the first place to the exceptional increase in the earnings of the Colonies due to high prices as a result of rearmament and other world factors. But high prices and earnings by themselves would not have led to a surplus, which only arises because imports have not risen as fast as exports. (In fact, while exports have almost trebled in value between 1948 and 1951 imports have only about doubled). The surplus is due in fact to two main factors. Firstly, part of the proceeds of the sale of Colonial products have, in these times of high raw material prices, been creamed off,

partly by marketing boards and similar organisations and partly by Governments, and have been laid aside in reserves. This has, of course, been done deliberately and to a large part it has been done with the sole purpose of creating reserves for use for stabilisation or for expenditure on research and development in less prosperous times. To some degree, however, the extent of the funds so diverted from the producer has also been due to knowledge of the authorities concerned of the difficulties of obtaining supplies from abroad and consequent fears of inflation. The second series of factors has consisted of the effect of the world situation and decisions taken by other Governments on the availability of imported supplies for the Colonial territories. The world-wide shortage of capital goods, particularly steel, and the reduction, since the end of 1950, in the quantities of the latter which have been allocated for export to the Colonies from the United Kingdom, have acted as a severe brake on the implementation of development programmes, both public and private, just as they had gained momentum. An increase in the volume of steel imports would not by itself substantially affect the Colonial balance of payments surplus; and the urgent need for a greater volume of steel exports to the Colonies arises at least as much from the crying need of development and the political effect of it being held up for lack of steel in the present balance of payments situation as from that situation itself. Nevertheless, since steel is a key item in development, the increased volume of steel supplies would generate expenditure on other capital goods as well as consumer goods for those engaged in development and consequently would lead to a much greater expansion of the total volume of imports. For consumer goods the position has been rather better; but even in this field more would have been imported if there had not been a shortage of supplies of certain kinds of goods, such as hollow ware and certain types of textiles (*e.g.*, bafts and shirtings in Nigeria) which are particularly needed in Colonial territories.

5. To lay aside reserves in prosperous times is a very sound principle, and it should certainly not be argued that the Colonial territories should never have a balance of payments surplus. Indeed, one of the principal aims of war-time and post-war policy has been to build up reserves as an insurance against future declines in export earnings. Even on present prospects it will be necessary to maintain a high absolute level of reserves since it would be imprudent to assume that the current level of earnings could be maintained indefinitely. But reserves are already high and the longer the process of accumulation goes on, the less easy it is to justify, especially in countries where the need for an early rise in a very low standard of living is universally recognised, and at a time when there appears no early prospect of a substantial decline in raw material prices. The marketing boards in West Africa and Uganda have already accumulated very large surpluses indeed and are under sharp criticism for holding down unduly the standard of living of the producers whose interests they are meant to represent. Equally, Governments will find it increasingly difficult to get support in Legislatures and from the public for the continuation of present taxation levels, let alone their increase, if more of the funds accumulated through past taxation cannot be spent on the development which is so urgently needed and for which they were intended. In short, any further substantial deliberate withholding of purchasing power from the Colonial producer seems to me to be unjustified and, in all probability, would in any case be politically impracticable.

6. It seems clear, therefore, that steps must be taken, in so far as it is within the power of the United Kingdom to take them, to secure a better flow to the Colonies of

the supplies which they require and on which they must be allowed to spend their earnings if discontent and severe inflation, with all its dangerous possibilities, are to be avoided. That this is necessary on grounds of Colonial policy cannot be disputed; and in this connection it must not be forgotten that the United Kingdom Government has a special constitutional responsibility for the Colonial territories such as it does not have even for other members of the sterling Commonwealth. But it is also, it is submitted, in the interests of the United Kingdom itself; for increased production in the Colonial territories of the raw materials and food-stuffs which are so badly needed depends partly on direct investment in that production and on the improvement of basic economic services, such as communications, all of which require capital goods, and partly on an improvement in the physique, morale and willingness to work of Colonial peoples, all of which depend on availability of more consumer goods of the right type.

7. In short, at a time when the fall in the value of money would otherwise have gravely limited the effectiveness of the financial assistance being given by His Majesty's Government towards Colonial development, the relatively high earnings from Colonial products over the last two years have afforded a great opportunity for making a reality of the policy of Colonial development to which His Majesty's Government is pledged without additional cost to the Exchequer and to the great ultimate benefit not only of the Colonies but also His Majesty's Government. But, while every effort is made, and will continue to be made, to ensure that Colonial Governments utilise their own available financial resources in prosecuting their own development, it is quite fallacious to argue that they do not need the money which comes to them from outside because they have not got the goods to spend it on. They need both the goods and the money, and failure to provide the one would be no less a reversal of His Majesty's Government's policy than failure to provide the other.

8. The difficulties which have arisen in the field of supplies were foreseen; and, although the Steering Committee did not feel able to approve some of the suggestions put forward at the official level by the Colonial Office last December, some action has already been taken to deal with the situation. Thus, since the liberalisation of trade with Western Europe, the only sources from which Colonial territories are now asked to restrict their imports are the dollar area and Japan. Moreover, although imports from Japan must still be confined to "essentials," the actual volume of such imports has been allowed gradually to increase.[3] Again, during the course of 1951, Colonial Governments were encouraged to submit modest supplementary dollar import programmes and, after scrutiny of these programmes, the dollar allocations for that year of some Colonial territories were increased. More recently, Colonial Governments have been authorised to admit under World Open General Licence a limited list of goods, mainly raw materials, of particular importance for their development programmes. Unfortunately, however, the effect of these measures will have been offset, and in some cases more than offset, by the increasing difficulty of obtaining supplies from the United Kingdom, and, in particular, by the recent drastic reduction in the allocation of steel for export to the Colonies. Accordingly, it now seems necessary both to increase the flow of supplies to the Colonies from the United Kingdom and also to consider some further relaxation in Colonial import restrictions.

[3] On the subsequent development of colonial trade with Japan, see 377.

9. It is recommended that consideration should be given to the following measures:—

(i) United Kingdom policies should be based on a recognition of the claim of the Colonies, in present circumstances, to a volume of imports which permits both progress in development to continue and some improvements in standards of living to take place even during the rearmament period. This may mean not only efforts to increase the total volume of United Kingdom exports, but also, in appropriate cases, according to exports to the Colonies a higher priority than they at present enjoy, and, if necessary, a higher place than exports to the rest of the sterling area.

(ii) There should be more favourable allocations from the United Kingdom of goods in short supply which are subject to allocation, notably steel and tinplate. As regards the former, 250,000 tons per annum would be the minimum consistent with general policies advocated above.

(iii) The question of the Import policies which Colonial Governments should be asked to follow should be considered between the Treasury and the Colonial Office on the basis that those policies should take account of the special position of the Colonial balance of payments within the sterling area balance of payments, in so far as this is possible without inviting repercussions in the sterling Dominions such as to threaten the unity and stability of the area.

(iv) United Kingdom industry should be encouraged to study more closely, and to endeavour better to meet, the potential and actual demands in the Colonies for consumer goods; and

(v) The position should be kept regularly under review interdepartmentally.

APPENDIX

BALANCE OF PAYMENTS OF COLONIAL TERRITORIES SINCE THE WAR

Colonial balance of payments figures, similar to those set out below for the period since 1950, are not available for the period between the end of the war and the end of 1949. But such information as can be gathered from identified capital movements shows that there may have been a small current account deficit possibly averaging some £25 million per annum which implies that, although the Colonies' sterling balances increased by about £100 million during that period, capital movements in the other direction may have more than offset this. This would not be surprising since, although new development was only beginning to gather momentum towards the end of the period, it was during this period that much of the rehabilitation expenditure, private and public, took place, particularly in Malaya, while there must have been considerable expenditure on the restocking of consumer goods, particularly in the West Indies.

2. The balance of payments figures for 1950, 1951 (partly forecast) and 1952 (forecast) show surpluses of £131 million to £212 million and £90 million respectively.

(£ million)

	1950	*1st half*	*1951 2nd half (forecast)*	*Year (partly forecast)*	*1952 (forecast)*
Payments for imports (f.o.b.)					
Colonial territories other than Malaya and Hong Kong	−331	−198	−243	−441	−497
Malaya	−273	−244	−222	−466	−480
Hong Kong	−179	−132	−112	−244	−215
Total	−783	−574	−577	−1,151	−1,192
Receipts for exports (f.o.b.)					
Colonial territories other than Malaya and Hong Kong	+388	+285	+235	+520	+529
Malaya	+389	+394	+310	+704	+625
Hong Kong	+191	+161	+103	+264	+213
Total	+968	+840	+648	+1,488	+1,367
Net invisibles—					
Colonial territories other than Malaya and Hong Kong	+1	−14	−10	−24	−17
Malaya	−56	−57	−44	+101	−70
Hong Kong	+1	—	—	—	+2
Total	−54	−71	−54	−125	−85
Current account balances—					
Colonial territories other than Malaya and Hong Kong	+58	+73	18	+55	+15
Malaya	+60	+93	14	+137	+75
Hong Kong	+13	+29	−9	+20	—
Total	+131	+195	+17[sic]	+212	+90

3. Hong Kong's situation represents a special case which need not be pursued in this paper, but the figures for the remaining Colonial territories can be analysed further.

Colonial territories (excluding Hong Kong and Malaya)

An approximate analysis of the total current account surplus for these territories is:—

(£ million)

	1950	*1951 (1st half only)*	*1952 (forecast)*
East and Central Africa	+9	+15	+25
West Africa	+52	+59	
West Indies	+1	+3	—
Others	−4	−4	−10
Total	+58	+73	+15

The African territories, in particular, had a large surplus in 1950 and the first half of 1951. As there was undoubtedly some inflow of capital both official and private in this period, there must also have been a much larger outflow of capital and this can be found in the sterling assets which the African territories were building up in London. The increase was as follows:—

(£ million)

	Increase in 1950	*Increase in the 1st half of 1951*
Currency Board holdings	18	8
Disposable Government funds	14	15
Non-disposable government funds*	12	7
Commercial Bank funds	23	28
Official loans to His Majesty's Government	−2	−5
West African Marketing Board securities	20	23
Total of above items	85	76

* Sinking funds, &c.

4. Part of these increases represent reactions to higher prices, *i.e.*, more local currency and larger local bank balances are likely to be held and therefore the currency authorities and the commercial banks must hold larger funds in London: buoyant local revenues explain another part; and part, the increase in the Marketing Board securities, arises from the present policy of paying producers less than the world market price in order to build up reserves for disposal in less favourable years. A further part, however, must be attributed to an inability to obtain a sufficient expansion of supplies of imported goods.

5. The implication of the African forecast for 1952 is that not only are there no prospects of past accumulations being reduced by increased purchases from abroad but further accumulations will be made. As some inflow of capital into these territories can be expected in 1952, the addition to their sterling assets is likely to be well in excess of the £25 million shown in the table above.

6. The figures for the West Indies show less startling changes, the main reason being that there has been relatively little increase in the prices of their main exports, notably sugar. Nevertheless, a desirable state of affairs, with capital of all kinds flowing into the West Indies, would be represented by a deficit in the current account and not by a virtual balance. The combined figure for the remaining Colonial territories is a residual; although there are a number of special problems the totals involved are relatively small, and no attempt has been made to calculate detailed figures.

Malaya

7. The high prices of rubber and tin caused export earnings to soar in the latter half of 1950, and current prices (on which the forecasts are based) are still high enough to keep these earnings at a level more than twice as high as in 1948 and 1949. Since Malaya also imports large quantities of rubber and other raw materials there has been some increase of imports attributable to this cause, but, in total, the

growth of imports has been much smaller. Even when the invisible payments to London of the trading surpluses of the rubber and tin companies are brought into the account, Malaya had a large current account surplus in 1950 and 1951, and the forecasts for 1952 show essentially the same picture.

8. The capital movements which are the counterpart of this current account surplus are not easy to trace. All that is known with any certainty is that currency, Government and commercial bank funds held in London increased by £57 million in 1950 and a further £62 million in the first half of 1951. As in the case of the African territories, part of this increase would not have occurred had more imported supplies been available.

9. So far, the figures given have referred to the Colonial territories in relation to all countries. Within the total the dollar account, as indicated in the table below, has shown a consistent surplus.

Colonial Current Account: Surplus with Dollar Area

($ million)

	1948	*1949*	*1950*	*1st half*	*2nd half (forecast)*	*1951 Year partly (forecast)*	*1952 (forecast)*
West Africa ...	130	90	101	100			65
West Indies ...	−60	−10	37	25	forecasts not divided		35
Malaya ...	170	160	271	185	into regional figures		350
Others ...	−10	−20	31	21			12
Total ...	+230	+220	+440	+331	190	520	462

10. The increase in this surplus since 1949 has, of course, been mainly due to the large increase since that time in the prices obtained for war materials sold to the dollar area. But the following table shows that a considerable element in the particularly favourable showing of the Colonies has been the great degree of restraint exercised by them, as compared with the rest of the sterling area, in their imports from the dollar area:—

($ million)

	1948	*1950*	*1951 (1st half at annual rate)*	*1952 (forecast)*
United Kingdom	1,610	1,192	1,680	2,100
Independent Sterling Areas (excluding South Africa) ...	845	590	920	1,100*
Dependent territories	315	125	170	210

* Including for the time being, almost the whole cost to the Sterling Area (apart from United Kingdom) of replacing Abadan oil.

11. The forecasts contain some elements of doubt (*e.g.*, how soon will the United States resume its buying of tin for stockpiling purposes?) and the exact level of essential dollar requirements in 1952 will not be known until the bulk of import programmes have been received and analysed. Nevertheless, they indicate that the high dollar-earning capacity of the Colonial territories is likely to continue in 1952.

362 CAB 128/123, CC 9(51)3 20 Nov 1951
[Colonial foodstuffs and raw materials]: Cabinet conclusions

The Cabinet considered a memorandum (C. (51) 14) by the Secretary of State for the Colonies outlining the possibilities of increasing the supply of Colonial food-stuffs and raw materials to the United Kingdom.[1]

The Colonial Secretary said that development of the productive capacity of the Colonies could in the long term transform the economic position of the United Kingdom; but at the present time he was primarily concerned with action which might increase supplies from the Colonies in the near future. He drew particular attention to the conditions precedent to any early expansion of the supply of goods from the Colonies which were set out in paragraph 5 of his memorandum.

In discussion the following points were raised:—

(a) It was desirable to encourage investment in the Colonial Empire by citizens of this country and investment by United States nationals in the United Kingdom, rather than to encourage direct investment from the United States in the Colonial Empire. *The Colonial Secretary* said that he was already discussing with the Chancellor of the Exchequer the operation of double-taxation arrangements and depreciation allowances, which were at present more favourable to American and Canadian enterprise in the Colonies than to our own investors.

(b) *The Colonial Secretary* said that he was examining with the other Ministers concerned the supply of capital goods both to public authorities and to private enterprise in the Colonies and the supply of consumer goods. He would present a separate paper on these subjects later.

(c) Efforts should be made to increase the use of hard-woods from the Colonies in replacement of soft-woods imported from outside the sterling area. Some useful research into this had already been carried out, and it should be possible to arrange that more of these hard-woods were used in the building of houses, especially those not built by or for local authorities.

(d) Consideration should be given to the use of sterling balances to provide funds for investment in the Colonial Empire and to reduce the calls on the London market.

(e) Increased supplies of groundnuts from the Colonies might make it possible to dispense with the rationing of animal feeding-stuffs in this country, which was not working satisfactorily.

The Cabinet:—

Took note of the memorandum (C.(51)14) by the Secretary of State for the Colonies and of the points raised in discussion.[2]

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[1] See 360.

[2] These five points were acted upon as follows:—

(a) An inter-departmental Working Party on Financial Incentives for Desirable Development in the Commonwealth was set up under Sir W Eady (joint 2nd secretary, Treasury, 1942–1952), with Poynton as the CO representative (brief by CO for Poynton, CO 537/7856, no 14, 18 Feb 1952). The working party's deliberations were however overtaken by budgetary changes in the finance bill of Apr 1952, in particular changes to the excess profits levy on companies operating overseas. The working party then adjourned indefinitely.

(b) This was referred to the Supplies Department, CO.

(c) This was referred to the Production and Marketing Department B, CO.

(d) An inter-departmental Working Party on Colonial Sterling Assets was established some time later (see 373).

(e) This was considered in the CO and rejected as impracticable (CO 537/7757).

363 CAB 129/48, C(51)57 20 Dec 1951

'Sterling balances': Cabinet note by Mr Butler. *Annex*

In accordance with the request of the Cabinet at its meeting on 1st November (CC (51) 2nd Conclusions, Minute 3) I circulate herewith for the information of my colleagues an objective account of the sterling balances.

Egypt

2. We must decide before 31st December whether to honour our undertaking to release to Egypt £10 million (or £15 million according to the state of her free No. 1 Account) on 1st January, 1952 (see paragraph 5 of the paper). To refuse the release would certainly be regarded by the Egyptians as the imposition on them of a major economic sanction. We know what they are very much concerned about the possibility that the 1951 Agreement would be abrogated by the United Kingdom and the release withheld. We cannot be certain that if the release is made it will improve our relations with Egypt, but it is clear that to withhold it would result in a serious deterioration in them. My colleagues will remember that on 7th December (CC (51) 15th Conclusions, Minute 3) the Cabinet approved the recommendation of the Foreign Secretary that no economic sanction should be taken against Egypt at present. I think this decision remains the right one and I accordingly recommend that the releases due on 1st January, 1952, should be made in accordance with the Agreement. This will involve no positive action on our part. The Bank of England will merely accept instructions from the National Bank of Egypt to transfer the sum involved from Egypt's No. 2 to her No.1 Account.

Annex to 363

Origin of the sterling balances and their movements since war

1. Broadly speaking, the "sterling balances" consist of the net sterling liabilities of United Kingdom banks and other financial houses to overseas customers: they include funds held as cover for Dominion and Colonial note issues and the London funds of the Crown Agents for the Colonies. Before the war the total of such liabilities was about £600 million, of which about £340 million was due to Commonwealth countries. By the end of 1945 they had risen to about £3,700 million. This great increase was mainly due to United Kingdom military expenditure in the countries concerned and to the fact that, owing to our inability to export during the war, we had to pay in sterling and not goods for our essential imports.

2. The table appended to this note shows, at intervals since the war, how the United Kingdom sterling liabilities have been distributed geographically by areas, including separate figures for the countries with the outstandingly large balances.

3. During 1946 and 1947 the total fell by £91 million. Some countries (India, Pakistan, Egypt) drew freely on their balances, in order to finance deficits in their balance of payments. In other cases (the Colonies and South America) the balances grew, because the countries concerned had favourable trade balances. During 1947, however, the crisis in the United Kingdom balance of payments made it necessary for us to secure the agreement of the countries with the largest holdings to a restriction of their right to draw on them. The principal agreements were with India

(undivided), Egypt and the South American countries: and these provided for the blocking of the balances and for the limitation of drawings to agreed annual amounts. In the case of Australia and New Zealand, who had made gifts to the Exchequer, there were informal understandings that their balances would not be drawn down below the then current levels (about £130 million and £70 million) except for certain agreed purposes (*e.g.*, the repatriation of sterling debt). In the case of the Colonies we relied on their voluntary co-operation not to run their balances down.

During 1948 and 1949 the total again fell, by £186 million. India, Pakistan and Egypt continued to draw on their balances at agreed rates to finance trade deficits. The Argentine paid out large sums in compensation for the British-owned railways she acquired. On the other hand, Australia and West Africa were able to accumulate sterling as a result of favourable trading balances and, in Australia's case, because of a large inflow of sterling capital.

The year 1950 and the first half of 1951 showed a very different trend and the total rose by about £750 million. As a result of rising prices of raw materials and generally more favourable trade positions, India's balances remained practically stable and Pakistan's increased. Those of Australia and the Colonies increased by no less than £268 million (or 75 per cent.) and £325 million (or 56 per cent.) respectively. The balance of countries outside the Sterling Area remained, in total, practically stable.

But in recent months the trend has been reversed once more. July showed little change on the whole, but during August, September and October the total of the balances fell by £30 million, £90 million and £80 million respectively. Owing to the fall in the prices of their main products, coupled with rising import costs, practically all Sterling Area countries except the Colonies found it necessary to use their balances to met trade deficits. In the result, the total of the sterling liabilities to all Sterling Area countries fell during the four months ended 31st October, 1951, by about £180 million. Those to Non-Sterling Area countries remained, in total, little changed.

The blocked balances

4. From 1947 until this year the release of these balances was governed by successive agreements made for one year (or sometimes two years) at a time. The Colombo Plan,[1] which involved programmes of expenditure on development by the countries of South and South-East Asia over six years from July 1951, made it necessary to agree with some of the countries concerned how far their blocked sterling balances should be used to help to finance the trade deficits which are likely to occur during the period of development. As a result of discussions during 1950 and 1951 agreements were reached with *India, Pakistan* and *Ceylon*, which effected final settlements of these countries' balances. The main provisions of the agreements are:—

(a) In the case of India and Pakistan, so much of the blocked sterling as represents the minimum amount required to be kept as backing for the local currency is to be transferred from their blocked accounts to their free accounts; but in each case it is the subject of assurances that there is no intention of drawing on it and that it

[1] See 397.

will not be drawn on without previous consultation with us. The amounts in question are India £310 million, and Pakistan £30 million. (Ceylon was offered, but declined, a similar arrangement.)

(b) For all three countries, the remaining blocked sterling is to be released in equal annual amounts over six years of the Colombo Plan. The amounts to be so released are: India, £35 million a year; Pakistan, £4 million a year; Ceylon, £3 million a year.

Egypt

5. From 1947 to this year the release of Egypt's balances had also been regulated by successive annual agreements. When it had been agreed to make long-term settlements with India, Pakistan and Ceylon, it was decided to negotiate a settlement with Egypt, which had for some time been pressing for a more permanent arrangement. The arrangement which was signed in July 1951 provided, as regards the blocked sterling balances:—

(a) that £14 million should be converted into gold or dollars at once—this has been done; and

(b) that out of the remaining blocked balances (£216 million) £135 million should be released over a period of ten years (which may be extended to thirteen years) at the rate of £10–£15 million a year. The remainder of the blocked balance (£80 million) is to be considered before the end of the agreement period.

The Cabinet has already considered the general question of our economic and financial relations with Egypt. A decision will be necessary *before the end of this month* whether any steps should be taken to prevent the releases to which Egypt will otherwise be entitled in 1952 under the agreement of last July. Under that agreement Egypt is entitled to £10 million certainly and perhaps to £15 million on 1st January, 1952.

6. There are some minor agreements for the release of other blocked sterling balances, but they are insignificant from the point of view of general policy.

7. The present position of the blocked balances is, therefore, that we are committed to agreements which effectively settle these balances by providing for their ordered release over the next six to ten years.

The free balances

8. The blocked balances subject to restricted annual releases are in fact now a small proportion of the total—only some £500 million out of some £4,000 million. The major part of the balances consist of (a) the balances of those countries none of whose balances have been blocked (some £2,650 million); (b) the free balances accumulated by "blocked" countries out of unspent releases of past years or as a result of post-1947 trading and financial transactions (some £500 million); and (c) the currency reserves of India and Pakistan, which are nominally free but which those countries have agreed not to draw on (£340 million).

9. The free balances of the members of the Sterling Area—which account for some £2,300 million out of those under (a) and (b) above—are a fundamental feature of the Sterling Area. Such members conduct the great bulk of their overseas trade and payments in sterling and, for that purpose, require to hold their external reserves in sterling. Their currencies are, formally or informally, linked with sterling

and they therefore find it necessary or advantageous to hold sterling as currency backing. Sterling is also held for special purposes such as pension funds and sinking funds. Broadly speaking, the sterling balances of a member are the necessary cushion which takes the shock of movements in its balance of payments. In times of surplus it accumulates sterling: at other times it draws on balances so accumulated to meet its deficits. As has already been shown, the sterling balances of the Sterling Area countries rose appreciably up to June last as a result of their favourable trade and payments positions. This had considerable advantages for the United Kingdom in that we were able to pay for a large part of our imports in sterling instead of having to provide compensating exports. Clearly, however, the members concerned were content to allow this sterling to accumulate only on the assumption that when their balance of payments turned the other way they would be free to use the sterling to meet their deficits. They have already been doing during recent months and it is clear that they will need to continue doing so. Their freedom to draw down their balances in this way, as and when necessary, is vital to the continued existence and cohesion of the Sterling Area.

10. This is not to say, however, that the United Kingdom Government is necessarily helpless to influence the rate at which these free balances are drawn on in the future. It would be wrong for us directly to restrict the use of the balances themselves; but we shall, in fact, hope to persuade the other members in the sterling Commonwealth, in our forthcoming consultations with them, to adopt such policies as will result in a reduction of their trade deficits and so of the rate at which they will need to draw on their balances. I shall be submitting recommendations to my colleagues about our policy at the forthcoming meeting of Commonwealth Finance Ministers in due course.

The American Loan Agreement (December 1945)

11. This Agreement contained a clause stating that the Government of the United Kingdom "intends to make agreements with the countries concerned . . . for an early settlement" of the sterling balances and that we would "make every endeavour to secure the early completion" of arrangements for dividing each country's accumulated balances into three categories: (a) those to be released at once and made convertible for current transactions; (b) those to be released by instalments over a period of years beginning in 1951; and (c) balances to be "adjusted" as a contribution to the settlement of war and post-war indebtedness and as a recognition of the benefits to be derived from a settlement of this question.

12. Although we made the promised endeavours, we have never been able to achieve the settlement proposed in this clause. Discussions with India, the largest holder concerned, in 1947 emphasised the political impossibility of securing Indian agreement to the cancellation of any part of her balances. (Her main arguments were that in fact she contributed more than her share of the cost of the war and that she regarded the balances as external reserves to be used for essential economic development.) Similar discussions were held about the same time with Egypt, who likewise refused to agree to any cancellation.

13. Since 1947 our policy has been that cancellation must be secured by agreement and cannot be imposed. The United States Administration have not in fact pressed us to implement the provisions of the Loan Agreement: no doubt they have recognised our difficulties and have been content with the "blocking" measures we

have taken to deal with the situation. Our latest discussions with them were in the spring of 1950, when we were considering the policy of funding most of the balances of the Colombo Plan countries over the six years from 1951. We then informed the Americans of our general plans and suggested to them that any voluntary cancellation of balances was only likely if it was in exchange for United States aid towards development. On the latter point the American reaction was quite negative—any question of United States aid must be settled on the merits of individual countries' needs and not as part of a scheme for dealing with the sterling balances. In the meantime they encouraged us to go ahead with funding. There has been no further discussions with the Americans on our general policy and we have gone ahead on the lines set out earlier in this note.

APPENDIX

UNITED KINGDOM STERLING LIABILITIES TO OVERSEAS COUNTRIES

(£ million)

	31st Dec., 1945	*31st Dec., 1947*	*31st Dec., 1949*	*31st Dec., 1950*	*30th June, 1951*	*31st Oct., 1951*
Sterling Area Countries:—						
Australia	134	128	358	499	626	481
India	1,111	1,188	808	804	796	755
Pakistan			102	97	159	159
Other independent Commonwealth	261	188	191	246	295	240
East and West Africa	179	202	280	359	426	455
Malaya	82	85	81	136	194	218
Hong Kong	36	74	67	92	109	115
Other Colonies	157	149	155	167	179	184
Other Sterling Area Countries*	303	283	310	330	314	312
Total Sterling Area	2,463	2,297	2,352	2,730	3,098	2,919
Non-Sterling Area Countries:—						
Dollar Area and other Western Hemisphere	197	253	111	124	128	95
O.E.E.C. Countries	412	480	439	395	422	452
Egypt	416	358	320	329	287	242
Sudan		11	17	19	34	63
Other	206	204	178	186	199	202
Total Non-Sterling Area	1,231	1,306	1,065	1,013	1,070	1,054
Total Sterling Liabilities to all Overseas Countries	3,694	3,603	3,417	3,743	4,168	3,973

* Includes Irish Republic: 31st December, 1945, £193 million; 31st October, 1951, £182 million.

364 CO 537/7674, no 5 22 Jan 1952

'Commonwealth finance ministers' conference': outward circular telegram no 6 from Mr Lyttelton to governors on the need to improve the colonial balance of payments

The following notes may be used for press guidance in regard to the territories for which I am responsible.

Begins.

1. As indicated in the statement, Colonial Governments are to be requested, in common with the other Governments of the sterling area to take measures to improve their balance of payments in 1952.

2. Detailed proposals are being communicated as soon as possible for the consideration of Colonial Governments.

3. They will no doubt be considered by the Governments with the urgency the situation requires, but in view of the varying circumstances and conditions of the Colonial territories, a little time is bound to elapse before the Governments are able to announce the precise measures they intend to take.

4. The proposals are of course at this stage purely United Kingdom proposals to Colonial Governments. In working them out His Majesty's Government has had in mind, besides the action contemplated by other Commonwealth Governments, the special factors of the Colonial territories, including their present general and dollar surplus, the importance of maintaining progress and stimulating long term development, and the importance to the Colonial territories themselves of ensuring the strength of sterling and of the sterling area as a whole.

5. Taken as a whole the Colonial territories are in overall and dollar surplus but they are in deficit which is increasing, with countries outside the dollar and sterling area and in present circumstances this deficit contributes to the gold losses from the central reserves of the sterling area. The largest overall and dollar surpluses are of course those of Malaya and West Africa but most other regions are in surplus also.

6. The other Commonwealth countries represented at the Conference fully recognised the importance of the Colonial surplus. Broadly speaking if the proposals put forward by the United Kingdom Government are adopted by Colonial Governments they are likely to have the effect more of restraining increases in expenditure in the dollar and non-dollar areas than bringing about an actual cut below the 1951 level. The measures contemplated would entail some reversal of the policy of liberalisation of imports from O.E.E.C. countries, with which the sterling area is in heavy deficit, but the degree of deliberalisation is unlikely to be as severe as in the case of the United Kingdom.

7. The net effect of the measures contemplated is likely to be a small increase of the overall Colonial surplus for 1952 as originally forecast. The estimated surplus in 1952, after allowing for the measures in contemplation will still be substantially below that for 1951. In the view of the United Kingdom Government, such a contribution is reasonable since it is clearly imperative that all members of the sterling area should make some such further contribution as they can to its general strength in the present crisis.

8. The Colonial territories, though in surplus, derive considerable benefit through membership of the area. Their currencies themselves are linked with

sterling, Governments' financial reserves are held in sterling, capital is freely transferable between them and other parts of the sterling area, and if they were not members they would not be able to draw on the central reserves in times of fluctuations in their trade. Most Colonial territories, being producers of a small range of commodities for export, are peculiarly liable to such fluctuations, and their ability to draw on the central reserves is therefore a factor of strength, provided the system as a whole is strong. In addition, the wide multilateral trading system which the sterling area facilitates is in itself a factor which enables the trade of individual members to be carried on at a higher level than might otherwise be possible. It has to be recognised that it will be impossible for the United Kingdom to give the Colonies substantial aid towards their development unless the strength of sterling can be maintained.

9. His Majesty's Government believe that the advantages of membership of sterling area are fully appreciated by the Colonial Governments.

10. In arriving at the proposals to be put to Colonial Governments and which are of course made on the United Kingdom's responsibility, His Majesty's Government have been in close consultation with the Governments and have had the advantage of the presence in London of Colonial Advisers to the United Kingdom delegation, whose counsel has been sought throughout.

Ends.

365 CO 537/7674, no 9 — 24 Jan 1952

'Commonwealth finance discussions': outward circular telegram no 9 from Mr Lyttelton to governors on plans for reducing colonial imports

The following are the proposals which I wish on behalf of His Majesty's Government to put before Colonial governments, arising out of the Finance Ministers' meeting. They should of course be considered against the background of the Ministers' Statement and my circular telegram No. 7.

2. According to the best statistical estimates available in the course of the meetings, the territories with which Colonial Office is concerned will have aggregate favourable balance of payments with the non-sterling World of £25,000,000 in 1952. This is made up of £115,000,000 surplus with dollar area, £60,000,000 deficit with O.E.E.C. group and £30,000,000 deficit with rest of the non-sterling area.

3. One of the elements in the present crisis is the adverse balance of payments which has developed with Western Europe. This deficit, estimated at £125,000,000 in 1952 for whole sterling area, is now costing gold. The sharp increase in colonial importing from Western Europe, following partly on liberalisation policy, is a considerable factor in this deficit. Colonial imports from O.E.E.C. Group were £75,000,000 in 1950, £72,000,000 in first half 1951, £105,000,000 in second half 1951, and are estimated at £225,000,000 in 1952.

4. Certain factors which have arisen since the above statistics were prepared justify an assumption of additional earnings (or savings on invisible deficit) but even after allowing for these it is hoped that the territories with which Colonial Office is concerned can effect an improvement of a further £21 million annual rate in respect of Second half of 1952, as compared with present forecast by exercising restraint on

import programmes. Discussion with Colonial Advisers suggested that this would be practicable along the following lines.

5. As mentioned in paragraph 1 of my circular No. 2 dollar imports should be kept under broadly the same total dollar ceilings as in 1951. Programme of each colonial territory has been examined separately, and telegrams will shortly be sent, notifying proposed dollar ceiling for 1952. I now ask you if you can, by control of import licensing, achieve in respect of the second half of 1952 a limitation of imports from all non-sterling sources as a whole to same level as the total of such imports in 1951.

6. The method of doing this would be left to discretion of each Colonial Government, but following is suggested as possible procedure. Classes of less essential imports from O.E.E.C. countries might be put back on specific import licensing. This would involve putting liberalisation into reverse to extent of possibly ten per cent of the trade, or whatever percentage proved necessary in each territory. Objective would be to put back sufficient non-essentials under licensing control to enable annual imports from O.E.E.C. Group to be kept by middle of 1952 at annual level of such imports in second half of 1951. If this can be done, 1952 payments balance would be improved by £15,000,000.

7. It is suggested that remaining gap of £6 million could be closed by a relatively small reduction in imports from any non-sterling source. As regards particular case of Japan, Colonial imports are currently planned at level more than twice level in 1950/51 but Colonial Governments should be aware that review of sterling area payments agreement with Japan in March may necessitate a further scaling down of sterling area purchases from Japan in latter part of year.

8. Proposal in brief is that it should be left to each Colonial Government to stabilise annual rate of imports in second half 1952 from non-sterling World as a whole at approximately the level of 1951. I shall be grateful if you will consider this urgently and inform me as quickly as possible whether you consider it can be put into effect, and if so what measures you propose to take. I realise that proposal involves some increase in colonial exports surplus. But it does not involve any cuts in either dollar or any other non-sterling imports below the 1951 level, which was very substantially higher than previous years' imports. I hope that you will agree that this check on an increase in imports from non-sterling World in 1952 is a contribution that might reasonably be expected towards the joint Commonwealth effort to solve a crisis of the utmost gravity.

366 CO 537/7674, no 83 4 Mar 1952

'Commonwealth finance meeting on sterling area': outward circular telegram no 24 from Mr Lyttelton to governors on need for further reductions in colonial imports [Extract]

I regret to inform you that since the Conference ended the sterling area's balance of payments, present and prospective, has deteriorated rapidly, on account of the following factors:—

(a) The Conference did not succeed in restoring the confidence of the outside world in sterling.

(b) The drain on the reserves continues unabated; losses in January and February amounted to $299 million and $266 million respectively.
(c) U.S. aid will be lower than estimated.
(d) The assumption that the U.K. would be able to regain substantial amounts of gold from E.P.U. in the second half of 1952 may not be fulfilled owing to likely difficulties of France in meeting her obligations to pay gold.
(e) The fall in jute, rubber and wool prices since January has reduced estimated earnings from non-sterling countries by £70 million a year.

2. In view of this deterioration which must, if uncorrected, lead to complete loss of control of the situation by the middle of the year, Her Majesty's Government have decided to ask all Commonwealth members of the sterling area to agree to take further remedial measures at the earliest possible date. These measures go beyond the achievement of the targets set at the January meeting; they aim at a balance of payments surplus (repeat surplus) to provide a margin against the risks to which the area is all too clearly liable. Urgent messages have been sent to Commonwealth Governments requesting a definite decision by the 8th March.

3. As part of this plan, Her Majesty's Government have decided that they must ask the Colonies (whose estimated overall surplus has declined compared with the estimate made for the Finance Ministers Conference) whether they can agree to set themselves a higher target than that set in my Circular telegram No. 9.[1] In my immediately succeeding telegram I propose that revised target. I should make it clear that I shall not expect Colonial Governments to take action on my proposal until the reaction of Commonwealth Governments to similar proposals put to them is known. . . .[2]

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[1] See 365.

[2] In his immediately succeeding circular tel no 25 (CO 537/7674, no 84, 4 Mar 1952), Lyttelton proposed that the colonies should now plan not only to offset the decline in their earnings 'but to secure in addition an increase of £40 million in the favourable balance beyond that which would have been achieved by the measures proposed in my circular No. 9'. To meet this target in the second half of 1952, imports from all non-sterling sources would have to be cut to an annual rate of slightly under 85 per cent of the total of such imports in 1951. Lyttelton appreciated that this might 'lead to some hardships in some territories', but stressed 'the drastic consequences which must follow if the present situation on the sterling area cannot be remedied.' On the follow-up to this proposal, see 370.

367 CAB 129/52, C(52)166 17 May 1952

'Economic policy': Cabinet memorandum by Mr Butler

As I stated in C. (52) 111, the measures so far taken have given us a breathing space. In the last few weeks the dollar drain has indeed slowed down. But we must not forget that the emergency measures which we took when we came into office consisted to no small extent of cutting back the growth of imports and by living on stocks. These steps, by their very nature, were no more than stop gaps. We must now look further ahead. I set out in the paper the plan of work which I recommended that we should follow, if we are to attain our objective of regaining economic stability and building up a strong, free and prosperous country.

I

2. In many essential ways, we are much worse off than we were before the war:—

(i) The United Kingdom instead of being a net creditor of £3,500 million is now a net debtor of £2,500 million.
(ii) The gold reserves before the war were equal to four or five months' turnover of our external transactions and were practically always sufficient to cover our sight liabilities. To-day, they are equal to three weeks' turnover of transactions, and cover one-sixth of our sight liabilities.
(iii) Since 1938, there has been a marked deterioration in the terms of trade and there is no reason to expect that they will improve. Each unit of exports now brings us in only three-quarters as much imports as it did in 1938. This has added £1,000 million a year to our imports bill. It means that another three hours' work a week has to be done by every worker in the country to get the same amount of commodities from abroad.
(iv) In the last war our capital losses at home and abroad were equal to about one-quarter of our entire national wealth. We have made good most of the internal losses, and in some fields are now better equipped than we were in 1938. But the check to our industrial progress has been very severe.

3. Despite this great change for the worse this country has undertaken far larger commitments.

4. *Internal*

(i) The scope of the Social Services has been greatly extended and the standard raised. We are providing better schools, better health services, and better pensions than before the war. We are also seeking to provide a far higher standard of housing. In the six years since world war II we have built between two and three times as many houses as in the six years after world war I; they are, moreover, better houses; and we are straining every nerve to go up to 30,000 houses a year, a figure around the peak levels of the pre-war housing boom.
(ii) Our standard of amenities is also far higher. Capital resources are being used on a tremendous scale to provide the domestic user with far greater quantities of electricity than they used before the war. And urban transport services are on a higher standard of amenity even than in the United States.

5. *Defence*

(i) In the middle thirties we had 350,000 men in the armed forces. To-day we have 850,000 men and women, due to rise to 900,000. Of these 300,000 are serving overseas, and almost all of these will be at the cost of our balance of payments if, as is probable, Germany stops paying occupation costs next year.
(ii) This year, we are spending 10 per cent of our national product on defence, compared with 5 per cent even in the late thirties. The Foreign Exchange cost of this programme is very large and is due to grow substantially in the next two years.
(iii) We may be faced with heavy commitments for defence works overseas, *e.g.*, in the Middle East.

6. *External*

(i) *United States of America and Canada*. We have dollar liabilities to the United States of America and Canada for repayment of debt. The present figures are £25 million a year capital and £40 million interest.
(ii) *Sterling liabilities*. Our total outstanding sterling liabilities are over £3,500 million. We have contractual obligations to release about £60 million a year over the next few years to India, Pakistan, Egypt and Ceylon.

It would be unsafe not to make allowance for some net drawing down of the sterling balances not covered by these arrangements—amounting to £2,500 million. This can vary very considerably from year to year, but we should allow £100 to £150 million a year on an average.
(iii) *European Payments Union*. Whether or not this continues, we must repay our existing over-drawing of £200 million. This *could* cost us £70 million a year.
(iv) *Overseas investment*. The oil companies programme costs about £50 million a year for the next five years—all very profitable, but involving a big strain on our resources. Abadan has meant the loss of a capital asset worth £300 million and an annual loss on our balance of payments of £65 million.

Investment in the rest of the sterling area will require about £100 million a year.
(v) *The reserves*. Provision ought to be made for rebuilding the reserves. Thus, if we set aside £200 million a year for this purpose it would take about four years to restore them to the level they were at in July 1951.
(vi) The above are mainly items of a capital nature. There are also current charges. Thus we are committed to find assistance to certain foreign countries, *e.g.*, Yugoslavia, to which we subscribe a larger part of our national income than does the United States. An indication of the extent by which our overseas commitments on current account have increased is given by the increase in *direct* overseas Government expenditure (excluding supplies for the defence programme). To-day this figure is about £200 million a year, whereas in 1938 it was £16 million (and that was a heavy year). Even if allowance is made for price changes, the increase is enormous.

II

7. This analysis shows how formidable is the task of putting the economy on a sound footing. With shrunken assets we have accepted commitments which are not only far greater than before the war, but many of which are non-productive. In total they represent a burden upon the economy which must be lightened if we are to have any chance of success. Some of them are, however, inescapable and it follows that if we are to meet these, and to be in a position to undertake badly-needed new productive investment, and to make a start in building up the reserves to a safer level, we must aim not merely at balancing our trade on current account, but at achieving a considerable surplus.

8. We cannot rely for this purpose on direct financial assistance from the United States. The experience of recent months has shown that United States aid will not only be greatly diminished in amount, but also closely confined to support of the Defence Programme. Moreover it is also clear that continued reliance on aid is in itself undesirable; it not only weakens our moral position *vis-à-vis* the United States

in international affairs generally, but, by disguising to a greater or lesser extent our true economic position, tends to create the dangerous impression that it may be possible to avoid some of the more painful adjustments that are necessary. This is not, of course, to say that we can expect no co-operation and assistance from the United States in the international economic field, but the prospects of successful negotiation with them will be good only if we have by our own efforts put ourselves fairly and squarely on the road to economic strength and independence.

9. The policy which we must adopt for this purpose can be stated in general terms quite simply. Our general course, in all our economic affairs, must be to give first and overriding priority to regaining our national solvency in the sense of being able to pay our way as a nation in the world. In concrete terms this means using every means to secure a rapid and continuous increase in exports—and exports of the right kind to the right markets—while at the same time we limit our imports, both of food and raw materials, as far as possible to what is essential for our survival and in particular to what will further increase our earning capacity. This in turn calls for a continuous increase in our industrial production, and for a policy which ensures that the bulk of it is acceptable, both in price and quality to world markets, and is in fact exported. In its turn this requires a policy on home investment, which provides for the necessary re-equipment and expansion of our factories. In all of these fields—imports, production and investment—this task of winning national solvency through production and export must not be subordinated to other objectives—defence, social services, &c.—which, however desirable in themselves, do not contribute directly to our paramount aim and which would in any event be impossible to achieve if we failed in our first task. At the same time we must devote what resources we can to producing at home goods which would otherwise have to be imported. The most important field here is home food production, where the maximum expansion consistent with our major objective is clearly called for.

10. A general policy of this kind calls for action in a number of inter-related fields; my views on these are set out in the paragraphs which follow.

III

External financial policy

11. I am not in this paper defining the exact course which we should follow in our external sterling policy. This will depend on part on the reactions of Mr. Menzies,[1] who is arriving next week and who represents one of the most important Commonwealth countries. We must also watch the development of the future constitution of the European Payments Union (E.P.U.) and of the Organisation for European Economic Co-operation (O.E.E.C.). It is clear, however, that we cannot continue indefinitely with an inconvertible currency and with sight liabilities which are not adequately limited having regard to the weakness of our gold reserves. The value and purchasing power of sterling depend on the willingness of other countries to accept and use sterling, which in turn depends on the ability of this country and the Sterling Area to make ourselves solvent and to compete in world markets. To ensure that the world will accept sterling in payment for what we need and will trade in sterling so as to make use of our financial and marketing services, convertibility must be an early objective: at the present time, especially with E.P.U. gold payments

[1] (Sir) R Menzies (Kt 1963), Prime Minister of Australia, 1939–1941, 1949–1966.

at 100 per cent., we have many of the drawbacks of a convertible currency and none of the advantages. The smooth working of any international payments machinery must depend largely on the adoption by the United States of America of revised and enlightened policies on imports and raw material purchases which would tend to lessen the present world dollar disequilibrium. At some stage we must talk to the United States about these matters; clearly talks could be successfully concluded only after the new President has taken office. It is essential, however, that we use the time between now and then to show what we can do by our own efforts.

Overseas commitments

12. We must review the whole field of our overseas commitments, covering both our present military layout and the foreign policy and strategy on which it is based, and also our economic obligations both to the Commonwealth and Colonies and to our foreign creditors. I understand that the Foreign Secretary and the Minister of Defence have already initiated studies on some of these matters, and I ask authority to consult with them so that a comprehensive review of all of our overseas commitments can be set in hand and related to what we have the economic strength to carry out.[2]

Imports

13. So long as our external position remains precarious we must retain control over imports and, within a strictly limited total, must see that the needs of productive industry are met. The regular review of our import programmes for the year 1952–53 has now begun and I expect to be able to bring it before my colleagues before the end of the next month. Meanwhile I ask that we should agree that no further peicemeal [sic] additions should be made to the programmes already authorised.

Coal exports

14. I make no apology for returning to this subject. It is a truism—but none the worse for repetition—that expanded exports of coal would not only be valuable in themselves but would have a profound political and psychological significance in the present circumstances, especially in European markets. In my judgement we ought to be ready to expand coal exports even if it involved risks and shortage to United Kingdom domestic and other consumers; but given the present stock position and the recent striking increase in the manpower working in the mines there should be no real fear of that. It is clear, therefore, that an early and continuing expansion of coal exports should be given first place in all Government policy.

Trade and export policy

15. Our export trade is in the hands of private enterprise: the Government does not export. We therefore have to depend heavily on industry and commerce, but the Government must do everything possible to secure conditions which will enable industry to produce a maximum flow of exports, especially to dollar markets, and to develop new lines of production which will meet the changing character of world

[2] For Eden's memo, 'British overseas obligations', see part I of this volume, 3; for Alexander's memo, 'The defence programme', see *ibid*, 5.

demand. To discharge this responsibility is primarily a question of ensuring that the economy—and especially the vital sector of metal-using industries—is not overwhelmed with other claims and that the financial climate at home is such that the export market becomes and remains relatively more attractive than the domestic market. It means that exporters must be able to rely on adequate supplies, particularly of steel. There should be other measures of assistance which the Government can give, *e.g.*, the extension of the export credit guarantee system, encouragement to tourism, &c. There is also the question of specific financial incentives, on which many exporters feel strongly. I understand that the President of the Board of Trade will be submitting a separate paper about the export prospects and any specific measures of direct assistance which may be thought appropriate. I will therefore say no more at this stage.

Internal financial policy

16. Our internal financial policy must work in line with and not against the rest of our economic policy. I refer particularly to the special measures which I have suggested that we must take to put our balance of payments right and to maintain our influence abroad. In brief, this means that we must avoid inflation at all costs; by a continuation, and if necessary a strengthening, of the credit policy we have so far pursued; by working for continued restraint over wages and dividends; by making more use of the price mechanism, and by keeping to a minimum the claims which the Government itself makes on the national resources. The Bank rate, properly used, is a most valuable instrument in this struggle. It is flexible and can be raised or lowered without delay to meet the needs of a changing situation. We must recognise, however, that we cannot deal with inflation, or secure the adjustment of our resources to the changes required by events, without some increase in the numbers of those temporarily unemployed while changing their jobs.

17. Price policy raises particularly difficult issues because we have inherited measures designed to alleviate the symptoms of inflation rather than to cure the disease. These measures involved the use of public funds to subsidize certain prices, and the imposition of controls and rationing to prevent prices rising, although goods were scarce. Thus shortages were perpetuated, and taxes kept high to find money for subsidies. In many cases some goods were taxed and their prices raised to provide funds to keep down other prices. The rents of some houses are still controlled at such low levels that many owners cannot afford to repair them, at a time when we are running great risks to secure sufficient resources to build new ones.

18. We are, I think, agreed that we must get away from all this, and return to a policy of economic realism, by which increases in the cost of goods are allowed to work through to the consumer. At the same time the consumer as taxpayer must be given some lightening of the crushing burden of taxation, with all its disincentive effect. We made a start in both these directions in the Budget.

19. It is important, however, that we should be clear what such a policy means. It means that we must be prepared to accept some further rise in the cost of living, including house rents and food prices. But this need not mean a reduction in the standard of living, if we can keep our tax policy in step with our policy on prices. On the contrary, as production increases, the general standard of living will ultimately rise.

20. Judging by past experience, however, an improvement in the standard of

living is usually associated, over a period of years, with a gradual rise and not a fall in the general price level. People are nevertheless made better off by the fact that their incomes, as a whole, rise with rising production and more than compensate for higher prices. A good recent example is the experience of the United States since the war. We could look forward to such a process taking place here without inflation, if, but only if, production increases fast enough.

Government expenditure

21. Apart from defence (to which I refer later) the main fields of Government expenditure are social services, education, and subsidies. We must face the fact that no major changes are possible in any of these without changes in basic policy; and that such a change involves major political difficulties and will require very careful consideration. Nevertheless it is vital that we should prevent the very large claims which the Government makes on the economy from rising any further and that we should make all possible economies, however small they may be individually, so as to reduce them as far as we may. I shall wish to discuss this with my colleagues in more detail later.

Defence production

22. There must be a comprehensive review of the resources we are devoting to defence production, including civil defence and the stockpiling programme. Preliminary studies which have been made in this field indicated that there is no escape from the conclusion that the load we are at present imposing on the metal-using industries for defence purposes gives us no hope of solving our balance of payments problem by the only way in which it can be solved, namely by a rapid expansion in our exports of metal goods. I shall submit a paper on this question shortly.[3]

Investment

23. I have already stressed that if we are to succeed in achieving our overriding production and export objectives of making and selling the type of goods which people abroad want we must ensure that the investment needs of productive industry are met. It is clear to me that while the demand for investment goods continues to be far in excess of the supply this leaves us no choice but to maintain control over the distribution of the resources available for investment. These controls cover the work of the Capital Issues Committee, building licensing, and steel allocations, as well as the arrangements worked out with industry governing the division of engineering products between defence production, exports and home investment. A suitable credit policy can certainly contribute to our objectives in this field, but if we tried to control the distribution of investment by credit policy alone we should have to be so severe that industry generally would be hard hit, and so wide is the field covered directly or indirectly by Government investment activity that Government expenditure would rise considerably. I shall shortly submit a paper reviewing the investment programme for 1953 in the light of these considerations and of our earlier discussions on this subject.

[3] See part I of this volume, 9.

Agriculture

24. I have already suggested that we must grow more of our food at home but without paying exorbitant prices for it. The agricultural policy worked out in 1947 by our precedessors is clearly ripe for review and we must replace it by a new policy which fits into the other parts of the general economic policy we are to pursue. To this end the Minister of Agriculture and I have already given instructions that a fundamental examination of our agricultural position and prospects should be undertaken, and I hope that the preliminary conclusions of this work will be available before the Recess.

IV

25. The above is only intended as a rough outline of the course which I believe we should follow. I hope, however, that my colleagues will feel, as I do, that the points which I have outlined are essential parts of a single coherent policy, each feature of which interlocks with the others. We have inherited a position of very great difficulty. It will not be cured at all unless we take a long view, and apply long-term remedies, and do not allow ourselves to be deterred by it even if the immediate effect of some of these remedies is unpleasant. Nevertheless, I believe that the course which I have sketched out if vigorously and consistently pursued in all its branches, will bring us to a successful conclusion.

26. To sum up, I recommend that my colleagues should:—

(a) approve the general line of policy set out in this paper and summarised in paragraphs 7–9—*i.e.*, in all our economic affairs to give first and overriding priority to regaining our national solvency in the sense of being able to pay our way as a nation in the world; and
(b) endorse the conclusions on particular subjects set out in paragraphs 11–24.

368 CAB 129/52, C(52)172 23 May 1952

'The balance of payments outlook': Cabinet memorandum by Mr Butler

Introduction and summary

This paper supplements my memorandum on Economic Policy (C. (52) 166).[1] I am circulating it for the information of my colleagues; I do not ask for any decisions. Its purpose is to set out the balance of payments background for the series of papers which we shall be considering. But the points which stand out are:—

(i) The scale of our capital commitments and the risks of our capital position are such that the United Kingdom must run a current balance of payments surplus of at least £300 million a year.
(ii) Our ability to get through 1952–53 without an open sterling crisis is wholly unassured, and the only chance of success is by strict economy in imports and ruthless concentration upon exports.
(iii) The outlook after the middle of 1953 is no more promising than the outlook

[1] See 367.

for the next twelve months; there is no "hump" but a continuing mountain range of difficulties.

(iv) The only way out, short of a drastic revision of our external commitments of all kinds, is an expansion of exports in the next two years, predominantly to non-sterling countries, of the order of 20 per cent. (or, say, £600 million) above the 1951 level.

2. In order to overcome the balance of payments crisis, and to prevent repeated crises in future, three things are necessary:—

(a) the United Kingdom must pay its way abroad;
(b) the sterling area as a whole must do the same;
(c) our external capital position must be greatly strengthened.

3. In C. (52) 166, paragraphs 2 to 10, I set out some of the major factors in our economic position which have a bearing on what is needed to carry out these tasks. My objective in this paper is to describe the outlook in more detail, and to show that in my view:—

(a) the task of paying our way involves not merely a balance but a large surplus on the United Kingdom current account.
(b) the task is a long-term one and not merely a problem of getting over a "hump" in the next few months.
(c) The only solution consistent with maintaining our present external military, political and financial commitments lies in the improvement of our competitive power and the expansion of our export earnings on a scale far greater than has yet been envisaged.

The need for a surplus

4. Our cash position is lamentably weak. In six months the gold reserves have fallen from £1,050 million to £590 million. They are now so small in relation to our short-term debts and in relation to the amount of international business which we transact that a further substantial fall would certainly lead quickly to open crisis.

5. We must therefore conduct our affairs so that we do not risk losing reserves. This must continue until we have built the reserves up, and have strengthened our external capital position generally.

6. It follows that we have to attain a large surplus in our current balance of payments—*i.e.*, a large surplus of exports (visible and invisible) over imports and overseas Government expenditure. We no longer have the cushion of reserves to meet the inevitable ups and downs in our trading position and that of our sterling area partners; our own trading position must be strong enough to enable us to do without it.

7. This task is made much more difficult by the external capital commitments described in paragraph 6 of C (52) 166. We need a large surplus to meet these alone—contractual repayment of debt and necessary overseas investment are about £200 million a year, and on top of this we have contingent liabilities to repay debt (if our creditors call for it) which can amount to very much bigger figures. These commitments are just as real as imports—if we do not pay for them by exports, we lose gold. Some indication of the possible scale of all these is shown by the experience of the first quarter of this year. Our deficit on current account was not

very large, but the capital commitments took nearly £200 million in the three months, so we lost £227 million of gold.

8. A large surplus on current account, year in and year out, is therefore indispensable. I cannot say how large a surplus we should need to avoid the risk of periodic open sterling crisis. For the purpose of this paper, I have assumed £300 million a year—but as £200 million of this is already bespoken for contractual debt repayment and overseas investment (amost all in the Commonwealth), which are virtually certain to arise and are in effect a regular addition to our import bill, there is only a tiny margin for contingent commitments and reserve-building. Even if we could regularly attain a surplus of £300 million, we should still be running sizeable risks.

9. For the United Kingdom to pay its way therefore requires a United Kingdom surplus on current account of at least £300 million a year—and in certain circumstances even this would not be enough.

The sterling Commonwealth

10. The behaviour of other sterling area countries is vitally important. They are our chief creditors (we owe the Colonies over £1,000 million). The adequacy or otherwise of a United Kingdom surplus depends upon whether they are prosperous or not. If they are failing to pay *their* way, the strain is thrown on us. In the last nine months, they have failed to pay their way by over £500 million. They have therefore had to draw on their reserves (*i.e.*, the sterling balances), so that in effect we have had to repay debt. For India, Pakistan and Ceylon, the extent to which they are entitled to do this is contractually limited, but for the rest there is an indefinite contingent liability upon us—which has cost us £500 million of gold and exports since last June.

11. If they pay their way, these contingent liabilities do not arise. At the Commonwealth Finance Ministers' Meeting in January, I sought to persuade them of the need that they should pay their way. They have responded, and their situation should improve considerably in the next few months. But they are not so strong that we can expect them over a period of years to stand on their own feet; they depend upon a very narrow range of export products, many of which are very vulnerable to synthetic substitution and the vagaries of world demand, and most of them are trying to carry out development programmes which are in excess of their unaided capabilities. They have sterling reserves available, and they will have to use them some time. When this happens, the burden is thrown on us—either on the gold reserves, or on our export resources. I shall continue to press them to pay their way, but we cannot rely upon their ability—or in some cases their willingness—to do so. Least of all can we rely upon them to support our economy and to ease our problem.

The immediate crisis

12. The rapid worsening of the situation in the second half of last year was due to the combined effect of the appearance of large deficits in the United Kingdom and in the other sterling area countries. In the second half-year the combined deficit was £777 million:—

	Current Deficits		
	Non-sterling area	*Sterling area*	*Total*
		(£ million)	
2nd half 1951—			
United Kingdom	−599	+171	−428
Rest of Sterling Area	−178	−171	−349
Total	−777	—	−777

13. In the first quarter of this year, the deficit has been greatly reduced:—

1st quarter 1952—			
United Kingdom	−171	+136	− 35
Rest of Sterling Area	− 32	−136	−168
Total	−203	—	−203

14. Thus, the combined deficit with the non-sterling area fell from an annual rate of over £1,500 million to about £800 million. In the current quarter, there will probably be a further slight improvement, to an annual rate of deficit of about £700 million. It can be said therefore, that the sterling area as a whole has reduced the size of its deficit with the rest of the world by about one-half.

15. But a deficit of £700 million a year is formidable—when the gold reserves stand below £600 million. We have been fortunate in recent weeks in that the loss of reserves has been checked. Since the end of March, indeed, we have lost only £17 million from the reserves; if there is no worsening in "confidence", the reserves at end-June may be as much as £580 million ($1,625 million). This would be a much better result than I expected at the beginning of April (C. (52) 111)—a loss of only £27 million in the quarter, compared with a loss of £277 million in the first quarter.

16. But we must not deceive ourselves. This result (if we get it) is due to two thinks [sic]—both transient. First, the 4 per cent. Bank Rate and the restrictions on overseas credit have given us a once-for-all gain—our debtors have been forced to pay their bills, and this may be worth £50 million in the quarter. Second, United States defence aid has been flowing in much faster than expected; we have already had £27 million since March, and we now hope to get £75 million by July. These two factors alone make about £125 million in the quarter—an annual rate of £500 million a year against the deficit of £700 million a year. The respite for the reserves is very welcome, and gives us a breathing space. But that is all the comfort there is in it.

17. We must concentrate on the hard fact that the sterling area's deficit with the rest of the world is about £700 million a year, that the gold reserves are less than £600 million, and that the means of finance which are at present being used to meet the deficit are only transient.

The prospects for 1952–53

18. The relevant actual figures for the second half of 1951 and our estimates for the first half of 1952 are set out in an appendix[2] in the appropriate amount of detail. Alongside these are set out some illustrative figures for 1952–53. These are based on

[2] Not printed.

present prices, and present policy—no easing of import cuts, and no new measures to stimulate exports.

19. Taking the whole United Kingdom situation, current and capital, the changes in 1952–53 compared with what has been happening in the first half of 1952 would appear to be of the following scale.

	First half 1952 annual rate	*1952–53*	*Change*
Expenditure		(£ million)	
Imports	3,360	3,140	−220 (better)
Overseas Government Expenditure	220	220	—
Capital Payments ...	520	(300)	−220 (better)
Total	4,100	3,660	−440 (better)
Receipts			
Exports and re-exports	3,020	2,770	−250 (worse)
Invisibles (net)	410	530	+120 (better)
Defence Aid	160	200	+ 40 (better)
Total	3,590	3,500	− 90 (worse)
Loss of gold reserves ...	510	160	−350

20. This indicates clearly that on the basis of present policy, even if the incidence of capital payments is only £300 million (as indicated in paragraph 8 above) we should still expect to be losing gold heavily through 1952–53. Starting with £580 million at end-June, the indicated loss is £160 million, which would certainly lead us into open crisis.

21. The scale of uncertainty in these figures is much too great to enable precise deductions to be drawn, but it must be clear from this that the position is highly precarious and no sort of assurance can be given that, on the basis of present policies, we should be able to survive the autumn and winter. If we look at the items one by one, indeed, we see how intractable the problem is. Certainly a new series of import cuts would present great difficulty; indeed, in recent weeks I have been under considerable pressure to increase the import programme. To reduce overseas Government expenditure involves major changes in military policy. It is perfectly true that the capital payments may be less costly than £300 million, but they may, on the other hand, be substantially more costly; in any case these too are very difficult to escape within the present framework of policy. As regards exports, the reduction compared with the present rate may be surprising to my colleagues, but this year exports have been running at an abnormally high level because of the flood of supplies to Australia, and we have made very large sales of materials from our stockpile to the United States; the indicated level for 1952–53 is, in fact, higher than the level for 1951, and I do not think the President of the Board of Trade will be prepared to assure us that we shall be able to do better than this. Of course, we could always sell more exports by giving more credit. But this would increase the capital payments element on the other side of the balance sheet and therefore would not benefit our balance of payments. It may nevertheless be necessary to give some credits in selected cases for the sake of our long-term competitive position. The figure for invisible income shows a substantial increase which looks rather optimistic

and we are relying also upon very substantial defence aid from the United States.

22. The scale of the difficulties emerges with great clarity when we consider the situation of the sterling area against the rest of the world. This is really another way of looking at the same thing.

23. I pointed out in paragraph 17 above that at the present time the sterling area as a whole is running a deficit of about £700 million a year with the rest of the world. The other sterling area countries account for about £150 million of this. At the Commonwealth Finance Ministers' meeting in January, and subsequently, I pressed them to cut down their expenditure so that they would have a surplus with the non-sterling world. But it is very doubtful whether in fact they will be able to do so. Their export earnings depend largely upon the course of world demand for wool, rubber, cocoa, &c. They have cut their imports but it is difficult to predict the impact. They may manage to get into balance with the non-sterling world. But we certainly cannot rely on them doing more now or at any other time. The ability of the other sterling area countries to reduce their expenditure on non-sterling imports depends largely on whether our exports are competitive and freely available.

24. This means, as I announced in my Budget speech, that we ourselves must at least achieve a balance *with the non-sterling world* (including defence aid). Even this is not quite good enough for we have capital commitments outside the sterling area—repayment of United States and Canadian debt, oil investment overseas, possibly repayment of debt to E.P.U., repayment of sterling balances to Egypt and others, and we are doing some and should very much like to do more investment in Canada. At the very least, in our relations with the non-sterling world, we must live on our earnings plus defence aid.

25. The illustrative figures in the appendix show the same conclusion as that derived above from consideration of the total United Kingdom balance of payments position. On reasonable expectations about the course of exports to the non-sterling world, and on rather optimistic assumptions about the course of our oil and invisible earnings, it seems to me most unlikely that we should be able to afford the level of imports from the non-sterling world which we need even to maintain our present food consumption and to provide the raw materials for expanding industrial production. This situation can be changed only if we can do something very effective to get a quick and large expansion of exports to the non-sterling world—in conditions which look somewhat unpropitious.

26. This is the state of affairs which confronts us and I must once more emphasise to my colleagues that the capital position is so weak that we cannot run risks and that we shall have to make our import arrangements sufficiently flexible to enable us to keep our spending within our earnings.

Prospects after mid-1953

27. Looking farther ahead, it is unfortunately true that there is no relief in sight. None of the items in our accounts will automatically improve after next year. Indeed, there are at least three major loads in sight which will make the problem worse, rather than better:—

(i) We are relying on £200 million of United States aid in 1952–53. For 1953–54 and subsequent years, there is not the slightest guarantee that there will be any United States economic aid—or, even if there were, that the conditions would be

acceptable. There may be United States aid, but we cannot count on it.
(ii) There is the uncertainty about payment for our troops in Germany—up to £130 million a year—and the possibility of further military expenditure in the Middle East (and perhaps also elsewhere).
(iii) We shall need more imports. If our production and exports are to increase, our imports must also increase, and to the extent to which we are now living on stocks, we shall need bigger imports simply to sustain the level of consumption. We cannot continue indefinitely, moreover, with our present intensive restrictions, for sooner or later this will destroy our exporters' opportunities. By 1953–54 we shall probably need another £100 million of imports without allowing any increase of food consumption.

28. These new loads add up to about £400–£450 million a year compared with 1952–53. But in 1952–53, on present policies, there is a prospective loss of gold reserves of about £160 million. In other words, it would seem that we have to improve upon the prospective 1952–53 situation by about £600 million. And even that is not likely to permit us to improve our gold reserves, or to provide against such contingencies as a worsening of the terms of trade, or, of course, to cope with any major change in the world situation, such as an American slump.

29. The fact is, therefore, that time is not on our side. This is no temporary "hump," with a secure future if we can survive the next few months. Indeed, it is the reverse. Menacing though the present situation looks, our problems on the basis of present policies will grow worse, not easier.

30. The only way out which I can see short of a drastic revision of our external commitments of all kinds, is a major expansion of our overseas earnings, both from physical exports and invisibles. I do not myself attach great weight to detailed forecasts for a long period ahead. But the conclusion seems to me inescapable that an expansion of something of the order of 20 per cent in our export earnings above the 1951 level—say £600 million a year—is indispensable, unless we are prepared to reshape the whole of our national life. Moreover, it seems likely that this expansion will have to be concentrated on the difficult markets outside the sterling area, and particularly the dollar markets, for the other sterling area countries are unlikely to be able to afford to buy more than they did last year.

31. In other words, our position will remain highly precarious, and we may be swept into an open sterling crisis at any moment, until we have found means of improving our competitive power and expanding our earnings on a scale far greater than has yet been envisaged.

32. I see no reason for surprise at the scale of the problem of putting our external financial position right. As I said in C. (52) 166, we are now the biggest debtor in the world instead of being the biggest creditor in the world, yet we are carrying loads far greater than we ever carried before.

369 CAB 129/52, C(52)196 17 June 1952

'Economic policy': Cabinet memorandum by Mr Macmillan

This paper was prepared before the meeting of the Cabinet on 17th June. The discussion with Mr. Menzies encourages me to circulate it as a contribution to the

problem. Objective, and therefore somewhat desultory, "researches" will not lead to any result. Investigations, to be fruitful, must be concentrated upon specific proposals and directed towards some definite plan.

I. *Introductory*

The economic situation disclosed in Cabinet papers C. (52) 166,[1] and C. (52) 171 calls for urgent and radical remedies. These must involve fresh sacrifices. It is important therefore that they should be, and be seen to be, the right ones.

The Chancellor of the Exchequer's remedy for the crisis is to increase our exports to non-sterling markets by some 20 per cent.

This increase is to fall mainly on the metal-using industries and is to be made partly at the expense of the Defence Programme, and partly by reducing the Social Programme.

As a policy, this has the merit of simplicity. But is it either sound or practicable?

We are to reduce our defence programme and hence our power to maintain certain of our overseas commitments. We shall also have to slow down the building of houses, schools, and hospitals. We are asked, in fact, to sacrifice more of our influence in the world, and more of our election pledges, as a means of averting bankruptcy. But there is nothing to indicate that such a policy can produce any lasting solution to our problems. On the contrary, as the Chancellor himself says, "there is no 'hump' but a continuing mountain range of difficulties." Meanwhile our position in the world, our influence in the Commonweath, and the moral and material condition of our people will continue to decline.

All this seems to be a continuation of the Cripps–Gaitskell progress from "expedient to expedient." It is "the mixture as before." But it is not what the people expect from us.

Is the course proposed even practicable? The Chancellor of the Exchequer is not himself very confident of our ability to increase exports to non-sterling markets by 20 per cent. The President of the Board of Trade is frankly pessimistic. Does anybody really believe that it can be done? If it cannot, then the prospect before us is not gentle decline but catastrophe. Should we not therefore consider some other way out? Any plan, however exacting or even revolutionary would be acceptable which gave hope, not merely of postponing disaster, but of rebuilding our national and imperial strength.

II. *General considerations*

(1) *Overseas commitments*

Our economic survival in the next year or two will largely depend upon world confidence in sterling. This will depend, among other things, upon our ability to maintain ourselves as a great Power. The loss of Abadan, for instance, struck a blow at British credit which though difficult to assess, may have cost us as much as the money value of the oil. Certainly nothing could do more to restore our credit to-day than the successful recovery of Abadan. In present circumstances, therefore, reductions in our overseas commitments may well prove false economies.

But while we should hold our ground, we must also seek to make the best use, in

[1] See 367.

our own interests, of the commitments we have undertaken. Nowadays we seem to accept responsibilities without claiming privileges. This is a luxury we can no longer afford. It seems illogical, for instance, to bear the burden of maintaining large forces in the Canal Zone while at the same time accepting that our refineries at Haifa should remain in enforced idleness as a result of Egyptian intransigence.

(2) *Defence*

A comprehensive review of the technical character of the Defence Programme is now going on. We all hope that it may lead to economies, both of material and skill. But any serious reduction in real power is more likely to hinder than to assist our eventual recovery. Britain can only maintain a population of 50 million in safety as a Great Power; and to be a Great Power in the world as it is to-day, her armaments must be in good order.

Moreover, the maintenance of good relations with the United States and our hopes of securing further United States aid depend largely upon what we achieve in defence. If we decide to reject, as essential to our economic needs, G.A.T.T. (and all that G.A.T.T. implies), it is all the more important that we should be true to N.A.T.O.

(3) *Public opinion*

The British public is becoming increasingly restive of small cuts and privations, without any prospect of better times to come. I believe, however, that they could be brought to accept even greater sacrifices (as they were in the war) provided they were convinced that they [were] worth while. It is not sufficient to warn and to exhort. If we are to persuade them to keep marching through the desert under our leadership, they must be given some vision of the Promised Land. In war it is enough to steel men's hearts against the physical enemy who is about to attack them. In an economic crisis they must also see the light at the end of the tunnel. Now they see only the grave.

III. *Economic considerations*

Britain became a great trading nation in days when food and raw material prices were low and when the British people were low cost producers. These conditions no longer obtain. For reasons beyond our control, food and raw materials are dear, and are likely to remain dear. As a result of our social and defence policies (and of our burden of debt), we have become increasingly high-cost producers. We have been slow to draw the logical conclusions of this revolution in our circumstances. The chief of them is, surely, that we are no longer in a commanding position as purely competitive traders. After the war, it was assumed that we must and could increase our exports by 75 per cent. Even in a period of inflation and a world "sellers' market," we have not succeeded. Nor is our position likely to improve now that our competitors, particularly the Germans and Japanese, are re-entering the market. Banking, insurance, shipping and other invisibles, even with the profits of entrepôt trade, cannot hope to bridge the gap. If therefore we are to avoid a continuing decline, the emphasis must be less upon Exports, and more upon balanced Production and Investment. These should be concentrated on Great Britain herself, on the sterling area, and on any other areas which we can attract into our sphere of influence.

The need for such a new approach is underlined by the unbalance between the sterling and the dollar areas. The sterling countries do not produce enough food, raw materials, consumer or capital goods to satisfy their needs. Their deficiency can, in theory, be supplied from the dollar world. In practice it cannot, because the dollar countries will not buy enough from the sterling area in return. We have now reached a point where we must make up our minds whether there is any real prospect of a fundamental change in American import policies. I am personally convinced that there is not. Indeed, the more successful our exports, the more they are resented. I, therefore, share to the full the pessimism with which the President of the Board of Trade regards the Chancellor's proposals for increasing our exports to non-sterling markets by 20 per cent. I doubt whether it could be done in good times. The slightest recession in the United States would make it out of the question. Indeed, a recession would increase the pressure of American exports in neutral markets.

IV. *Aims*

Our aims, therefore, should be:—

(1) To increase home production; particularly of food, coal, other minerals and any machine tools or consumer goods now imported from the dollar area.
(2) To reduce still further, as a systematic and continuing policy, our imports from the dollar area and other areas with which we are in deficit, and, where necessary, to substitute for them imports from the sterling area.
(3) To develop in the sterling area alternative supplies of the food and raw materials we need and now obtain from non-sterling sources.
(4) To make the best, from the point of view of our capital and consumer goods industries, of the new markets created by (1), (2) and (3) above.
(5) To continue to promote the maximum exports to non-sterling areas consistent with the above.

In a word, we should not delude ourselves with the vain hope that we can maintain our living standards by pushing exports in increasingly unfavourable conditions. On the contrary, we should try, even at the cost of severe sacrifices in the short-term, to produce inside the sterling area the goods we need. If a policy of this kind can be put into practice, it would in due course re-establish the sterling area on a firm economic basis and open for its peoples the renewed prospect of an expanding economy. It would be good economics and good politics. Can it be done?

V. *Methods*

(1) *To Increase home production*

Agricultural production must be increased, by every possible method. Capital investment in agriculture last year was only 4½ per cent. of the whole. More vigorous steps must be taken to replace incompetent farmers and give a chance to younger men. We must return to the war-time methods and revive the siege psychology which sustained them.

Some inducements must be found to increase coal production and mineral production generally. Scrap and other salvage must be collected again as in the war. The whole problem should be studied afresh, as a matter of urgency. We should not rule out subsidies to production in growing industries.

(2) *To replace dollar by sterling imports*
The whole list of dollar imports must be re-examined and considerable hardships accepted in the short term. American films are not necessary. American tobacco must be replaced as far and as rapidly as possible by sterling tobacco (and as our arrangements with Europe proceed by Greek and Turkish tobacco). In so far as this is not possible, the loss of home revenue must be accepted or raised by other methods.

We ought to be able to get all our sugar very quickly from the Commonwealth. The same is true of copper, and perhaps of some other metals.

(3) *To develop new supplies of food and raw materials*
To encourage investment in the sterling area it is necessary that the investor should have confidence that there will be a steady market for the goods produced by his investment. The first step, therefore, is to provide the necessary pattern of a high level of sterling trade. In so far as trade has to be regulated, the most liberal form of interference is a preference upon a tariff. But in our present critical circumstances, we shall also have to resort to more drastic forms of control by discriminatory quota and licence. Nor can we overlook the strong attachment of many raw material producers in the Commonwealth to long-term contracts. The precise methods will vary from case to case. What matters is that priority should be given to sterling produce as a declared permanent policy. This, of course, involves exercising our right to free ourselves from the limitations imposed by G.A.T.T. The fear of unfavourable American reaction has, in my view, been exaggerated. The non-discrimination and free-trade tradition of the State Department does not represent American opinion. Nor does it conform with American protectionist practice.

(4) Reciprocal trade measures must, of course, be supported by *monetary policy*. Special credit facilities will have to be devised to make possible expanding exports of capital equipment to the sterling area countries, for their development. It will, therefore, be necessary to bring the other sterling governments into partnership with us in the management of sterling. In the absence of adequate reserves, the soundest financial basis we can hope to create for the Commonwealth is the joint stewardship of the pound sterling.

Trade and monetary policies go hand in hand. Under present conditions, it is very difficult to ensivage convertibility between sterling and the dollar. But once the pattern of trade has been directed into a predominantly sterling mould, there should be less difficulty in returning to and maintaining convertibility at least for current transactions. This, incidentally, will do more than anything else to encourage United States investment in the sterling area.

VI. *Some of the difficulties*

A policy of this kind is, of course, open to obvious objections.

(1) There is a danger of its degenerating into an artificial system of exchanging high-priced goods in a new form of autarchy. The President of the Board of Trade has called attention to this in his paper.

American protectionism suffered from this defect in its early stages. But the increasing size of the market and the corresponding opportunities for mass production have completely altered the picture over a period of time. Might not the

same be done in the sterling area? Nor should it be forgotten that, in spite of high sterling prices, the shortage of dollars in the non-dollar world is working in our favour.

(2) There is another, and perhaps more fundamental objection. It is proposed here that a larger part of our production of capital equipment should go, not into current exports outside the sterling area (as the Treasury papers suggest), but into development plans at home and in the sterling area. Such investment will, for a time, be a form of unrequited exports. It will thus increase our inflationary problems in the short term, without contributing immediately to the solution of our balance of payments problem. In view of our slender reserves, the question may well be asked: how are we to pay for essential current imports and at the same time liberate enough production to make possible the investment of capital equipment in the sterling area on a sufficient scale?

There is no easy way out of this difficulty, but the following measures should be re-examined. Even the most unpleasant of them may prove acceptable in a climate of hope, instead of an atmosphere of aimless defeatism:—

(i) Cutting out all dollar or non-sterling imports not essential for preventing malnutrition and maintaining full production in essential industries.
(ii) Cuts in the building programme for hospitals, schools, public buildings and even houses—as an act of declared policy and not as a result of administrative failure.
(iii) Reimposition of some price and other controls; a form of direction of labour should not be ruled out, especially in view of the localised unemployment which seems in any case inevitable.
(iv) A realistic and objective review of the defence programme (this is being done).
(v) New measures to facilitate the necessary capital formation.

VII. *Western Europe's part*

It may well be that if we accepted war-time standards of austerity over a period of years, we could rebuild the economy of the sterling area without outside support. It is conceivable that the British people could raise themselves by their own boot-straps. But the process would be both swifter and less painful if sterling investment could be supplemented by investment from elsewhere.

The largest source of investment capital is, of course, the U.S.A.; and when a definite plan of Sterling Area development has been decided upon we should spare no effort in trying to persuade the Americans that it is in their interests to back it.

The U.S.A., however, are not the only source from which additional capital equipment could be obtained. Western Europe and more particularly the heavy industrial complex of the Ruhr, the Saar, Lorraine, Belgium and Luxembourg, is not yet working to full capacity. There is still heavy unemployment in Germany and Belgium; and West European industrialists are again beginning to talk of over-production. They have been cut off by the Iron Curtain from much of their traditional and natural trade. It should, therefore, be possible to obtain a substantial investment of West European capital equipment in the sterling area, provided that the West European countries and their overseas dependencies were admitted, at least in part, to some of the reciprocal trade and currency arrangements envisaged here for the Sterling Area.

The West European countries are in much the same position *vis-à-vis* the dollar world as we are ourselves. Many of their economists and industrialists have already been thinking of insulating their economies from the dollar on lines similar to those indicated here. Uncertain of British policy they are tending to the idea of making the Schuman Plan Community a more or less exclusive trading area; an eventuality which would only increase our own problems. The difficulties in their way, however, are at least at [sic] great as those which we should encounter if we tried to restore the Sterling Area by our own unaided efforts. There is reason to believe, therefore, that they would be greatly attracted by the prospect of becoming in some way associated with us and our plans for restoring our economic strength.

VIII. *The political approach*

The ideas which I have tried to put forward are too tentative to form the subject, at this stage, of a cut and dried plan. The following are the kind of steps which would be necessary to their fulfilment.

(1) *At home*
The first step is to have a sound and simple plan. Once this is agreed, we must consider how to secure the support of public opinion at home. This is mainly a matter of presentation and of convincing the public that only in this way can independence and prosperity be regained.

(2) *In the sterling area*
No policy of sterling area development can prosper unless it has the support of other Sterling Area Governments and peoples. Their attachment to this country, their interest in preserving the value of sterling and their political interest in the continuance of the Commonwealth should all work in our favour. The details of the plan can, of course, only be worked out in full consultation with the sterling area Governments. It will be no use, however, holding such consultations until we have something definite to propose. If we expect others to follow, we must give the lead.

(3) *Western Europe*
Once a general plan has been agreed with the sterling Commonwealth we should approach the countries of Western Europe to consider how they might be associated with it. The O.E.E.C., of which the Foreign Secretary is now Chairman, would seem to provide the most suitable machinery for such an initiative.

(4) *The United States*
The next stage would be to initiate consultations with the new United States administration and seek their backing for our policy. I do not myself believe that our adoption of frankly "discriminatory" trade measures will create anything like as much friction as many forecast; particularly when it is understood that "discrimination" may lead to early convertibility. I doubt, in any case, whether the American attitude to such a Sterling Area policy will be determined solely or even mainly by economic considerations. The real interest of the United States is that Britain should make the maximum contribution to the common defence and that the British Commonwealth should be strong. In so far as a Sterling Area policy contributes to these objects, it should be possible to get American acceptance and even support.

IX. *Canada*

In all this, Canada presents a special problem. Canadian exporters may fear that they will suffer from certain aspects of our discrimination against the dollar world. There is no reason, however, why Canada should not also benefit from any preferential measures which may form part of the final plan. Such preferences would tend to ensure that, in so far as dollars were available, they would be spent in Canada rather than the United States. Nor can Canadians overlook the problem, at present somewhat obscured by business conditions in Canada and the United States, of how and where their farmers will be able to sell their products. Who will buy Canadian wheat or cheese in a period of American recession and a decline of the non-dollar world? As the Sterling Area policy takes effect and a return to convertibility becomes possible, something like our pre-war trade relationship with Canada may well be restored.

X. *Conclusion*

I ask that these proposals should be examined and decisions taken.

For, great as are the difficulties involved in this approach to the problems which confront us, I feel that they are far out-weighed by the dangers of inaction or drift.

It is now clear that none of the political objectives at which we aim can be achieved without a radical change of policy. Conservatism, associated with deepening austerity at home and declining influence abroad, will drift to inevitable disaster. From time to time in our party history we have needed the stimulus of new ideas and ideals. It is these which have sustained us through temporary setbacks. We are faced at home with a steady intensification of class divisions and that sense of frustration which leads to the rejection of all established institutions; we may have to face at the same time the break-up of the Commonwealth and our decline into a second-rate Power. I see no escape from these dangers except by the fearless proclamation of a policy which will reinspire the masses and restore their pride and confidence.

This is the choice—the slide into a shoddy and slushy Socialism, or the march to the third British Empire.

370 CO 537/7829, no 2 18 June 1952
[Colonial import policy]: brief by Sir H Poynton for Mr Lyttelton

The Chancellor's memorandum[1] covers an inter-departmental report by officials on the balance of payments prospect for the second half of 1952 and for the first half of 1953. The conclusions are summarised on the first page of the print and need no further summary. The officials recommend that Ministers should take immediate decisions on filling the gap for the second half of 1952 and the Chancellor in his covering paper says we must do all we can over the whole range of the sterling area's balance of payments but he is certain that in the next few months much the largest part of this action to fill the gap must come from fitting the United Kingdom import programme to our expected earnings. The Chancellor makes no definite proposals but wants to discuss the situation with his colleagues before doing so.

[1] Entitled 'The dollar gap: second half 1952', CAB 129/52, C(52)195, 16 June 1952.

The Chancellor's memorandum and the report which it covers do not in themselves have much effect on Colonial trade since cuts in dollar imports cannot, in the short term at least, be replaced from Colonial sources. It may be however that the Chancellor, or some other Minister, will draw the conclusion from these documents that further cuts in Colonial imports are necessary and we may be under renewed pressure to ask the Colonies to make still further switches from non-sterling imports and possibly reduction in their dollar ceilings.

The Secretary of State will remember that at the Finance Ministers' Conference in January the Colonies were set a certain task which in effect meant limiting their 1952 non-sterling imports to the level of 1951. We did not at that stage have to ask them to reduce below the 1951 level. In March, however, Dominions and Colonies alike were asked to make even greater efforts and the Colonies were asked to effect a reduction of 15% compared with 1951.[2] As a matter of fact, these arbitrary percentage cuts are not very appropriate in the case of territories which are still in a primitive state of development and which have been running a large surplus and are still on the right side of the ledger. If there is any renewed pressure for reduction of Colonial import programmes I hope the Secretary of State will insist that this can only be done (as, with the exception of the March decision, it has always been done in the past) as a result of a detailed study of their import programmes and on a criterion of need. I hope the Secretary of State will be able to avoid giving any firm commitment and I suggest that he might deploy the arguments used in Lord Salisbury's letter of the 13th of June to the Chancellor, copy of which is attached.[3]

So far as the progress of the Colonies in achieving their present task is concerned, I attach some useful notes by the Statistics Department. It is however too early yet to say what will be the full effect of the switches already made away from the dollar and European markets. The Colonies have moved quickly and the adjustment is bound to be a difficult one. It is no use asking Colonial Governments to cut back on imports from those sources unless they can be assured that competitive articles are readily available from the sterling area, and in particular the United Kingdom. The Secretary of State may care to refer to the visit of the Nigerian Minister of Commerce, Mr. Nwapa, who has come over to study this very point in the context of the request made to Nigeria in March to see if they could reduce their import programmes. It may be that we ought to encourage similar visits from other Colonies as part of any procedure for bringing about further reductions in the Colonial Import programmes. I hope, however, that we shall be able to convince other Ministers that the Colonies have really done all that can be reasonably expected of them and that it is about time somebody else, and particularly the United Kingdom itself, took some more effective measures.

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[2] See 365, 366.

[3] Annexes not printed.

371 CAB 129/53, C(52)217 28 June 1952

'External financial policy': Cabinet memorandum by Mr Butler. *Appendix*

[Butler prefaced this memo with an introductory note: 'On Tuesday next we are to consider certain very important matters concerning our external financial policy. I have prepared the attached papers before the week-end, though I myself, and no doubt all closely concerned, will wish to spend the next two days in further thought. It will be noted that my memorandum includes the message from the Governor of the Bank of England which gives urgency to the question.']

External sterling plan

1. At the end of last February, I proposed to my colleagues a major change in external financial policy which became known as the External Sterling Plan. After a thorough discussion, the Cabinet decided not to proceed with the Plan at that time.

2. I have since received the following message from the Governor of the Bank of England:—*

> "In various talks since that time and in my memorandum of 6th May, I have expressed the view that, while measures taken in your Budget and the rise in the Bank Rate had had considerable effect on the exchanges, the improvement could not wisely be regarded as setting an end to our troubles; that the crust was thin and that we could not continue long on the present basis without risking the re-emergence of pressure against sterling.
>
> "As I said to you this morning, the signs are now all pointing to a gradual reappearance of this pressure (not, happily, at present on the sort of scale experienced in the months before your Budget statement). It is impossible to give exact reasons or to predict exact developments. But world financial opinion is beginning once again to believe that it is risky to acquire or hold sterling at present rates and in present conditions, and that a short position in sterling is unlikely to lead to loss but may well lead to profit.
>
> "In these circumstances I feel it my duty to lay before you the Bank's view that a decision to allow our arrangements in these fields to remain substantially unchanged over the Summer months would involve a grave risk to the currency and therefore to the economy of the United Kingdom and the Sterling Area."

3. In the four months since the beginning of March we have had a welcome respite in the losses from the gold reserves, and the loss for the present quarter will be much smaller than I advised my colleagues to expect two months ago in C. (52) 111. This has resulted partly from the confidence created by the Budget, particularly by the credit measures, which have led to abnormal receipts (chiefly the payment of overdue bills), and partly from the very rapid inflow of Defence Aid from the United States.

4. I have never concealed my view, however, either from my colleagues or from the House of Commons, that the respite has been only a temporary one. The latest forecasts of our situation in the second half of this year which I presented in C. (52) 195 show that the value of the measures taken in the Budget cannot last indefinitely, and that the other Sterling Area countries will not be able to achieve the targets set

* Extract from letter dated 21st June, 1952.

at the Commonwealth Finance Ministers' Meeting. At some time in the next few months there may therefore well be a resurgence of the crisis of confidence in sterling with which we have been battling ever since we came into office. I do not myself claim that our powers of prediction in this field can be absolutely accurate, but I must record the result of the official calculations and of the impressions I have been able to get of the state of opinion outside.

5. Stern measures on defence, imports, etc. are necessary in any case. Yet the hard fact remains that the gold reserves have fallen so low, both in relation to the turnover of transactions and in relation to our sight liabilities, that we can continue our present external financial system only at great risk to ourselves and to the Sterling Area. Our capital position is too weak. On our present basis, we can never know from one week to another whether some new adverse turn of events will not place the reserves and so the whole system in jeopardy.

6. Furthermore, this is not a passing phase. It will obviously be a long time before we can build up the gold reserves by earning a substantial gold and dollar surplus. The amounts which we could borrow through the channels which are at present open to us are small in relation to the size of the reserves which we need to feel reasonably protected, and in any case it is wrong to borrow and pledge securities without a positive policy for righting the difficulties which give rise to the need for borrowing.

7. Can we find a way of running our affairs without taking the whole strain of the balance of payments of the whole sterling area upon our wholly inadequate reserves?

8. I have set out in the Appendix the essential features of a Plan on the same lines as that submitted before. It is a combination of a floating rate of exchange, convertibility of sterling in the market for people outside the sterling area, and holding action on the sterling balances. The main difference between this and the former plan is that the present one contains no provision for the formal funding of the sterling balances of sterling area countries, since this does not now seem to be necessary (see paragraph 19 below).

9. The Plan in the Appendix presupposes that we should aim at keeping the rate of exchange as stable as possible by constructive use of the reserves. The Government would have power to decide from time to time whether or not to use the reserves to support the rate; but our reserves are not large enough to enable us to support a rate which is clearly unreal. If it were agreed that the plan should go forward, I would pursue enquiries about securing a line of credit from the International Monetary Fund (I.M.F.) to be announced, if possible, concurrently with the Plan.

10. I now come to the timing of any plan such as the attached. It has emerged from discussion with my advisers, and in particular with the Governor of the Bank of England, that the time for a change is now rather than later. The position cannot be better in three months' time than it is now. It may well be worse. Furthermore, the annual meeting of the I.M.F. in September is bound to give cause to a great deal of speculative talk which could be damaging to us. We still have a chance of making a change in circumstances which:—

(a) will show that we are taking a positive step and not acting from weakness;
(b) will give a change the best chance of success by announcing strong internal action at the same time;
(c) will provide sufficient time for consultation with the Commonwealth and others.

I am bound to warn my colleagues that some action is necessary and that if we delay action, we run a grave risk that we shall have to make a change in the worst possible circumstances, i.e. when we are forced into it by a crisis with no adequate time to consult. We have to weigh the value of positive action with all its risks, against the great objections of appearing to be forced into action.

11. I must make it quite clear that I do not regard this plan as a means of righting our current balance of payments. If adopted, it should in due course have favourable effects upon the whole sterling area's current balance of payments with the rest of the world, for if the pound falls this will tend to discourage foreign exchange expenditure of all kinds, not only in the United Kingdom but also in the rest of the Sterling Area. This would also be a stimulus to our competitive power and to exports. Thus, the operation would act upon the whole of the sterling area's balance of payments and not merely on the United Kingdom's imports. The main purpose of the Plan would be to change our external financial system in a way which would enable us to continue without these crises—it deals with the capital position, so to speak, and not with the current position.

12. But obviously the Plan if it is adopted could not be allowed to fail. It is absolutely necessary to reduce the overload on the economy and to help to put right the current balance of payments, whether we adopt the Plan or not. But I could not recommend the Plan unless it were accompanied by:—

(a) definite and effective reductions in the Defence Programme;
(b) an adaptation of the investment programme, putting more emphasis on productive industry and less on social investment, including housing;
(c) some reduction in imports.

It will be understood that the value of the above steps depends upon the manner and time of their announcement.

I am advised that the measures already taken in the field of monetary policy are working well and that any upward movement in the Bank Rate would make the wrong impression on confidence.

13. I must make clear to my colleagues also that this Plan would involve risks and dangers which we should not underestimate. It is certainly true, however, that events since last February have reduced the risks which we should have to run.

14. On the internal side, there are two main elements of risk, both of them fundamental to the nature of the Plan:—

(i) The danger that the rate will fall so far that it will lead to a rapid increase in the prices of imports, particularly food. This might have serious political and social repercussions, especially in this period of wage claims.
(ii) The danger that the effect of sterling becoming convertible would be to cause other countries to discriminate against our exports—a process which would lead us to retaliate by cutting out our imports from them—and thus to a general downward spiral of world trade in which we should lose exports and would consequently suffer unemployment.

The impact of these difficulties might well not arise immediately.

15. On the first of these risks, I would not be prepared to make a prediction of the extent to which the rate would move in the near future. This is likely to be governed as much by capital factors as by current. It is nevertheless true to say that, although

there is a very large prospective deficit in relation to our reserves, the deficit is not large in relation to the total volume of transactions. Furthermore, even if sterling were to depreciate by as much as 10% against all other currencies, the impact on the cost of living index would not be more than an increase of 1½%.

16. The danger of loss of "less essential" exports arising from discrimination against us in a real one, but the extent of it should not be overestimated. The risk really relates to that part of our trade—about one-third of the whole—which goes neither to the sterling area nor to the dollar area—and within this amount to that part of these exports which consists of "less essentials". Our trade policy might have to be adapted to meet this danger.

17. In this connection, I should refer to the effect of the Plan upon our world oil trade. As the world price of oil tends to be the dollar price, any depreciation of sterling against the dollar would increase our sterling earnings per ton of oil sold. Against this advantage, however, must be placed the likelihood that concessionary Governments such as Iraq and Kuwait would put forward demands for a revision of the terms of their concessions in order to protect themselves against the fluctuations in the value of sterling; we should almost certainly have to concede these demands in some degree.

18. The other dangers which appeared most serious when the Cabinet considered the Plan in February were the impact on the Commonwealth and the impact on Europe.

19. Let me consider the Commonwealth first. The version of the Plan in the Appendix will create much less difficulty than the previous one would have done. The different treatment of sterling balances would be very helpful to Commonwealth countries. All that they would be required to do about their sterling balances would be to co-operate with us in producing an agreed assessment of the extent to which the balances represent a "sight liability" upon the United Kingdom economy. It should not be difficult to agree with them a statement showing that the immediate burden of the balances is a comparatively small fraction of what the outside world has come to believe. The sterling release agreements with India, Pakistan and Ceylon will remain unchanged under the new proposal. We should be able to give the Governments of the sterling Commonwealth rather longer to consider the proposals than was possible before, in the hope that it would be possible to announce the scheme as having their full support.

20. We must now consider our European partners. Our immediate withdrawal from the European Payments Union has always been one of the most difficult implications of any move to provide convertibility. In the last four months, however, a great deal of thought has been given to this problem in Europe, and the ideas both of an early step towards convertibility and a floating rate have been ventilated much more fully than they had been previously. I think it is very likely that France and Belgium at any rate, and perhaps others, would follow any lead given by us. There may be indeed a possibility of concerted action over quite a wide field in Europe, and if the plan were adopted by us, it would be possible to have prior consultations with the French, Belgians and Scandinavians in time to permit them to concert with us. Prior consultation with the Germans would also be desirable after the United States Government had been informed. It would, of course, be very much in our interest that all these countries should act at the same time, and it would greatly reduce the danger of loss of trade through discrimination against us.

21. Despite all its dangers, one great advantage of the Plan is that it has strong constructive possibilities and offers hope of fruitful collaboration with our partners in the Commonwealth and in Western Europe on lines which can lead, with American co-operation, to making sterling an effective currency.

22. In conclusion I would say this. I believe that we need a concerted plan of action to improve our Balance of Payments and that such action must be launched in the right psychological atmosphere. If any alternative action which would achieve these ends can be suggested, I should be very glad to consider it. So far I am not aware of any alternative which is satisfactory.

Appendix to 371: Main features of the external sterling plan

(This is in a form suitable for inclusion in a telegram to the Commonwealth.)

1. The Plan consists of six parts:—

(a) As from , sterling currently earned by countries outside the sterling area (which will be designated as "external sterling") will become convertible.

(b) The nominal official parity of sterling will remain at $2.80 but no attempt will be made to maintain the existing margin of $2.78 to $2.82. We shall use the gold and dollar reserves, held by our Exchange Equalisation Account, to intervene constructively in the exchange market so as to secure the maximum stability in the rate at a level consistent with the real international value of sterling. For your own information we shall seek initially to keep the rate within limits (to be defined) so long as this does not dangerously weaken the reserves, but you should know that this intention will not be made public or revealed to anyone (repeat anyone) except for the narrowest possible circle of the U.K. and Commonwealth financial authorities.

(c) The London gold market will be reopened and gold will be traded in a free market against external sterling, dollars, and other currencies at prices fluctuating according to supply and demand, and not in any way tied to the U.S. official price for gold.

(d) The sterling balances of non-residents (repeat non-residents) in the sterling area will be frozen sufficiently to prevent any appreciable offerings of such balances of the London market in exchange for dollars or other wanted currencies. The following steps will be taken:

(i) Up to £1,000 could be transferred to External Sterling Account; this would dispose of *de minimis* cases.

(ii) The balances would be available for meeting pre-zero commitments, on a restricted basis.

(iii) Foreign commercial and central banks could transfer agreed sums to External Sterling Account as working balances.

(iv) The remainder of the balances could be invested in quoted securities with a life exceeding ten years, such securities (or any balances not so invested) being blocked.

(v) All existing balances on American and Canadian Accounts (for which we are already liable to provide dollars) will be transferred to External Sterling Accounts.

(e) The present structure of the sterling area would be maintained. Countries in the area would retain full exchange control and sterling area residents would still need authority from their Governments to acquire foreign currencies in the market for purchases outside the area. Payments between sterling area countries would not, of course, involve the use of external sterling. It is essential for the success of the scheme that all currencies within the area should maintain a stable exchange rate with sterling, though not necessarily at the existing parity.

(f) In order to convince the world that the exchange value of sterling will not be subject to constant depreciation under the weight of an excess of sterling, it is an essential part of the scheme to show that only a small proportion of the sterling balances represents effective sight liabilities of the U.K. From sub-paragraph (d) above it will be seen how drastically we propose to treat the balances of non-sterling area countries.

(Form of statement we require from the sterling area Governments. This is still under consideration—see paragraph 19 of covering memorandum.)[1]

[1] On 3 July 1952 Butler submitted another memo under the same title to Cabinet which explained that he had had 'a recent informal discussion with some of my colleagues' who were 'not ready to change the mechanism of our external financial system at the present time'. Butler therefore advised (a) that priority should be given to the balance of payments, in which case early decisions were needed upon the recommendations in para 12 of C(52)217, and (b) that it should be recognised that the UK could not indefinitely continue with a system of inadequate reserves supporting an inconvertible currency. Commonwealth prime ministers had been invited to a general economic conference in Nov 1952. If this was to be a success, Butler urged that the UK should have a definite line of policy to put forward and that the conference should be fully prepared at the official level beforehand (CAB 129/53, C(52)223, memo by Butler, 3 July 1952).

372 CAB 128/25, CC 84(52)7 7 Oct 1952

[Imperial preference and GATT]: Cabinet conclusions

The Colonial Secretary said that at the Conservative Party Conference he was to speak on a resolution inviting the Government to re-affirm their belief in the principles of Imperial Preference and to seek amendment of such Articles in the General Agreement on Tariffs and Trade (G.A.T.T.) as were injuring Empire trade and development. He had discussed the lines of his speech with the President of the Board of Trade and he circulated to the Cabinet an extract from it. After explaining the dilemma with which the United Kingdom Government were confronted as a result of the provision in the G.A.T.T. which prevented any effective increase in preference margins, he would state that the United Kingdom Government believed in Imperial Preference as a method of developing the trade and resources of the Commonwealth and intended to raise these questions at the Commonwealth Economic Conference in November.

The Cabinet agreed that the Colonial Secretary should take this line in replying to the debate at the Party Conference. They recognised, however, that none of the other Commonwealth Governments was likely to share their view on this particular provision of the G.A.T.T. and that it was unlikely that at the Commonwealth Conference any general disposition would be shown to seek relief from it.

In discussion some minor changes were suggested in the wording of the Colonial Secretary's proposed statement, and these were approved.

The Cabinet:—

Authorised the Colonial Secretary to make a statement on Imperial Preference in the terms which he proposed subject to the amendments approved in their discussion.

373 T 220/426, pp 1–2 22 May 1953

[Colonial sterling balances]: Treasury note of a meeting with officials from the CO and Bank of England[1] [Extract]

[This meeting was convened pursuant to a Cabinet decision of 20 Nov 1951 (see 362, point (d)). The long delay arose partly because Treasury and CO disagreed on terms of reference and partly because neither side thought the matter urgent. But as from the later months of 1952 there was a stimulus to action in the form of increasing criticism by Labour politicians (including Harold Wilson), professional economists (including W A Lewis), and others, of the high level of colonial balances held in London. The charge that Britain was exploiting, or 'living off', the colonies was one in which, according to Poynton, even Lyttelton 'felt that there was a good deal of substance . . . and that any attempt at a vindication would be skating on thin ice' (minute by Poynton to Lyttelton, CO 537/7829, 25 Nov 1952).]

Sir Herbert Brittain said that the Treasury thought that the time had come to review the Colonial sterling balances, which had lately greatly increased, for the following reasons:—

(a) Accusations of exploitation were being made.

(b) It might be better to induce the Colonies to spend their balances now on worthwhile development than to see them dissipated with less restraint as the Colonies attained independence.

(c) Rising balances coupled with the issue of market loans meant that the United Kingdom was borrowing short from the Colonies and lending long.

(d) It had been suggested that by encouraging the Colonies to spend their balances on suitable United Kingdom exports we could at the same time reduce the weight of our overseas indebtedness and take up some of the slack in our own economy.

2. He suggested that a Working Party should be set up to examine the balances in detail, starting perhaps with those Colonies already in the loan programme for 1953, and possibly 1954. The review should include such questions as:—

(a) Inter-colonial borrowing.

(b) The present policy on sterling backing for Colonial currencies.

(c) The Crown Agents' policy of liquidity in investing Colonial funds.

3. *Sir Hilton Poynton* said that the Colonial Office welcomed the setting up of the Working Party, though he suggested starting on a typical Colony or Colonies rather

[1] The five Treasury officials were led by Sir H Brittain, second secretary, Treasury, 1953–1957; the CO was represented by Sir H Poynton and E Melville, and the Bank by J L Fisher, adviser to the governor, Bank of England, 1950–1959.

than on the next candidates for market loans. He hoped that it would not be necessary to mention (d) above in the terms of reference. The Colonies already had full freedom to import from the United Kingdom, and any effort to stimulate more generous import policies would lead simply to a demand for higher non-sterling expenditure (which was, of course, restricted at present).

4. *It was agreed*:—

(a) That the terms of reference of the Working Party should be:—

1. To review the sterling balances of the Colonies, and probable future accruals.
2. To examine the possibility of the Colonies using more of their own resources.
3. To examine the possibility of the Colonies borrowing from each other's surplus resources.
4. In this connection, to consider specially the policy on sterling backing for Colonial currency issues.
5. To study the effect of 2 and 4 above on Colonial calls on the London market.
6. To examine the Crown Agents' present investment policy from the point of view of liquidity. . . .

374 T 220/426, CSB(53)19 4 Sept 1953

'Report on the financial aspects of the assets': report by the Working Party on Colonial Sterling Assets[1] [Extract]

I. *Introduction*

1. The subject of the Colonial sterling assets has been under examination since the war in several aspects both in the Colonial Office and the Treasury. The present Working Party of representatives of these two Departments, the Crown Agents for the Colonies and the Bank of England was set up in May, 1953 to examine it afresh. This examination has appeared necessary in view of the spectacular rise in the assets since 1950 and of the following considerations:—

(a) a feeling that there is possible danger in the Colonies possessing large assets in the U.K. to all appearance at call while borrowing at long-term from the U.K.; and that the existence of Colonial sterling assets of the present size is a factor tending to weaken international confidence in sterling;
(b) a fear that a possible sudden spending of the present large assets may at any given time be an unwelcome source of pressure on sterling and that the danger of such spending may increase with the progress of some of the more important Colonies towards independence;
(c) a fear that such spending may be also a source of difficulty in the London securities market;
(d) a fear that the growing demands of the Colonies for London market issues to finance their increasing development programmes may put too heavy a strain on the resources of the market;
(e) a wish to see if this strain can be relieved by the use of some of the accumulated assets;

[1] The CO's representatives on the working party were H T Bourdillon and E Melville.

(f) a wish to see if increased inter-Colonial investment can also help to relieve the strain;
(g) a wish to examine in connection with (c) above the liquidity policies at present governing the investment in London of Colonial funds;
(h) a feeling that it may be in the best interests of the colonies themselves that more of their assets should be spent now on worth-while development, while Her Majesty's Government can still exercise some control;
(i) an interest in the Colonies as a market for United Kingdom exports, with particular reference to the problem of maintaining overseas demand for our exports in the event of a United States recession (a subject on which other studies are in progress) and to the possibilities of the Colonies drawing on their accumulated reserves to cushion their economies against the effects of a fall in their export earnings;
(j) a wish to examine further the long-term policies which have contributed to the rise of the assets and have attracted the charge that the United Kingdom is "exploiting" the Colonies.

2. It has seemed to us that we could best carry out our work by presenting two separate reports, a report on the financial aspects of the assets and a report on their economic significance. The present report on the financial aspects reviews, in the light of (a) to (g) above, the policies at present governing the administration of the various funds which comprise the assets, and makes recommendations for certain changes. This report also discusses as a relevant consideration the desirability of encouraging local money markets in the Colonies. (h) to (j) above are covered in the report on the economic significance of the assets (C.S.B.(53)20).[2]

3. We have not included in these reports a complete and detailed description of the assets, as this will be contained in a Colonial Office paper on "The Sterling Assets of the Colonies".

II. *General considerations*

4. The sterling assets of the Colonies are their external reserves which are held in London for good reasons, political, economic and financial. Because of lack of facilities for local investment in the Colonies, the actual amount of assets held in London is greater than is needed simply as external reserves. It is impossible to quantify the amount which would in any case have to be held as external reserves, but certainly it is a substantial "hard core" of the total Colonial sterling assets, considerably exceeding at the moment the amount of outstanding long-term loans from the United Kingdom to the Colonies.

5. So long as the present economic and financial relationship between the Colonies and the United Kingdom persists and there are few facilities in the Colonies for local investment, the Colonies will continue to keep most of their reserves in London and to use the facilities of the London securities market for the deposit of these reserves as well as for raising the bulk of their long term capital. The existence of a large volume of Colonial sterling assets held in London is therefore in present circumstances inevitable. Moreover this arrangement, besides being of benefit to the Colonies, is of considerable general benefit to the United Kingdom, by making

[2] See 375.

additional resources available to her, by fostering economic associations between her and the Colonies, and by widening the activities of London. We recognise, however, that it holds certain potential disadvantages for the United Kingdom (and indeed for the Sterling Area as a whole). Although it is extremely unlikely that the assets will ever be drawn down beyond a certain level, there must be a point beyond which it is not in the interest of the United Kingdom to lend long to the Colonies and borrow short from them. Again, the existence of very large Colonial sterling assets (at their present level they amount to about one-third of the whole total of the sterling balances) is a factor which tends in certain circumstances to weaken international confidence in sterling. Furthermore, as some of the Colonies which are among the most important holders of sterling assets become independent, they may want to reduce these assets, partly because of their declared intention to establish local central banking systems, partly because of local political pressures and partly for other reasons. In such circumstances there is some danger that a proportion of the assets might be expended in a precipitate way which would be a source of pressure on sterling internationally and of difficulty in the London securities market.

6. We recognise that in addition to these financial considerations there are political and economic considerations making it desirable that the Colonies should use and be seen to use more of their funds for their own development. As explained in paragraph 2 above, the economic considerations are discussed in our other report on the economic significance of the assets.

7. Against this general background we consider, in the remaining sections of the present report, the problems of the London market and local Colonial money markets and then review the policies at present governing the administration of the various funds which comprise the assets. . . .

VIII. *Summary of conclusions*

43. The existence of a large volume of Colonial sterling assets held in London is in present circumstances inevitable (paragraph 5).

44. This arrangement, besides being of benefit to the Colonies, is of considerable general benefit to the United Kingdom (paragraph 5).

45. Although it is extremely unlikely that the assets will ever be drawn down beyond a certain level, there is a point beyond which it is not in the interests of the United Kingdom to lend long to the Colonies and borrow short from them (paragraph 5).

46. The existence of assets of the present size is a factor tending in certain circumstances to weaken international confidence in sterling (paragraph 5).

47. There are potential dangers to sterling and to the London securities market inherent in assets of the present size, particularly at a time when some of the larger holders are approaching independence (paragraph 5).

48. There are political and economic considerations making it desirable that the Colonies should use and be seen to use more of their assets for their own development (paragraph 6).

49. There are no grounds for the hope that Colonial Governments, by utilising their sterling assets instead of raising London loans, would lighten the burden on the London market (paragraph 8).

50. It is not desirable that Colonial Governments should cease altogether to raise new issues in the market (paragraph 10).

51. Greater use by the Colonies of their sterling assets to accelerate development, though it might result in some immediate reduction of the pressure of new market issues, would actually increase the burden on the market as a whole (paragraph 11).

52. The acceptance of a controlled increase of pressure on the market now may be in some measure the alternative to an uncontrolled increase later (paragraph 12).

53. Though we do not expect quick results, we endorse the present policy of encouraging the growth of local money markets where possible as a means of promoting the flow of local savings for local investment (paragraph 13).

54. We consider that it would help the growth of local money markets if Colonial Governments were encouraged in suitable cases to use some of their assets to underwrite new issues of local government stock which could be taken up by the public in the Colony as opportunity offered (paragraph 14).

55. In view of all these considerations we have reached the following conclusions on policies governing the administration of certain of the funds which comprise the Colonial sterling assets—

(a) We see no reason to suggest that Colonial Governments should at present change their policy of aiming to keep in reserve the equivalent of some four to six months' revenue, though, with the growth of local money markets, it may be possible to modify it in time (paragraph 17).

(b) The present policy whereby the hard core of price assistance and marketing board funds is being increasingly used for local investment is sound, though we recognise that the main responsibility of the authorities controlling the funds must be to the producers (paragraph 20).

(c) Colonial Governments should be encouraged, in suitable cases, to make more use of their powers for local investment of up to one third of savings bank funds. The funds could be used to underwrite new public issues of local government stock and perhaps also to deal judiciously from time to time in such stock (paragraphs 21 and 22).

(d) The introduction of a conservative fiduciary element in the currency systems of appropriate Colonies could now be approved in principle, the funds so released being used to underwrite new public issues of local government stock and perhaps also to deal judiciously from time to time in such stock. Detailed examination would be necessary to decide which Colonies would be appropriate for this purpose and how large the fiduciary issue should be (paragraphs 23–27).

56. We have no changes to recommend in inter-Colonial investment policies but we suggest that it would be well for them to be kept under periodical review (paragraphs 28–34).

57. We see no reason to recommend changes in the liquidity policy adopted by the Crown Agents for their London investments. We are not in a position to express an opinion on the liquidity policy of the West African Marketing Boards, and we do not wish to comment on that of the East and West African Currency Boards (paragraphs 35–42).

375 T 220/426, CSB(53)20 11 Sept 1953

'Report on the economic significance of the assets': report by the Working Party on Colonial Sterling Assets [Extract]

Introduction

1. This report discusses the economic significance of the sterling assets of the Colonies from the point of view both of the United Kingdom and of the Colonies themselves, and considers certain problems which may arise in the event of a United States recession leading to a sharp fall in Colonial export earnings. The Working Party has also examined in detail the various types of funds making up the Colonial sterling assets, and the financial policies governing them, and these are the subject of another report on the financial aspects of the assets (C.S.B.(53)19), which we have made to the Chancellor of the Exchequer and the Secretary of State for the Colonies. It is attached to this report for ease of reference.[1]

2. The primary responsibility for deciding upon the uses made of the Colonies' accumulated reserves rests, of course, not with the United Kingdom, but with Colonial governments, marketing boards, commercial banks, private companies and other holders. H.M. Government is none the less often in a position to influence the economic and financial policies of the Colonial Governments and through the Colonial Governments it may be able to exert indirect influence over some of the other authorities concerned. The question is: in what direction should that influence be exerted? The answer must depend among other things upon the general external financial policy which the United Kingdom decides to follow. We have, however, attempted to outline some of the problems of policy which arise, with particular reference to what might happen in a recession. Some of the recommendations made in our other report and bearing on these problems are mentioned also in this report.

3. At the end of 1952 the Colonies' sterling balances amounted to £1,210 million, of which £1,065 million was held in United Kingdom securities, the remaining £145 million consisting of holdings of Dominion and Colonial securities. The United Kingdom sterling liabilities to all countries at that date were £3,422 million, so that the Colonies accounted for roughly a third of the total. During the first half of 1953, total United Kingdom sterling liabilities increased further to £3,607 million, while the Colonial sterling balances rose to £1,276 million, of which £1,136 million was held in United Kingdom securities. At the end of 1949 the Colonial sterling balances stood at £674 million (of which £582 million was in United Kingdom securities), so that they have risen by 90% in 3½ years.

4. Changes in the total of the Colonies' sterling balances reflect movements in the external balance of payments of the Colonies on current and capital account. The main reason for the sharp rise in the balances since 1949 has been the high level of Colonial export earnings, which benefited greatly from the boom in raw material prices following the outbreak of war in Korea. Detailed figures are given in Table 1, which shows that the Colonies earned a very substantial surplus on current account both in 1950 and 1951. It should be noted that the term "current account" includes both grants by the United Kingdom Government to the Colonies and military expenditure by the United Kingdom in the Colonies.

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[1] See 374.

Table 1
Balance of payments of the colonies[1]
1948–1952

£ million

	1948	1949	1950	1951	1952
Imports f.o.b.	513	580	734	1,050	1,027
Exports	509	549	963	1,367	1,106
U.K. military expenditure	+52	+50	+53	+62	+73
U.K. Government grants	+10	+20	+20	+20	+30
Other current transactions (net)	−59	−60	−147	−226	−186
Current Balance (incl. grants)	−1	−21	+155	+173	−4
Current Balance (excl. grants)	−11	−41	+135	+153	−34
Gold sales	+8	+8	+10	+10	+10
Loans on the London market (Col. Govt. and municipal)	−5	+9	+14	+24[2]	+25
Other capital items (net), inc. errors and omissions	+49	+35	+3	+31	+101
Changes in sterling assets (increase—)	−51	−31	−182	−238	−132

(1) Including Hong Kong.
(2) Of which 7½ re-invested by Northern Rhodesia in Rhodesian Railways.
Note (a) The above figures are not suitable for publication.
Note (b) "Other capital items" is the residual figure in the table and includes a substantial inflow of long-term funds, including funds of private companies and commercial banks.

5. There is normally an appreciable time-lag between a rise in the incomes of primary producing countries and the expenditure of these incomes on increased imports, and it was not to be expected that Colonial imports would rise *pari passu* with their external receipts. There have also been special factors which have tended to restrain Colonial expenditure on imports in recent years:

(a) Colonial Governments, with the approval of H.M. Government, have consciously pursued anti-inflationary policies and have sought to limit current consumption in order to make more resources available for development to accumulate reserves against a period of falling export incomes.
(b) Rearmament and steel shortage have restricted the supply of development goods from the United Kingdom.
(c) Restrictions have been placed on non-sterling imports because of the balance of payments difficulties of the sterling area as a whole.
(d) There have been other physical limitations holding back Colonial development (e.g. lack of technicians, labour difficulties, etc.)

6. Table 2 shows how the balances were distributed between the different Colonies at the end of June 1953, with comparative figures for earlier years. Something like three quarters of the total were held at that date by East and West Africa and Malaya, and it is these territories which have accounted for most of the

rise since 1949—a development largely explained by the relatively favourable world prices of the main commodities exported by these territories: e.g. rubber and tin from Malaya, cocoa from West Africa, and coffee and sisal from East Africa.

Table 2
Distribution of colonial sterling balances

£ million

	End-1949	End-1950	End-1951	End-1952	Mid-1953	Change over 3½ years
West Africa	204	253	329	350	388	+184
East Africa	114	145	171	209	215	+101
Northern Rhodesia and Nyasaland	24	27	46	50	52	+28
Malaya (including Borneo)	107	164	253	283	289	+182
Hong Kong	68	94	116	120	121	+53
British West Indies	67	78	81	91	105	+38
Other and unallocated	90	88	90	107	106	+16
Total	674	849	1,086	1,210	1,276	+602

Policy in prevailing conditions

7. The recent rise in the Colonial balances has aroused, both in the United Kingdom and in the Colonies, the accusation that H.M. Government is "exploiting" or "living on the backs of" the Colonies. The gravamen of this charge is that imports into the Colonies have deliberately been held down, and that investment and consumption have been prevented from expanding as fast as the interests of the Colonial peoples require.

8. The short answer to this accusation is that the Colonial sterling balances are in no sense blocked, and that the holders are free to use them as they want, subject to certain statutory limitations (e.g. those governing the holdings of Currency Boards). Many of the Colonial Governments, who themselves hold a substantial part of the balances, could certainly have encouraged higher spending on imports if they had considered it desirable to do so. But, largely for the reasons mentioned in paragraph 5, they have chosen to husband their reserves. In the circumstances we consider that they have generally acted wisely. It is clearly a sound policy that the Colonies should accumulate external reserves in times of good trade and draw upon them when trade is bad. It is indeed an integral part of development policy that the continuity of development should be ensured by these means.

9. Suggestions have nevertheless been made in official quarters that the Colonies should be encouraged now, both in their own interests and in those of the United Kingdom, to step up their expenditure on imports and to finance this higher expenditure by drawing on their balances. These suggestions have been prompted by various motives:

(a) Recognition that the recent rise in the balances has been one of the main foundations for the charges of exploitation, coupled with the belief that, however

ill-founded these charges may be, they are none the less politically damaging to the United Kingdom.

(b) A feeling that the existence of balances of the present size is a factor tending to weaken confidence in sterling and a source of potential danger to the United Kingdom's economy, particularly in view of the progress of some of the more important Colonies towards independence. Too rapid drawing down of the balances could be highly embarrassing to the United Kingdom, and post-war experience (e.g., in the case of India and Pakistan) suggests that the grant of full independence is liable to be followed by a rapid dissipation of accumulated balances. This risk will be lessened, it is argued, if the balances can be reduced in an orderly fashion before independence is achieved.

(c) A belief that it may be in the best real interests of the Colonies themselves that their assets should be spent now on worth-while development, while H.M. Government can still exercise some control, instead of being spent with less restraint after independence is achieved.

(d) An interest in the Colonies as a market for United Kingdom exports. The greater use by the Colonies of their sterling balances would help to maintain demand for the products of United Kingdom industries and thus contribute towards expanding production in this country; if extra production were considered desirable anyhow, it might be better that it should be stimulated as far as possible by a rise in external demand (even though the resulting exports were "unrequited", because they were used to repay debts) rather than by a rise in demand at home.

10. We recognise that there is some force in all these considerations, but they do not in themselves establish a case for seeking to secure some modification of the policies at present governing the use of Colonial balances. For it does not follow that, because the balances have been rising in the past, they will necessarily continue to do so in future unless there is a change in policy. Indeed, as noted in paragraph 5, special factors have tended to keep down Colonial expenditure on imports in recent years, and these factors may not operate to the same extent in future. . . .

17. Nevertheless our general conclusion, which is in line with the specific recommendations made in our other report, is that there is scope for the Colonies to draw to a substantial extent upon their accumulated reserves over a period of time to finance development if they need to do so. On the assumption that there is no major change in present levels of world activity and trade or in prices of main Colonial exports, and assuming also, in accordance with recommendations we have made in our other report, that the Colonies continue to have access to the London market for new borrowing, it follows that the Colonies as a whole should be able to afford a substantial increase in imports of goods needed for development. But until we know more in detail about their future plans and about the factors at present limiting the development of the colonial economies, we cannot say what is likely to happen in total to the level of the assets. . . .

376 CO 967/203, no 3 26 Nov 1953

[Imperial preference and the sterling area]: minute by Sir H Poynton [Extract]

[Poynton wrote this minute as a commentary on Sir N Brook's first draft of what became the Cabinet paper 'The future of Commonwealth membership' (see part II of this volume, 192). With reference to category (a) colonies, i.e. those which could expect independence in the next ten or twenty years, Brook had argued that Britain should aim to keep them in the Commonwealth after independence for these reasons among others: (1) to help maintain the benefits to Commonwealth trade afforded by the system of imperial preference; (2) to help maintain the political cohesion of the sterling area.]

. . . I have nothing to add to the political arguments, but the two economic arguments ("Imperial Preference" and "Political Cohesion of the Sterling Area") rest on assumptions which need closer analysis. The conclusions are probably right, but I am very doubtful whether either argument is so strong as to justify so high a place in the list of reasons.

(i) *Imperial preference*

It is not clear what Sir N. Brook means by claiming, as an argument for keeping the category (a) Colonies within the Commonwealth, the maintenance of "the benefits to Commonwealth trade afforded by the system of Imperial Preference". If he means that, because of the preferential markets which they provide, the category (a) Colonies will be of greater economic advantage to the rest of the Commonwealth if they themselves remain Commonwealth members, the proposition is a very doubtful one, for several reasons. In the first place, the Gold Coast, Nigeria and parts of Central Africa are precluded by international obligations (other than G.A.T.T.) from granting any preferences; there are few preferences in Malaya and virtually none in Singapore. Secondly, even where preferences are given, the maximum rates are frozen under G.A.T.T. at the 1947 level and this in effect considerably reduces their value where rates are specific (as they often are). Thirdly, the economic value of the preferential system as such to the Commonwealth is doubtful; it was for this reason that there was no support at the recent Commonwealth Economic Conference for its extension. Current economic policies in the Commonwealth are based not on a continuation of discrimination between sterling and other trade (whether by preferences or by other forms of trade restriction) but on the establishment of a worldwide multilateral trading system. This must be considered as being in the best economic interests of the group as a whole.

If Sir N. Brook means to include the category (a) Colonies as benefiting from Imperial Preference if they stay in the Commonwealth, then this too is doubtful, except for the West Indies. All the other places rely on non-sterling trade just as much as on sterling trade; and indeed are encouraged to do so, so far as exports are concerned, in order to earn foreign currency. Preferences in Commonwealth countries are of negligible value to them. In the West Indies, of course, preferences on such commodities as sugar in the Canadian and U.K. markets and on bananas and citrus in the U.K. market are undoubtedly of value. But these throw a corresponding burden on the U.K. and Canada.

Whatever the correct interpretation of this argument may be, it does not seem to add anything to the political arguments advanced in paragraph 5(i) of the paper.

Indeed, if these are not decisive, then it would be impossible to adduce the Imperial Preference argument to settle the matter in favour of retention of the category (a) Colonies within the Commonwealth. The balance of advantage, on this point alone, might lie in pushing them out.

(ii) *Political cohesion of the sterling area*

No doubt the Treasury will expand this, as suggested in the draft. I think the points to watch are these.

Nobody knows what the international status or strength of sterling will be in 10–20 years' time. If we succeeded in reaching a position where sterling was freely convertible on both capital and current account the significance of the Sterling Area as we know it today would disappear. But on the assumption that there will be some continuing problem of balance of payments and therefore some degree of control over the international movement of sterling, I agree that anything which strengthens the political cohesion of the Sterling Area is important.

Three questions seem to arise on this:—

(1) Will the territories in category (a) be willing to remain in the Sterling Area when independent?

(2) Could their continued membership of the Sterling Area be made a condition of their membership of the Commonwealth?

(3) Would their continued membership of the Sterling Area, whether within or without the Commonwealth, be a source of strength?

As to (1) we used to hear angry rumblings about membership of the Sterling Area, particularly from Malaya, Nigeria and the Gold Coast, when prices of their commodities were very high and they had very large dollar earnings. But since the prices of tin, rubber, cocoa, etc., came tumbling down after 1950/51 we have heard much less about the evils of enforced membership of the Sterling Area. Their own decisions will be taken on their own judgment of self-interest, though one naturally hopes that that judgment will lead them to remain within the Sterling Area.

As to (2), I am sure we could not make continued membership of the Sterling Area a condition of full membership of the Commonwealth, partly because Canada is already outside the Sterling Area but inside the Commonwealth, and partly because, whatever undertakings might be given at the moment of graduation these could not be subsequently enforced in the event of a change of heart. Moreover, inasmuch as the motive, as stated in the memorandum, is benefit to the United Kingdom, it would in any case be an improper condition to attach.

As to (3) the crucial point is really not membership of the Commonwealth but membership of the Sterling Area. If these territories go out of the Sterling Area the argument obviously falls to the ground. If they stop in the Sterling Area they might be a source of strength or a source of weakness, according to behaviour, this depending mainly on the way their pattern of trade develops. If that pattern runs broadly as it is at present, then I think it is a reasonable assumption that the Gold Coast, Nigeria, Malaya and Central Africa should be a source of strength to the Sterling Area but the West Indies might be a source of weakness. It is problematical whether it is better for us that a weak member of the Sterling Area should be inside rather than outside the Commonwealth but, on balance, it is probably better that it should be inside, so that the influence of the other members of the Commonwealth including Canada can be brought to bear at Commonwealth conferences. . . .

377 CAB 134/846, EA 31(53)1 9 Dec 1953

[Japanese trade with the colonies]: Cabinet Economic Policy Committee minutes

[In a Cabinet memo of 7 Dec, Mr Butler reported that the Sterling Payments Agreement with Japan would end on 31 Dec. To keep trade between Japan and the sterling area at a high level, he proposed that the government should relax its restrictions on imports from Japan in both Britain and the colonies; 'unless we provide Japan with this trade we can hardly hope to induce her not to switch trade to the dollar area.' It had also to be noted that there was 'real demand in the Colonies for low-cost Japanese goods'. There would be protests from British producers currently protected by quotas, especially in the textile industries, but this cost should be accepted ('Trade and payments policy with Japan', Cabinet memo by Butler, CAB 129/64, C(53)341, 7 Dec 1953). Cabinet referred this problem to the Economic Policy Committee (CAB 128/26/2, CC 77(53)7, 8 Dec 1953).]

The Chancellor of the Exchequer said that the Cabinet had had before them on the previous day a memorandum which he had submitted (C.(53)341) on the policy which should be pursued in the current negotiations with Japan on trade and payments. Their authority had been delegated to the Committee to settle the form of the proposals which the United Kingdom should now put to the Japanese. In view of the political, as well as the economic, importance of this question, particularly the difficulty of announcing concessions on import restrictions, it might be necessary for him to refer the matter to the Cabinet again. It would be politically difficult to defend a unilateral concession to Japan on import restrictions; it would be necessary to explain that any such concessions were balanced by advantages for sterling area exports and services such as shipping, and by the fact that Japan would have to meet part of her sterling liabilities from the sale of dollars.

The Economic Secretary, Treasury[1] said that it had now been learned that the International Monetary Fund (I.M.F.) authorities were not in favour of allowing Japan to make a drawing from the Fund to meet her immediate difficulties unless there were an enquiry by the Fund into Japan's economy and trade. Any such enquiry might draw attention to the fact that the United Kingdom retained restrictions on imports from Japan, but it might also lead to a recommendation that Japan should use her dollar resources for sterling purchases.

The President of the Board of Trade[2] said that on the whole we should welcome an I.M.F. enquiry into the economic problems of Japan. Such an enquiry might help to reduce inflation there, and to overcome Japanese reluctance with which the Americans sympathised, to use their dollar resources for trade with the sterling area; it might also lead to an increase in trade between Japan and China, which would be all to the good.

The sterling area should aim at earning a surplus in its trade with Japan, and we ought not therefore to relax import restrictions which would admit sufficient Japanese imports to lead to a balance in trade. Nevertheless, to avoid a decline in trade between the sterling area and Japan, some relaxation of import restrictions, in the Colonies and the United Kingdom, seemed advisable. It would be wise to be prepared for considerable political criticism if such a relaxation were made, and the concessions he proposed (as mentioned in paragraph 6 of C.(53)341) were the

[1] Mr R Maudling, economic secretary, Treasury, 1952–1955.
[2] Mr P Thorneycroft, president of the Board of Trade, 1951–1957.

maximum we should make; to begin with, we should not offer more than half of the proposed concessions, and should not indicate that we might relax restrictions of imports of Japanese textiles into the United Kingdom.

As regards imports of Japanese goods into the Colonies, there was no international agreement which prevented the imposition of quotas, and import restrictions could be justified to Colonial Governments on the grounds that it was not in the true interests of the Colonies to drive United Kingdom manufacturers out of Colonial markets, since there might well in the future, as in the past, be a great need for United Kingdom manufactures. The concessions he proposed for the Colonies would allow for an increase of 50 per cent of Japanese imports over 1953; but, as the quota for Nigeria had already been increased three times, not more than £10 million of Japanese goods should be allowed.

It would be wise to make some concession also on imports into the United Kingdom. If there were to be an I.M.F. enquiry, it would no doubt comment on the fact that at present there was virtually no entry for Japanese goods. He therefore proposed a quota of £2 million for grey cloth for re-export after processing, and suggested quotas totalling just over £1.3 million for the principal kinds of manufactured goods of which Japan was a traditional supplier of the United Kingdom market before the war. These concessions would be attacked in the country and in Parliament, but we always had the safe-guard that we were free from control under the General Agreement on Tariffs and Trade, and could if necessary exclude Japanese goods at any time in the future.

The Colonial Secretary said that imports of Japanese goods into Nigeria were now running at an annual rate of £8¼ million, and if the concession proposed by the President of the Board of Trade allowed for an increase of 50 per cent in this particular market, imports into Nigeria would be increased to over £12 million per annum.

The proposals of the President of the Board of Trade in so far as they demanded the continuance of some quota restrictions on imports into the colonies, could not be justified. We had no power to decide what quotas Colonial Governments should impose, and the only way in which we could secure a restriction on such imports was by persuading Colonial Governments of their own accord to limit their imports from Japan. Up to the present time, Colonial Governments had been persuaded to restrict their imports from Japan on balance of payments grounds, but this argument could no longer be used; we could however try to persuade them, and in particular Nigeria, that it would be dangerous to rely on a single supplier. Although he could not be certain, he was optimistic that some degree of restriction would be voluntarily accepted by the Nigerian Government. In explaining the position to the United Kingdom manufacturers, including the textile industry, we would have to point out that we had no power to prevent Colonies from using their sterling balances to import goods which they needed, but were trying to persuade the Colonies to limit their purchases of Japanese goods.

The Minister of State, Foreign Office,[3] said that considerations of foreign policy in general should incline us to co-operate with Japan as much as possible, but we were limited by the political difficulties of making relaxations in import restrictions. For the time being, the concessions proposed by the President of the Board of Trade

[3] Mr Selwyn Lloyd.

would suffice. If we pressed Japan very hard to make use of her dollar resources to meet sterling liabilities, we might offend the Americans, since Japan's dollar assets were in large part derived from American aid.

The President of the Board of Trade said that, if the restrictions on the import of Japanese goods into the Colonies were relaxed, we should avoid any action which might encourage the Colonies to buy from the Japanese in preference to the United Kingdom. It would be a great help if Nigeria would agree to limit the extent to which she would relax import restrictions on textiles. If Nigeria were allowed to import Japanese goods without limit, it might be necessary to consider whether we could still afford to relax restrictions on Japanese imports into the United Kingdom to the extent he had proposed.

The following further points were raised in discussion:—

(a) *The Minister of Transport*[4] said that we should try to prevent unfair competition by Japan both in construction of ships, and in the operation of their shipping lines. Japanese Government money, on which interest might even be waived, was available to subsidise shipbuilding in Japan, and Japanese shipping lines, in offering rates that were not remunerative, were clearly subsidised. It would be indeed difficult to ensure that any improvement which the Japanese might be induced to promise in this respect could be carried out, but nevertheless some reference in an agreement with Japan to this point would be helpful.

(b) *The Commonwealth Secretary* said that we should challenge the premise on which the Japanese argued, that they had to earn sufficient sterling to pay for their purchases from the sterling area. If Japan could not afford sterling to buy wool from Australia, the alternative was for her to find non-sterling currency for a purchase from Argentina. There was no reason why she should not use her resources in foreign currencies for sterling area trade.

(c) In negotiating with the Colonies, we should point out that the United Kingdom was a sounder continuing market for Colonial produce than was Japan.

(d) *The Parliamentary Secretary, Ministry of Labour*,[5] said that the effect of the concessions proposed by the President of the Board of Trade on employment would not immediately be serious. But, in presenting those concessions to the country, it was essential to show the trades unions and the employers that we were doing all we could to protect employment in this country from unfair Japanese competition.

(e) *The Commonwealth Secretary* pointed out that it would not be in our interest to encourage the Southern Dominions to increase their imports from Japan, since increased imports would lead them to raise their tariffs, which would operate against the United Kingdom, as well as against the Japanese.

Summing up the discussion, *The Chancellor of the Exchequer* said that it was generally agreed that we could not force Colonial Governments to restrict their imports from Japan, and we could only secure a limitation of that sort by means of persuasion. It would not be possible to decide what concessions could be made on imports into the United Kingdom, until there were a clear indication of the extent to which the Nigerian Government could be persuaded voluntarily to limit their imports from Japan. The first step was therefore for the Colonial Secretary to

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[4] Mr Lennox-Boyd.

[5] Mr H A Wilkinson, parliamentary secretary, Ministry of Labour and National Service, 1952–1955.

persuade Nigeria, in her own interests and in the interests of the United Kingdom export trade, to limit the extent to which she would wish to increase her imports from Japan. Meanwhile it would be necessary to go slow in negotiations with the Japanese.

The Committee:—

Invited the Colonial Secretary to see if he could persuade the Government of Nigeria to agree to limit their imports from Japan, and to report the result to the Committee as soon as possible.[6]

[6] Butler reported to Cabinet on 29 Dec that he was able to authorise a £3.35 million increase in the value of Japanese imports into the UK since Nigeria had agreed to reduce the value of its intake of Japanese goods in 1954 from £15 million to £10 million (CAB 128/26/2, CC 81(53)7, 29 Dec 1953).

378 CAB 129/68, C(54)152 24 Apr 1954

'Effect on colonial exports of relaxing United Kingdom import restrictions': Cabinet memorandum by Mr Lyttelton

The Chief Minister of Jamaica will be leading a deputation to London in May to discuss various matters relating to Jamaican exports. In anticipation of this visit, I wish to draw the attention of my colleagues to the effect on some Colonial producers (mainly, but not only, in the West Indies) of our recent and contemplated relaxations of import restrictions. As the balance of payments of the sterling area improves and restrictions can no longer be justified by the need to protect our external financial position, some Colonial producers, particularly in the poorer territories such as the West Indies, are being faced with competition which they are ill-equipped to withstand. If such producers lose their place in the markets of the United Kingdom the political consequences, especially in Colonies such as British Honduras, where constitutional problems are already causing difficulty,[1] could be very grave indeed.

2. I do not wish to imply that the relaxation of import restrictions is not justified or that it is generally harmful to the Colonies. Indeed in this context it is misleading to speak of a "Colonial" interest as such. Moreover, the argument cuts both ways. We have consistently adopted the policy that import restrictions by Colonial Governments can only be justified on balance of payments grounds and have for that very reason incurred criticism from United Kingdom industries over the relaxation of Colonial restrictions on Japanese trade. The benefits of multilateral trade to the sterling area as a whole are obvious and a freer economy suits the interests of many (perhaps most) Colonial producers. There are, however, some Colonial industries which are being hard hit by the return to normal trading conditions, and they are for the most part in Colonies which can ill afford loss of revenue and income and which are politically sensitive. I shall mention here three current examples, but we must assume that there will be others from time to time:—

(a) As a result of import restrictions the Jamaica cigar industry had a virtual monopoly of the United Kingdom market from 1940 to 1951. Increasing quotas for

[1] See part II of this volume, 338–339.

Cuban cigars have been given as a result of the Anglo–Cuban trade agreements of 1951 and 1953.

(b) Since the war the United Kingdom has been short of bananas and it is now proposed to license freely imports from non-dollar, non-sterling sources. The West Indian producers, particularly those in Jamaica, who are just recovering from the effects of hurricanes in the years after the war, believe that a sudden return to competition in the United Kingdom market will prejudice the recovery of their industry and spoil their chances of expansion.

(c) The import of surplus citrus from the United States under Section 550 of the Mutual Security Act, is in a rather different category, since import restrictions are being relaxed not in consideration of our balance of payments but in consideration of defence aid. Despite the safeguards on which we have insisted, citrus producers in British Honduras, Jamaica, Trinidad, the Windward Islands and Cyprus see this arrangement as a first step to restoring the United States' citrus trade to its pre-war position in the United Kingdom's markets, and since they have long been concerned by the effect of United States and other export subsidies, they consider that the most important of the few markets they have left is now being put in jeopardy.[2]

3. These three commodities all affect Jamaica and these are the main reasons which have inspired the Government of that Colony to send the delegation already mentioned in order to seek protection for Jamaican exports, though no doubt the discussions will in fact cover a wider field than this (e.g. sugar). Moreover, we must expect criticism of our policy not only from the Colonies concerned but in Parliament. We shall be told that the United Kingdom was in favour of Government purchases and long-term contracts when they enabled us to get scarce supplies cheaply, but that we are not prepared to look after Colonial producers now that supplies are more plentiful and prices are lower. We may be able to answer these criticisms in individual instances, but, unless we do something to temper the wind to these producers who may be in difficulty as a result of our policy, we shall not find it easy to counteract the criticism that we are careless of the interests of Commonwealth producers as a whole.

4. As improvements in the balance of payments of the sterling area justify further relaxation of restrictions on imports into the United Kingdom, so too we must continue to ensure that the Colonies also benefit by greater freedom to import non-sterling (particularly dollar) goods. In theory we can make a lot of the argument that our policy of using import restrictions solely to protect the balance of payments is followed consistently in both directions of trade. But unless the Colonies see a corresponding increase in their authorised dollar and other non-sterling expenditure the argument crumbles away.

5. There are few means of providing direct protection for the Colonial producers. Government purchase and long-term contracts cannot easily be reconciled with a return to freedom or with the Government's trading policy. Import controls which, during and since the war, have protected Commonwealth producers must disappear as prosperity returns. The United Kingdom has no legislation for countervailing and anti-dumping duties which might be used to protect Colonial exporters against subsidised competitors.

[2] See 380.

6. There remain only direct financial assistance by Her Majesty's Government and Imperial Preference. Some of the industries which may be adversely affected by the return to freedom have been started with the encouragement of Her Majesty's Government in order to diversify Colonial economies. Some of them may not be highly competitive but they will need some help, at least for a time, if they are to get the capital for improved plant and to acquire enough technical experience to develop standards comparable to those of established industries elsewhere. It may sometimes be advisable to assist them to improve their efficiency and their marketing standards from United Kingdom funds. At the moment I have no precise proposals on this point to put forward, but I should like my colleagues to know that I shall have this point in mind in considering the future of the Colonial Development and Welfare arrangements (C.(53)167).[3]

7. The Imperial Preference system is often ineffective because some of the duties are specific and have remained unchanged for many years although the prices of commodities have risen substantially in the meantime. For instance, the preferential margin on cigars is now less absolutely than before the war, although the full duty is more than three times as high as it then was; the duty on bananas has remained unchanged since 1932, although the price is about 2½ times what it was then; and the duty on fresh citrus is the same as it was before the war, although prices are almost 3 times as high (there is no duty on canned citrus).

8. The terms of the "no new preference" rule of the General Agreement on Tariffs and Trade as at present applied preclude the increase of specific duties to restore their former *ad valorem* incidence. The Agreement is to come up for review by the Contracting Parties later this year, and Departments are now considering what changes in it we should endeavour to secure.

9. I am giving further consideration to this whole problem and may find it necessary to submit recommendations to my colleagues on it at a later stage. There will, naturally, be full interdepartmental consultation about the line to be taken in dealing with the delegation from Jamaica.

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[3] See 412.

379 T 236/3562, pp 68–71 24 May 1954

'Colonial sterling assets': note by A K Potter[1] to W Armstrong[2]

When Sir Leslie Rowan[3] returns, he will like to have an O.F. discussion about the Colonies' sterling assets and their continued upward trend. For the purposes of the present note I have not consulted other Divisions of the Treasury nor, of course, the Colonial Office. Sir Leslie Rowan does not want these brought in until we have had the O.F. discussion.

2. The Working Party on Colonial Sterling Assets, in its Report on the Financial Aspects of the Assets, dated 10th [sic] September 1953,[4] recommended that:—

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[1] A K Potter, assistant secretary, Treasury, 1950–1956.

[2] W Armstrong, under-secretary, Overseas Finance Division, Treasury, 1953–1957.

[3] Sir L Rowan, second secretary, Treasury, 1951–1958.

[4] See 374.

(i) Colonial Governments should be encouraged in suitable cases to make more use of their powers of local investment of up to one-third of Savings Bank funds;
(ii) the introduction of a conservative fiduciary element in the currency systems of appropriate Colonies should be approved in principle;
(iii) the funds so released should be used to underwrite new public issues of local government stock and perhaps also to deal judiciously from time to time in such stock.

3, In its Report on the Economic Significance of the Assets dated 11th September 1953[5] the Working Party made the following points, which were generally accepted.

It has not been the policy of Colonial Governments hitherto to encourage imports of consumer goods, and they are not likely to adopt such policy in future. H.M.G. could not press the policy on them; for it is clearly sound that the Colonies should accumulate external reserves in times of good trade and draw upon them when trade is bad. It is indeed an integral part of development policy that the continuity of development should be ensured by such means.

However, as non-financial limitations on Colonial development are progressively overcome, it can be expected that the tempo of such development will accelerate: and this acceleration will result in increased imports both of development goods and, as local expenditure on wages spreads through the population, of imported manufactures and consumer goods generally.

The only way in which H.M.G. can further imports into the Colonies is by influencing the policies of the colonies so as to ensure that financial limitations shall not stand in the way of development. (i), (ii) and (iii) in paragraph 2 above were means of doing this.

Colonial Governments can be expected, without any encouragement from H.M.G., to draw on the free reserves which they have accumulated in the shape of sterling assets, as opportunities arise for spending them on useful development.

4. The Working Party's recommendations (i), (ii) and (iii) above were approved by the Colonial Secretary and the Chancellor in November 1953. The general lines on which these recommendations might be implemented in the various Colonial territories were then discussed by a further small Working Party of Treasury, Colonial Office and Bank of England, under my chairmanship. This Working Party also suggested that other Colonial funds besides Savings Bank and Currency funds might be mobilised to underwrite public issues of local government stock. From the ideas given to them by the Working Party the Colonial Office undertook to prepare concrete proposals for inter-departmental consideration.

5. The last we heard from the Colonial Office was on 25th March when we were told they were told they were consulting their Geographical Departments. I have since reminded them orally on several occasions.

6. The need to get on with this case has become urgent for the following reasons.

A. The Report of the I.B.R.D. Mission to Nigeria, recommending as a matter of urgency the creation of a State Bank of Nigeria, will appear towards the end of this year. Mr. Nkrumah, in his recent election manifesto, has pledged himself to a Central Bank, with issue functions, for the Gold Coast. It is important, therefore, as the Colonial Office themselves realise, that H.M.G. should get in first with

[5] See 375.

proposals for Nigeria and the Gold Coast about currency and also about the mobilisation of sterling funds.*

B. With a view to the introduction of new Colonial Development and Welfare legislation the Colonial Office asked Colonial Governments on 1st July 1953 for details of their financial requirements for development over the period 1955/1960.[6] Replies are now coming in and are being given a first scrutiny by a Colonial Office Working Party at which I.F. have an observer. The figures which are being thrown up are very large. The Nigerian Government, for example, puts its development requirements over the first years in question at £227m. and considers that of this figure £36m. should be financed by Marketing Board loans, £63m. by external loans and £49m. by external grants. (The I.B.R.D. Mission's figure for Nigeria's development requirements is somewhat less and the Mission considers that £29m. should be financed by Marketing Board loans, £11m. by external loans and £23m. by external grants.) The question of making use of the territory's other sterling funds has not apparently been considered. Clearly we shall have to insist in the case of Nigeria and all other Colonial territories on the point which, at our insistence, was included in the Colonial Office despatch dated 1st July 1953–namely, that "because of the extremely heavy economic and financial burdens which the United Kingdom is now carrying and is likely to have to continue to carry in the new period, Her Majesty's Government will have to be satisfied, before deciding how much assistance the Colonies can be promised, that Colonial Governments are themselves making the maximum efforts to meet their needs from local resources, including the proceeds of local loans and the use of disposable balances held in London."

C. In the meantime, as Mr. Vinter[7] points out, the Colonial sterling assets continue to rise.

7. Pressure from O.F. and I.F. jointly should now be brought to bear on the Colonial Office to get their concrete proposals for:—

(i) implementing the recommendations of the Working Party on Colonial Sterling Assets about Savings Bank and Currency funds;

(ii) mobilising other sterling funds of the Colonies.[8]

*The I.B.R.D. Mission proposes that the State Bank which it recommends should be the principal depository of the sterling funds of the governmental and semi-governmental organisations in Nigeria. The Bank of England particularly dislikes this proposal.

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[6] See 413.

[7] F R P Vinter, Treasury, 1945–1969.

[8] Armstrong minuted to Rowan his agreement that Treasury officials 'should at once put pressure on the C.O. on the lines suggested' (manuscript addition to same document, 26 May 1954). A E Drake of the IF Division wrote to E Melville of the CO on 28 May. Melville replied to Potter on 2 July with a proposal that colonial governments should now be authorised to tap local currency funds as recommended by the Working Party (see para 2, this document), a procedure to which the colonial secretary 'has with some reluctance agreed'. The CO felt that up to 20 per cent of local currency funds might be made available for local investment. But the idea should first be tried out in a circular letter to governors, since it was necessary to assess the danger that it 'might encourage irresponsible attitudes towards finance' in governments 'with unofficial political leadership' (letter from Melville to Potter, T 220/426, pp 11–14, 2 July 1954). With the concurrence of the Treasury and the Bank of England, the circular issued in September ('Investment of currency funds in local securities', circular despatch no 859/54 from Lennox-Boyd to governors, CO 1025/97, no 24, 10 Sept 1954). In the following year colonies did begin to introduce fiduciary issues in line with the new policy.

380 CAB 134/850, EA 14(54) 2 June 1954

'Discussions with delegations from the British West Indies': Cabinet Economic Policy Committee minutes on West Indian access to the United Kingdom market

The Committee had before them a memorandum by the Secretary of State for the Colonies (E.A.(54)70), summarising the case which had been made for special assistance by the Trade Delegation from Jamaica[1] and by the Regional Economic Committee of the British West Indies, which were at present in London. Annexed to this memorandum was a draft statement announcing the conclusions of these discussions.

The Colonial Secretary said that the Delegations from the West Indies were seriously troubled at the possibility that they would soon have to compete in the United Kingdom market with unrestricted supplies from foreign countries. They were particularly worried at the recent agreement to take American citrus fruit under Mutual Aid arrangements. There was no doubt that any falling off in exports of fruit to the United Kingdom would seriously damage the economies of Jamaica and Trinidad, and would also affect those of Honduras and Dominica. These Colonies were already in a difficult economic position, and unless we could help them by sustaining their exports, there was likely to be economic distress on a sufficient scale to lead to civil disturbances, and we should undoubtedly be faced with a need for increased expenditure on grants for their aid. Although it had perhaps been overstated for political reasons, there was a genuine danger in some Colonies of a spread of Communism if nothing was done.

We had encouraged the build-up of the citrus industry in the West Indies with the object of diversifying their economy; but this industry was not yet sufficiently developed to stand up to full competition from the United States, particularly when, as had been done despite their obligations under G.A.T.T., exports of American citrus fruit were subsidised. He had not opposed the inclusion of a token quantity of fruit in the $60 million Mutual Security Aid programme, although he had pointed out the difficulties which this would cause for the Colonies (E.A.(54) 1st Meeting, Minute 3). But there was no doubt that the decision to import American fruit under the aid programme had upset the United Kingdom market more than was justified by the value of the fruit to be shipped; and, having accepted this aid programme, we were under an obligation to mitigate its consequences as far as we could in the West Indian Colonies.

The West Indian Delegations had made a number of proposals, which were summarised in paragraph 4 of E.A.(54)70. The concessions which might suffice to meet the immediate requirements of the West Indian Delegations, but which were the absolute minimum which we could offer, were summarised in paragraph 8 of the memorandum. The only immediate substantive concessions he proposed were that we should undertake to maintain import restrictions on non-dollar, non-sterling bananas at their present level until 30th June, 1955; that we should consult the Colonial Governments before taking any more citrus fruit under future aid programmes; and that we should undertake to buy any of this year's crop of West

[1] As anticipated by the CO, see 378.

Indian canned grapefruit which could not find a market because of the Mutual Security transactions. These immediate concessions were small, and must be accompanied by assurances about the future. It would be necessary to undertake arrangements to bring the West Indies into the Commonwealth discussions before the review of the General Agreement on Tariffs and Trade (G.A.T.T.), and into the review itself. If it turned out that we could not help the West Indies by means of an increase in preferences, we should have to consider sympathetically some other form of assistance. These would be unavoidable obligations.

These proposals were contained in the draft announcement, for which he asked the Committee's approval in principle.

In discussion the following points were made:—

(a) *The Minister of Food*[2] said that he accepted the proposals of the Colonial Secretary, although in the case of citrus fruit he thought that the West Indies Governments were crying before they were hurt, since the amount of citrus fruit imported under the Mutual Aid Programme was very small. We could not continue indefinitely, when we were not in balance of payments difficulties, to keep our market closed to the traditional supply of dollar citrus fruit. It was desirable that an examination should be begun straight away of future arrangements for banana imports; this should be in conjunction with other Commonwealth interests as well since the effective competition for Jamaican bananas came mostly from other Commonwealth Countries. As regards citrus, we should consider what could be done to make West Indian production more efficient.

(b) *The Chancellor of the Exchequer* expressed doubts about the proposal that the Ministry of Food should undertake to buy any of this year's crop of West Indies canned grapefruit which could not find a market. We did not want this fruit, and such a policy seemed contrary to the aims of winding up the Ministry of Food and of ending State trading. *The Colonial Secretary* pointed out that this was a once for all transaction of an underwriting character, and was not really State trading. It was, in fact, unlikely that a loss would be incurred by the Ministry of Food. It would be very difficult not to make this concession, since it was the only one we were proposing which involved any immediate commitment.

(c) *The Commonwealth Secretary* said he appreciated the difficulties of the Colonial Secretary, and suggested that the only satisfactory solution to the problem was to secure freedom to increase Imperial Preferences. We should not fight shy of this at the forthcoming review of G.A.T.T., particularly as the United States themselves did not adhere rigidly to their G.A.T.T. obligations when it suited them not to do so. As regards the proposed concession on citrus, a Government purchase of any surplus of West Indies canned grapefruit might be prejudicial to supplies from South Africa and other parts of the Commonwealth. He would, however, agree to the proposal, on condition that care was taken in the marketing of any grapefruit acquired by the Ministry of Food, to ensure that its disposal did not prejudice supplies from other parts of the Commonwealth.

(d) *The Chancellor of the Duchy of Lancaster*[3] suggested that, from a political point of view, there might be advantage in getting the trade association concerned to undertake the obligation to underwrite the disposal of any surplus of canned

[2] G Lloyd George, minister of food, 1953–1954.

[3] Viscount Woolton, chancellor of the Duchy of Lancaster, 1952–1955.

grapefruit, instead of leaving this to be handled by the Ministry of Food. *The Minister of Food* undertook to consider this possibility and to report in due course to the Chancellor of the Exchequer.

(e) *The Minister of State, Board of Trade*,[4] said that, in the proposed announcement, undue prominence was given to the intention to consider the possibility of preferences, as part of the preparation for the review of the G.A.T.T. The general view of the Committee was, however, that, as we fully intended to consider the question of Imperial Preferences as part of the review of G.A.T.T., there was no harm in referring to this in the statement.

(f) As regards the maintenance of restrictions on banana imports, *The Minister of State, Board of Trade*, said that although this could not be justified on balance of payments grounds, he would accept the need to make some concession; but it would be preferable if it could be limited to the end of March 1955, instead of the end of June, as the banana shipping season began in the spring. *The Chancellor of the Exchequer* said that he also would prefer a shorter extension of the period for maintaining these restrictions, since otherwise we would be announcing their continuance for over a year, with no balance of payments justification.

(g) It was suggested that there would be advantage in considering whether a financial limit could be set on the assurances of future help to West Indian industries. *The Colonial Secretary* pointed out that it would be very difficult, at this stage, to do this. We might well decide that the most appropriate form of help which we could give would be by way of commodity agreements on the lines of the Commonwealth Sugar Agreement; but until the implications of such a development for each of the commodities concerned had been worked out, it was not possible to estimate what the cost would be.

Summing up, *The Chancellor of the Exchequer* said that the Committee appreciated the need to make some concessions to the West Indies Trade Delegations, and, subject to the points mentioned below, endorsed the proposals made by the Colonial Secretary in paragraph 8 of E.A.(54)70, and the form of the announcement annexed to that memorandum. As regards the date to which we should agree to extend the present restrictions on banana imports, this should be discussed by officials of the Departments concerned with a view to avoiding if possible the mention of a specific period of such a length. The Minister of Food would see whether the underwriting of the disposal of any surplus of canned grapefruit could be undertaken by the trade association concerned. An examination would also be desirable of the future arrangements for dealing with West Indies banana and citrus exports after the present concessions had come to an end.

X

The Committee:—

(1) Invited the Colonial Secretary to arrange for officials of the Departments concerned to consider what amendments were necessary to the draft announcement in E.A.(54)70, in the light of 'X' above.

(2) Subject to 'X' above, approved the recommendations in E.A.(54)70.

(3) Invited the Minister of Food to examine whether the underwriting of the disposal of surplus canned grapefruit from this year's West Indian crop could be undertaken by the trade association concerned; and to report thereon to the Chancellor of the Exchequer.

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[4] D Heathcoat Amory, minister of state, Board of Trade, 1953–1954.

381 FO 371/111951, no 3 20 July 1954

'United Kingdom economic interests in the Far East, South-East and South Asia': FO Research Department paper

I. *United Kingdom trade with the Far East South-East Asia and South Asia*

1. In 1952, the total value of United Kingdom exports and re-exports to the Far East, South-East Asia and South Asia was £382 million, and the total value of imports into the United Kingdom from the same region was £351 million. At table 'A' the values of exports and imports in respect of the principal territories of the region are shown, certain minor territories with which the trade was insignificant, namely Macao, French and Portuguese India, Afghanistan and Nepal, being grouped together as "Other Territories".

It will be seen that of the total of £382 million exports the Far East accounted for only £44 million, while South-East Asia accounted for £141 million and South Asia for £195 million. Similarly in the case of imports from the area, the Far East supplied only £40 million as against £132 million from South-East Asia and £178 from South Asia.

It may be noted that these data, and the data referred to below, do not take into account any such consideration as invisible exports: the figures represent only the movement of commodities.

2. Within the region, it is the Commonwealth countries that account for the great preponderance of the trade. As will be seen from Table 'B', the Commonwealth territories accounted for 82 per cent of the United Kingdom's exports to the region and 80 per cent of the United Kingdom's imports from the region.

It will further be seen from Table 'A' that it is India, Pakistan and Ceylon that account for the greater part of the trade. Between them these countries of South Asia accounted for £195 million of the exports and £178 of the imports, so contributing over half the total United Kingdom export trade and nearly half the total import trade with the whole region from Afghanistan to Japan. If these South Asian countries be regarded individually, however, both Pakistan and Ceylon are outstripped by Malaya (including Borneo) which accounts for £90 million of exports and £105 of imports.

3. It will be seen from Table 'C' that if the regional data be compared with the United Kingdom's total world trade, the region accounts for 14 per cent of imports and 10 per cent of exports. The only regions to exceed this proportion in the case of exports are Europe and Africa; in the case of imports, the region is outstripped by all regions except Central and South America and the Middle East, though only Europe and North America are greatly in excess.

4. In relation with the United Kingdom's trade with the Commonwealth at large, the Commonwealth territories of the region account, as Table 'B' shows, for 25 per cent of the exports and 17 per cent of the imports.

5. It may be noted that the data for Hong Kong include United Kingdom goods re-exported to China and Chinese goods re-exported to the United Kingdom. Unfortunately the returns maintained by the Hong Kong authorities do not show the origin of re-exports, so that it is impossible to assess the extent of this re-export trade; moreover, as much of the trade between Hong Kong and China is carried on by smuggling, the official returns, even if they existed, would have little value. It is, however, apparent that the data given in the Tables must under-estimate the extent

of the United Kingdom's trade with China, while over-estimating trade with Hong Kong.

6. For purposes of comparison, corresponding data for the years 1950–51 and for 1938 are included. Averages for the earlier years of the post-war period are omitted, since conditions in that time were even less stable than they have since become. It will be seen that though the apparent values of trade have changed greatly owing to the alteration in monetary values, the proportion of trade enjoyed by the region has altered remarkably little.

II. *Foreign exchange*

1. Of the countries of the region, only India, Pakistan, Ceylon, Malaya (including Borneo), and Burma come within the Sterling Area. Table 'D' shows the net balance of trade of these countries with non-sterling areas, though the figures for Burma are by no means dependable.

2. It will be seen from the Table that the largest earner of non-sterling currency is Malaya, which contributes 50 per cent of the whole. India is a useful contributor of Dollars, but is a deficit area in respect of OEEC; whereas Pakistan, though deficient in Dollars, is a creditor in respect of OEEC.

3. Burma has a very small favourable balance of trade in Dollars and a useful balance in respect of other non-Sterling trade.

4. These countries contributed in 1952–53 44½ per cent of the Dollar earnings of the whole Sterling Area and 17 per cent of other non-Sterling earnings. Their contribution to non-Sterling earnings in total was roughly 28 per cent.

III. *Overseas investments*

1. Tables 'E' and 'F' give a rough statement of the return on United Kingdom Overseas investments as at the end of 1951. The data are not entirely satisfactory, as the Bank of England, in issuing its statements on this subject, omits from the table of Commercial Investments the Kingdom of Thailand, from which the return is small.

2. More serious still, the Bank's statement covers only securities quoted on or otherwise known to the Stock Exchange, and so omits some important concerns whih are not represented by any specific Stock Exchange securities. It is understood that this limitation applies to a considerably greater extent to Asian countries than to other parts of the world. In addition, the investments and returns of the oil companies cannot be divided territorially and so do not figure in the territorial statements of returns.

3. For the above-mentioned reasons, the two Tables 'E' and 'F' underestimate the return on United Kingdom investments in the region.

4. No attempt at a statement of capital invested in the region is included. Figures of nominal capital, if given, would be misleading, for these are often very different from the present market value of the assets. Many old-established concerns have ploughed back their profits over a number of years, so developing and expanding their assets until they are now worth more than the nominal capital. In such cases, the dividends represent a high rate of return on the nominal capital, merely because the nominal capital is less than the value of the assets. Again, the general trend of property values has been upward: if two companies have the same physical assets but one is a pre-war company and the other a post-war company (or one which has been

financially reorganised since the war), the latter will have a nominal capital two or three times that of the former. Again, in some countries, notably China, the assets of United Kingdom companies are, under present political conditions, worth considerably less than their nominal capital. A statement of Interest and Dividends is therefore a more accurate indication of the true value of the investments, subject to the considerable limitations indicated in paragraphs 1 and 2 above.

5. Table 'E' gives the total return on all securities by countries of the region, including public loans as well as commercial concerns. Table 'F' gives the returns of British companies, whether registered in the United Kingdom or registered abroad.

6. It may be noted that these are figures of Interest and Dividends remitted to the United Kingdom: actual earnings, including local taxation and undistributed profits, are much higher.

7. Subject to these extensive limitations, Table 'E' shows that of the total return on United Kingdom investments overseas, the region accounted in 1951 for 19 per cent. The Commonwealth countries accounted for more than nine-tenths of this percentage, Malaya being by far the greatest contributor.

8. Table 'F' shows that the return on commercial investments in the region accounted for 21 per cent of the total return on this form of overseas investment: again the Commonwealth predominated, Malaya once again provided more than half the total.

9. It will be seen from the comparative data that in 1951 the region accounted for a greater proportion of the total world return that it did in the preceding three years. The improvement over 1948–50 is accounted for chiefly by the greatly increased return from Malaya, which rose from an average of £6.8 million to £15.8 million. The increased importance of Malaya as a contributor of returns on investments is shown also by the comparison between the data for 1951 and those for 1938: in the pre-war period, the Commonwealth countries of South Asia provided two-thirds of the return from the region, but in 1951 their contribution had shrunk to a little over one-third; whereas Malaya's share had risen from about one-eighth to over half. These proportions apply to both commercial investments, given in Table 'F', and to investments in general, given in Table 'E'.

10. It may also be noted, in assessing the relative importance of the region as a field for investment trade, that the simple data given must necessarily leave out of account one or two not unimportant elements in the total value of the British connexions in those parts, such as the opportunities provided for employment of United Kingdom citizens, often at relatively high salaries, and the private remittances of such citizens resident in the area.

IV. *Production*

1. The region as a whole possesses extensive sources of primary commodities. Table 'G' shows roughly the region's production of some of the major commodities as percentages of total world production at the present time.

2. The greater part of the produce is, however, absorbed locally. For example, though in 1952 the region as a whole produced 142,000,000 tons of paddy, the quantity exported out of the region was less than 500,000 tons: the rice-crop is either consumed in the country of origin or, if some is exported, goes mainly from one country within the region to another; the surplus of rice available for the rest of the world is thus negligible. Similarly there is now no surplus of sugar or wheat; the coal

and petroleum products are nearly all consumed within the region, as is the iron ore; and though there is extensive export of raw cotton, notably from Pakistan, the region as a whole imports more than it exports.

3. In addition, supplies of valuable material may be withheld on political grounds: thus the export of beryl and ilmenite from India is banned.

4. In other cases, commodities which are in normal times available to the rest of the world are, for reasons which it is hoped are temporary, not at present accessible. Thus Burma was formerly the largest single producer of wolfram (the ore of tungsten), providing some 20 per cent of the world's output, but owing to civil disturbances output is now trifling.

5. Some of the commodities listed are, however, still exported:—

Tea. The supply of tea from India and Ceylon appears at present to present no difficulty; Indonesia and Pakistan show an increasing production, though Japan's exports have declined. The bulk of the tea export goes to the United Kingdom.
Silk. The major producers of raw silk are China, Japan, India and Korea, but exports from China and Korea have fallen, while India has little surplus. The present export of the region, nearly all from Japan, is about 90 per cent of total world exports.
Hemp. Production of hemp is relatively small. Indonesia produces about 7,000 tons, in a world total of more than 500,000 tons. Indian hemp, produced in Pakistan and used for paper-making and rope-making, was exported in 1950 to the extent of 11,000 tons.
Coir. India and Ceylon account for world production; the former exports chiefly in manufactured form, the latter the raw material.
Jute. Except for about 2 per cent, all raw jute comes from the Indian sub-continent, but much is consumed locally. The production by Pakistan in 1952–53 was about 1,218,000 tons and by India 838,000 tons: but total overseas exports were only 541,000 tons.
Abaca, Sisal. The Philippines account for about 126,000 tons of abaca and Indonesia for 12,000 tons of sisal a year, so between them accounting for nearly all the hard fibre production of the region and some 23 per cent of world output.
Rubber. The region as a whole produces about nine-tenths of the world's natural rubber, Malaya (with Borneo) contributing 42 per cent and Indonesia 44 per cent.
Tin. In 1952, the regional production of tin in concentrates was 103,348 tons, or some 60 per cent of world product. Malaya contributed 33 per cent and Indonesia 21 per cent; Burma, Thailand and Indo-China between them produced about 6 per cent.
Tungsten. Before the war, China and Burma produced most of the world's wolfram, but of late years Burma's production has been negligible and China's is reported to be below normal. The available producers are Thailand, Malaya and South Korea.
Manganese. India is a major provider of manganese; in 1951, about a million tons were produced in the country. Indonesia, Indo-China and Malaya produce between them less than 50,000 tons a year.

6. The region has considerable manufacturing capacity, notably in Japan, China and India, but the vast consuming power of the populations of the Asia countries absorbs nearly all that can be produced; as a contributor of manufactured goods to the rest of the world, the region is not of great account.

Table 'A': United Kingdom trade with region, in £ million

	1952		Av. 1950–51		1938	
	Expts to	Impts from	Expts to	Impts from	Expts to	Impts from
I. *Far East*						
Hong Kong	28.74	6.14	32.05	13.05	3.98	0.98
Formosa	1.47	1.89	–	–	–	–
Korea	0.01	0.01	0.07	0.13	0.02	–
Japan	9.29	29.08	6.30	12.64	2.11	9.20
China	4.59	2.99	3.21	9.61	4.13	6.40
	44.10	40.11	41.63	35.43	10.24	16.58
II. *South-East Asia*						
Malaya & Borneo	90.20	104.92	74.39	106.02	11.31	12.86
Burma	15.20	9.87	10.45	4.05	2.66	5.96
Thailand	15.40	1.05	7.36	3.39	1.18	0.35
Indonesia	17.04	12.35	10.84	22.34	3.66	6.34
Indo-China	1.68	0.50	0.66	1.11	0.33	0.41
Philippines	2.11	3.23	2.17	2.89	0.74	0.98
Dutch New Guinea	0.59	–	0.14	0.36	–	–
	141.22	131.92	106.01	140.16	19.88	26.90
III. *South Asia*						
India	112.71	114.55	106.53	125.45	34.27	49.92
Pakistan	56.35	28.82	43.55	33.27		
Ceylon	26.00	34.90	20.64	35.75	3.56	12.37
	195.06	178.27	170.72	194.47	37.83	62.29
IV. *Other Territories*	1.82	0.33	1.59	0.21	0.49	0.24
Regional Total	382.20	350.63	319.95	370.27	68.44	106.01
World Total	2,639.40	3,481.49	2,481.3	3,256.01	532.47	919.48
Regional Percentage	14.2%	10.0%	12.9%	11.4%	12.9%	11.5%

Table 'B': United Kingdom trade with regional Commonwealth countries, in £ million

	1952		Av. 1950–51		1938	
	Expts to	Impts from	Expts to	Impts from	Expts to	Impts from
Hong Kong	28.74	6.14	31.05	13.05	3.98	0.98
Malaya & Borneo	90.20	104.92	74.39	102.02	11.31	12.86
India	112.71	114.55	106.53	125.45	34.27	49.92
Pakistan	56.35	28.82	43.55	33.27		
Ceylon	26.00	34.90	20.64	35.75	3.56	12.37
Total	314.00	279.33	277.16	313.54	53.12	76.33
Total U.K. Trade with All Commonwealth	1,260.92	1,635.86	1,177.38	1,543.29	210.76	341.31
Regional Commonwealth percentage of Total U.K. Commonwealth Trade	24.9%	17%	23.5%	20.3%	25.2%	22.4%
Regional Commonwealth Countries percentage of U.K. Regional Trade	82.2%	79.7%	86.6%	84.7%	77.6%	72%
Regional Commonwealth Countries percentage of U.K. World Trade	11.7%	8.0%	11.2%	9.6%	10.0%	8.3%

Table 'C': U.K. trade with regions of the world

(I) in £ million

	1952		Av. 1950–51		1938	
	Expts to	Impts from	Expts to	Impts from	Expts to	Impts from
North America	306	643	281	528	54	202
Central & South America	204	263	199	387	45	100
Europe	893	1,063	795	996	212	307
Middle East	163	313	149	239	22	31
Australasia	339	403	393	392	59	121
Africa	397	432	326	340	65	48
Far East, South-East Asia and South Asia	382	351	320	370	68	106
(II) by percentages						
North America	11	18	11	16	10	22
Central and South America	8	8	8	12	8	11
Europe	33	30	32	30	40	33
Middle East	6	9	6	7	4	3
Australasia	13	12	15	12	11	13
Africa	15	12	13	10	12	5
Far East, South-East Asia and South Asia	14	10	13	11	13	12

Table 'D': Net balance of payments with non-sterling countries, June 1952–May 1953, in £ million

India	+29	−28	+21	+22
Pakistan	−16	+13	+15	+12
Ceylon	+3	+2	+1	+6
Malaya	+61	+39	−38	+62
	+77	+26	−1	+102
Burma	+0.2	+18		+18
Total	+77	+43		+120
Total Whole Sterling Area	+173	+124	+125	+432

Table 'E': U.K. overseas investments annual return in £ million

	1951	*Av. 1948–50*	*1938*
I. *Far East*			
Hong Kong	0.2	0.1	0.1
Formosa	–	–	–
Korea	–	–	–
Japan	0.1	0.1	2.6
China	0.1	0.1	1.5
	0.4	0.3	4.2
II. *South-East Asia*			
Malaya & Borneo	15.8	6.8	4.0
Burma	1.0	0.5	2.1
Thailand	0.6	0.3	0.2
Indonesia	0.7	0.2	1.2
Indo-China	–	–	–
Philippines	–	–	–
Dutch New Guinea	–	–	–
	18.1	7.8	7.5
III. *South Asia*			
India	7.2	6.6	18.5
Pakistan	1.0	0.9	
Ceylon	3.2	2.9	1.7
	11.4	10.4	20.2
Regional Total	29.9	18.5	31.9
World Total	159.4	124.8	155.4
Regional Percentage	18.8%	14.8%	20.5%
Commonwealth Percentage of World Total	17.2%	13.9%	15.6%

Table 'F': U.K. overseas investments, commercial: annual return in £ million

	1951		Average 1948–50		1938	
	Share Dividends	Loan Interest	Share Dividends	Loan Interest	Share Dividends	Loan Interest
I. *Far East*						
Hong Kong	–	–	–	–	–	–
Formosa	–	–	–	–	–	–
Korea	–	–	–	–	–	–
Japan	0.5	–	0.1	–	0.1	0.3
China	–	–	–	–	0.2	–
	0.5	–	0.1	–	0.3	0.3
II. *South-East Asia*						
Malaya & Borneo	15.6	0.1	7.3	0.1	4.0	0.3
Burma	1.0	–	0.5	–	1.3	0.1
Thailand	–	–	–	–	–	–
Indonesia	0.6	0.1	0.2	–	1.0	0.2
Indo–China	–	–	–	–	–	–
Philippines	–	–	–	–	–	–
New Guinea	–	–	–	–	–	–
	17.2	0.2	8.0	0.1	6.3	0.6
III. *South Asia*						
India	6.4	0.5	5.9	0.5	7.0	2.8
Pakistan	0.9	–	0.8	–		
Ceylon	3.1	–	2.8	–	1.4	0.1
	10.3	0.5	9.5	0.5	8.4	2.9
Regional Total	28.0	0.7 =28.7	17.6	0.6 =18.2	15.0	3.8 =18.8
World Total	132.1	7.9 =140.0	95.4	8.2 =103.6	77.9	22.4 =100.3
Regional Percentage		20.5%		17.6%		18.7%
Commonwealth Percentage of World Total		18.9%		16.8%		15.6%

Table 'G': Regional production, in percentages of world production

Rice	92	Iron Ore	3
Wheat	24	Copper	3
Sugar	11	Lead	0.7
Tea	95	Zinc	3
		Tin	63
Cotton (ginned)	27	Tungsten	48
Wool	5	Antimony	7
Silk	73	Ilmenite	50
Hemp	13	Beryl	10
Coir	100	Manganese	21
Jute	98	Bauxite	8
Abaca	91	Chromite	16
Sisal	2		
Rubber	90	Coal	8
Groundnuts	37	Petroleum	2
Linseed	35		
Palm Oil	29		

382 CAB 129/73, C(55)40 12 Feb 1955

'Review of the General Agreement on Tariffs and Trade': Cabinet memorandum by Mr Thorneycroft. *Annex*

The General Agreement on Tariffs and Trade (G.A.T.T.) negotiations are reaching their concluding stages at Geneva. An important consideration at this stage is to preserve the highest possible degree of Commonwealth agreement. It looks as though the G.A.T.T. is likely to emerge from these negotiations in a form not markedly different from the existing Agreement. The G.A.T.T. rules will certainly not be tightened to the extent which the Government originally wished us to achieve. On the other hand the fact that the rules will not be much tighter will not necessarily make the Agreement any harder to defend.

2. The problems, as well as the advantages, of the rules affecting tariffs, quotas and exports which arise for us under the existing G.A.T.T. and which I have placed before the Cabinet on a number of occasions, will remain substantially unchanged under any new agreement which is likely to be reached.

3. There are four points on which I consider we should try to achieve a satisfactory conclusion in these final stages of the negotiations.

(i) A provision described below which will give us some flexibility in relation to the Colonies.

(ii) Equal rights with other European countries to continue existing quota restrictions to protect particularly difficult items for a period after balance of payments difficulties have ended; and the right to maintain existing discrimination in these quotas.

(iii) Agreement by the United States that the general arrangements relating to their waiver permitting agricultural quotas shall be subject to review in 1960, or earlier.

(iv) Inclusion in the record of the G.A.T.T. review of any statement necessary to enable Ministers to say that in the last resort general discrimination against a

scarce currency could be authorised under the waiver procedure, to prevent a general downward tendency of trade.

4. I consider it essential in presenting the revised Agreement to Parliament that we should announce the Government's intention to seek legislative powers to use countervailing duties and anti-dumping duties so as to protect our industry and agriculture against unfair competition from abroad. This was agreed in principle by the Economic Policy Committee on 4th February (E.A.(55) 4th Meeting, Minute 3) and I hope that the Cabinet will now endorse this decision. There are some quite complex problems involved in this and I shall be submitting to the Economic Policy Committee in due course a memorandum dealing with the consultations I have had with industry, the scope of the legislation, and the timing of any announcement.

The colonial position

5. The Chancellor of the Exchequer said at Blackpool "We propose to fight for adjustments to meet the special needs of the Colonies". I said at Geneva that certain Colonial problems arose where a developing industry depended not on selling in the limited domestic market of the territory, but on exporting the product to the metropolitan country, and that "we would wish to seek arrangements within the framework of the G.A.T.T. to deal with these needs individually as they arise".

6. All of us would like a provision which goes even further than these statements. We would like to be completely rid of the no-new-preference rule in so far as the Colonies are concerned. Unfortunately such an amendment to the G.A.T.T. would cut directly across Article I of the Agreement and would require unanimity if it was to be carried. We have discussed such an amendment with other countries including members of the Commonwealth and my advice is that there is no chance of carrying it. To put it to the vote knowing that we would fail would in my judgment substantially increase the political difficulties of defending the G.A.T.T. before Parliament.

7. Instead I propose that we should seek a waiver in the terms summarised in the Annex to this paper. This should help us. We should have secured freedom, subject to certain procedures, to take action to assist Colonial exports to our own market by quotas or countervailing duties against imports from other suppliers. International acceptance of the waiver in the G.A.T.T. would have presentational advantages at home and in the Colonies. Its existence would also strengthen our hands for rejecting protests from other countries whose trade was injured by export subsidies on Colonial products exported to our market. Even in relation to preferences it would have some presentational value, for it would to some extent prepare the way for getting individual waivers to permit preferences on particular products. I propose also that in the drafting of any waiver permitting us to retain protective quotas (see paragraph 9 below) we should make it clear that we require freedom to retain such quotas in the interests of the Colonies.

8. In addition, the Colonial Secretary and I are examining with the Chancellor what immediate action could be taken on some of the more pressing Colonial problems such as bananas, citrus fruits and cigars.

Protective quotas and the American waiver

9. The Americans will probably get a waiver unlimited in time which will enable

them to impose protective quotas on those agricultural products which they price support subject to strict rules about consultation. We and Europe look like getting a waiver which will allow us to retain our quotas on the more sensitive items, agricultural or otherwise, up till 1960. A waiver on the American pattern would be of no value to us because it would be limited to products which are price supported in a manner which attracts abnormal imports (it would not cover, e.g. apples). It would also certainly have to be non-discriminatory, i.e., we should have to impose quotas against the Commonwealth—to whom, in any case, a waiver for other countries on the American pattern would be most repugnant. In these circumstances, I recommend that we should demand equal rights with Europe and seek with Commonwealth support to ensure that the general arrangements for the American waiver are subject to review in 1960 or earlier.

10. I personally believe that it would be in our interest to have the right to maintain existing discrimination in these protective quota arrangements, and that this should be our objective. I should warn my colleagues, however, that not only will this be opposed by Canada, who will be hit by the United States, European and United Kingdom waivers, but it may also be opposed by some sterling Commonwealth countries who fear discrimination against them by Germany. In addition, the attitude of the European countries is uncertain.

Discrimination against a scarce currency

11. We must be able to satisfy Parliament that if the dollar becomes generally scarce the G.A.T.T. would not prevent the Contracting Parties from organising discrimination against the dollar. There is provision in the International Monetary Fund Agreement for authorisation of discrimination after a finding of general scarcity but the public are well aware of the importance of the United States weighted vote and the possibility of its use to block such authorisation. In such circumstances we might still be able to rally sufficient support among Contracting Parties to secure waivers under the G.A.T.T. so as to allow of discrimination and we must ensure that the record includes some statement which will enable Ministers to say (with assurance) that in the last resort general discrimination against a scarce currency could if necessary be authorised under the waiver procedure to prevent a general downwards trend in trade. On this, the Chancellor and I have concerted with Mr. Menzies in order to preserve a common front at Geneva.

Conclusion

12. I consider that we have a good chance of getting in substance our requirements on the points mentioned in paragraph 3 above. Our negotiators are well aware of the political difficulties involved in presenting the G.A.T.T. to Parliament. It is already quite clear that governments will need to consider the Agreement as a whole before deciding whether they can recommend it to their Parliaments and our Delegation should be told to make it plain that the outcome of the negotiations on these four points will be of decisive significance for Her Majesty's Government in this respect. The chances of securing acceptance of our requirements will be greatly improved if our Delegation can say that we should be prepared to recommend the revised Agreement to Parliament, if our requirements on these four points are met. *I recommend that we should now give this authority to our Delegation*. On the other hand there is no need at this stage to make any of the

points breaking points; as the negotiations proceed through this crucial stage we shall have to take further decisions on these questions and to decide whether to authorise our Delegation to accept the texts of the protocol of amendments and of the agreement on organisation.

Annex to 382: Summary of proposed colonial waiver

Subject to the conditions set out below, the waiver would permit the United Kingdom to accord to exporting Colonial industries facilities not otherwise compatible with the G.A.T.T. provided that these are similar to facilities which may be accorded, consistently with the Agreement, to domestic industries of the United Kingdom itself.

The conditions are:—

(a) Prior notification before action is taken;
(b) consultation with the Contracting Parties if requested within thirty days;
(c) if consultation is requested, no action for ninety days from the date of the notification unless the consultation results in earlier concurrence;
(d) no increase of a preference without specific approval under the standard waiver procedure of Article XXV;
(e) action only to be taken if designed solely to benefit the Colonies;
(f) all action taken to be reviewed annually by the Contracting Parties.

383 CAB 128/28, CC 14(55)3 16 Feb 1955

'Commercial policy': Cabinet conclusions on review of the GATT

The Cabinet resumed their discussion of the memorandum by the President of the Board of Trade (C. (55) 40) on the position reached in the review of the General Agreement on Tariffs and Trade (G.A.T.T.).[1]

The Cabinet first discussed the need to secure adequate flexibility in the revised G.A.T.T. to meet the special needs of the Colonies.

The Colonial Secretary said that the combination of the no-new-preference rule of the G.A.T.T. and the obligation under the Ottawa Agreements to allow free entry for Commonwealth goods prevented any extension of Imperial Preference. Although this was no longer desired by the independent countries of the Commonwealth, it was still of great concern to the Colonies, and there was a general expectation among the Government's supporters in this country that, as a result of the current review, the United Kingdom would obtain greater freedom to help Colonial industries. The United Kingdom delegation at Geneva had originally suggested a Colonial clause which would give us freedom from the no-new-preference rule so far as concerned the Colonies, but this would involve unanimous agreement to amend Article 1 of the G.A.T.T., and it was now clear that it could not be carried at Geneva. The alternative of a Colonial waiver, which was now proposed, was not free from objection. It seemed that, under it, the United Kingdom would be unable to give material help to the Colonies otherwise than by subsidies; and, once this principle was established, there

[1] See 382.

would be a risk that the Exchequer would be pressed to provide substantial and continuing support for Colonial products. It was important, particularly in view of the extent to which the United States would secure its aims under the revised G.A.T.T., that the Government should be able to show that they had done everything possible to obtain adequate provisions to meet the needs of the Colonies. In these circumstances, it might be preferable to press the original proposal to a vote.

In discussion, it was pointed out that the waiver, although a second-best solution, had definite advantages for the Colonies. Under it, the United Kingdom would obtain power to treat a Colonial industry for certain purposes as if it were a metropolitan one, for example, by the imposition of countervailing duties, or the use of export subsidies. Also, we should be able to exercise for the benefit of the Colonies the right which we, with other European countries, hoped to obtain to continue existing protective quotas. The waiver would also facilitate the negotiation of some flexibility on tariffs for the benefit of the Colonies.

The following arguments were put forward against pressing the original proposal to a vote. First, the proposal was bound to be defeated. Secondly, it would be opposed by the other members of the Commonwealth, with whom we had previously agreed that we should not press for fundamental amendment of the no-new-preference rule. Thirdly, if it were pressed and defeated, this might increase the domestic political pressure for the United Kingdom to leave G.A.T.T. Finally, the Colonial advisers themselves preferred to seek the waiver, which would come into operation immediately, rather than pursue the original proposal.

In further discussion the following points were made:—

(a) The fact that our original proposal would be defeated would not be conclusive if we had a good case for seeking a modification of the no-new-preference rule in the interests of the Colonies. But the fact was that at present only three Colonial industries (tobacco, citrus fruit and bananas) were in real difficulties, and tariff action would be an appropriate remedy only for bananas.

(b) The United States was able to treat Puerto Rico as if it were part of the metropolitan territory because of their Customs Union. It was suggested that the United States was about to give preferential treatment also to the Philippines, under an agreement just concluded.

(c) It did not seem possible to bring enough pressure to bear on the United States to support our original proposal, since the United States was able to obtain all her aims in the review without our support.

(d) It was not clear to what extent a waiver in the form suggested would facilitate tariff action to help the Colonies. If, for example, a preferential tariff were needed to help the Colonial banana industry, it would be necessary to re-negotiate the tariff, which was bound, on Brazilian bananas; this re-negotiation would then have to obtain the approval of a two-thirds majority of the G.A.T.T., under Article XXV. It was desirable to ensure that tariff action of this sort could be taken under the waiver without first obtaining the prior approval of the members of the G.A.T.T.

(e) Whether we should press our original proposal to a vote, in which we should be defeated, depended on whether that would prejudice the chance of securing a satisfactory waiver to meet Colonial difficulties. The United Kingdom delegation in Geneva had advised that we should be more likely to get a waiver in satisfactory terms if we did not press the original proposal. This was a question of tactics, on which the United Kingdom delegation were in the best position to advise.

(f) If we could secure a waiver in satisfactory terms, it would not be necessary to press the original proposal to a vote for the sole purpose of showing that the United Kingdom had done everything possible in the interests of the Colonies. The waiver could be presented as being, in effect, as good as the original proposal.

Further discussion showed that it was the general view of the Cabinet that the United Kingdom delegation at Geneva should do their utmost to obtain a waiver in the best possible terms to meet the needs of the Colonies. Without such a waiver, it seemed most unlikely that the Government would be able to accept the revised G.A.T.T. and this should be clearly stated by the United Kingdom delegation. In any event the Government would have to consider the revised G.A.T.T. as a whole when the negotiations had been concluded; and, if it then appeared that the revised Agreement was unacceptable and that freedom from the no-new-preference rule was necessary, the Government would be obliged to seek an amendment of that rule which would be in general terms and not limited to the Colonies.

The Cabinet then considered the need to obtain equal rights with other European countries to continue existing quota restrictions in certain circumstances after balance of payments difficulties had ended.

The President of the Board of Trade said that, at present, we could use quotas to meet balance of payments difficulties, with discrimination in favour of other sterling Commonwealth countries. After convertibility, although we should still have power to impose quotas on balance of payments grounds, they would have to be applied on a non-discriminatory basis. The right which we are now seeking was to allow the use of quotas, after balance of payments difficulties had ended, for protective purposes. We should only be able to use existing quotas for that purpose and no question of their use would arise until balance of payments difficulties had ended. The question for decision was whether we should seek a power to discriminate in the use of these protective quotas. It was now clear that, on balance, most of the other members of the Commonwealth would oppose such a power; and he recommended that, unless other European countries pressed for it, the United Kingdom should not do so.

The Chancellor of the Exchequer said that he was in favour of seeking the power to discriminate in the use of these protective quotas. Other European Governments would wish to be able to discriminate, although their delegations in Geneva had not so far pressed for this. In any event we needed the power for domestic political reasons; and, even though other members of the Commonwealth had not wished us to maintain the power to discriminate in their favour, there would be criticism if we appeared to have given it up.

In discussion it was pointed out that, with the possible exception of New Zealand, the other members of the Commonwealth thought that their true economic interests would be better served by non-discrimination, since they feared that, if European countries had the right to discriminate, Commonwealth exports to European markets might be adversely affected. Germany, for example, might make bilateral trade agreements which would favour Latin America at their expense.

It was pointed out that, if other European countries did not seek the power to discriminate, it would be difficult for the United Kingdom to take the initiative in doing so. It was undesirable that we should lead the European countries in opposition to the Commonwealth on this question. It would be a different matter if we could obtain the support of other Commonwealth countries. But at present, apart from New Zealand, only Australia was prepared to support us in seeking this power.

It was also argued that the power to discriminate could be used by European countries to the detriment of the United Kingdom, since Commonwealth countries might find it necessary to protect their exports by giving preferential treatment to goods from other European countries at the expense of United Kingdom exports.

On the other hand, it was pointed out that it was not unreasonable to ask for the continuance of the power to discriminate since it would be available only for a very limited period, between the end of balance of payments difficulties and the beginning of 1960, when the right to maintain protective quotas would lapse. The continued right to discriminate would be a useful argument with which to meet criticisms, not only from industry, but also from those who still supported the principle of Imperial Preference. It would be helpful politically if the Government could demonstrate that it was the other members of the Commonwealth and not the United Kingdom that had rejected Imperial Preference.

Further discussion showed that it was the general view of the Cabinet that, while it would be inadvisable to incite other European countries to seek the power to continue to discriminate in the use of protective quotas, the United Kingdom Government should be able to show that they had sought such a degree of flexibility in the use of protective quotas as would be to the mutual advantage of the United Kingdom and of the other countries, dependent and independent, of the Commonwealth.

The Cabinet next considered the other requirements necessary for a satisfactory conclusion to the review. These were to obtain the agreement of the United States that the general arrangements relating to their waiver permitting agricultural quotas should be subject to review in 1960 or earlier; and to secure the inclusion in the record of the G.A.T.T. review of a statement enabling United Kingdom Ministers to say that in the last resort general discrimination against a scarce currency could be authorised under the waiver procedure.

It was the view of the Cabinet that the United Kingdom delegation should be instructed to seek satisfaction on these two points.

The Cabinet:—

(1) Invited the President of the Board of Trade to give the following instructions to the United Kingdom delegations in the concluding stages of the review of the G.A.T.T.:—

(i) To press for a waiver in the most favourable terms possible to meet the needs of the Colonies, and to make it clear that a satisfactory waiver was essential if the United Kingdom Government were to be able to recommend the revised G.A.T.T. to Parliament.

(ii) To obtain equal rights with other European countries to continue existing protective quotas for a period after balance of payments difficulties had ended until 1960, and to seek such flexibility in the use of such quotas as might be mutually advantageous to the United Kingdom and to the other countries of the Commonwealth, including the Colonies.

(iii) To secure the agreement of the United States that the general arrangements relating to their waiver permitting agricultural quotas should be subject to review in 1960 or earlier.[2]

[2] Thorneycroft subsequently reported to Cabinet that the first two of these objectives had been substantially achieved ('Review of the General Agreement on Tariffs and Trade', Cabinet memo by Thorneycroft, CAB 129/74, C(55)86, 28 Mar 1955, para 6).

384 CO 1025/56, nos E/24 & E/21 9 Jan 1956

[Overseas expenditure]: letter from Sir H Brittain to Sir T Lloyd. *Enclosure*: Treasury memorandum

You will remember that Mr. Butler, when Chancellor of the Exchequer, circulated a memorandum on overseas expenditure to his colleagues (CP(55)184) of 29th November 1955). It seemed to us here in the Treasury that there might be advantage in making the substance of this "Top Secret" paper fairly widely available within the Departments mainly concerned with overseas expenditure. I enclose therefore six copies of a memorandum prepared on the basis of the Cabinet paper, and I should be grateful if you could agree to its being given a wide distribution within your Department. . . .

I hope you will agree that it should make for easier relations between you and us if all those concerned are fully seized of the reasons why, in this particular field, the Treasury has at times to adopt what may be regarded from your point of view as an unreasonably restrictive line.

Enclosure to 384

1. This note sets out the reasons why the Treasury must ask Departments to keep overseas expenditure to the minimum and to incur no avoidable commitments at present.

2. All Government expenditure whether at home or overseas has to be met from our own resources. But external expenditure imposes an even greater strain than expenditure at home, for while both make increased demands on output, external expenditure means that the increase in output must take the form of an expansion of exports.

3. The Treasury have the impression that Departments at times believe or at any rate take for granted, that resources for additional overseas expenditure can always be found, if only the Treasury can be persuaded to disgorge them. This is not so. Unless we have a favourable balance of current payments there are no resources that can be devoted to additional expenditure overseas except by borrowing overseas* or running down our reserves.

4. Our items of expenditure overseas may be divided into those of a current nature and those of a capital nature. As regards the former the chief items of expenditure directly attributable to the Government are:—

(i) External military expenditure: £150 million a year (which will be increased by over £70 million a year if and when we have to meet the full cost of our forces in Germany).
(ii) Grants for Colonial development and assistance: £27 million a year.
(iii) Other political expenditure: £20 million a year.
(iv) The interest on the United States and Canadian Loans: £40 million a year.

* Borrowing overseas occurs when other countries increase their holdings of sterling—holdings which we have to discharge when they wish to draw on them and on which they can now draw, broadly speaking, to make payments anywhere.

5. Including these items, we have for the last few months been running only about level in our external accounts. We are not earning enough to meet our existing capital commitments (see paragraph 6 below), let alone to incur new commitments. At home there has been an excessive demand on our resources and as a result a continuing tendency to inflation. A number of measures, including a Supplementary Budget, have been taken to hold and improve the situation, but it is not yet possible to forecast the extent of their success.

6. Running level is of course not nearly good enough. If we are to meet capital commitments on external accounts without getting further into debt, we shall need a surplus of about *£200–£300 million a year* on current account, year in year out. The following are the main capital items which can otherwise only be met by running down our reserves, or by borrowing abroad, or both:—

(i) the capital repayment of the United States and Canadian loans (£37 million per annum);
(ii) releases under agreements from the sterling balances (£27 million);
(iii) loans for Colonial development and assistance (£18 million).

We have, moreover, already undertaken new commitments for releases from our subscription to the International Bank (£60 million over six years from 1953): for special Export Credit Guarantee Department credits to Persia and Pakistan (£17 million): for subscriptions to the International Finance Corporation (£5 million).

7. This is not the end of the story. For the Kariba hydro-electric project in the Federation of Rhodesia and Nyasaland we are committed to loans of £18 million and to a release to the International Bank of about £10 million from our £60 million. We have offered a £15 million E.C.G.D. loan towards the Third Indian Steel Works; we may well be pressed to go further. For the Aswan High Dam we have undertaken to provide a grant of £5.5 million, which will fall due in 1957–60, and have given assurances of support for the final completion of the project which may involve us in anything from £5.7 to £9.3 million. Finally, there is the Volta River project, which will cost £200–£300 million; our share remains to be settled, but on the earlier estimates we were to put up 40 per cent.

8. All these items can be met only by running further into debt or from the £300 million surplus on current account which we have set up as our target—a surplus which has also to meet our existing capital commitments—a surplus, moreover, which is only our aim and which at the moment we are not earning.

9. The situation on overseas expenditure as set out above is clearly serious in relation to the current and prospective state of actual and net earnings overseas. Substantial success in reducing inflation at home under the measures recently taken will at best restore us to a healthy condition with only our present commitments. But these measures will take time to work in full, and their success cannot in any event be guaranteed. Taxation, too, is very high and it is most desirable to reduce it both on general grounds and to help to restore the incentives necessary to foster our export trade in a highly competitive world.

10. Against this background it will be clear that opposition by the Treasury to proposals for new expenditure, large or small, is not based on old-maidish caution or on the love of obstructiveness for its own sake, but on an appreciation of the very critical position in which we now stand. The Treasury recognise that the objects of most of the new proposals which they receive deserve every sympathy; they may be to

strengthen our political standing or economic influence in the world, or to secure in the long-term future some material advantage. But there is the real danger that all these objects will be defeated simply by taking on more than we can afford. Our economic difficulties this year have been watched with critical eyes abroad. There have been widespread fears, not only in Europe but also in the Commonwealth, that we were reaching an impasse which would place an intolerable strain on sterling. Unless these fears can be checked we may do lasting damage to the sterling area and the sterling system. They can be checked only if we can restore our balance of payments to a strong and healthy condition.

11. What will happen if we find that our commitments prove to be more than we can meet with a continuance of our present policies? We shall either have to make severe changes in those policies or adopt drastic internal measures, or both. These courses are unpleasant. The weakening of our status as a major power which the reversal of our policies overseas would involve is obvious. The difficulty and undesirability of further action by way of internal measures is equally obvious; there must be a limit to the strain that can be put on industry and the home economy generally. It must therefore be only elementary prudence not to incur fresh commitments until we can see our way to carrying out those we have already incurred. If we do not, we face irreparable damage to our economy, to sterling, and to the sterling area system, with all that this implies to us as the centre of the Commonwealth and as a leading world Power.

385 CO 1025/56, no E/24 3 Feb 1956

[Overseas expenditure]: letter (reply) from Sir T Lloyd to Sir H Brittain

[In discussing how best to reply to Brittain's letter and memorandum (see 384), Poynton proposed various arguments which 'would show that the Secretary of State was not necessarily taking the Treasury policy lying down' (minute by Poynton to Lloyd, CO 1025/56, 13 Jan 1956). They were incorporated in the last two paragraphs of Lloyd's letter.]

Thank you for your letter of the 9th January enclosing copies of the modified version of Mr. Butler's memorandum on overseas expenditure. I have arranged for it to be seen down to Assistant Principal and equivalent levels in the Colonial Office, together with your letter and this reply.

I think I may fairly claim that we here do realise the seriousness of our present overseas payments position. In fact we have been able to reduce the Colonial Services Vote provision by some 25% in each of the years from 1954/55 to 1956/57. I am not of course contending that the whole of these reductions has resulted from a deliberate pruning of our overseas expenditures: a substantial part has derived from the completion of services for which provision was made in earlier years. But we have tried hard to keep our expenditure down to essentials, and I can assure you that we shall continue to do all we can to help over the general problem—and we are also endeavouring to make clear to the various delegations from the Colonies who come to discuss financial matters with us just what that problem is.

Having said that, I hope you will not feel that this is an unsuitable occasion for me

to add one or two general observations about the position of the Colonies in relation to this general problem. The Colonies are, so to speak, a part of us, and in the context of "overseas commitments" constitute a first and direct responsibility of H.M.G. We do not believe it is realistic to consider colonial economies as being entirely external to that of the United Kingdom. The Colonies use virtually the same currency as the United Kingdom; London is their banking centre where they both keep their reserves and raise loan capital; and the United Kingdom is their most important trading partner (accounting for 31½% of colonial imports and over 32% of colonial exports in 1954). These close links mean that any surpluses earned by the Colonies which are banked here in fact relieve the strain on the U.K. economy.

The sterling balances of the Colonies are currently rising at something not far short of £100 million per annum, while colonial net dollar earnings in 1954 were about £100 million. These figures suggest that it is to the United Kingdom's advantage that she should act as banker to the Colonies. But being banker to the Colonies is a position that works both ways. It implies not only accepting and holding the reserves of Colonial Governments and public bodies in the Colonies, but also a readiness to meet the Colonies' reasonable financial needs. Moreover a good deal of U.K. expenditure in the Colonies has a direct development value which is of benefit to the sterling area as a whole, including the United Kingdom. Thus, to take the case of the two colonial projects mentioned in paragraph 7 of the Treasury Memorandum, our interest in Kariba is closely connected with the maintenance of copper supplies from Northern Rhodesia, while U.K. interest in the Volta scheme is in reality not so much one of colonial development as one of obtaining a large supply of non-dollar aluminium.

I do not mention these points in any way in order to question the basic theme in the Treasury Memorandum that the U.K. economy is over-extended and must beware of further over-committing itself. My point is essentially this. Taken together, the Colonial Services Vote and the Colonial Development and Welfare Vote for the current year amount, I believe, to rather less than 2% of the total United Kingdom Civil Estimates. This does not, I think, suggest that the Colonies are being given excessively high priority in United Kingdom spending in relation to their political and economic importance; and we hope that, if the United Kingdom's resources are not sufficient to cover the whole of our internal programmes and our overseas commitments, the considerations I have mentioned above in regard to the Colonies will be given full weight in deciding where cuts must fall.

386 CO 1025/56, no 25 20 Feb 1956

[Overseas expenditure]: letter (reply) from Sir H Brittain to Sir T Lloyd

In reply to your letter of 9th [sic] February[1] we are grateful for your assurance that the Colonial Office will continue to try to keep down expenditure in present circumstances. I fully understand that the inevitable restrictiveness of our present policy presents you with unpleasant choices; but there is no doubt that failure to restrain our commitments will produce an even more disagreeable situation.

[1] See 385 (the date should read 3 Feb).

Your latter paragraphs seem to me to detract from the force of your opening. We could certainly not accept the proposition you seem here to be advancing: namely that the Colonies should be wholly or partly exempt from the restraint on external expenditure because you consider that we spend (comparatively) so little on them, because our political and trade connections are so close, and because of their rising sterling balances.

The two Votes you mention in your conclusion account for substantial sums and they are very far indeed from being the total cost to us of the Colonial Empire. Economy in expenditure would be impossible if we dismissed sums of the order of £50m. as too small to cause real concern.

I agree that we cannot regard Colonial economies as "entirely external" to that of the United Kingdom. Such description would, indeed, have little meaning. For years now it has been necessary to emphasise the inter-connectedness of internal and external problems, and the Chancellor's most recent statement is, of course, based on the principle that vigorous internal measures are necessary to relieve the balance of payments. The external requirements dealt with in the Treasury memorandum are, of course, part only of the burden. The fact remains, however, that external spending, even in the sterling area, has a more direct and a larger effect upon our reserves and the status of sterling than expenditure at home, and has for that reason to be examined with special care.

You refer to the Colonies' rising sterling balances. They have undoubtedly been a temporary help to us, as well as good policy for them. But we see no reason to draw the conclusion that we can therefore the more freely finance expenditure in the Colonies. Indeed, one important reason for vigorous economy in overseas expenditure is precisely that we must put ourselves in such a position that when the Colonies start running down their balances they can do so without our exchange reserves being reduced too far in the process. This would damage the Colonies as well as ourselves. The Colonies are now in overall current deficit, their development expenditures are rising fast, they are beginning to introduce fiduciary issues, and several are on the brink of independence. In these circumstances we can only regard these balances as a liability which we may be called on to meet on an increasing scale.

For these reasons we could not agree that Colonial commitments should be less severely examined than any others. I am afraid we shall have to continue to look at them with no less care than the rest.

All told, therefore, I still hope that the Colonial Office will give the fullest possible weight to the considerations set out in the memorandum and in this letter.[2]

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[2] Poynton described this letter as 'the counter-blast' (minute by Poynton, CO 1025/56, 21 Feb 1956).

387 CAB 129/82, CP(56)191 27 July 1956

'United Kingdom commercial policy': joint Cabinet note by Mr Macmillan and Mr Thorneycroft. *Annex*: interim report by officials on 'United Kingdom initiative in Europe, Plan G'

We shall shortly be faced with the need to make certain decisions on commercial

policy. This need arises specifically from the current proposal to create a Common Market in Europe and from the difficulties into which we are running on Imperial Preference with Australia. Some months ago, therefore, we asked officials to study a plan which might both meet these difficulties and at the same time be of advantage to the United Kingdom economy, and we have on various occasions indicated to our colleagues that such a study was being made.

2. An interim Report by a group of officials from the Foreign Office, Treasury, Board of Trade, Ministry of Agriculture, Commonwealth Relations Office, Colonial Office, Board of Customs and Excise, and the Bank of England has now been completed and is attached. Further studies on this have still to be made. But in view of the complexities of the issues that are raised we feel that it would be of advantage if all members of the Cabinet were aware of the nature of the plan, so that they may be better able to form a judgment of the definite proposals which we hope to be able to make in four or five weeks' time. We expect that we shall be submitting these matters to the Cabinet for decisions early in September.

Annex to 387

Introduction

1. In a memorandum dated 22nd May the President of the Board of Trade put forward certain proposals designed to deal with the consequences of the decision by the six "Messina" Powers (Germany, France, Italy, Holland, Belgium and Luxembourg) to proceed towards the formation of a Customs Union. Under such a Customs Union all these countries would, over a period of years, abolish tariffs and other restrictions on trade among themselves and would establish a common tariff against imports from the rest of the world. They would thus create in their own territories a Common Market. The proposal put forward by the President was that the United Kingdom should associate itself with the Common Market by means of reciprocal removal, by the United Kingdom and the Customs Union, of their protective tariffs over a period of years and of other restrictions against each other. The United Kingdom would not, however, adopt the common tariff of the members of the Customs Union against imports from other countries, but would maintain its existing freedom of action in this field including the right to maintain Commonwealth free entry. There would thus be created what is technically described as a "Free Trade Area" between the Customs Union and the United Kingdom. In order, however, to safeguard both British agriculture and the Commonwealth interest in the United Kingdom market for their main products, agricultural products would be excluded from the operation of the scheme. The continuation of free entry for manufactured goods from the Commonwealth, and the maintenance of free or preferential entry for agricultural commodities, would give us some hope of retaining as much of our preference in Commonwealth markets as would in any circumstances be expected.

2. At a meeting of Ministers held on 31st May, under the Chairmanship of the Chancellor of the Exchequer, when this and other problems of a United Kingdom Initiative in Europe were discussed, it was decided that officials should make a more detailed study of the possibility of a partial Free Trade Area of this kind, including in particular the following points:—

"(a) an expansion .... on the lines suggested by the President of the Board of Trade to make it more attractive to the Commonwealth, involving maintenance of free entry into the United Kingdom for manufactured products, continuation of preferential arrangements for agricultural products, together perhaps with some guaranteed purchase arrangements or other means of developing the United Kingdom market for Commonwealth agricultural products;
(b) the implications for United Kingdom industry of abolishing over a period of time existing protective tariffs against Europe on manufactured goods;
(c) the implications of the scheme for and the compatibility of it with the collective approach to convertibility and the G.A.T.T.;
(d) the probable time-table of events in Europe if we decided to launch such a scheme: how quickly or slowly it would be implemented and how quickly it would make an impact."

3. The full study called for will take further time to complete. This paper is an interim report on the Plan and its implications in broad outline, with particular reference to the points at (a) to (d) above. The paper is not submitted as a basis for decision at this stage. We aim to produce a final report in about a month which would provide a basis for such a decision, which of course would still have to be subject to the result of such consultation inside and outside the Commonwealth as Ministers might think necessary and appropriate. But if there are any points arising from this interim report to which Ministers would wish us to give further attention in completing our studies, it would be helpful for us to know this as soon as possible.

4. This interim report is divided into four parts:—

I Description of a suitable "Plan G." (Paragraphs 9–45).
II International implications—Commonwealth, Europe, United States. (Paragraphs 46–58).
III Implications for United Kingdom industry, agriculture, the balance of payments. (Paragraphs 59–66).
IV Points for further examination. (Paragraphs 67–69).

5. It is assumed throughout that the Messina "Six" (Germany, France, Italy, Holland, Belgium, Luxembourg) will form a Common Market or would be willing to do so if the United Kingdom adopted Plan G. Except in the case of France, which is moving towards a Customs Union with her overseas territories, it is not yet clear what other countries will propose for their dependent overseas territories. It is assumed that this Common Market would be on the general lines indicated in their studies so far, involving the creation of a Customs Union by stages in 12–15 years, far-reaching provisions for "harmonising" economic conditions and economic policies, and a governing structure including a Council of Ministers, a controlling and supervisory European Commission, a Court of Justice, and a Parliamentary Assembly. They are now engaged in drafting a treaty.

6. It is assumed that during the period of formulation and implementation of the Plan, sterling and the currencies of European countries will be moving towards convertibility, and some or all of these currencies will become fully convertible. The Plan must therefore be examined against a background not only of present monetary arrangements but also of free movement of currencies.

7. We would aim at building up Plan G on as wide a European basis as possible;

we have therefore assumed that the Scandinavian countries (although on economic grounds alone such a move would have little to commend it to Denmark), Switzerland and Austria would either join the Customs Union or enter into some free trade arrangement with it and with the United Kingdom—*i.e.*, we assume the ultimate abolition of tariff barriers on all trade (except agriculture) between the United Kingdom and all these countries, which for the purpose of this paper we call "Europe." Of the present members of the O.E.E.C., we should not expect, for a variety of domestic reasons, the Irish Republic, Portugal, Greece, Turkey or Iceland to join. There are three possible European candidates from outside O.E.E.C—Finland, Yugoslavia and Spain. Their inclusion would raise difficulties which would require further thought if the point seemed likely to arise.

8. The main features of the Plan as it has so far emerged from our studies are summarised below for convenience. The reasoning which has determined these features, and the implications of the Plan at home and abroad, are elaborated in succeeding sections of the paper:—

(a) The United Kingdom would enter a Free Trade Area with the Messina Six and the other main O.E.E.C. countries.
(b) The operation of the Free Trade Area would extend to all goods except agricultural produce (defined widely to include all foodstuffs for man and beast), and would not prejudice our freedom in regard to revenue duties, but there could be no other exceptions for industries which might be sensitive.
(c) Apart from the exceptions mentioned in (b), all tariffs would be progressively reduced by all members of the Free Trade Area, and would be eliminated within, say, ten years.
(d) As quickly as possible within this period there would also be reduction and elimination of quotas and other restrictive or distorting devices over the same field of products, save for an escape clause permitting the imposition of quotas in balance of payments extreme emergencies.
(e) If the Plan is to be generally acceptable in Europe, our present belief is that the United Kingdom would need to be ready to discuss with the other European countries the possibility of reducing barriers to trade in agricultural products.
(f) The United Kingdom would retain freedom to continue free entry for Commonwealth goods, and preferences for Commonwealth agricultural products.
(g) No special arrangements for Commonwealth agriculture have been worked out, since nothing really attractive to the Dominions could be offered without drastic reduction in home agricultural production.

I. *Description of Plan G*

9. The United Kingdom would by stages reduce and ultimately eliminate its protective tariff (and protective quotas) on imports (other than agriculture) from Europe; the Europeans would take similar action. We should be free to continue Commonwealth free entry (subject to certain considerations described in paragraphs 31 and 32 below). We should retain existing freedom of action in our tariff on imports from the rest of the world, subject to our commitments in G.A.T.T. and elsewhere. We should also retain our freedom of action in the field of revenue duties.

10. *Definition of "agriculture."* We must first define the zone of "agriculture" to

be excluded, and in which our tariff arrangements would not be affected by the Plan. The definition must satisfy four conditions:—

(i) It must be clear and technically workable; the commercial policy on either side of the dividing line will become so fundamentally different that the line must conform to a commonsense principle.
(ii) The section of trade of most importance to the Commonwealth must be excluded from the Free Trade Area in order to avoid infringing the main Commonwealth preferences in the United Kingdom market (both on political grounds and to reduce the risk of loss of our preferences in the Commonwealth).
(iii) If possible, the most sensitive areas of European competition with United Kingdom agriculture and horticulture should be excluded.
(iv) The definition must be acceptable to European countries.

11. It is inherently attractive to seek to define agriculture as "near to the ground" as possible. But some processing must be included to satisfy 10 (ii) and once a move, however small, from the raw product is permitted it is difficult in practice to draw a satisfactory line anywhere. This leads inevitably to the conclusion that it would be better to make the excluded area sufficiently wide to cover all foodstuffs. This would be a reasonably simple definition to implement; Appendix A[1] discusses the problem of definition in detail. Defining the excluded area as "foodstuffs (whether raw or processed) for man or beast" appears on a preliminary examination as likely to have the following effect:—

(a) United Kingdom agriculture, horticulture and fisheries would be shielded from European competition in the home market to the same extent as now. The food processing industry would likewise be protected, but would not gain any new opportunities in the European market which a definition of agriculture excluding processed foodstuffs would have provided.
(b) The Dominions (Australia, New Zealand, Canada and South Africa are those most affected) should find the wider definition, excluding both raw and processed foodstuffs from free trade, more acceptable than the narrower definition excluding raw agricultural products alone. The Colonies would welcome the exclusion of foodstuffs from the operation of the Free Trade Area, but the inclusion of certain important agricultural products which are not edible might have some effect on their interests. Such products could not, however, be covered without a major extension of the excluded categories, which could scarcely stop short of *all* raw materials, agricultural or otherwise.
(c) The main industrial countries of Europe would probably find the definition generally acceptable. Those countries with more important exports of agricultural and horticultural products or of fish (Denmark, Holland, Italy, Norway) would be disappointed in any case by the exclusion of no agricultural category, the more so by the extension of such a category to cover processed foodstuffs. However, the difficulty of full freeing of trade in agricultural products is so widespread that they cannot be very hopeful.
(d) The definition includes those products on which we have revenue duties with a preference element of value to the Commonwealth, and we should therefore be able to keep this preference.

[1] Appendices not printed.

12. It is fundamental to the Plan that the area of exclusion, once demarcated, would not be capable of extension. The Plan would be unworkable if further general or special exceptions were periodically admitted.

13. *Removal of tariffs*. The Messina Six are working out a procedure for the removal by stages of tariffs between themselves and, at the same time, moving towards a common tariff *vis-à-vis* the outside world. If we entered a Free Trade Area with them, they would lower and remove their tariffs on imports from the United Kingdom in the same stages as between themselves, so that no discrimination against us would arise. Concurrently we should be lowering and removing our tariff on imports from Europe. Our existing freedom of action to determine tariffs for imports from elsewhere would not be fettered by our terms of entry into the Free Trade Area, but our policy would in practice be influenced thereby (see paragraph 15).

14. For complete removal the Messina Six visualise a process of 12–15 years. From our point of view, a balance must be struck between the advantage of making quick progress in securing the gains of the large market and the need for time to carry out industsrial adjustments. We think a rather shorter period, say ten years (the original Messina conception), would be better, but nothing much less than this would be practicable. Within this total period it would be vitally important to define clearly the successive stages. From the outset it would be imperative for each section of United Kingdom industry to know how it is to be affected and at what rate. We should therefore favour a regular and settled programme of "across the board" tariff reductions (though not necessarily by equal annual instalments) with the minimum of exceptions. The Messina countries seem at present to contemplate a more flexible system allowing deferment of difficult cases and highly selective reductions. This would prevent United Kingdom industry from making a reasonable assessment of the new opportunities in Europe, and could cause it to lose protection in the home market before the new opportunities appeared. We should therefore press for firm and largely automatic arrangements throughout the Free Trade Area. This has a bearing on the timing of a decision. As the work in Brussels advances it will become more and more difficult to vary the procedures which are being worked out there. If Plan G appears on fuller examination to be feasible, and if Ministers decide to go forward with the Plan, it would therefore be greatly to the United Kingdom advantage in this respect to act as quickly as possible so that we can influence the development of the Common market procedures.

15. *Commonwealth duty-free entry for manufactured goods and raw materials*. Manufactured goods and raw materials from the Commonwealth at present enter the United Kingdom duty free or, in a very few cases, at preferential rates. In entering a Free Trade Area with Europe we should, of course, insist that the United Kingdom freedom of action in our tariff policy *vis-à-vis* the Commonwealth (and other parts of the world) was in no way affected. However, our policy towards the Commonwealth would be influenced in practice, for a scheme would hardly be acceptable to Commonwealth countries if it involved the United Kingdom discriminating against them in favour of European countries. We therefore envisage the need to continue the existing policy of free entry for Commonwealth goods. This, though not an integral part of Plan G, is an inescapable consequence of it. The Plan would thus put one more obstacle—in addition to those already existing—in the path of any protection which we might in the future wish to give United Kingdom industry

against competition from the Commonwealth, including textiles from the Asian Dominions and Colonies, and petrochemicals from Canada.

16. The desirability of treating the Commonwealth not less favourably than Europe would lead also to a progressive abolition of tariffs on those few imports from the Commonwealth which are at present subject to protective duty, of which the most significant are cars and rayon. This would form a separate subject for negotiation with Commonwealth countries (primarily with Canada) in the course of which the United Kingdom might obtain counterbalancing assurances and concessions. Removal of the present duties on imports from the Commonwealth would, of course, strengthen external competition with United Kingdom industry. Moreover, unless there was some modification of the application of the "no new preference" rule (which does not appear probable), there would have to be consequential reduction in our tariffs on similar products from the United States and other countries. If United Kingdom industry can successfully face competition with free imports from Europe and the Commonwealth, the addition of the United States to the field of competition in the few products affected is unlikely to introduce a serious new threat in normal conditions. There might be special circumstances, however, such as a United States recession leading to a concentration of American car manufacturers on the European market, where such competition could be very serious. Reductions in our most-favoured-nation tariffs on rayon would present greater difficulties in the event of unrestricted imports of these products from Japan.

17. *Administrative problems*. The working of a Free Trade Area would impose additional tasks on Her Majesty's Customs and Excise and on United Kingdom importers and exporters, such duty-free admission of any consignment of goods sent from one part of the Free Trade Area to another would necessitate the production of documentary evidence of origin within the Area. The work would be heavy and continuing, but the problems involved, though difficult, would not be insoluble. Importers and exporters would be faced with the work of obtaining documentary evidence in the due form for presentation to the Customs authorities. Customs and Excise staff would have the work of scrutinising and verifying this evidence; the extra work would be similar in nature to that arising from the Commonwealth preferences, but would be greater in volume and more complex. European countries without experience of similar work would probably find the new tasks of greater difficulty than the United Kingdom.

18. Before the Plan could come into operation, many problems of definition would need to be resolved. The most thorny would be that of origin in the Free Trade Area, especially for products which result from manufacturing operations partly within and partly outside the Free Trade Area. A qualifying criterion of origin must be established, and it will undoubtedly be difficult both to draw up a criterion which is generally acceptable in Europe and to apply it in practice. A fuller account of these problems is given in Appendix B.

19. *Revenue duties*. We and everyone else will want to maintain revenue duties. In order that protective tariffs may not be introduced under the label of revenue duties, the nature of such duties will have to be defined beforehand; it should be practicable to negotiate an acceptable agreement. Many of our important revenue duties (including the tobacco and liquor duties—see Appendix A) would in any case be excluded by the definition of "agriculture." The duties left outside this definition would be those on hydrocarbon oils, matches, mechanical lighters and playing cards;

we should have to be ready to give up any element of protection within these duties. The only significant difficulty here would be hydrocarbon oils.

20. *Other protective devices*. It would be necessary to provide for the removal of other protective devices within the Free Trade Area, such as quotas (see paragraphs 21–24), export taxes and controls, and export subsidies. These would have to be removed at an early stage in the process (as already envisaged by the Six). We are examining this further.

21. *Balance of payments import controls*. It would be necessary for us to retain the right to impose import controls to deal with balance of payments difficulties. There should be no problem in securing agreement to this in the early stages, since initially the Messina Powers themselves are intending to work on the existing O.E.E.C. and G.A.T.T. rules. At a later stage they might wish to make the rules stricter in order to prevent ostensible balance of payments difficulties from being used as a cloak for protective devices to frustrate the operation of the Customs Union. We ourselves might well feel the same way, perhaps even earlier. It would indeed be intolerable if, during or after the process of dismantling the British tariffs, we found ourselves faced with quotas restricting access of our exports to the European market. For this reason we might well require stricter rules than those now prevailing in O.E.E.C. and G.A.T.T. in order to prevent the evasion of the objectives of the Free Trade Area. It would in any case be most important for us to be able to ensure that the members of the Customs Union should not in any circumstances apply quantitative restrictions against us if they were not applying them against the other members of the Customs Union, or in any sense discriminate against us. Agreement on this point would be a major objective of our agreement with them.

22. So long as the rules governing import controls were as they are at present—*i.e.*, O.E.E.C. and G.A.T.T. rules—no change in our present practice would be implied. If, in order to prevent the use of quotas for veiled protection, we and the other members of the Customs Union/Free Trade Area wished to make the internal rules of the Area more strict, we should not be able to discriminate against other members of the G.A.T.T. and I.M.F. when sterling was convertible; and to add to existing discrimination even to-day would raise major difficulties with the United States and Canada and might frustrate the negotiation of the Plan. Discrimination contrary to our international obligations might lead to our being cut off from the resources of the I.M.F. But non-members of the Area would themselves be able to apply non-discriminatory Q.R.s under the looser G.A.T.T. rules. We should thus be giving an advantage to non-members of the Customs Union/Free Trade Area, by virtue of strengthening the rules of that Area, without any reciprocal advantages. Even if we could find ways round the problem of discrimination, the removal of Europe as well as the Sterling Area from the realm where import restrictions can be applied (except under very stringent rules) would severely limit the extent by which we could restrict imports by quota.

23. So far as our analysis has gone, it does not therefore appear to us that membership of a Customs Union/Free Trade Area would put on us any formal obligation restricting our present freedom to deal with balance of payments difficulties by quota restrictions. Our interest in the effective operation of the Free Trade Area, however, might make it essential for us to impose on others, and to accept ourselves, further limitations on the power to apply such restrictions. In view

of the complexity of this problem we are giving further examination to it, and this must be counted no more than a provisional conclusion.

24. *Protective quotas*. The Messina Powers are agreed that protective as distinct from "balance of payments" quotas must be eliminated as quickly as possible. This is clearly right and within a Free Trade Area the same rule must apply. British industry would not tolerate elimination of the British tariff if the reciprocal elimination of other tariffs were frustrated by the maintenance or introduction of protective quotas. The corollary is that we ourselves would have to eliminate our own protective quotas, at least *vis-à-vis* our partners within the Customs Union/Free Trade Area. By reason of the non-discrimination provisions of the "hard-core" waiver under the G.A.T.T., our inability to impose protective quotas against Europe might have some implications for our ability to invoke the hard-core waiver to meet possible United States or Canadian competition when balance of payments restrictions on imports from these sources have to be removed. This is a matter to which we are giving more detailed study. The problems which will be created for us in this field are not dissimilar from the problems arising from the elimination of tariffs—which are dealt with in Section III of this paper.

25. *Organisation*. We should wish the international management of the Free Trade Area to be conducted in O.E.E.C.: we should not favour the creation of a special Council of Association, as in our relationship with the Coal and Steel Community. For these purposes, we should envisage a "Managing Board" (at Ministerial as well as official level) within the O.E.E.C., consisting only of the members of the Free Trade Area, operating under Article 14 of the O.E.E.C. Constitution (which contemplates that the work of a group within the Organisation can proceed without the *positive* assent and participation of non-members of the group, provided, of course, they agree to abstain).

26. We are examining how this would actually work; *prima facie*, we do not see any insuperable difficulty. We attach importance to developing this in O.E.E.C.; first, because O.E.E.C. is the best instrument of European economic co-operation (if a move of this importance was not entrusted to O.E.E.C., then the Organisation could scarcely survive as a major instrument of economic policy), and, secondly, because it includes United States and Canada, and it would be necessary to keep them closely in touch (we should, of course, keep the Commonwealth closely informed).

27. *Harmonisation and integration*. Some arrangements, both within the Customs Union and within the Free Trade Area, will be necessary to assist the participating countries in keeping their general economic policies broadly in step, in so far as these policies have external implications. For example, manipulation of exchange rates could frustrate the operation of a Free Trade Area. Indeed, procedures for such consultation already exist, for example, internationally in the I.M.F. and in O.E.E.C. and also in the informal arrangements in the Sterling Area. There is a difficult balance to be struck between the evident need for flexible arrangements of this kind and the views of the supporters of the Messina proposals that elaborate machinery and institutions are required. Our present view is that we should probably not wish to take part in such formal institutional arrangements, but much more detailed examination must be given to this question before we can firmly advise Ministers.

28. In addition to such general consultation or machinery, to ensure that participants keep generally in step with each other, it is maintained by the supporters

of Messina that some harmonisation of economic and indeed social policy is necessary in order to promote free and fair competition. This raises a wide range of problems to which we are giving further consideration.

29. Entry into a Free Trade Area with Western Europe would directly affect the United Kingdom economy through the intensification of industrial competition; but there would be opportunities for advantage to be exploited too. This is discussed in Part III. In addition to the influences which would thus be at work on our industrial costs, including labour costs, there would be many other economic and social effects, particularly in the long term. For example, there might ultimately be a freer movement of capital and labour than now prevails. Giving Europe access to the London Capital Market could adversely affect the Sterling Area, unless in the event the resources of that market were increased by a flow of European investment funds through it. In many other fields we should be exposed to pressures to bring our economic, financial and social arrangements more closely into line with those of other participating countries; and to increasing pressure for closer political association with Western Europe. It is impossible to predict now the force which these pressures will accumulate over a period to be counted in decades rather than years, or to assess how far we should wish to accede to them, or should be able to withstand them; but the political pressures at least, in view of the political origins of the Common Market initiative itself, are bound to be strong.

The role of agriculture in the plan

30. An important feature of the Plan is that agriculture (as defined in paragraph 11 above) would be excluded from the Free Trade Area because otherwise the Commonwealth preferences on food and agricultural products and also the protection of certain parts of home agriculture would disappear. We were also asked to consider the possibility of developing the United Kingdom market for Commonwealth agricultural products in order to make the scheme as attractive as possible to the Commonwealth.

31. The preferences enjoyed by the Commonwealth countries in the United Kingdom market are not confined to agricultural products and their interests in these items vary from country to country. The agricultural preferences are of keen interest to the Southern Dominions. Canada, in particular, while also interested in agriculture, would be more concerned about the loss of industrial preferences *vis-à-vis* Europe. The South African interest is limited in the main to the preferences on fruit and fruit products, including wines. The other Commonwealth countries have a smaller interest.

32. The preferences at present given by this country to the Commonwealth vary considerably as between products. Of the products of most vital interest to the Commonwealth, wheat and maize, mutton and lamb are duty free from all sources, and beef and veal are subject only to very small duties. Barley flour and most animal feedingstuffs have a 10 per cent tariff; cheese has a 10 per cent or 15 per cent tariff according to type. Manufactured foodstuffs carry a 10 per cent to 15 per cent tariff. A number of other products are subject to specific duties of which the present *ad valorem* incidence is: butter and milk products (4–6 per cent), oats (11 per cent), shell eggs (5 per cent). The duties on fresh fruit vary widely, the average being about 15 per cent. In general, these duties are more relevant to competition of European producers with the United Kingdom producers than with the Commonwealth

countries owing to the difference of seasons. Some duties, however, do protect the Commonwealth from competition from "third countries," *e.g.*, United States and Argentina. In addition to the sugar preferences, the Commonwealth obtains considerable further benefit from the Commonwealth Sugar Agreement; Australia also benefits from the Meat Agreement. Under Plan G the Commonwealth could retain the advantages mentioned in this paragraph.

33. *Possibility of increasing the Commonwealth countries' share of the United Kingdom market.* The Commonwealth countries' share in this market could only be increased—save to the extent that United Kingdom consumption might rise—at the expense of (a) Europe, (b) third countries, or (c) home production. The potential increase in food consumption due to population growth (about half per cent. per annum) is negligible. Given the present high level of nutrition in the United Kingdom, a rising standard of living leads generally to improvements in the composition of the diet and in marketing services, and not to greater total consumption. The question therefore is one of changes in the source of imports or in the home output. Appendix C examines the existing pattern of trade in the more important agricultural commodities.

34. A reduction of imports from Europe would be inconsistent with the object of the Plan. Indeed, we may have to move the other way (see paragraphs 38–41), and to the extent we do this the Plan would tend to be less attractive to the Commonwealth. In any case, because the products either differ or arrive in different seasons, the Commonwealth agricultural preferences have less general effect on European trade than might be supposed, although on certain products the preference is important either in its practical or psychological impact.

35. There would be considerable difficulty in practice in reducing imports from third countries in order to give advantage to the Commonwealth. Such reductions could be material only from United States and Argentina as other countries export so little of importance to us. Acceptability to the United States is a prerequisite of the Plan (paragraphs 54–56), and given the political problem of American agricultural surpluses and the strength of the farm lobby, it is clear that any discrimination against the United States would create serious difficulties in negotiating the Plan. Moreover, many of the tariffs on agricultural products in which the United States is interested are bound, in return for bindings on United States tariffs in which we have an interest. Discrimination against the Argentine would have an unfortunate effect on trade relations which we are now hoping to improve, and would possibly have damaging repercussions on our export prospects in the South American market. In the case of meat we could only increase Commonwealth exports at the expense of the Argentine by forcing the United Kingdom consumer to eat expensive frozen meat instead of the chilled meat for which he has always shown a marked preference.

36. It follows from the preceding paragraphs that any increase in our imports of Commonwealth agricultural products would be almost entirely at the expense of our domestic agriculture. There is no way in which our home agricultural output could be sufficiently reduced to meet the problem without such a drastic alteration in our agricultural policy as appears to be politically impossible. Indeed, the Government is at present negotiating with the farmers a system of long-term assurances.

37. Even if these difficulties were less formidable it would be impossible to guarantee the result of any reduction of domestic price support. A decrease in home production would not necessarily take place at once, and when it did the increased

imports which would follow might not come from the Commonwealth. A reduction of home wheat production, for example, might not only result in increased imports from France, Argentina and the United States rather than from the Commonwealth, but it might also lead to the production of more home barley thus displacing imports which come almost entirely from the Commonwealth, mainly from Canada.

38. *European agricultural aspects of Plan G.* The exclusion of agriculture must create great difficulty for Holland and Italy, and even more for Denmark, who would have little inducement to join the free trade area. The Messina Six are likely to ask us to agree that agriculture should be treated in principle in the same way as industry, even if because of special circumstances the transitional period would have to be very much longer, and different arrangements would have to be made in the meantime. We could not agree to this because, in order to provide for long-term safeguards for the Commonwealth, we must propose the exclusion in principle of agriculture from the free trade zone. We have therefore thought it right, though it is not a part of the Plan we have been asked to study, to consider whether some compensating proposals could be put forward which would in effect offer greater opportunities for agricultural exports from Europe.

39. Paragraphs 33 to 37 have described the difficulties in the way of developing the United Kingdom market for the basic agricultural commodities from Commonwealth countries. Similar problems would be faced in any attempt to expand imports of the same commodities from Europe, in addition to the difficulty that we could not do so without upsetting the Commonwealth. From the European point of view this would rule out dairy products, in which Denmark and Holland will be particularly interested, and wheat which is a French interest. In the case of eggs, a reduction in home support would benefit both Europe, and, to a lesser extent, the Commonwealth. For some of these products, *e.g.*, eggs, the German market may be even more important to the European exporters than the United Kingdom market; there would therefore be pressure to include these items in any arrangements and if the Germans were willing to make concessions we should be greatly embarrassed in resisting the European pressures.

40. Assuming, however, we could hold this line, there might still be a few products left, notably pigs and some horticultural items, of particular interest to Europe. Even on these, accommodation with our home output would be difficult, but if any arrangement were on a modest scale and gradual in its operation, it might be possible to do something by way of modification rather than by reversal of our agricultural policy. Quite apart from Plan G there will be pressure on us to do this, but the introduction of the Plan would intensify the pressure. Apples would present a problem of special difficulty because of the strong interest of United States, Canadian and European producers as well as of domestic growers. On the other products, we have no specific proposals to submit now, nor are we likely to be able to formulate anything precise in the time available to complete our studies. The scope, however, is likely to be limited.

41. Trade with Europe in agricultural products is already liberalised with the exception of apples and pears, processed milk, pigmeat and some sugar-containing goods. Pigmeat will be liberalised from 1st October. Any arrangements, therefore, to make the scheme more attractive to European countries would have to take the form of either reducing tariffs or domestic supports. To give a public undertaking to reduce supports over a period would be inconsistent with the Agricultural Acts.

Tariffs afford protection to the horticultural sector which is not otherwise supported. To attack the horticultural tariffs so long as the policy of supporting the other sectors of agriculture at anything like current levels continued in force would present formidable political difficulty. Although, therefore, some European countries might regard a new proposal for developing trade in agricultural products within Europe (including the United Kingdom) as an essential adjunct of Plan G, it is very doubtful whether any sufficiently attractive proposal could be put forward without seriously upsetting our home or Commonwealth policy.

42. *Improvement of consultative machinery*. We have also considered whether any of these agricultural difficulties could be alleviated by improving our machinery of consultation on food questions between the United Kingdom and the Commonwealth. The close daily contact maintained by our High Commissioners is supplemented by the United Kingdom-Canada Continuing Committee, the Anglo-Australian Food Committee, the Commonwealth Liaison Committee on more general issues, and by frequent *ad hoc* contacts between the Ministers and senior officials of the several Governments. If full use is made of these means of consultation, it may be that little advantage would be gained by creating new formal machinery. On the other hand a joint Commonwealth-O.E.E.C. body bringing together producing and consuming countries on equal terms might be useful though it would have certain disadvantages. We are examining this question further.

Colonies

43. The nature of the Plan does not preclude the inclusion of the Colonies in the free trade area. The intentions of the Six in respect of their overseas territories are somewhat obscure. It is understood that the French have expressed the desire to bring their Colonies into the Customs Union; if they did so, the Belgians would presumably wish to include the Congo. However, the proposal has not been thoroughly considered by the Six and may well be modified.

44. It appears from a preliminary examination that if the United Kingdom joined a Free Trade Area with Europe and if our Colonies were excluded, no significant damage to Colonial interests would result. However, this is only a provisional judgment on one of many possible hypotheses. We cannot push this examination much further without consulting Colonial Governments. If we go on with the Plan, the timing and procedure for consulting the Colonies will have to be carefully worked out.

45. *Channel Islands and Isle of Man*. It would be necessary to decide on the relationship between the Free Trade Area and the Channel Islands and Isle of Man which at present enjoy free entry for their products into the United Kingdom.

II. *International implications*

46. *Independent Commonwealth*. The Dominions would lose their preferential advantage for manufactured goods and raw materials in the United Kingdom market *vis-à-vis* European producers. This would hit Canada (though her important preference *vis-à-vis* the United States would be retained) and other Dominions which have, or are aiming to develop, exporting industries. With all Commonwealth countries except Canada we have contractual obligations to maintain margins of preference on a few manufactured goods and industrial raw materials. We shall have

to secure their agreement for foregoing these preferences *vis-à-vis* Europe, and we might in return have to forego some preferences we enjoy. The Plan would nevertheless leave the United Kingdom free to preserve for the Dominions the following advantages which they now enjoy:—

(a) Free or preferential entry into the United Kingdom for foodstuffs.
(b) Free entry into the United Kingdom for all other products which are at present duty-free.

Finally, the Dominions would gain by the abolition of the few existing tariffs (the only important products affected being Canadian motor cars and rayon).

47. If the United Kingdom were to put forward such a plan, would it satisfy the Commonwealth that the United Kingdom was not in economic terms tilting its interest away from the Commonwealth? Would the Commonwealth be reconciled to the loss of their preferences on manufactured goods and raw materials in the United Kingdom? Would the United Kingdom be able to retain (the extent we can anyway expect to do so) some or all of the important preferences which United Kingdom exports enjoy in Commonwealth countries, particularly in Australia, New Zealand and Canada? In view of our examination in paragraphs 33–37 of the scope for doing something to help Commonwealth exports of foodstuffs to the United Kingdom, we must discount the likelihood of our being able to make any play with this possibility.

48. It will be necessary to consult our High Commissioners in Commonwealth countries on the likely reactions in the Commonwealth. The best tentative assessment which could be made at present is that Commonwealth countries, in taking a view of any proposals we might make, are likely to have regard more to political and long-term considerations than to a nice calculation of the possible effects on their economic interests in the short term. Some might be glad to see closer integration between the United Kingdom and Europe. Others, in Australia and New Zealand in particular, are likely to fear that the United Kingdom would be planning to look in future more to Europe than to the Commonwealth and that we would allow ourselves gradually to be drawn further and further into tighter bonds with Europe, first economically and then politically. They would be concerned as to the long-term effects of this on the readiness and the ability of the United Kingdom to co-operate with the Commonwealth in the fields of defence and foreign policy, to invest in the Commonwealth, and to develop our Commonwealth trade. The Canadian Government is likely to look coldly on proposals which are not in full and precise accordance with the G.A.T.T.—which Plan G is not—and would wish to feel satisfied that the United Kingdom had not abandoned its existing policy, agreed with the Commonwealth, of freeing trade and payments on a world-wide basis. The reaction of the United States Government would certainly influence opinion within the Commonwealth. American hostility to the Plan (which would in any case block it) would provoke Commonwealth opposition; an enthusiastic reception by the United States would engender some Commonwealth support.

49. As regards the direct economic effects on the Commonwealth, the interests of Commonwealth countries as exporters of foodstuffs would be safeguarded for the present by Plan G. Their interests, actual or potential, in the export of other products to the United Kingdom would be safeguarded by the continuation, under existing commitments and policy, of duty-free entry for Commonwealth goods. The continuation, as a general policy, of duty-free entry for Commonwealth goods, including

for example, textiles from the Asian Commonwealth, would appear to be an inevitable consequence of the Plan, though the extent to which we continued to be committed to this, if at any time other Commonwealth countries sought to revise their Ottawa Agreements with us, would be a matter for negotiation in the light of the benefits we in return could continue to secure for our trade with them. At the same time, even with the continuation of duty-free entry, the Canadians, and to a lesser extent the Indians, would be worried about the loss of their preferences here *vis-à-vis* Europe on manufactured goods. Other Commonwealth countries which are developing their own industries would be reluctant to abandon the hope of establishing eventually markets for these industries in the United Kingdom under the cover of existing preferences. The extent of these anxieties could be assessed only after consultation with the Governments concerned.

50. *Europe*. We should expect the Plan to be enthusiastically received by some European countries, particularly the more highly industrialised. The Plan would be a major encouragement to the "European movement" and to the supporters of the Messina initiative, who would see their hopes of tying Germany into Western Europe and creating a greater coherence in Western European economy enormously strengthened. But in certain areas its effect is more difficult to predict at this stage. Some countries, in particular Denmark, Holland and Italy, would resent the exclusion of foodstuffs from the Free Trade Area proposed by us. Moreover, the United Kingdom suggestion to exclude foodstuffs might well lead to developments within the Customs Union. The Messina Six, though they have accepted in principle the inclusion of agriculture, are far from having worked out its implementation. Our proposal might lead to the lengthening of the transitional period, with a resulting economic loss to Italy and Holland that might be quite considerable; their political interest in the Customs Union, however, is so great that they would be unlikely to turn against it. The special problem of France is dealt with in paragraph 52. A number of European countries (notably the Irish Republic, Greece and Turkey—see paragraph 7) would have little interest either in the Messina proposals or in Plan G. Provided that it can be arranged that Plan G operates within O.E.E.C., they should be content.

51. The Plan would, of course, be valueless if the diversity of reaction in Europe was such as to cause a serious split into supporters and opponents. The risk of this happening would be minimised by anything that can be done to make the Plan more attractive to the agricultural exporting countries (see paragraphs 38 to 41).

52. The probable reaction of France is particularly difficult to assess. The problems which France would face in joining the European Customs Union are very great because of the profound effect on her economic structure of dismantling protection. The introduction of Plan G, with its exclusion of agriculture, should not increase the French difficulty, of which a great part arises on the agricultural side. The offer of the United Kingdom to participate in a free Trade area with Europe would inevitably make the European Customs Union itself more probable, and would have on France a psychological effect of great importance. Such an offer would considerably strengthen the French supporters of a Common Market, and in particular would fortify those who desire a Common Market but are fearful lest it would lead in the absence of the United Kingdom to the preponderance of Germany. The peculiar difficulties of France would lead also to problems in the working of a Free Trade Area no less than of a Customs Union, since the French would inevitably

lag in their performance behind the general progress (as they have done in O.E.E.C.) and would insist on escape clauses to enable them to do so.

53. These conclusions are only tentative. Before a final judgment of the Plan is taken by Ministers, it will be desirable to call for an appreciation of its probable effect from Her Majesty's representatives in some of the capitals concerned.

54. *United States*. It appears likely that a proposal by the United Kingdom of this kind would be welcomed by many sections of United States opinion, among whom it is almost an article of faith that economic and political strength would flow from anything that appears to advance "European integration." While these views would probably be shared by the State Department and by those responsible for planning United States defence policy, we should assume that, in the course of negotiations about the Plan, the Americans would try to gain the maximum safeguard for their legitimate trade interests. Moreover, however attractive the proposals might be generally to American opinion, the implementation of them is bound to offend certain United States commercial interests, and these in certain circumstances, *e.g.*, declining trade, would become vocal. It cannot be excluded that, during the long transition period towards the Customs Union-Free Trade Area, a minimum of ten years, or after the transition was completed, these interests might become sufficiently powerful to influence political opinions and to engender friction in United States-European relationships. Friction of this sort would be particularly embarrassing to the United Kingdom because of our special position *vis-à-vis* the United States.

55. The positive support of the United States for the proposal is extremely important for its success. Without such support, not only would other Governments both in the Commonwealth and in Europe tend to look askance upon it, but agreement of the G.A.T.T. to countenance the arrangements would hardly be obtainable. If the proposal were for a complete Free Trade Area with no exclusions, it should be possible to count on the certain support of the United States, which is too far committed by its past utterances to go back. However, the exclusion of agriculture should not lead us into serious difficulty with the United States, since they are not by virtue of their domestic arrangements in a strong position to criticise the special treatment of agriculture. Any expansion of the Plan by offering special concessions in the United Kingdom market for Commonwealth producers would make American acceptance of the Plan more difficult, since United States producers (notably of wheat) would almost certainly be among the losers.

56. Our present judgment is that the United States would welcome our proposals. But this is only a provisional view. At a later stage it will be necessary to obtain the opinion of Her Majesty's Ambassador in Washington.

57. *International organisations*

(a) *G.A.T.T.*

We and other countries in the Free Trade Area will wish to continue to enjoy the tariff and other benefits which membership of the G.A.T.T. confers on us in all our trade outside the area. We shall all require a waiver from the G.A.T.T. to cover the operations of the Free Trade Area because the exclusion of agriculture would cover such a substantial proportion of the total trade. Provided that the Commonwealth and the United States are favourably disposed towards the Plan, the waiver should be obtainable without difficulty. It does not appear that any change in the articles of G.A.T.T. would be necessary. The functioning of the G.A.T.T. as an institution

would not be damaged so long as the United Kingdom and other countries continue to follow its objectives and principles. We are giving further examination to this question.

(b) *I.M.F.*

Provided that we abide by the articles of the I.M.F., our right of access to the resources of the Fund should not be endangered. It does not appear that the Plan would require any changes in the articles of I.M.F; in any case, it would be impracticable to amend them. We are giving further examination to this question.

(c) *O.E.E.C.*

Provided that:—

(i) our initial assumptions prove correct and Scandinavia and Switzerland are associated with us in a Free Trade Area or Areas with the Messina Customs Union;

(ii) satisfactory machinery can be worked out so that those members of O.E.E.C. not within the Customs Union/Free Trade Area, while not able to block discussions or decisions affecting that area, do not appear to be excluded from effective membership of O.E.E.C.;

the proposals should have a wholly valuable and invigorating effect upon O.E.E.C. and the policies for which it stands.

58. *External economic policies and the status of sterling*. While a great part of our external economic policy is built around the three institutions mentioned above, they do not by any means cover the whole of it. We have not yet been able to examine how far this Plan would be compatible with those policies and with the international status of sterling, and we propose to look into this question further; in particular, we need to examine how far the Plan would be likely to affect the Sterling Area itself.

III. *Implications for United Kingdom economy*

59. *Industry*. It is impossible to make a firm prediction of the effect of Plan G on United Kingdom industry in general, or even on particular industries. We have made a preliminary assessment for some of the major industries, and this can be developed and expanded later on when Production Departments can be consulted. Even then there will be many unknowns, such as the response of European and United Kingdom industry to freer competition. It should be possible, however, to list those industries which would stand to gain most, those which would be most vulnerable and those (not necessarily the same) which would be most vocal in their objections. We would not be able to avoid difficulties by excluding "sensitive" industries from the Plan (paragraph 12).

60. The preliminary assessment is at Appendix D. Briefly, the "gainer" industries would include most branches of engineering and capital goods, high-quality woollen goods, man-made fibres (except rayon), and probably iron and steel. The losers would include clocks and watches, silk, cheap rayons, certain electrical equipment, dyestuffs, optical and scientific instruments, certain fine chemicals, pharmaceuticals, cheap woollens and paper and board; some of these have enjoyed special protection on "strategic" grounds. The effect on the cotton and motor-car industries is very difficult to predict, but they would probably be among the most vocal objectors.

Two general comments can be added. First, among the industries most likely to gain additional opportunities would be those in the capital goods sector. Most industries in this sector are already operating at full capacity and are likely to remain so for some years to meet the continuing demands for economic development in the Commonwealth and elsewhere. These industries might therefore find difficulty in taking full advantage of the additional opportunities, at least until there had been increased investment in them and some movement of labour from those consumer goods industries which would tend to contract. Second, many of the light industries which have settled in the Development Areas would appear on the vulnerable list.

61. In general, the effects both on the export and import side will almost certainly prove to be widely spread throughout industry, since in almost every sector of industry there may be lines in which we have some advantage and could increase exports, and other lines where we may be at some disadvantage and may find imports increasing at the expense of home production. But the variety of our production and export trade is too immense to make any precise assessment possible. The effects will almost certainly be wide in terms of the number of individual adjustments, but many of these would be individually small; on the other hand, some small industries may suffer severely. There might be a great deal of political protest but the total result (leaving aside such big individual problems as motor-cars) would not be large in relation to our total industrial turnover.

62. From the preliminary assessment we can form the negative conclusion that the Plan would not be disastrous for any principal sectors of the United Kingdom economy. Whether the gains would exceed the losses is a hazardous prediction. Much would depend on the resourcefulness and adaptability of United Kingdom management and labour. The process of adjustment would, of course, be easier if the United Kingdom economy as a whole was expanding rather than contracting or static. The preferential advantage that our exports would receive under the Plan *vis-à-vis* the United States might well lead to some replacement of United States products by United Kingdom products in markets such as Belgium, where dollar liberalisation is nearly complete. We cannot expect, however, that there will be equivalent switching in our imports from the dollar area because for many of these United States supplies (*e.g.*, of raw materials) could not be replaced from within the Free Trade Area. The introduction of a Free Trade Area should itself create a total gain in prosperity within the Area; and, given that we can secure our share of this, the benefits we should thus ultimately reap may provide the major advantage of the Plan to the United Kingdom.

63. We must, however, be clear about one thing in the risks which we must run if Plan G is to be implemented. Even our big industries with substantial exports have developed in recent years on the basis of a protected home market plus preferential export markets in the Commonwealth. Under Plan G they will have a much larger "domestic" market but within this they will have to compete with European industry; but the preferences we should hope to retain for United Kingdom exports to Commonwealth markets should provide them with some cushion of advantage over their European competitors. These big industries are obviously not going to go under, but their profits may be squeezed and this may have repercussions on what they can set aside for re-equipment and development. On the other hand, to some extent the same situation applies to big firms in other countries and things may even

themselves out. We cannot, however, tell if we shall on balance break even or tend (for a time at any rate) to lose. What is important is to realise that if we tend to lose, something must give somewhere. A little give on many fronts might be all that is necessary. Some scaling down of profits, and of excessively high wage rates, harder work here and there, less restrictive practices on the part of labour. If in the event the adjustment required turns out to be greater than can be accommodated in the ways mentioned, then in the ultimate resort there would be pressure—either upwards or downwards—on the exchange rates. The same, of course, is true for all other countries entering the Free Trade Area, and it must be accepted as one of the risks.

64. *Balance of payments*. The effect of a Plan of this kind on the United Kingdom balance of payments must depend primarily on its effect on British industry. Many new opportunities would be created, but our ability to profit from them will depend on the competitiveness of British industry in the future. Under invisible transactions we should certainly hope to gain on balance from our earnings on services.

65. *Agriculture*. The exclusion of agriculture from the Free Trade Area means that the main structure of the Plan would not affect United Kingdom agriculture. To the extent, however, that it proved possible and desirable for the Plan to be accompanied by greater opportunities for European agricultural exports, there would have to be a certain adjustment in our home production spread over a lengthy period. No assessment of the impact on our farmers and growers can be made until further details are worked out. We have assumed that a drastic alteration in our agricultural policy is politically impossible, but even if such radical alteration were made it is doubtful if any opportunities really attractive to the Commonwealth would emerge (see paragraphs 33 to 37).

66. *The United Kingdom consumer*. The United Kingdom citizen has an interest in these proposals as a consumer and as a taxpayer as well as a producer. Generally he should profit through the greater availability of goods at a lower price; it is he who reaps the benefits of the large market. But his gain might be reduced if any action which proved necessary and feasible on the agricultural front should lead to higher costs. By increasing United Kingdom costs generally these would make British industry less able to benefit from the Plan and so defeat the object for which concessions on the agricultural front were made.

IV. *Points for further examination*

67. There are still considerable difficulties to be worked out and detailed examination of the repercussions of this Plan to be made. A list of the further studies we propose to make is set out below. It must be appreciated that not all are of the same nature. Some will bear on the main decision of policy; others are of the type inevitably arising from any new development in the normal course of working it out:—

(a) Examination of whether the Plan could be made more acceptable to Europe in the agricultural sector.

(b) Investigation whether the Plan could be made more acceptable to the Commonwealth by the development of joint Commonwealth/O.E.E.C. consultation on agriculture matters.

(c) Study of the organisation within O.E.E.C. to work the Plan.

(d) Further examination of the effect of the Plan on our G.A.T.T. and I.M.F. commitments; and of whether the Plan would limit more strictly the power to restrict imports for balance of payments reasons.
(e) Examination of the compatibility of the Plan with existing economic policies.
(f) Study of the monetary implications of the Plan and its effects on the Sterling Area (including possible effects on the raising of capital and the development of commodity markets in the United Kingdom).
(g) Investigation of the measures required to keep in step the economic policies of the United Kingdom and of European countries in so far as these policies have external implications.
(h) Further study of the effect of the Plan on United Kingdom industry.
(i) An appreciation of how far the Plan would be attractive or otherwise to the individual Dominions and Colonies.
(j) Further assessment of whether the United States is likely to approve of, oppose, or merely acquiesce in the Plan.
(k) Further study of the probable attitude of the countries of Western Europe.

68. Under (h) above, we do not expect to be able to take our study of particular industries much further, even after consultation with Production Departments. We should hope, however, to prepare an analysis of the broad economic effect on our industry over a period of 10–15 years. We may be able to take 67 (i) some way further, but not much progress on (j) or (k) is likely at this stage.

69. Whatever may be the result of these further studies, one feature of the Plan must remain constant. An announcement to embark on the Plan would start us on a path of progressive reduction leading towards ultimate elimination of much of the protection now enjoyed by British industry. If and when the final stage of the Plan was reached, United Kingdom industry would be completely exposed to competition from Europe. We have indicated in paragraph 3 that we will devote further study to any points which Ministers consider to deserve greater attention. But this is not a feature of the Plan which can be modified.

388 CAB 134/1315, PR(56)40 30 July 1956

'Overseas investment policy': memorandum by Treasury for Cabinet Policy Review Committee

[This memo was prepared by the Treasury in consultation with the other departments concerned in response to para 29(d) of PR(56)3, 'The future of the United Kingdom in world affairs', which recommended that a review should be undertaken of UK policy on external investment (see part I of this volume, 21). The memo was circulated to the Policy Review Committee by Macmillan.]

In spite of balance of payments difficulties long-term investment by the United Kingdom overseas in the four years 1952–55 amounted to almost £750 million, or nearly £185 million a year. Overseas investment in the United Kingdom during the same period amounted to about £100 million, or £25 million a year.

2. In the memorandum attached as an Appendix[1] to this paper a detailed

[1] Not printed.

examination is made of the character and composition of this two-way investment flow. The object is to determine whether it would be possible, or desirable, to limit the outward movement, and to encourage the inward movement, so as to assist in relieving the pressure on our resources. The principal considerations involved, and the conclusions reached, are summarised below.

Government-sponsored investment

3. The United Kingdom Government is itself responsible for providing funds for a number of important forms of overseas investment. The chief of those are advances to the colonies through the Colonial Development Corporation, advances for economic assistance to other countries under Section 3 of the Export Guarantees Act, 1949, and sterling releases of part of our subscription to the International Bank, for investment in Commonwealth countries.

4. The Colonial Development Corporation has been entering into commitments rapidly, and within about a year is expected to reach its statutory limit of £100 million. (Actual loans have been only about £6 million a year recently, but the proposed advance of £15 million for the Kariba project will alone raise the figures substantially.) These loans form an important element in the financing of Colonial development, to which we are strongly committed, and any proposal to reduce the level of our contribution would have extremely unfortunate consequences in the Colonies—particularly in view of the increased difficulty of raising money by stock issues on the London market.[2]

5. Advances under Section 3 of the Export Guarantees Act are made in exceptional cases of high political importance. Only four loans have been made (or projected) so far—to Yugoslavia,[3] Pakistan, Persia, and India (for the Steel Plant). It is doubtful whether any of these could have been foregone without serious risks. In the circumstances the scope for savings in future is small, though as demands arise unexpectedly the future cost is also uncertain.

6. Sterling releases through the International Bank amount to £37 million so far (including £10 million for Kariba), out of a total of £60 million, which we have agreed to make available over six years. It is of the greatest importance that we should participate in some of the major schemes of Commonwealth development where International Bank finance is offered. We could not, therefore, go back on our policy of releases except at disproportionate cost.

7. Generally the scope for reductions in Government-sponsored investment is small. In fact, the pressures are all the time towards a greater commitment, and, if we could afford it, the resulting benefits, political and otherwise, would be great.

Private investment in the sterling area

8. This takes two forms: stock issues by Commonwealth Governments in London, and direct investment by private firms and transactions in securities.

9. Stock issues fell from £42 million in 1952 to only £20 million in 1955—a consequence mainly of our tighter money policy.

10. Private investment through the raising of market loans requires the consent of the Capital Issues Committee. Such consents for investment in the sterling Commonwealth have been about £40 to £50 million a year in recent years. They are

[2] See 415, 416, 425, 429.

[3] See 431.

given when the projects satisfy certain criteria laid down at recent Commonwealth economic conferences, principally that they should assist in improving the sterling area's balance of payments. Private direct or portfolio investment financed without new borrowing is subject to no controls or restrictions. It constitutes the bulk of new Commonwealth investment.

11. To restrict this movement of private capital would require a significant tightening up of the C.I.C. criteria for borrowing here, or the imposition of some form of Exchange Control over both capital and current transactions between the United Kingdom and the rest of the sterling area. Any attempt to do either of these things would have the gravest consequences and involve the risk of a breakdown of the whole sterling area system, one of whose main links is the freedom of capital movement, at least outward from this country.

12. While this is so, it is notable that as a result mainly of tighter monetary conditions here private investment in the sterling area has fallen substantially during the past two years. This has caused a certain amount of discontent, and Commonwealth Governments have been looking elsewhere for some of their capital needs (not always successfully). Provided this tendency does not go very far, and involve a permanent re-orientation of their trade and financial connections away from the United Kingdom, in a way which would have a continuing adverse effect on both the United Kingdom balance of payments and the balance of the sterling area with the rest of the world, the relief of our economy from the decline in investment in the sterling area can be regarded as a gain. But there are dangers in the present situation, and it will need to be watched. The desirable objective is an increase in private investment in the sterling areas.

Private investment in the non-sterling area

13. Our policy at present is to approve such investment where a positive gain to our economy, and especially to the balance of payments can be demonstrated. We have also been anxious to encourage investment in Canada for political as well as economic reasons. Under this policy investment in the non-sterling area, especially in North America, has grown rapidly in recent years, and this has brought us considerable advantages, especially to our export trade which has been stimulated by the establishment of numerous selling agencies abroad.

14. Here, too, there is evidence that monetary policy has had a big effect in reducing the volume of applications for which Exchange Control approval is sought. In the circumstances there would seem to be no case for further measures of restriction.

The Kuwait and Hong Kong free markets

15. The free markets for the Persian Gulf and Hong Kong are only relevant to this enquiry because they provide a means by which foreigners can discharge debts to the sterling area by sales of foreign currency and sterling area securities. But the scale of this security traffic has fallen considerably in recent years—from £37 million in 1954 to only £8 million in the first half of 1956. It cannot, therefore, be regarded as serious; but it will be watched.

Oil

16. Net investment by the British oil companies overseas has amounted to some

£75 million a year over the past four years; of this more than half has been in the sterling area. The benefit to our balance of payments from oil (the 'net oil credit') has been about £200 million a year in recent years, of which most is attributable to the British oil companies.

17. Our policy at present is to permit overseas investment by the oil companies freely but to try to see that dollar and non-sterling expenditure is kept down. This is because the British industry must be in a position to compete on a world basis and to expand its facilities to meet an ever-growing demand. Given the vital economic, political, and strategic factors involved, it would be difficult to justify any change in this policy designed to restrict the level of investment in oil overseas.

Inward investment

18. Our policy on inward investment is to encourage and approve it whenever its potential gains can be seen to outweigh the costs of loan service, or the risks of repatriation of the capital provided. We approve investment applications when they promise to save imports, or stimulate exports, or encourage industrial productivity. Where another sterling area country is involved, as in a take-over bid of the Trinidad Oil variety,[4] we expect the investment to contribute to the development of the economy of the sterling area country concerned.

19. Under this policy investment in the United Kingdom, mainly from the United States, has grown rapidly in recent years until in 1955 it was equal to about one-half of our total investment (including oil) in the non-sterling area. In view of this satisfactory trend there would seem to be no case for new measures designed to increase the inflow still further.

New proposals on outward and inward investment

20. The Treasury have recently had under discussion various proposals of the Bank of England relating to the methods by which investment (including security transactions) inwards and outwards between the United Kingdom and the non-sterling area should be conducted. Under these, United Kingdom investors would have to find the foreign exchange they required from sales of United Kingdom-owned securities abroad, and non-residents wishing to invest in the United Kingdom could obtain the sterling they needed by the sale here of foreign-owned sterling securities. Exchange Control scrutiny of the purposes of both inward and outward investment proposals would be abandoned. No attempt has been made to deal here with those proposals, which are highly technical and complex. They are still under consideration.

Conclusions

21. (i) Investment in the Commonwealth is vital economically and politically. It should not be restricted by further direct controls. But monetary policy has led to a big decline during the past year or so, and this effect should be allowed to work itself out without interference. It involves dangers, however, which will be watched;

(ii) Investment in the non-sterling area has also fallen, and no new measures of restriction are required;

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[4] See 437.

(iii) Oil investment should be allowed to proceed as at present;
(iv) Security transactions through the free markets in Hong Kong and the Persian Gulf have fallen to comparatively small dimensions and no action on them is called for at present;
(v) Inward investment is welcomed and has increased rapidly in recent years. No special measures to encourage it further are needed;
(vi) There are several fields of overseas investment, particularly the Commonwealth, where an increase rather than a decrease would be greatly to our long-term interests. An expansion in the volume of national savings is needed to make this possible.

389 CAB 129/83, CP(56)208 11 Sept 1956

'Plan G': Cabinet memorandum by Mr Macmillan on the proposed European free trade area. *Annex* I

Since the papers on Plan G and allied subjects (summarised in Annex I) are lengthy and complicated, I thought it might be useful to try to set out what it is all about.

2. We have to make two decisions. First, is this a good plan for the British economy? Will it bring us strength in the long run, even though the risks may be great in the short run? Can the British economy survive alone, insulated and protected from European competition? Will it be able to maintain its exports to Europe, which are 25 per cent. of the whole? Equally important, can it maintain its exports to other countries against the competition of European countries, either individually, as now, or in a unified Europe largely under German domination? Can we enter into a new structure and at the same time maintain the advantages of the Commonwealth, our preferences and all the rest? Can we retain them, even if we keep out? This is the first problem, economic and material.

3. Then there is the second question. Is this politically sound? Can we retain the leadership of the Commonwealth world and at the same time seize the leadership of Europe? Would it help us to create a new period of British strength and power, or should we be foolishly throwing away what we have? Would it bring us promise for the future, or is it an abdication and betrayal of our past? These are the questions which the Government has to settle about the plan itself.

4. Next there comes the set of questions related to the politics of the plan. Will our Party accept it both in the House of Commons and in the country? Can we swing from the old policy of insular protection to the new policy of wider free trade areas—from the policies of a world of unemployment to the policies of a world of full employment? Can we combine in a common policy the Commonwealth wing and the European wing? Can we hold the agricultural constituencies, even if agriculture is excluded, in view of the concessions we may have to make to the Commonwealth?

5. For myself, I do not think this can be done only on a material and economic basis. It will require an emotional and idealistic theme.

6. Then can we stand for what will happen? Everything that goes wrong will be counted against the new policy, even if it would have gone wrong anyway. The trouble with our economy at the moment is it is not as competitive as it ought to be. Will our employers and trade unions be prepared to stand the pressure which, of

course, will help to make them competitive, and so defend full employment and the standard of living, but will also cause considerable discomfort and even suffering? It will be no answer that these things would have come to us anyway. They will all be attributed to these new plans.

7. Can we get the Commonwealth to see that the strength of Europe, on the basis of a single market of 240 million people should create a new source of wealth and thereby an increased rate of investment overseas? Can we get the United States to take the same view, or will they raise difficulties about tariff discrimination against United States goods?

8. These are the questions which we have to consider in reaching a decision. Unfortunately, there are some other distractions which make it difficult for us to give the matter our full attention.[1] In the circumstances, I can hardly ask the Cabinet to do more than give general approval to this line of approach, and allow the President and me to explain to the Commonwealth Finance Ministers the way in which our minds are working. We do not wish to say that we have reached final conclusions; but we would like to explain these ideas and try to get their sympathy and interest. In order to prepare their minds, I propose to send a letter to Commonwealth Finance Ministers in advance; a draft is annexed (Annex II)[2] which has been sent to our High Commissioners for despatch when they have received further instructions after the Cabinet meeting.

9. Of course, the Commonwealth countries will wish to bargain if we retain the preferences. But we are in for this anyway, as the recent Australian negotiation has shown. In the long run it may be easier to make bargains of this kind on the basis of a big policy; for the people of the old Dominions, like those of the Mother Country, are temperamentally attracted to that curious mixture of materialism and idealism which has made the English character almost unintelligible to any foreigner.

Annex I to 389: Summary of Plan G [Extract]

1. Reference is made here to the following papers:—

C.P.(56)191—Interim Report by Officials.[3]
E.P.(56) 70—Supplementary Report by Officials.
E.P.(56) 75—Note by the Chairman of the Economic Steering Committee.

Description of the plan

2. The United Kingdom would enter a partial free trade area with the Customs Union of the Messina Six (Benelux, France, Germany, Italy) and all other O.E.E.C. countries that wished to join (probably Norway, Sweden, Denmark, Switzerland, Austria).

3. The area would probably not include either our own dependent territories or those of the European countries; this must remain undecided, however, until we know the Europeans' views about this; our own Colonial territories are being consulted about their possible interest.

4. The free trade area would cover all commodities *without exception* except

[1] The Suez crisis was then in its seventh week. [2] Not printed. [3] See 387.

foodstuffs (defined broadly to include processed food products, feeding-stuffs, drink and tobacco). The exclusion of foodstuffs is an essential condition on which we should insist without qualification, both in the interests of home agricultural policy and in the interests of the Commonwealth.

5. Within the free trade area, tariffs (except revenue tariffs in the strictest sense), protective quotas and other protective devices (*e.g.*, export taxes and controls, export subsidies) would be reduced and ultimately abolished in defined and timed stages over a period of about a decade.

6. We should retain our existing freedom of action in our tariffs on imports from the rest of the world, subject to our commitments in G.A.T.T. and elsewhere: this is the essential difference between a free trade area and a Customs Union. There would be no change in our present obligations regarding free entry of Commonwealth goods, and of course we should be under no commitment to discriminate in Europe's favour against the Commonwealth.

7. We should insist that there should be no discrimination by the Messina Six in each others' favour and against us. This implies the same time-table for tariff reduction throughout the whole free trade areas.

8. We should retain the right to impose quotas in balance-of-payments emergencies. The area would be working under the present G.A.T.T. and O.E.E.C. rules unless it were decided that stricter rules should be applied within the area. (This would probably suit us.)

9. We should continue to make progress in relaxing and removing quota restrictions on imports from Canada and the United States. This would not be part of the Plan *vis-à-vis* Europe, but apart from such direct economic advantages as might be involved, this action would probably be necessary to secure North American support.

10. The Plan would be consistent with the collective approach to freer trade and currencies; and it would be framed and presented in a manner that would reduce as far as possible the risk that it might be interpreted as envisaging the creation of an inward-looking and restrictive regional discriminatory *bloc*.

11. The international management of the free trade area would be conducted in O.E.E.C. by a "Meeting Board" (at Ministerial and official level), consisting only of the Members of the area, operating under Article 14 of the O.E.E.C. Constitution. This Article enables a group to proceed without the positive assent of non-Members of the group (provided they do not dissent).

12. This machinery could, it is thought, be developed in O.E.E.C. on an inter-Governmental basis without the establishing of supra-national authorities. . . .

390 CAB 128/30/2, CM 65(56)2 14 Sept 1956

'Commercial policy': Cabinet conclusions on the proposed European free trade area

The Cabinet resumed their discussion of commercial policy and had before them a memorandum by the Chancellor of the Exchequer (C.P. (56) 208)[1] covering a summary memorandum of proposals—known as "Plan G"—for the association of the

[1] See 389.

United Kingdom with a new free trade area which might eventually embrace the majority of countries in Western Europe. They also had before them a memorandum by the Commonwealth Secretary (C.P. (56) 207) reviewing the implications of such a policy for the future of the Commonwealth connection.[2] The Cabinet were invited, at that stage, to agree that an initial attempt should be made to ascertain the reactions of Commonwealth countries to a plan of this nature at the forthcoming meeting of Finance Ministers in Washington. The matter would then be submitted to the Cabinet in October for further consideration in the light of the attitude taken by other Commonwealth Governments.

The President of the Board of Trade said that it had been the aim of our commercial policy to secure the advantages of liberal trade practices in the world at large while retaining the benefit of the preferences system within the Commonwealth. This policy was now under pressure and we could no longer expect to continue to enjoy the best of both worlds. Australia had taken the initiative in seeking a review of the preferences system and New Zealand would follow her lead. In Europe, there was little doubt that the efforts of France, Germany, Italy and the Benelux countries to form a customs union would achieve at least partial success, although they might fail to attain their ultimate objective. We might soon be confronted in Europe by a powerful discriminatory economic *bloc*, dominated by Germany and developing into a formidable base for German competition in our markets overseas. There was no prospect of our being able to pursue our traditional policies undisturbed and the proposals in Plan G had been devised to turn the developments in Europe to the advantage of the United Kingdom and of the Commonwealth as a whole.

The proposed free trade area would be based on the progressive removal over a ten-year period of all tariffs (except revenue tariffs) and other trade restrictions between member countries. The associated countries would, however, retain their present freedom, subject to any international obligations, in regard to tariffs and restrictions against countries outside the group, and there would be safeguards for balance of payments difficulties. In entering the association we should make it an absolute condition that agricultural and horticultural products were permanently excluded from the scope of the agreement, and we should remain free to continue the system of agricultural preferences and free entry for Commonwealth products.

Association with Europe, on the basis proposed, would provide United Kingdom industry with a unified market of the size which modern technical developments demanded. The proposals for achieving this would place the United Kingdom for the first time in a combination equal in scale to the other two great trading units of the world, *viz.*, the United States and the Soviet Union. This step would reverse the trend towards the Balkanisation of markets and the fragmentation of economic power in Europe. Moreover, at the present time but not later, we could enter such a combination on our own terms. It must be recognised that, as a member of such an association, United Kingdom industry would be confronted with more intense competition from Europe in the home market. At times of disequilibrium the

[2] Not printed. The main point made by Lord Home in this memo was that 'Commonwealth countries are likely to interpret the plan as meaning that the United Kingdom has decided to identify her fortunes more closely with Europe . . . I must warn my colleagues that Plan G could lead to a permanent loosening of the Commonwealth bonds and through that to a weakening of the United Kingdom as a world Power' ('Plan G and the Commonwealth', Cabinet memo by Home, CAB 129/83, CP(56)207, 7 Sept 1956).

Government would need to be prompt and effective in applying remedial measures. But these prospects could not be avoided by remaining aloof from the proposed federation; and our economy would not survive for long if our industries could not compete on level terms with Europe and the Government were not prepared to take the necessary steps to ensure equilibrium at times of stress. As British exporters could not, in any event, escape a competitive struggle with European industry, it would be contrary to our interests to reject the advantages offered by a unified mass market.

The political difficulties which the plan would present should not be discounted, but he was satisfied that the proposals would be endorsed by leading opinion in industry and by a substantial body of Government supporters.

Discussion showed that the Cabinet were impressed by the arguments in support of a new economic initiative on these lines, and conscious of the limited scope for an alternative policy which would offer the prospect of economic security in the longer term. Although a commercial policy based on the Commonwealth connection would be much to be preferred, the conditions for such a policy no longer existed. The preferences system was already crumbling away, and there was no hope of re-invigorating it, as the United Kingdom market could not absorb much more of the primary products of the Commonwealth. The United Kingdom had now become too small an economic unit and if we did not attach ourselves to Europe we should be drawn inevitably, as a minor partner, into the sphere of influence of the United States. The capacity to invest was even more important in the modern world than the ability to trade. Commonwealth countries were already being attracted to the United States as a source of investment capital. The economic unification of much of Western Europe would create a new source of investment capital for overseas development which might be expected to flow out to Commonwealth countries through London under our management. Already many of the larger development schemes in countries overseas could only be undertaken by firms joined in consortia; the creation of a free trade area would create the conditions in which European firms would have further scope for this.

The danger must be foreseen, however, of a free trade area being dominated by the Germans and if we entered into such an association we should do so with a determination to assume the leadership of it. This, indeed, was now our best means of ensuring our continuing status as a Great Power. The strengthening of the United Kingdom in this way would enhance the security and strength of the Commonwealth and the proposed free trade area would provide not only an additional market for those Commonwealth products which we could not absorb but a source of new funds for Commonwealth development. In putting the proposals to other Commonwealth countries the emphasis should be on these points. Politically, Europe was groping towards a new cohesion. If the economic basis of the plan was sound, the moment was ripe for the United Kingdom to assume a more vigorous leadership in Europe and, through this, to exercise an effective influence over the direction of West German policy.

Nevertheless, misgivings must be entertained on many counts about proposals which represented a unique departure in British policy. Many aspects of the proposals would need further reflection and the Commonwealth attitude would need to be more certainly established. In this part of the discussion the following points were made:—

(a) Although association with a free trade area would have a salutary and, from the long-term point of view, valuable effect on the competitive ability of United Kingdom industry, it would, in the short term, endanger the maintenance of full employment. The condition of maintaining full employment within the proposed area would be a ready mobility of labour from one country to another. But the full collaboration of the Trade Unions had yet to be obtained in regard to the mobility of labour from declining to expanding industries even in this country. The Trade Unions would be quick to see the consequences of the plan for those industries, such as cotton and motor-cars, which would be severely hit by competition; and its advantages would appear to them more nebulous. With a fixed time-table for the removal of restrictions the consequences, in terms of redundancy in weak industries, would become quickly apparent. It would not therefore be an easy task for the Government to convince the Trade Unions Congress that the plan would be to their ultimate advantage.

(b) As regards agriculture, it would be a condition of the plan that we should be free to maintain present levels of home output. But our prospects of raising the levels of home output would hence-forward be circumscribed. The farming industry would resent this and any concessions which might need to be offered to European agricultural producers would have to be made at the expense of non-Commonwealth suppliers such as Argentina. Our entry into a free trade area might thus seem inconsistent with the commitments we had undertaken in regard to the "one world" approach for trade. In any event, it was not yet clear whether it would on balance be to our economic advantage to relax in favour of Europe our connections with markets such as Argentina. Until this point could be established, judgment on the proposals should be reserved.

(c) Our ability to maintain the momentum of the collective approach had been frustrated by the burden of excessive imports and a reluctance to take the necessary remedial measures to restore equilibrium. The tendency to import too much might well increase if we entered a free trade area and, in face of German competition, it would be necessary to apply remedial measures more promptly and vigorously than we had been prepared to do previously. The Government must be satisfied that the necessary steps would in fact prove practicable and would be acceptable to the nation. Indeed, the risk of excessive imports was so considerable that a more definite assurance would be needed on the prospects of the plan providing proportionately greater export opportunities before a final judgment could be formed on it.

(d) It had always been held that a regional system would need to be strongly protected against external pressure and free to discriminate against countries outside the group. The plan accepted the need for powers to discriminate in this manner and we might well need to have recourse to these powers to safeguard the balance of payments. We acted as the banker for the sterling Commonwealth, and Commonwealth countries with balances here might feel disquiet at the risks to sterling which the proposals might involve. Commonwealth countries should be informed of the powers to safeguard the balance of payments which would be available to us, and paragraph 6 of the draft letter to Commonwealth Finance Ministers annexed to C.P. (56) 208 should be amended accordingly.

(e) It was unlikely that the plan could be carried out unless the Government possessed *dirigiste* powers over the economy to an extent which might be unacceptable to Government supporters. The plan, in any event, would fail to attract

Government supporters unless they could be convinced that it would strengthen the Commonwealth and the Commonwealth connection.

The Cabinet considered the probable attitude of other Commonwealth countries towards proposals for the closer economic association of the United Kingdom with Europe and the following views were expressed:—

(f) Powerful centrifugal tendencies were now at work in the Commonwealth. The association had held together because the maintenance of the Commonwealth connection had been the leading principle in United Kingdom policy. There would inevitably be a weakening of Commonwealth links as Commonwealth countries realised that we were turning towards Europe with a view to assuming the leadership of a different association of nations. It was essential, therefore, to be convinced of the economic benefits which would flow from the plan in comparison with the risk of weakening the Commonwealth connection. Our determination to maintain the Commonwealth link should be given greater emphasis in paragraph 3 of the proposed letter to Commonwealth Finance Ministers.

(g) There was little we could do to increase the opportunities for trade with the Commonwealth. The proposals in C.P. (56) 207 with regard to wheat and meat did not extend beyond our obligations under the Ottawa Agreements. There was little, if any, scope for giving Commonwealth suppliers of fruit and other products further protection in our market. On the other hand, the market for manufactures which Commonwealth suppliers enjoyed in the United Kingdom and which would be at risk under the new proposals, represented only a negligible proportion of their total market here. Against this, Commonwealth countries would foresee the loss of a potential United Kingdom market for manufactures which they might hope to develop.

(h) *The Commonwealth Secretary* said that, as the United Kingdom turned to Europe, Canada, Australia and New Zealand—with whom we had had the firmest bonds—must be expected to turn increasingly towards the United States. Indeed, the United States, disquieted by the formation of a regional group in Europe, would possibly make efforts to attract them. If, therefore, it was decided that these proposals were in our economic interest, every effort must be made to convince Commonwealth countries that the plan, by strengthening the United Kingdom, would strengthen them. But Commonwealth countries would not be convinced by this argument alone, for they would see how vulnerable under the plan our balance of payments would be in the short term. The status of the United Kingdom as a world Power depended on her position as head of the Commonwealth. In adopting an expansionist policy towards Europe we must therefore be prepared and able to pursue a corresponding policy towards Commonwealth trade. This would entail a positive and far-reaching plan for trade in Commonwealth agricultural products without which the support of the Commonwealth could not be expected. Until such proposals were formulated he must reserve his position.

The Chancellor of the Exchequer said that the arguments for and against proceeding with the plan were evenly balanced. Further careful reflection would be necessary before a final decision could be reached. This must depend in part on the attitude taken up by Commonwealth countries. Neither of the two major political parties now had a well-founded or coherent economic policy. This the plan would

provide; but it would also involve the need for making more rapid and effective adjustments than we had hitherto achieved in our internal policies and, once it had been put into effect, every economic ill, whether inescapable or not, would be attributed to it. Nevertheless, our economy could not be sustained indefinitely on the basis of a protected and insulated market and the plan would open the way to those competitive pressures which would force the economy to become efficient. It would be necessary to reach a final decision on the matter before the end of the year in order to declare our attitude towards the proposals for a European Common Market in the discussions which were due to take place in the Organisation for European Economic Co-operation in Paris. If we had no definite attitude to declare, that in itself would imply our decision.

The Cabinet decided to hold a further discussion of the plan at a meeting in the following week. Meanwhile they agreed in principle that a preliminary discussion of these proposals should take place in Washington at the forthcoming meeting of Commonwealth Finance Ministers.

The Cabinet:—

(1) Agreed to resume their discussion at a meeting in the following week.

(2) Authorised the Chancellor of the Exchequer to despatch to Commonwealth Finance Ministers letters in the terms of the draft set out in Annex II of C.P. (56) 208, subject to the minor amendments approved in their discussion.

391 CAB 128/30/2, CM 66(56)2 18 Sept 1956

'Commercial policy': Cabinet conclusions on the proposed European free trade area and the colonies and broader considerations [Extract]

The Cabinet resumed their discussion of the arguments for and against the association of the United Kingdom with a free trade area in Europe.[1]

The Colonial Secretary said that he had already informed a number of the more important Colonial Governments in confidence of the scope and purposes of the proposals and, before any final decision on them were taken, he would wish to have an opportunity of seeking the considered views of the Colonies as a whole. He agreed that the plan would be unlikely to cause serious damage to the trade which they carried on at present with the United Kingdom. Colonial exports of raw materials, such as copper and rubber, enjoyed no preferences in the United Kingdom; and only a few Colonies, such as Malta and Hong Kong, were as yet interested in the export of manufactures to this market. Hong Kong would find the prospect of European competition in this market less disturbing than the recurrent threat of quotas against her goods. The exclusion of agricultural products from the scope of the plan would go some way towards assuaging any fears which Colonial territories would entertain in regard to their current trade, and it was essential that we should maintain this condition in negotiations.

As regards the future, the position was less satisfactory. The Colonies were rapidly becoming industrialised and several of them would be looking forward to receiving within the next generation the advantages in the United Kingdom market which would flow, not merely from the Ottawa Agreements, but from the wider preferential

[1] Previous reference: see 390.

margins which they might expect to negotiate if, as many hoped, the restraints in this regard which were at present imposed on us could be removed. This prospect would now be denied to the Colonies and their loyalty, which was bound up with trade, would diminish. Moreover, if the dependent territories of the European Powers concerned decided to join in the proposed association, would be possible for us to give the products of our own Colonial territories effective protection against the corresponding products of the European dependencies? The question whether the Colonies should or should not join in the association would present serious difficulties. They would, in any event, be closely interested in any proposals on the lines of those set out in paragraph 7 of C.P. (56) 207 for providing further and compensating opportunities for Commonwealth trade with the United Kingdom.

In regard to the plan itself, he considered that, although the United Kingdom might not be pursuing irreconcilable objectives in attempting to assume leadership in Europe while remaining the centre of a powerful Commonwealth, the prospects of success in such a venture were at best speculative, and we might find that in concentrating our efforts on advantages in Europe which might not accrue we lost the more tangible benefits of the Commonwealth connection.

The following points were made in discussing the extent to which the plan would affect the economic interests of the Colonies:—

(a) To the extent that Europe, under a unified economy, became more prosperous it could be expected to provide a better market for Colonial as for Commonwealth products generally.

(b) The point was reiterated that the preferences system was crumbling away and that, given this trend, the Colonies could not now hope to extend it to their advantage.

(c) The industrialisation of the Colonies, based on very low costs, would present separate problems from those arising in relation either to the preferences system or to the proposals now under discussion. The United Kingdom would be unable to absorb Colonial manufacturers in large quantities, and Hong Kong could be regarded as an exception only so long as she remained unique. The manufacturing Colonies would be more concerned to maintain their trading advantage against Japan in the United Kingdom, rather than any advantage they might now have against Europe, and this they would be able to do.

The Cabinet then resumed their discussion of the broader considerations which arose in regard to the closer economic association of the United Kingdom with Europe. . . .

The Chancellor of the Exchequer said that the fact must be faced that the United Kingdom had declined in relative economic power in comparison with the other large economic units now dominating the world. The basis of industrial production must be large enough to carry the overheads which modern industrial techniques made necessary, and the home market was now relatively too small to provide this. The time had therefore come when, as at other periods in our history, a new basis must be found on which our economic power could be restored and maintained. Correspondingly, we must avoid, as an exporting country, finding ourselves at a serious disadvantage in comparison with a rival exporting *bloc* in Europe. The plan should therefore be presented to Commonwealth countries, not as an academic speculation but as a considered plan to preserve and strengthen sterling in the long term, to provide a more secure market for Commonwealth agricultural products and

to make possible the creation of adequate investment capital from the resources of the old world for the needs and benefit of the new. Our decision whether to proceed with the plan would be influenced by the attitude of the Commonwealth countries, but they should be invited to consider the consequences for them if, without some such policy, the United Kingdom gradually declined as an economic force.

The prospects of being able to proceed with the plan now gave cause for concern, however, for other reasons. It had always been assumed that it would expose sterling to new strains in the short term. Sterling was now already exposed to even more serious danger because of the disturbance to confidence caused by the dispute over the Suez Canal, and a decision on whether to proceed with the plan could not now be taken until the future course of this dispute could be more clearly foreseen. In the meantime the question must be handled, in discussion with Commonwealth countries and otherwise, in such a way as to leave the position open for several weeks. In this period discussions in Paris should be confined to the factual and technical aspects of the matter.

The Prime Minister, summing up the discussion, said that we were confronted with a dilemma. An economic plan based on the Commonwealth connection would no doubt have been preferable, and the Secretary of State for Scotland[1] had expressed to him misgivings about the risks to the Conservative Party in appearing to abandon traditional policies based on maintaining the solidarity of the English-speaking peoples in favour of closer union with European nations. But there was little prospect of devising a policy based on the Commonwealth connection; the Australians appeared to be determined in their pursuit of their present commercial objectives and both Australia and New Zealand were bound to be attracted, if only for reasons of defence, towards an increasingly close association with the United States. The attitude of the Asian members of the Commonwealth towards the British connection was uncertain and they diverged from us on many matters. Unless, therefore, we were capable, acting alone, of meeting formidable European competition in oversea markets, there seemed no alternative but to base our policy on the proposed plan for closer association with Europe, or some suitable variant or extension of it. The French Prime Minister had recently asked whether we might be prepared to revive the offer of common citizenship made in 1940 and we had now to consider what reply should be given to this enquiry. There might prove to be scope for a closer association in military, financial and economic affairs which would make the two countries a powerful partnership. This question should now be examined urgently by officials in order that Ministers could give consideration to the terms of our reply before he himself visited Paris later that month. In addition, thought might be given to possible extensions of the Commonwealth union to include countries in Europe, such as Belgium, the Netherlands and the Scandinavian countries, which might be prepared to join such an association. In his opinion, although the Conservative Party had traditionally been a Commonwealth party, the younger generation were conscious of a need for new policies and might prove responsive to an initiative in these directions.

The Cabinet:—

(1) Confirmed their earlier decision that the Chancellor of the Exchequer and the President of the Board of Trade should be authorised to explain and discuss the

[1] J Stuart, S of S for Scotland, 1951–1957.

proposals outlined in C.P. (56) 208[2] with Commonwealth Finance Ministers during the forthcoming meetings in Washington.
(2) Agreed that a final decision on the question whether or not to proceed with these proposals must now depend on the course of the Suez Canal dispute and that, in any event, no final decision could be taken until there had been further opportunity for reflection on the points made in the Cabinet's discussion and the views of other Commonwealth countries were known.
(3) Instructed the Secretary of the Cabinet to arrange for officials to examine urgently the possible scope for collaboration with France in military, financial, economic and other matters in the light of representations recently received from the French Prime Minister.

[2] See 389.

392 CAB 129/84, CP(56)256 6 Nov 1956

'A mutual free trade area with Europe': joint Cabinet memorandum by Mr Macmillan and Mr Thorneycroft

We were authorised by the Cabinet in September to explain and discuss the proposals in Plan G with Commonwealth Finance Ministers during the meetings in Washington; it was agreed that a decision could not be taken until there had been further opportunity for reflection and until the views of the Commonwealth were more adequately known (C.M. (56) 66th Conclusions, Minute 2).[1]

2. It was subsequently agreed that we should indicate at a Press conference the general nature of the ideas that were being discussed with the Commonwealth, emphasising that the Government had not arrived at a conclusion in this matter. The Press conference was held on 3rd October.

3. The reaction of public opinion in this country has been fully as favourable as we had hoped. A satisfactory body of support has emerged in the Press and among all sections of political opinion. The views of industry are, and will no doubt remain, divided; but there is support even in industries likely to suffer, and over industry as a whole it seems likely that the weight of opinion will be in favour—the results of the Federation of British Industries Survey confirm the Board of Trade's direct evidence. Opinion in the Trades Union Congress appears to be cautious but not ill-disposed; we were impressed by their sober and realistic attitude in our discussions with them. The Economic Planning board has been consulted; the members were aware of the difficulties, but were generally of the opinion that it would be right to go forward.

4. Certainly in the course of the next few weeks opposition will develop from a number of quarters, but we can reasonably expect that this opposition will be in the nature of an attack from particular interests which might fear damage from the Plan rather than a broadly-based political criticism of the whole conception.

5. The external reaction has been much the same as had been expected. The various views which have been expressed are summarised in Annex II.[2] There has been a considerable welcome from Europe, but they are not yet certain whether we are flying a kite or whether we mean business. We have had no definite view from the

[1] See 391.

[2] Annexes not printed.

United States government, but in his Miami speech on 29th October, President Eisenhower spoke with warmth of this "challenging idea"; fears will undoubtedly emerge that American commercial interests will suffer, and that we may be abandoning the principles of multilateral trade, but the President's first reaction—and the fact that he thought fit to include it in an election speech—is encouraging.

6. The attitude of the Commonwealth Governments is now reasonably clear. Canada has not yet replied officially, but the indications which we have so far received (paragraph 7 of Annex II) suggest that Canada is unlikely to oppose the Plan in principle. Australia and New Zealand have expressed appreciation of the considerations that commend the Plan to the United Kingdom; they make reservations on particular points, but do not dissent from the basic concept of the Plan. The attitude of the Federation of Rhodesia and Nyasaland is similar. We do not expect dissent from South Africa. India has expressed general support for the Plan; Pakistan and Ceylon do not appear to consider themselves greatly affected. There will of course be problems of adjustment with individual Commonwealth Governments as has always been recognised, but we think it can reasonably be concluded that the Commonwealth as a whole is not opposed to our going forward.

7. The reactions of the Colonies have been in general accordance with the expectation that their interests would not be seriously affected, on the assumptions that the free trade area would exclude food and that the Europeans' overseas territories would not be included. This is satisfactory enough; but the French are adducing powerful arguments for bringing their overseas territories into the Messina Customs Union; this would in turn lead to strong arguments for their inclusion likewise in the free trade area; this could in turn lead to important considerations for some of the Colonies. It is too early to take a view about this complex; [sic] but we see no reason to doubt that we shall be able in negotiation effectively to protect the Colonies' essential interests. We must ensure, however, that we keep the Colonies in close touch with the proceedings.

8. In our judgment the reception of the Plan, both at home and by the Governments concerned, has been favourable enough to justify a further step forward; and that step should be taken now. The time has come at which, for effective action in the Organisation for European Economic Co-operation (O.E.E.C.), we must state our position more definitely. The longer we delay, the more scope there is for difficulties and misunderstandings to develop, both in Europe and elsewhere. There is real danger that positions may become established which would be difficult to change in subsequent negotiations and which might even prejudice the possibility of bringing into being an acceptable scheme.

9. The next step would be a public announcement of Her Majesty's Government's desire to enter into negotiations in O.E.E.C. with the purpose of establishing, on acceptable terms, a mutual free trade area (excluding foodstuffs) in Europe, on the lines indicated in Annex I (the aide-mémoire given to Commonwealth Finance Ministers). If our colleagues agree, this announcement would be made to Parliament at the opening of a debate, if possible in the week beginning 19th November. We should at the same time inform the Commonwealth and O.E.E.C. Governments.

10. This announcement would lead to a continuous process of negotiation, which would take place over a considerable period. During this period we should be continuing to consult industry at home, and we should be continuously informing and consulting the Commonwealth and the Colonies. The final decision could not be

made until the end of the negotiations, for only then shall we be able to see what terms can be obtained and to judge whether the resulting plan is acceptable.

11. The first crucial stage in this process of negotiations would probably be a meeting of the O.E.E.C. Ministerial Council early in 1957, which would receive a report from the officials' working party now in session, take stock, and decide how to proceed.

12. At the Ministerial Council we should seek to get agreement on all our fundamental points—the issues on which we should break. We would expect a major difficulty to be the exclusion of foodstuffs—very few Governments in Europe want free trade in foodstuffs, but there is reluctance to admit this formally. The point is so fundamental that it would be wise, in our view, to make clear from the outset that we are prepared to enter negotiations only on that basis. We should expect this condition to be ultimately accepted.

13. The other chief problems would be:—

(i) the order and pattern of tariff reduction, and the related problems of escape clauses and arrangements for management;
(ii) the overseas territories;
(iii) the demand of France for special treatment (particularly the idea of a "trial period"); we shall have to be prepared to take a very firm line with the French (and to induce the others to do so) in order to prevent the whole scheme from being whittled away.

14. From this point the negotiation would continue, with periodic Ministerial meetings to seek to resolve difficulties. If the negotiation succeeded, there would follow a period for drafting the appropriate instrument and its ratification by the Parliaments. The whole process would probably require 18–24 months. It seems that the effective operation of the Plan would, at earliest, start about the end of 1958—and the Mutual Free Trade Area come into full existence in the early 1970's.

15. We therefore ask our colleagues' approval:—

(a) to announce in Parliament Her Majesty's Government's intention to enter into negotiations in O.E.E.C. with the purpose of establishing, on acceptable terms, a mutual free trade area in Europe (excluding foodstuffs) on the lines indicated in Annex I;
(b) to proceed subsequently, in consultation with other Ministers concerned, on the general lines indicated in paragraphs 10–14 above, keeping the Commonwealth and Colonial Governments fully informed throughout, and reporting to our colleagues as necessary.[3]

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[3] Cabinet considered this memo on 13 Nov. It noted that there were now 'some indications that . . . both France and Germany might limit their aims to the establishment of a free-trade area' and that it might therefore be necessary for Britain to review its plans. 'But it would still be desirable for the United Kingdom to be in a position to influence developments which might otherwise turn to our disadvantage. It was evident that, as a result of the Suez crisis, this year ahead would be a period of great difficulty for Western Europe'; and even though negotiations might fail, it was important for Britain to be involved in order to help 'preserve the solidarity of Western Europe'. Cabinet then authorised Macmillan and Thorneycroft to announce the British plan in Parliament (CAB 128/30/2, CM 83(56)1, 13 Nov 1956). This they did on 26 Nov.

In March 1957 the Six signed the treaty of Rome, and the British government, now headed by Macmillan, began its negotiations with them over EFTA. But in Nov 1958 the British approach was rejected in toto by General de Gaulle (prime minister of France, June–Dec 1958, president 1959–1969).

393 CAB 134/1878, ES(EI)(C)(56)1 7 Nov 1956[1]

[The colonies and Europe]: minutes of a meeting of the [Official] Working Party on the Colonies on the colonies and Europe[2]

The Chairman suggested that the Working Party's first discussion should follow the lines of the tentative Agenda set out in the Annex to E.S. (E.I.)(56) 66 which had been referred to them by the Sub-Committee on Closer Economic Association with Europe. Before considering the economic aspects of the relationship of dependent overseas territories to the Common Market and partial free trade area schemes, the Working Party should be aware of the constitutional position of the British colonies. It was our invariable practice to make a specific reservation in all international agreements which would otherwise apply to British Colonies, so that their adherence or otherwise to such agreements would be for each colonial government itself to decide, and it should be assumed that this practice would also apply in the case of any international agreement or set of agreements to establish a free trade area. It was agreed that the implications of Plan G for Rhodesia and Nyasaland fell to be dealt with by the Commonwealth Relations Office.

The Working Party then discussed the French attitude to the inclusion of dependent overseas territories and an outline of French intentions in regard to the Common Market proposal, which had just been received, was read by the Chairman. It appeared that the French intended that their Overseas Territories would not be ordinary members of the Common Market but would be associated with it. By association the French meant that their Colonies would have preferential entry into the markets of other Messina countries but would retain the right to protect their own industrial development. Tariffs and quantitative restrictions would, therefore, be maintained but on a non-discriminatary [sic] basis. France would, however, only agree to eliminate existing discrimination in her favour if the other countries concerned were prepared to contribute to the development of French Overseas Territories (on a basis to be negotiated between France and the countries concerned). It thus appeared that the French were maintaining that they could keep on quantitative restrictions as long as they wanted to, irrespective of G.A.T.T. etc., and would thus be able to offer Germany a concession in return for investment. It was agreed that there was little likelihood of the other members of the working Common Market accepting these proposals. The Working Party went on to discuss the hypotheses on the inclusion or exclusion of various French overseas territories set out in paragraph 3 of E.S. (E.I)(56) 66 and it was agreed that the Foreign Office should be asked to advise the Working Party further on the constitutional position of these territories (and also of Madagascar, the French Pacific possessions and the French Cameroons) in relation to metropolitan France, and to provide similar information in respect of Belgium, Holland and Italy. It was noted that Italian Somaliland would become independent in 1960. Portugal and Spain would not be coming in, so consideration of the position of their dependent overseas territories was not required.

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[1] The meeting was held on 6 Nov; the minutes are dated 7 Nov.

[2] The working party was drawn from a Sub-Committe of the Cabinet Economic Steering Committee on Closer Economic Association with Europe. It was chaired by W B L Monson (assistant under-secretary of state, CO, 1951–1964) and included officials from the Treasury, FO, CRO, and Board of Trade.

The Working Party when [sic] considered how far objections could be raised within the Messina Group, by the United Kingdom, or in G.A.T.T. if French and Belgium [sic] colonies were brought into the Common Market. The following points were made in discussion:—

(a) There was no evidence that the Messina countries would have any objections to the inclusion of dependent overseas territories.

(b) Some British Colonial food industries—notably banana and pineapple production—were at present dependent on the United Kingdom home market but were expanding, and it was hoped to find further outlets in Western Europe. These industries would be put at a disadvantage by the inclusion of European colonies in a Common Market.

(c) India was already apprehensive about the possible loss of potential European export markets to French African colonies. It was not clear what products India had in mind nor was it certain that she had distinguished between the implications of a Common Market and a free trade area but it was agreed that she should be given information on this aspect when more was known on the subject.

(d) If the United Kingdom decided to seek the exclusion of foreign colonies from the Common Market it might be possible to do so by invoking the provisions of Article XXIV of the G.A.T.T. under which an additional waiver would be required for such an arrangement.

(e) Alternatively an approach on broader political grounds i.e. the undesirability of appearing to bring Overseas Territories in solely on political grounds, might be made to the French Government. It was not likely to be successful.

(f) United Kingdom trade with the Belgian Congo wold to some extent be affected if it were brought into a Common Market, thus putting us at a disadvantage compared to the Messina countries. The main advantage in the inclusion of any Colonial territories would fall to Germany who had none of her own to put into the balance. The French sought German capital for overseas development: so did we in principle.

The Chairman, in summing up this part of the discussion, said that it seemed likely that France and possibly the other Messina countries would seek to bring their colonies into the Common Market and this was not likely to be objectionable to the United Kingdom domestically or the Messina countries. But there would be some objections from the Colonial and Commonwealth point of view, and depending on the precise nature of the French proposals, it might be possible to oppose them through the G.A.T.T.

The Working Party then considered the impact on the United Kingdom, the Colonies and the Commonwealth if French and Belgian colonies were brought into a partial free trade area. It was agreed that as far as the United Kingdom was concerned the effect would simply be to restore the present *status quo* by removing the discrimination against the United Kingdom and in favour of the Messina countries which the Common Market would have created. If, therefore, a common market came into existence which included overseas territories it would be to our advantage if they were also included in a Free Trade Area. The effect on our colonies was more difficult to assess. Their exports of raw materials enjoyed preferential treatment in the United Kingdom though only to a very limited extent, and the Board of Trade were invited to advise the Working Party on how far the colonial timber industry would be affected. Subject to this it was agreed that *if* the inclusion of foreign

colonies in the Common Market was inescapable their subsequent inclusion in the free trade area might have some advantages from our point of view.

On the question of whether it would be administratively possible to exclude those French Colonies which had no customs arrangement with Metropolitan France it was agreed to ask H.M. Customs and Excise (who were not represented at the meeting) to advise the Working Party.

The Working Party considered whether there were any reasons of principle for or against inclusion of United Kingdom colonies—apart from the constitutional reasons explained by the Chairman for giving each territory a free choice—and the following points were made.

(g) There would be difficulties of presentation if British colonies were excluded from the scheme while other European colonies were included as it would appear that the United Kingdom was turning her back on the Commonwealth.

(h) It would be important in any agreement(s) establishing a free trade area to avoid giving other members a veto on the inclusion of specific British Colonies.

(i) The inclusion of Hong Kong, and to a lesser extent Singapore, which had both expressed their desire to join a free trade area, would be unwelcome to European countries, the Commonwealth and to United Kingdom industry. This was a potential argument to be put to the Messina countries for excluding all colonies from the proposals. It would, however, be far from consistent with our responsibilities for Hong Kong to do so, and quite impossible to do so if European colonies were within it.

(j) Malta was a special case, but had not yet replied to the telegram.

The Working Party next considered the question of British colonies which might attain independence during the period of the establishment of the free trade area. The Chairman said that this was unlikely to present a real problem because in practice Colonies attaining independence would be bound by their pre-existing international obligations until further notice. It would also be impossible to say in advance which Colonies might attain indepdence in so long a period as fifteen years. *Mr. Crawley*[3] suggested that this difficulty might disappear if independent Commonwealth countries, such as Ceylon or Canada were also able to join; and this would also dispose of any objections to the scheme which such countries might raise. Against this it was pointed out that unless such countries were prepared to come in on the same terms as European members (i.e. abolition of tariffs)—in which case their application could not be opposed—the only justification for their inclusion, and for the G.A.T.T. waiver which would be necessary, would be the colonial status which the independent Commonwealth countries no longer possessed. It was very doubtful whether the mere reduction of tariffs, e.g. to ten per cent, would be acceptable in G.A.T.T. as a qualification for joining a new preferential area under Article XXIV and it seemed that France would have to face this problem in connection with her proposal to bring her Colonies into the Common Market.

On the question of United Kingdom preferences in her dependent overseas territories, *Mr. Lam*[4] said that the most important of these were in the West Indies and to a lesser extent in Malta and the Federation of Malaya, all of which territories were likely to change their constitutional relationship with the United Kingdom during the next ten years or so. United Kingdom exports to our Colonies giving

[3] D J C Crawley, of the CRO.

[4] M P Lam, of the Board of Trade.

preference amounted in 1955 to some £150 millions and represented 43 per cent of our total exports to our Colonies. But it was not known how much of this £150 millions worth of trade enjoyed preference, although for Jamaica the figure was 82 per cent. There would be political difficulties in presenting a scheme whereby the United Kingdom lost her preferential position in her Colonies. It was not clear whether the United Kingdom would gain corresponding advantages in the abolition of preferences against us in foreign dependent overseas territories and the Board of Trade undertook to submit a paper on the potential market which these territories would afford. The Board of Trade also undertook to examine in more detail the potential new outlets which British Colonies would enjoy if they were part of the partial free trade area. Such an assessment would be required to let Colonial Governments make their final decision whether to join or not.

In summing up the discussion *The Chairman* said that it should now be possible for the Secretaries to prepare the first draft of a report on the issues raised in the Annex to E.S. (E.I.)(56) 66 in the light of the discussion. He suggested, and the Working Party agreed, that it would be necessary before long to inform the Colonies and the Commonwealth Governments that the assumptions on which we had first raised this question with them, i.e. that all colonies would be excluded, had proved to be incorrect and that the matter was now under further consideration.

The Working Party:—

(1) Took note of the Annex to E.S. (E.I.)(56) 66 and instructed the Secretaries to prepare a draft report on the questions posed therein in the light of the discussion.

(2) Instructed the Secretaries to arrange for H.M. Customs and Excise (who were not represented on the Working Party) to advise on questions set out in paragraph 8 of the Annex to E.S. (E.I.)(56) 66.

(3) Invited the Foreign Office to prepare a paper on the constitutional status of the dependent overseas territories of the Messina Powers.

(4) Invited the board of Trade to prepare:—

(a) a paper on the potential market for United Kingdom exports in the Messina countries' dependent overseas territories;

(b) a paper on potential new markets for British Colonial exports in the partial free trade area;

(c) a paper on the effect on the Colonial timber industry of inclusion of the Messina countries' dependent overseas territories in the partial free trade area.

394 CAB 134/1878, ES(EI)(C) 3(56)1 28 Nov 1956[1]

[The colonies and Europe]: minutes of a meeting of the [Official] Working Party on the Colonies on a proposal to approach the Messina countries on the relationship of dependent overseas territories to the customs union and the free trade area

[Lennox-Boyd told Cabinet on 20 Nov that he was anxious to exclude the dependent territories of the Six from the customs union in order to avoid the risk of these territories' exports competing in the British market with the exports of British colonies. Cabinet agreed that the Six 'might be induced to reconsider the inclusion of their dependent

[1] The meeting was held on 27 Nov; the minutes are dated 28 Nov.

territories in the scheme if we made it clear that, in that event, we should find it necessary to press for the inclusion of Hong Kong' (CAB 128/30/2, CM 85(56)6, 20 Nov 1956).]

The Working Party considered a draft letter prepared by the Treasury, which was circulated at the meeting, informing the Messina countries of Her Majesty's Government's decision to enter negotiations for a Free Trade Area in Europe. The latter part of the draft, addressed only to France, Belgium and the Netherlands, proposed that discussions between officials of these countries and the United Kingdom should be begun to clarify the question of the relationship of dependent overseas territories to the proposed Customs Union and the Free Trade Area.

Mr. Figgures[2] said that it was important to make an official approach to the Messina Group on this question at the earliest opportunity in order to prevent any agreement being reached between them which might prejudice our interests in the subsequent negotiation of a Free Trade Area. It would however be necessary for us to have a firm line which we could take in the event of our proposals to begin discussions being accepted immediately. It might be sufficient at the first stage simply to ask for information on the Messina countries' views on this matter and to say that a proposal to include dependent overseas territories in the Customs Union would raise serious issues for the United Kingdom which would have to be fully considered. This would serve to enter a caveat against the premature conclusion of any agreement on the proposals which had been devised by France and Belgium.

Mr. Emmanuel[3] said that it would be dangerous to imply that we could at this stage reach any agreement on this question with the Messina Group. The most we could do now was to put the Messina Group on notice that we could not yet commit ourselves to any proposition about the relationship of non-European territories either to the Customs Union or to the Free Trade Area. We might well wish at a later stage to seek the support of those Messina countries which had no overseas territory, and any note on this subject should therefore be addressed to all the Messina countries and not only to France, Belgium and the Netherlands. Against this it was argued that the purpose of the present letter would simply be to discourage France, Belgium and the Netherlands from reaching a firm agreement on this question. The other Messina countries, particularly Germany, would be unlikely to take any great interest in the question at this stage.

The following points were made in discussion:—

(a) If this question was taken up solely with those Messina countries which had overseas territories we would be in the position of being "odd man out" of the "Colonial" powers, and this would not help relations with them in other matters. It would therefore be preferable to deal with it in the context of the whole Six.

(b) It would not be sufficient at this stage merely to reserve our position on this question: the object was to prevent France from securing the agreement of other Messina countries to their initial proposals, which were unacceptable to the United Kingdom.[4] If the Messina Group now agreed these proposals it would only be possible subsequently to oppose them in the G.A.T.T.; this would raise difficulties for us since it would be essential for all the free trade area powers to take the same line in G.A.T.T.

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[2] F E Figgures, under-secretary, Treasury, 1955–1960.

[3] A Emanuel, assistant secretary, CO, 1948–1961.

[4] See 393, para 2.

(c) It was suggested that this question might be discussed either in the Overseas Territories Committee of O.E.E.C. or in a special Sub-Committee of O.E.E.C. Working Party No. 17, but it was agreed that there were overriding objections to either body for this purpose.

The Working Party agreed that on balance it would be preferable to address this letter to all of the Messina countries. Copies of the letter would also be sent with a covering note to the other O.E.E.C. countries. The Working Party then considered the draft letter and various amendments were agreed in discussion.

The Working Party:—

Approved the draft letter as amended in discussion (subject to clearance by the Foreign Office) and agreed that it should be sent to each of the Messina countries, with copies to the other O.E.E.C. member countries.[5]

[5] Later in the meeting it was agreed that the best outcome for Britain would be the exclusion of overseas territories from the customs union and hence from the free trade area. But if this proved impossible, 'we should seek their exclusion from the Free Trade Area even though they were included in the Customs Union' (ES(EI)(C) 3 (56)4).

395 CAB 134/1878, ES(EI)(C)(56)8 (2nd revise) 3 Dec 1956

[The colonies and Europe]: draft report of the [Official] Working Party on the Colonies

1. The Working Group was established for the purpose of considering (a) the treatment of dependent overseas territories (D.O.T's) generally in the partial free trade area and (b) the procedure for consultation with the Governments of the United Kingdom dependent territories.

Constitutionial [sic] and historical background

2. In our consideration of the treatment of foreign D.O.T's we have confined ourselves to considering the D.O.T's of those members of the Messina Six which have overseas responsibilities and the overseas territories which thought not juridically dependent have special customs relationships with a number of members of the Messina Six. We have not at this stage considered questions which would arise out of the association of Portugal and its D.O.T's with the Free Trade Area. We are, however, doubtful whether there would be any material diference between the problems which the association of Portugal's D.O.T's with the partial free trade area and those which arise from the association of the Messina Six's D.O.T's. We have also thought it unnecessary to consider specially the position of Italian Somaliland as the territory is scheduled to achieve independence in 1960.

3. Thus territories which have to be taken into consideration as far as foreign powers are concerned are linked to Europe in a variety of ways. We attach as Annex I[1] a note prepared by the Foreign Office which sets out the particular constitutional relationships involved. We also attach a schedule as Annex II which sets out briefly the population, import figures and tariff position in these territories. It will be seen from the schedule that only in Algeria, Tunisia and French West Africa are there at the moment preferential tariffs in favour of a member of the Messina Six.

[1] Annexes not printed.

4. The thinking on the constitutional relationship of dependent territories to metropolitan powers differs widely as between the United Kingdom on the one hand and other members of the Six on the other (with the possible exception of the "new" Kingdom of the Netherlands which has been modelled to a large extent on British ideas of constitutional development). In the present context and particularly having regard to the United Kingdom view that the main subjects to be dealt with by the Area should be the subject of a Treaty, it is of particular importance to recall that it is the regular practice of Her Majesty's Government particularly in the social and economic field to make a specific reservation in all international agreements so that the adherence or otherwise of dependent territories would be a matter for each such territory to decide for itself.

Views of British colonies

5. The appositeness of this particular practice to the partial free trade area (P.F.T.A.) proposals is confirmed by the varying reactions of Colonial Governments to the proposals as communicated to them. Leaving aside the Federation of Malaya and the Gold Coast (which are scheduled to achieve independence in August and March 1957 respectively and therefore have assumed that they should be outside the scope of the proposals) and Northern Rhodesia and Nyasaland whose external trade relations are a matter for the Federation of Rhodesia and Nyasaland, the following main economic groupings can be distinguished among the Colonies:—

(a) the "industrial" Colonies, i.e. Hong Kong and Singapore, who look to the proposals mainly from the standpoint of the opportunities they provide them for increasing the exports of manufactured goods. In general, they welcome the inclusion of D.O.T's in the free trade area.

(b) The sugar colonies: these territories are dependent economically on their sugar exports and consider the preservation of the Canadian market for Commonwealth sugar (Canada took some 500,000 tons of Commonwealth sugar in 1955) as an objective of first importance in Commonwealth sugar policy. Sugar interests are indeed apprehensive lest political pressures may be built up in Canada, as a result of the United Kingdom giving free trade area manufacturers parity of treatment with Canadian manufacturers entering the United Kingdom, to remove the sugar preference. However this may be, the Governments of the sugar colonies fear that if they admitted manufactured goods from members of the partial free trade area on the same terms as imports from Canada, the Canadian Government would be reluctant to maintain the preference which their sugar enjoys in Canada and the sugar policy of the Commonwealth would itself be jeopardised. These colonies are unlikely therefore to enter the partial free trade area in any circumstances. The point has so far been taken by the West Indian Colonies but Mauritius and Fiji would on further reflection be likely to associate themselves with the West Indies in this.

(c) The African territories broadly speaking seem to attach more importance economically and politically to freedom to amend their tariffs so as to protect their local industries than to such access as the proposals offer them to new markets and therefore have so far expressed a preference for staying out of a European partial free trade area. Their views might however well change if the association of Dependent Overseas Territories to the Customs Union and/or the partial free trade

area provided as the French now suggest (see paragraph 7 below) for the retention of protection for local industries in the overseas territories.

United Kingdom interests

6. In the preliminary consideration given to a partial free trade area, the United Kingdom view (on the assumption that D.O.T's are excluded from the common market) has so far been that it would not be in our own domestic interests to seek the inclusion of D.O.T's and the United Kingdom Colonies would not wish, for the most part, to participate in a free trade area. The Working Party's assessment of the United Kingdom's own commercial interests confirms the view that there is little prospect of any advantage for United Kingdom trade from the participation of European countries' D.O.T's and British Colonies.

United Kingdom goods do not enjoy tariff preferences in many Colonies which are large markets for our goods and we would not therefore be sacrificing a network of tariff preferences favouring our manufactures. But it is also the case that most of the Western European countries' D.O.T's do not extend significant tariff preference to metropolitan goods. Indeed, our examination has shown that of the European D.O.T's which are likely to be included either in a common market or in a free trade area, only Algeria and French West Africa give tariff preferences to the metropolitan country. The Belgian Congo, which is a particularly important colonial market, does not give any tariff preferences to Belgium.

In 1955 of total United Kingdom exports to the British Colonies of £382 millions, only £146 millions went to Colonies granting preference and not all of that £146 millions benefited from preference. In so far as the United Kingdom does enjoy preference in certain Colonies, notably in Malaya and the British West Indies, we certainly do not think that the participation of other European countries' D.O.T's would offer compensating advantages for the loss of preference for United Kingdom goods in these Colonies.

The close commercial ties between metropolitan countries and their D.O.T's is of great importance to the trade of the metropolitan countries and in spite of the limited scope of tariff preferences, the metropolitan countries in most cases have the largest individual share of their D.O.T's purchases from abroad. Discrimination in import controls may have had some influence at times but does not account, except in the case of the French D.O.T's, where quantitative restrictions are heavily used, for this striking situation. In most of the D.O.T's what seems to be of much more importance is the influence of long-standing technical and commercial connections.

It follows that United Kingdom exporters could hardly expect to make a larger impression on the markets of the D.O.T'S of other European countries simply because they had been brought into a free trade area.

Messina countries' views

7. Consultations with colonial Governments, with independent Commonwealth Governments and with industry have so far been made on the assumption that the Messina Powers would not wish to bring their dependent overseas territories in the Common Market. The French and Belgians now seem to have in mind some form of association between their dependent overseas territories and the Messina Common Market (M.C.M.). The French in fact are insisting on this as a condition of their own adherence to the Market. By association they have in mind that their dependent

overseas territories would have preferential entry into the markets of other Messina countries but retain the right to protect their own industrial development. For the latter purpose both tariffs and q.r's. would be maintained but on a non-discriminatory basis as between members of the Common Market. They are also proposing that in return for the elimination of existing discrimination the other members of the Union should be prepared to contribute to the development of their overseas territories. It is not possible at this stage, when the position of the overseas territories has not been discussed between the Six in more than a preliminary fashion, to say how far these proposals will go.

Possibilities regarding association of overseas territories

8. As far as our own position *vis-à-vis* the free trade area is concerned, it is clear that [? with regard to] the possible methods of associating our dependent overseas territories with the partial free trade area, we could not accept arrangements under which all territories should be included. The position of the sugar colonies alone prevents that. Nor could we accept, for political and presentational reasons, a position in which our Colonies were excluded while Messina countries [sic] overseas territories were brought in. The choice is therefore between admitting those dependent overseas territories who want to join and excluding all dependent overseas territories.

9. The first of these alternatives implies a weighing of pros and cons by the territories concerned and the balance of advantage may in turn be dependent on considerations which at present are far from clear—particularly on the extent to which overseas territories are associated with the Messina Common Market and the extent to which the Messina Powers may wish to bring overseas teritories into the partial free trade area. We have therefore had to consider in some detail a fairly wide range of possibilities as to the way in which overseas territories might be related to the Common market and to the partial free trade area. Our analysis of these possibilities is attached at Annex III. We have reached the conclusion, however, that the balance of advantage from our point of view lies in the total exclusion of all overseas territories from the free trade area (we should like to see them out of the common market as well but return to this later). The arguments in favour of exclusion from the free trade area may be summarized as follows:—

(a) with the principal exception of Hong Kong, the Colonies have not shown interest in joining the P.F.T.A., and some have indicated a definite aversion;
(b) it would make the working of the scheme that much less complicated. In particular, it is likely to reduce arguments as to whether particular duties are protective or revenue, a point which is particularly important in view of the great dependence of overseas territories on customs duties for their revenues. There may also be difficulties over "harmonisation" and over colonial participation in institutions;
(c) it would allay the worries expressed by some independent Commonwealth countries over the admission of dependent overseas territories to the partial free trade area, though it seems that there may have been some exaggeration of the possible results of such admission, at least as far as the admission of African territories is concerned;
(d) it would remove possible difficulties over the admission to the free trade area

of industrial overseas territories, whether actual such as Hong Kong or potential such as the French territories (c.f. the fears expressed by India);
(e) it would remove the presentational difficulties of a situation in which foreign D.O.T's competed (on equal terms even though over a limited field) with Commonwealth and Colonies in the United Kingdom Market.

10. These arguments seeem to us to outweigh the arguments in a contrary sense, e.g. that:—

(1) the exclusion of dependent overseas territories is contrary to the interests of Hong Kong, which would receive substantial advantage from inclusion. On the other hand it would not be possible to include Hong Kong and leave all other D.O.T's. out and we are of the opinion that there is a strong case for overruling Hong Kong's objection to exclusion in view of wider United Kingdom, Colonial and Commonwealth interests and that the position can be satisfactorily explained to Hong Kong;
(2) the risk of the sort of political criticism in overseas territories which the French seem to fear, *viz.* that it is clear from the way the proposals either for a Customs Union or a partial free trade area have been presented in Europe that "the Europeans are on to a good thing" and that they wish to exclude their dependent territories from the benefits of the scheme whatever they may be. In view of the way in which our territories have been consulted and the nature of their replies, this is not likely to develop particular strength;
(3) we would be open to attack from those political circles in Europe which have been pushing, e.g. in the Council of Europe, for further association "on a basis of equality" between Europe and Africa. Here again we feel that in the results of our consultation with our African territories we have an answer to such criticism.

Exclusion of all D.O.T.'s. preferable

11. The balance of advantage appears to be against bringing in any dependent territories, and even if there had been no question of a Free Trade Area, we would no doubt have been under pressure from Colonial Governments to oppose through G.A.T.T. the bringing of overseas territories into a European Common Market. Given the existence of a partial free trade area, in association with a Common Market, we could not agree to the exclusion of our Colonies if Messina countries overseas territories were included. It appears that we ought to oppose French efforts to bring their overseas territories into the Messina Common Market, since these proposals obviously complicate the position. Moreover, as Annex III, Section A shows, these plans could do substantial damage to markets (actual or potential) of our Colonies who will look to us to protect their interests. In this the interests of the Colonies would probably march with those of at least some members of the Commonwealth (including some whose approval of the United Kingdom proposal for a partial free trade area was based on the assumed exclusion of overseas territories from the Common Market).

Arguments for exclusion of D.O.T.'s.

12. We have therefore considered arguments which might be deployed with the Six to frustrate these efforts. There is the possibility of relying on the political arguments suggested by the governor of Tanganyika, *viz.* that the inclusion of

dependent overseas territories was open to the criticism that it disregarded in Africa the geographical considerations which were the basis of the free market proposals in Europe and that African territories were being included for political and not geographical reasons, with the additional argument that the move was thereby prejudicial to African economic development. In a more general form, this argument constitutes an objection to the geographically heterogeneous organisation which would arise from a European Common Market/Free Trade Area which included in various degrees territories scattered all over the world. It is, however, doubtful whether the French could be convinced that they have not met these arguments by their insistence that provision must be made for the right of African territories to protect their local industries by tariffs or other means. They are more likely to suspect that our main object is to prevent their overseas territories from getting a privileged position in the Messina Common Market and thereby to offset the effects on our food-exporting territories of our refusal to come into the Messina Common Market ourselves. It does not seem that we shall be likely to make much progress with direct representations to the French, nor are these arguments likely to be decisive with other members of the Six (who will in the last resort determine their attitude according to their own interests). But they may well be used in preliminary discussions with the Six on these matters. We have not overlooked the possibility of a sharp conflict being opened, as regards the formation of the Common Market and the Partial Free Trade Area, as a result of the United Kingdom insistence on the line of action we have recommended on the treatment of D.O.T.'s.

Implications of "special treatment" for underdeveloped territories

13. A potentially more important consideration, and of more direct interest to other members of the Six, is that any proposal for "special treatment" in the Common Market context for underdeveloped territories would have dangerous implications. It might for example open the way for similar claims by other members of the P.F.T.A., e.g. Greece and Turkey, which neither we, some of the Six, nor certain outside countries, including some members of the Commonwealth, would welcome.

Possibility of United Kingdom opposition to the proposals in the G.A.T.T.

14. We have, finally, the opportunity also to oppose the proposals as far as they are concerned with the inclusion of dependent overseas territories, if they emerge from the Six in something like the present form and are then submitted for approval of the Contracting Parties to the G.A.T.T. Whatever arrangements are finally reached among the Six, proposals of this kind would represent a departure from the provisions of paragraph 5 of Article XXIV of the G.A.T.T. and since a waiver would be required, they would have to be approved by a two-thirds majority of the Contracting Parties. A number of the Contracting Parties, especially under-developed countries, including some Commonwealth countries, notably India and the Federation of Rhodesia and Nyasaland, might consider that such proposals threatened their interest. Other Commonwealth countries, notably Canada, Australia and Pakistan, might well object on the ground that any such arrangements would be a departure from the acceptable principles of freeing trade in the direction of a new discriminatory bloc. It might therefore be difficult for the Six to organise the necessary support, even if the United Kingdom remained neutral in the matter.

15. There appear to be arguments on both sides on the question of whether the United Kingdom should take the initiative overtly in such opposition in G.A.T.T. In favour of our taking the initiative would be the interests of industrialist Commonwealth countries, whether dependent like Hong Kong or independent like India. Secondly, we have sound grounds for opposing the French proposals, insofar as they are based on a maintenance of q.r's for protective purposes. We would be placed in a particular difficulty *vis-à-vis* our own territories if we appear to condone the use of q.r's for these reasons, since we have consistently warned Colonies that the use of such q.r's was contrary to international obligations whether they were used for the protection of local industries or for the protection of colonial exports to the United Kingdom. A United Kingdom initiative in the G.A.T.T. to oppose the Customs Union proposals would inevitably involve the risk that the United Kingdom might incur considerable odium, and might also weaken the whole basis of support in G.A.T.T. for the Free Trade Area scheme. It would also be important not to allow ourselves to be manoeuvred into a position in which we appear to be opposing investment in Africa.

Dangers of initiative in the G.A.T.T.

16. Moreover, given the insistence of the French that their territories must be included in the Messina Common Market our opposition could be interpreted as aimed at wrecking the Customs Union in favour of the more limited partial free trade area proposals. Though the main Sub-Committee seems agreed that all our interests (not least our Commonwealth interests) would be best served by the establishment of a partial free trade area without a Customs Union, it has also agreed that it is most important that Her Majesty's Government should not give the appearance of attempting to wreck the Union. It therefore seems that it would be inexpedient for us to oppose the Common Market proposals in G.A.T.T. on the question of inclusion of D.O.T.'s.: if, however, a favourable opportunity offered and our support was sought by the Six, it might be possible to strike a bargain which afforded some recompense to United Kingdom or Colonial interests.

Reasons for private discussions with the Six

17. None of these arguments against our taking overt action in the G.A.T.T. should the question ever reach that point prevent us from making clear in the more private discussion with the Six for which we have now asked, the particular difficulties which these proposals raise for us in the G.A.T.T. context. Because of these difficulties, it is essential that we should have these discussions before the Franco-Belgian proposals are carried too far. Decisions on the entry of D.O.T.'s into both organisations must be co-ordinated. We are entitled to emphasize in such talks that the difficulties are in fact such that we should be under considerable pressure particularly from our own overseas interests to take action to protect them in the G.A.T.T. Though it is optimistic to suppose that our arguments would be sufficient to secure the dropping of the Franco-Belgian proposals, they will be sufficient to secure co-ordination.

Possibility of a "package deal"

18. If the proposals are not dropped, however, we consider that for the reasons put forward above, the next best alternative would still be to exclude D.O.T's from the

partial free trade area (even though they are included in the Customs Union). In these circumstances, we would no doubt be under pressure from Colonial Governments to seek to preserve within the Customs Union the *status quo* for Colonial exports, particularly in the German market. Indeed, no solution which did not show we had sought to protect their interests would be acceptable in the Colonies. There is not likely to be much difficulty over raw materials since most of then are already admitted duty-free, and we might, therefore, be expected to concentrate on exports of foodstuffs from our territories to Europe. It might be suggested for instance that we should agree not to oppose the proposals in the G.A.T.T., provided the Six would agree to parity of treatment for tropical food imports in the Customs Union whether from overseas territories of members or not. This suggestion appears to require consideration. It is not likely to appeal to the French, of course, but the Germans, Dutch and Italians may all welcome the maintenance of their present free access to all sources of supply. Such a proposal would, however, be likely to evoke corresponding pressure from Commonwealth countries, and there would remain the difficult question of discrimination against British exports in the overseas territories of the Six. (We would not propose, however, that such discrimination should be accepted anywhere in the Congo Basin Treaty area since we consider that we should stand on our rights under that Treaty whose provisions are faithfully observed in our territories.)

Conclusion

19. To sum up, we consider that:—

(a) As it is out of the question to bring in all British Colonies, the choice lies between inclusion of some and exclusion of all.
(b) The United Kingdom could not accept exclusion of all British Colonies from the P.F.T.A., if some Messina countries' D.O.T's were included.
(c) The balance of advantage lies in the exclusion of overseas territories from the partial free trade area, even if they are included in the Common Market.
(d) For this and other reasons, we should like to see the French and Belgian proposals for the "association of overseas territories with the Messina Customs Union" dropped and we should endeavour as far as we can in private consultation with the Six to achieve that end.
(e) That if we fail in (d) it is for consideration whether an attempt should be made to secure that the present outlets for the products of our own overseas territories in Europe should not be curtailed and possibly also consider the treatment of United Kingdom exports in Messina countries' overseas territories.

Consultation with colonies

20. We are unable to make firm recommendations regarding the procedure for consultation with Colonies, pending the discussions with the Six. In the meantime, however, we consider that Colonies should be suplied with the factual information necessary to assist them in arrriving at decisions in the matter.

396 CO 537/7757, no 8 [Nov 1951]

[Loan and investment finance for colonial development]: CO brief[1] for Mr Lyttelton [Extract]

. . .

3. . . . Colonial Governments have assessed their needs for external loans for the next four years, and it is estimated that, subject to screening by the Colonial Office, they will require between £140–£200 million for all purposes. An estimate was made earlier this year that not more than £80–100 million could reasonably be expected to be available from the London market during this period, owing to the market's limited absorptive capacity for Colonial loans. This may prove to be an underestimate. The East and Central African Governments are having discussions with the International Bank about borrowing from that source. It may also turn out that the Colonies can finance more of their development either by local loans or from revenues. In this and other ways the gap between requirements and methods of meeting them may be met, but it may be necessary for the Secretary of State to approach his colleagues again in order to ensure that sufficient loan finance is available. The position is now being reviewed by the department, and papers will be submitted to the Secretary of State after his return from Malaya.

4. . . . [Changes] may be required in the United Kingdom fiscal system to encourage the investment of new money in the Colonies. The double taxation relief agreements recently concluded between the United Kingdom and Colonial Governments are of course a great advance on the past, but they emphasize the fact that United Kingdom controlled companies operating in the Colonies have to carry the full burden of United Kingdom taxation, whether or not the level of taxation was fixed with Colonial conditions in mind. In fact it was not so fixed, and there is increasing evidence that the United Kingdom level of company tax is too high for Colonial development. The Secretary of State has already written to the Chancellor about one aspect of this matter, which mainly relates to secondary industries but also in a measure to raw material production. A number of Colonies have pioneer industry legislation, whereby they can remit tax for a period in respect of industries which they wish to encourage. Under the double taxation relief agreements as at present operated, United Kingdom controlled companies can receive no benefit from this legislation, since the relief afforded by the Colonial Government goes straight into the United Kingdom Exchequer. There are other ways however, in which the present system affects raw material production in particular. Colonial Governments rightly charge royalties on mineral production which deprives the territory of an irreplacable asset. This royalty is not regarded as taxation and cannot be set off against United Kingdom company tax for double taxation relief purposes. This means that United Kingdom controlled mining companies operating in the Colonies pay the full rate of United Kingdom income tax plus the royalty; hence United Kingdom controlled companies are severely hampered in taking part in mineral development in the Colonies. The position is made worse by the fact that American and Canadian companies which enjoy the benefit of more generous depreciation allowances, etc. are more favourably placed. This matter is also being further studied in the

[1] Taken from the secretary of state's brief on Cabinet memorandum C(51)14, see 360.

department, and another draft letter to the Chancellor of the Exchequer, going into the broader aspects of the question, will be submitted to the Secretary of State. Meanwhile it is the department's view that this is a matter of extreme importance, the adverse impact of which on British enterprise in relation to Colonial development has probably not yet been fully realised.

5. In considering what incentives should be given to the United Kingdom investment in Colonial production, it will be necessary to bear in mind the policy of the United States Government in this field. U.S. Government has encouraged production of strategic materials by granting unsecured loans repayable in kind over a long period and granting accelerated depreciation allowances for approved investments for tax purposes. For example, the U.S. aluminium industry is being financed in this way and will, therefore, be placed in a very favourable position to compete with the Gold Coast aluminium project (if it is decided that the latter should be undertaken). Similarly the U.S. Government has made loans for the development of bauxite in Jamaica, the opening up of a new copper mine in Northern Rhodesia and for the development of lead/zinc deposits in Tanganyika, in each case securing a prior claim on part of the metal or ore produced. It follows, therefore, that if U.K. investment is to compete on equal terms with U.S. investment in the Colonies and the U.K. is to receive a larger proportion of Colonial exports, it may be necessary not only to make changes in the U.K. fiscal system, but also to give direct financial assistance to suitable undertakings.

397 CAB 129/48, C(51)51 20 Dec 1951

'Colombo Plan': joint Cabinet note by Mr Eden, Mr Butler, Lord Ismay and Mr Lennox-Boyd.[1] *Annex*

We circulate herewith for the information of our colleagues a memorandum which has been prepared by officials of the departments concerned on the Colombo Plan for the economic development of South and South-East Asia. The Plan originally took shape at the meeting of Commonwealth Foreign Ministers in January 1950. Detailed plans for development were worked out by the Commonwealth countries in the area at a meeting in London in September 1950, and are now being actively carried out.[2]

2. It is important in the struggle of ideas in Asia to persuade the people of the region that their true interests are best served by continued association with the free world. To this end it is necessary, amongst other things, to convince them that the Western Powers are sincerely and actively interested in helping them to improve their living standards, and the Colombo Plan has been our main effort in this direction. The Plan has played and can continue to play a considerable part in bringing home to the United States Administration and public the urgent necessity for economic assistance to this area.

4. [sic] The importance of the Plan as a means of fostering the Commonwealth connection and, in particular, relations between the old and the new Commonwealth

[1] Lennox-Boyd was minister of state at the CO in 1951–1952. Lyttelton was in Malaya when this memo was issued.

[2] For background to these developments, see BDEEP series A, R Hyam, ed, *The Labour government and the end of empire 1945–1951*, part II, 96, 101, 102.

countries, is a strong argument for the United Kingdom to continue to play, and to be seen to play, a major rôle in working for its success. The initiative in the Plan came from the Commonwealth and its centre of gravity is, and will obviously remain, in the Indian sub-continent. Any patent weakening of United Kingdom initiative or support would reduce United Kingdom influence in the Commonwealth countries in particular, and in the area of South and South-East Asia in general.

5. No meeting has been held since February 1951. To sustain the impetus of the Plan, it seems essential to hold the next meeting at Ministerial level. This is clearly expected by the countries concerned. To suggest anything less at this stage would tend to create discouragement and disappointment among the countries in the area.

6. We have approved the detailed recommendations set out in paragraph 22 of the attached memorandum and action is proceeding accordingly.

Annex to 397

History of Colombo Plan

1. The Colombo Plan originated with the meeting of Commonwealth Foreign Ministers in Colombo in January 1950, when agreement was reached on the vital importance of the economic development of South and South-East Asia in the maintenace of the political stability of the countries in that area, and in the growth of expanding world economy based on multilateral trade. The region with which the Plan is concerned includes India, Pakistan, Ceylon, the Federation of Malaya, Singapore, North Borneo and Sarawak, Burma, Siam, Indo-China, Indonesia and the Philippines and contains about one-quarter of the world's population. Although the region is rich in natural resources, economic development has not in the past kept pace with the increasing pressure of population, and many millions of people live at the barest subsistence level. The rapid political developments in the area since the war have made it urgently necesary that the new Governments should promote the economic improvement which is essential to their social stability and the strengthening of their free institutions.

2. After the Colombo Conference a process of Commonwealth Consultation was begun with the purpose of making the most effective attack on the problem, and of focussing world attention on the needs and difficulties of the area. The Commonwealth Governments took the initiative because three-quarters of the people in the area live in countries which are members of the Comonwealth and the whole area is one with which Comonwealth Governments have close political and economic ties. But it was contemplated from the start that non-Commonwealth Governments in the area should be invited to participate on equal terms in whatever Plan could be devised to lead to international action; it is recognised also that the resources for the effective development of the area were more than the Commonwealth itself could provide, and that it would be necessary to seek the co-operation of other countries.

3. The Colombo meeting had agreed on the establishment of a Consultative Committee to co-ordinate action under the Plan and the first meeting of the Committee was held in Sydney in May 1950. It was attended by Ministers from every Commonwealth Government except South Africa, which felt unable to participate because of its preoccupations with African affairs, but asked to be kept fully informed of developments; the United Kingdom was represented by the Paymaster-General (Lord Macdonald). It was agreed at this meeting that the first step was to assess the

extent of the problem. Each country in the area was therefore invited to prepare a six-year development programme for incorporation in a report to be drawn up at a second meeting of the Consultative Committee in London. In fact, none of the non-Commonwealth countries invited prepared programmes in time for the meeting, and indeed most of them have still not decided whether to join the Plan. (See paragraph 14 below). It was also agreed in principle at the Sydney Meeting to set up a Technical Co-operation scheme to increase the supply of technical assistance to the area. Commonwealth Governments represented on the Committee agreed to provide finance for technical co-operation to the extent of £8 million over the three years beginning 1st July, 1950, the United Kingdom share being fixed subsequently at up to £2.8 million.

4. The second meeting of the Consultative Committee was held in London in September 1950. It was attended by representatives of the Governments of Australia, Canada, Ceylon, India, New Zealand, Pakistan, and the United Kingdom and its Dependent Territories in the area; the Governments of the Associated States of Indo-China (Cambodia, Laos and Viet-Nam) and the Government of Thailand sent delegations to joint meeting with the members of the Consultative Committee early in October, which was also attended by observers from Burma and Indonesia. The main work of the meeting was the production of the Report referred to in the preceding paragraph, which was approved by member Governments and published in the United Kingdom in November 1950 as a White Paper.* The meeting also recommended a constitution for the Technical Co-operation Scheme, including the establishment of a Bureau in Colombo to act as a clearing house for offers and requests for technical assistance. This has since been set up, under a United Kingdom Director, Mr. G M Wilson.[3]

5. The Report of the Committee, in addition to a general review of the history and objectives of the Plan, contains details of the development programmes produced by the Commonwealth countries in the area—India, Pakistan and Ceylon, the Federation of Malaya, Singapore, North Borneo and Sarawak. The total cost of these programmes was estimated at £1,868 million, of which £1,084 million would be required in the form of external capital; the breakdown is as follows:—

	India £m.	Pakistan £m.	Ceylon £m.	Malaya and British Borneo £m.	Total £m.
Cost of programme	1,379	280	102	107	1,868
External finance required	818	145	60	61	1,084

6. India has now substituted a five-year Plan costing £1,345 million for her original six-year programme costing £1,379 million. The new Plan is divided into two sections, the former consisting of essential projects amount to £1,120 million; the latter of desirable projects making up the remaining £225 million. The first part

* Cmd. 8080.

[3] G M Wilson, a Treasury official, served as director of the Colombo Plan Technical Co-operation Bureau, 1951–1953.

is to be financed by internal capital to the extent of £841 million and by external contributions already promised, leaving a balance of about £217 million for which the Indians will, if necessary, resort to deficit financing. The second part of the Plan can only be carried out if additional external finance becomes available. Pakistan has now produced a two-year programme, consisting of priority projects from her original programme, and amounting to about £50 million. This excludes several Colombo projects which are already under way.

7. It had always been our hope to persuade the United States Government to join the Plan, since they alone could fill the gap between total requirements for external assistance and the amount which the Commonwealth donor countries could offer. The United States Government was therefore kept informed of the progress of the London meeting and shortly afterwards they accepted a formal invitation to take part in the work of the Consultative Committee. The United States Administration, for reasons connected with the difficulty of securing appropriations from Congress, has shown anxiety lest their participation should commit them to endorsing particular development programmes, figures for the aid required, or priorities in the allocation of aid. However, the Committee has always in its reports avoided implying any such endorsement on the part of the donor countries either severally or collectively, and the American anxieties on this score have not prevented their participation in the work of the Committee. It is of interest to note that since the report on the Plan was published the United States Administration have for the first time asked Congress to appropriate funds specifically intended for South and South-East Asia, and they have now secured a substantial sum (see paragraph 11 below).

8. There was a third meeting of the Consultative Committee in Colombo in February 1951, at the official level, to review the situation generally following the publication of the Report on the Colombo Plan, and to make recommendations to Governments regarding future procedure for continuing consultation amongst the Governments participating in the Plan. It was attended by the seven interested Commonwealth Governments, and by the United States, Cambodia and Viet-Nam as members. Observers were sent from Burma, Indonesia, the Philippines and Thailand; and by invitation there was a representative of the International Bank. The conclusions of this meeting are summarised in paragraphs 9 and 17, and the proposed arrangements for the next meeting are being submitted to Ministers for approval in paragraphs 18–22 below.

9. It was generally agreed at the London meeting that it would not be desirable to channel the provision of aid through any central allocating organisation (such as O.E.E.C.), and that negotiations for the provision of aid should be handled bilaterally between donor and recipient Governments. The United Kingdom, however, at the third meeting proposed the establishment of a small secretariat to maintain continuity betwen meetings of the Consultative Committee and to facilitate the exchange of information. The proposal was accepted in principle, but the Committee thought it would be premature to set up the secretariat at that stage. The matter will therefore fall to be considered at the next meeting of the Committee and the United Kingdom policy on this subject will in due course be considered when the briefs are prepared for that meeting.

External finance: needs and commitments

10. At the September 1950 meeting of the Consultative Committee the Chancel-

lor of the Exchequer offered a United Kingdom contribution for the six-year period of about £330 million, consisting of sterling releases, Colonial Development and Welfare Funds for United Kingdom South-East Asian territories, &c.; and £30 million for non-Commonwealth countries. The figures were not quoted in the Conference, but were given privately to Commonwealth delegates. On 28th November, 1950, Mr. Gaitskell[4] announced in the House that the United Kingdom contribution, including the repayment of sterling balances, "may amount to well over £300 million." Agreement has now been reached with India, Pakistan and Ceylon for total sterling releases of £252 million over the six years. All these releases have been announced to Parliament. We have stated in the Colombo Report, paragraph 31, that it is not the present intention of the United Kingdom Government, in view of their special responsibility for Malaya, Singapore, North Borneo and Sarawak, to seek finance from other Governments in respect of these territories, apart from assistance available under present arrangements; and the Chancellor of the Exchequer stated in the House on 28th November, 1950, that we should ouselves [sic] provide any external finance required by these territories for the execution of their development plans.

11. In addition to the United Kingdom contribution, the following promises of assistance have been received:—

(a) Australia has offered £25 million over six years, of which £7 million aproximately [sic] is for 1951–52.
(b) Canada is to give $25 million in 1951–52.
(c) New Zealand has made a provisional offer of £1 million a year for three years, to be reviewed at the end of 1951–52.
(d) The United States Administration has obtained an appropriation of $237 million for assistance to South-East Asia (including Formosa) under the Mutual Security Programme against their original request for $375 million. We do not know how much of this will accrue to Colombo countries, but out of the original appropriation the Administration were intending that about $80 million should go to the Indian sub-continent. In addition, the United States Government in May this year extended a loan of $190 million to India for the purchase of wheat and other commodities for famine relief.
(e) The International Bank for Reconstruction and Development has already lent to India $60 million and is negotiating with Pakistan for a similar amount. In addition, a loan of $25 million has gone to Siam.

12. This does not measure up very well against our original hopes for the external financing of the Programme (that about £400 million should come from the Commonwealth and the remainder, to wit about £600 million, from the United States and International Bank). However, the original estimates and the Colombo Report were based on the pessimistic outlook of September 1950; for instance, the assumption was that rubber prices would remain at about 1*s.* per lb. Although prices have declined from the peak figures reached earlier in the year, they are still for the most part substantially above the levels prevailing in September 1950, and there has been a marked change of emphasis since the inception of the Plan, when the greatest limitation on development was shortage of finance. Stockpiling, rearmament and the

[4] Mr H Gaitskell, chancellor of the Exchequer, 1950–1951.

consequent round of world inflation have resulted in big increases in the prices of the area's primary products and big increases in their sterling balances. External finance is no longer the main problem. To the extent that Government revenues benefit by means of export duties, &c., and that there is more money in private hands which can be tapped by taxation and internal Government loans, there is considerably more internal finance available for development. In spite of the rather disappointing nature of the contributions announced, and in spite of increased costs, it is unlikely that at any rate for 1951–52 the execution of the development programmes of the Commonwealth countries in the area, with the possible exception of India, will be hindered by lack of money. The basic difficulty which the countries are likely to encounter, and which is causing them some apprehension at present, is that of ensuring a regular supply of capital goods for the fulfilment of their plans. Hitherto, difficulties in the supply of such equipment from the United Kingdom have not been encountered except in a few isolated cases. But the competing demands of the defence programme, the home investment programme and export requirements will make it increasingly likely that we shall only be able to sustain the necessary level of supplies at the expense of some equally desirable recipient.

Non-Commonwealth participation in the plan

13. *Countries outside South-East Asia.* It has always been hoped eventually to enlist support for the Plan from the potential donor countries outside the area which are not members of the Commonwealth. The position of the United States has been discussed in paragraph 7 above. In addition, the Governments of both France and the Netherlands have formally expressed their desire to take part in the Plan. We favour this in principal [sic] since they could contribute to its success. The question was discussed at the meeting in Colombo last February. However, partly because the Asian Commonwealth countries were reluctant to agree to French or Dutch participation, and partly because it was thought that to bring them in at this stage might deter the non-Commonwealth countries of South-East Asia which have not yet joined the Plan (in particular Indonesia) from doing so, it was agreed that the French and Dutch should not at that stage be invited to join the Plan. The position was explained informally to the Governments of France and the Netherlands, who understand the difficulties. It may be necessary to consider this matter again at the next meeting of the Consultative Committee (see paragraph 22) and the United Kingdom policy in this event will be considered at the appropriate time.

14. *Countries in South-East Asia.* All the non-Commonwealth countries of South-East Asia—Burma, Siam, Indonesia, the Philippines, the Associated States of Indo-China (Vietnam, Laos and Cambodia)—have been invited to join the Plan, but so far only the three Associated States have decided to do so. The rest have hung back for a variety of reasons—reluctance to align themselves too closely with the West, fear of compromising their new [sic] won independence, and because some of them are already receiving from the United States of America and the International Bank about as much aid as they are physically and administratively capable of absorbing.

15. Since the Plan was published last year, the rise in commodity prices has much improved the respective balances of payments of those countries which have not yet joined the Plan, and most of them are now accumulating sterling. Unless, therefore, they increase greatly the tempo of their present development plans, or unless world prices move against them, they are unlikely in the near future to have

any urgent or well-founded claim for United Kingdom assistance, should they now join the Plan.

16. Separate considerations apply to Indo-China. All three Associated States have actually joined the Plan, and Vietnam recently produced a development programme. The question of aid to Vietnam is at present under consideration, and if necessary a separate submission will be made to Ministers in due course.

Arrangements for next meeting of Consultative Committee

17. At the meeting of the Consultative Committee held at official level in Colombo last February it was recommended *inter alia*:—

(1) that a further meeting of the Committee (at Ministerial level) should be convened as soon as practicable;
(2) that the Committee should meet by mutual agreement whenever necessary, and at least once a year; and
(3) that the Committee should publish an annual report and such other reports as may be necessary.

18. In July last United Kingdom Ministers agreed that our aim should be to hold a Ministerial meeting of the Consultative Committee "at about the turn of the year to approve the draft report, which would be put into final shape by a short working party of officials immediately before the Ministerial meeting." On the initiative of the United Kingdom, which had held the Chair at the last Ministerial meeting, this idea was communicated to the other Governments concerned, who accepted our suggestions that the meeting should be held either immediately before or immediately after the proposed meeting of Commonwealth Finance Ministers. The United Kingdom also offered to calculate suggestions regarding the preparation of the actual report.

19. Our own ideas, which have been accepted in the main, are that the chief objects of the report would be to state progress, to provide an up-to-date reassessment in the light of changes in economic circumstances, and to obtain from the recipient countries details of their actual plans and requests over the first two years of the Plan period commencing July 1951. The last of these would provide a basis on which donor countries, in particular the United States, could formulate their own estimates for assistance needed. The United Kingdom has circulated drafts of a synopsis for the report and of a *questionnaire* designed to elicit the necessary information, and these drafts have been substantially accepted.

20. Decisions as to the venue and timing now to be suggested for the meeting have to be taken. Certain of the Governments concerned have already expressed the view that the meeting should be held in the Colombo Plan area, *i.e.*, at Colombo, Delhi, Karachi or Singapore. Other Governments for various reasons would prefer this meeting to be held, as we originally had in mind, in London, consecutively with the meeting of Finance Ministers. We now consider that the latter alternative is impracticable for a number of reasons, principally the preoccupation that there will be with the very serious financial questions to be discussed in January. The general advantages of having the meeting in the area are obvious—the Plan does, after all, concern Asia; furthermore, we know that a meeting in the area is the more likely to command American support. The proposal for a meeting in the area, at a date later than the Finance Ministers' meeting, therefore holds the field. The Finance Minister

of Pakistan has already suggested Karachi as venue and it is considered that we need look no further; indeed, it would be difficult to ignore this suggestion.

21. The timing of the meeting must be arranged to avoid clashing with:—

(a) the Commonwealth financial talks being held in London from 8th to 20th January approximately;
(b) a meeting of the Economic Commission for Asia and the Far East (E.C.A.F.E.) being held at Rangoon from 29th January to 9th February, which some of the officials dealing with Colombo Plan matters will be attending; and
(c) the Colombo Plan Exhibition being held in Colombo from mid-February to mid-March 1952, during which period it would be impossible for the Minister and officials dealing with Colombo Plan matters in Ceylon to be absent from the capital.

22. It is therefore recommended that the United Kingdom should suggest to the other members of the Consultative Committee:—

(a) that the offer of Pakistan of Karachi as venue for the meeting should be accepted;
(b) that the Ministerial meeting should commence on about 24th March, 1952;
(c) that a preparatory meeting of officials begin about a forthnight before the Ministerial meeting; the actual date would depend on the amount of preliminary work on drafting the report that could be done in advance, by the United Kingdom or any other country;
(d) that the International Bank be invited to participate and the non-Commonwealth countries in the area who have been invited to join the Colombo Plan (Burma, Indonesia, Siam and the Philippines), but have not yet done so, should be invited to send observers;
(e) that the agenda for consideration should include the following:—

(i) *Preparation of the annual report*
(A draft chapter for the Anual Report on the operation of the Technical Co-operation Scheme is being prepared by the Council for Technical Co-operation in Colombo.)
(ii) *Rôle of the International Bank*
(This item is included with the object of allowing the bank's representatives to give some indication not only of the amount of assistance which the bank can provide, but also of the bank's general outlook and policy, and of the conditions which it normally expects in connection with its loans.)
(iii) *Future organisation for continuing consultations*
(See paragraph 9 above.)
(iv) *Liaison with the Economic Commission for Asia and the Far East (E.C.A.F.E.)*
(The Executive Secretary of E.C.A.F.E. has suggested informally that an observer from that organisation should be invited to future meetings of the Consultative Committee. Members of the Committee have expressed widely differing views on this question and it is proposed that it can best be discussed at the forthcoming Meeting.)
(v) *The Colombo Plan exhibition*
(The Government of Ceylon announced at the Meeting of the Committee in

February 1951 their willingness to convene a Colombo Plan Exhibition in Colombo during February 1952. The majority of the countries who are members of the Committee will be participating. It is considered that an opportunity should be given to the Ceylon Government at the next Meeting to report to the Committee on the Exhibition.)

The position of non-Commonwealth countries as regards the Plan will call for discussion. It has been thought best that this should be dealt with informally between delegations rather than in open discussion.

398 CO 537/7597, no 3 [Dec 1951]

'Colonial development': CO brief for Mr Churchill[1]

A. General background

1. We are pushing ahead with Colonial development as rapidly as resources permit.

2. Development aims include increases in production of foods and raw materials, for consumption of the Colonial peoples and for sale to the world.

3. The greatest problem of Colonial development is to improve agriculture and increase production of food to provide for rising populations. Cash crops and mining cannot be pressed to the neglect of this basic need.

4. Development in the Colonies, usually poor and ill provided with power, transport, communication or technical skills, is inevitably a long term business. It is not simply a matter of extracting one or two useful materials for which there may be short term increases in demand (though Americans tend to lay emphasis on this aspect, especially at present).

5. Nor is it a matter only of big projects. There are such, but in the main development requires steady progress of small scale measures in water control (dams, irrigation, wells, boreholes), anti-soil erosion work, group peasant farming, and the development of skills among the native inhabitants. Technical education and general community development are essential elements in this programme.

6. The pace of development depends very much on the extent of the aid in materials, skill, manpower and finance which the outside world can provide. The scale of development in the long term depends on what the economies of the territories can afford to carry in the shape of expanded services of all kinds.

7. The U.K. is by far the largest source of external aid. Parliament has voted £140 millions to be spent in direct grants for development in ten years ending March 1956. Secondly facilities have been given to borrow on the London market. Total borrowings since the war to date amount to £60 millions. Thirdly, the Colonial Development Corporation can obtain up to £110 million for commercially justifiable development, and so far has committed £33 millions.

8. In addition, active assistance is given by the U.K. in the provision of technical knowledge, recruitment of experts and general staff, and in advisory services. The

[1] Prepared as a background brief for Churchill's forthcoming talks in Washington. It may be noted that a few weeks earlier Churchill had directed that the Cabinet Commitee on Colonial Development be abolished (minute by Sir N Brook, CAB 134/67, CD(51)18, 29 Nov 1951).

scale and quality of this help is far greater than is obtained or obtainable from other sources e.g. U.S. or United Nations.

9. In 1951 the U.K. issued an estimated £14 millions under C.D.W., £10 millions to the C.D.C., and the Colonies raised loans amounting to £23 millions; total £37 millions.

10. The Colonies' own efforts are considerable. The greater part of development expenditure is financed from their own resources together with the liabilities they take on in respect of London loans. Expenditure from reserves and revenues on development [is] running, in 1951, at approximately £55 millions. Recent increases in the overseas earnings from raw materials and primary produce, have, at least temporarily, improved all Colonies' financial position, as they have worsened that of the U.K. On present trends it may be expected that in the future a higher proportion of development will be financed from Colonial, and a lower proportion from U.K. sources.

11. The total effort from Colonial and U.K. funds, must be seen against the population of about 60 millions. Assuming 1951 expenditure is maintained or even somewhat increased in the next few years, it represents only an annual rate of about £1.10.0 per head.

12. The above relates to public expenditure. Total private investment is not known. It has increased fairly rapidly in a few territories, notably East and Central Africa, where there is some European settlement. Elsewhere there have probably been increases in some staple industries but taxation and full employment at home and, in some places, political uncertainty, combine to deter external investment, especially in the larger and more speculative types of enterprise.

13. A table[2] showing principal Colonial exports by value is attached. In the more important items notably rubber, tin, copper, oilseeds, oils, cocoa and sugar, they represent a narrow range of primary products the value of which is dependent, not on local consumption but on the fluctuating demand in world markets. Efforts to lessen this dependence by extending the range of commodities produced and by developing processing and secondary manufacturing industries are being made. But the dependence on world markets is bound to remain the principal feature of the Colonial economies. The state of world markets in the long term must therefore be the most important factor determining the possibilities of increased production and general development.

14. The narrow range of principal Colonial products is a major element in the dollar and general foreign exchange balance of the sterling area. Tables showing the position in 1950, 1951, and 1952 (as estimated) are also attached. (Table 2) Part of the overall Colonial surplus is due to military expenditure and grants for development. The net dollar surplus is mainly due to rubber [and] tin from Malaya and cocoa from West Africa. The fact that the Colonies as a whole alone have an appreciable dollar surplus while the sterling area is in deficit demonstrates the vital interest of the U.K. and the Commonwealth as a whole in the maintenance of this surplus. The U.S. attitude to purchases of these commodities is thus a matter affecting not only the territories concerned but the whole sterling Commonwealth.

15. The Colonies have themselves a major interest in strength of sterling. They all depend on one or two main products liable to market fluctuations with U.K. and

[2] Tables and appendices attached to this brief not printed.

on external aid from sterling sources for their development. Their interest in the sterling area means that that their dollar or genaral surpluses cannot in the present crisis of the sterling area be used freely to increase imports into the Colonies, despite their growing needs.

16. The pace of development was slow up to 1949–1950. Then it accelerated but is now affected by Korea and rearmament. Steel and capital goods shortages are slowing down the rate.

American aid

17. A note is attached (Appendix [1]). Past aid under E.C.A. has been small. Grants totalled $11 millions and loans for strategic materials involving repayment in materials, amounted to ten [? less] than $20 millions. In future aid would be under the Mutual Security Act and is likely to be confined to production of defence interest.

18. The Americans tend to stress the importance of U.S. private investment. Our general policy is to welcome it, provided it leads to dollar earnings or savings or to some real economic benefit. In practice it tends to be available mainly for U.S. Government supported strategic materials development, or for the development of light industries manufacturing goods the import of which from the dollar area is restricted. The latter tend to be dollar losers and as their intention is to evade exchange restrictions would not be welcomed.

19. *Some key problems*

(i) *Steel*

The Colonies need well over 400,000 tons of imported steel a year. It is becoming more and more difficult for them to get this. The U.K. will probably be able to send them only about 200,000 tons in 1952 (steel plates, sheets, rails and girders etc.) This is almost 50,000 tons less than in 1950, although the Colonies need more for development. Most of these types of steel can be imported into the Colonies under open general licence from any countries that can supply. Increased supplies from the U.S. would be a useful contribution to Colonial development.

(ii) *Capital equipment*

Some types of capital equipment, notably heavy caterpillar tractors, are supplied chiefly from the U.S. There are difficulties over supply and U.S. export authorisation at present. For example, delay in supplying caterpillar tractors to Malaya is seriously jeopardising essential road construction required for military and police operations against terrorists.

B. Points for discussion

(1) General

Specific matters which we should seek to raise, or which the Americans may raise, are listed below. It is not thought likely that the Americans will wish to discuss the wider issues of development policy or display much readiness to help otherwise than on particular projects in which they are interested. If the wider issues are raised our attitude should be governed by the following considerations:—

We do not expect U.S. asistance [sic] to be more than marginal nor would it be desirable politically for them to play the principal part. Help to U.K. or sterling area enables U.K. to help Colonies. U.S. aid in technical assistance and develop-

ment of strategic materials not as important as sound attitude on buying policy especially in Malaya. We should seek every opportunity to bring home the importance to us and the free world of maintaining the economic health of Malaya by normal methods rather than devices.

(2) Raw materials
There are no points on raw materials production which we should wish to raise at Mr. Churchill's level. The Americans may, however, raise points on individual projects. In recent discussions they have mentioned:—

(a) Production of lead and zinc in Nigeria.
(b) Production of tungsten in Uganda.
(c) Production of columbium in Uganda.

Notes on these projects and others in which the Americans are also known to be interested or over which it might be desirable to obtain their help are attached (Appendix [2]).

(3) The Rhodesia railways
A note is attached as Appendix [3]. The U.K. delegation should ask the Americans (a) what the prospects are of their being able to provide some financial assistance (up to £15 million) from Mutual Security Aid funds towards the construction of the South-East connection to Lourenço-Marques; (b) on what terms such aid will be made available; (c) whether the Americans are likely to be able to assist in providing any of the steel.

399 CO 537/7726 25 Mar 1952
[Mining policy]: minutes by Sir H Poynton and Mr Lyttelton

Secretary of State
You asked me to arrange for the Department to examine and report upon a suggestion which you have mentioned to me orally on a number of occasions, namely, that Colonial Governments should be encouraged in future to capitalize the value of their expected earnings from royalties or certain export duties and take scrip[1] to the appropriate value in the company concerned. This suggestion has now been examined in the Production and Marketing Departments of the Economic Division and in consultation with the Asst. Under-Secretaries in charge of the Geographical Depts., and I now submit a memorandum[2] which I think represents a general concensus [sic] of agreement. As so often happens when one gets down to brass tacks, the proposal involves rather more complications and difficulties than appear on the surface and when you have studied the report you may wish to discuss it with some of us before reaching a final decision. I think myself that it is a case for writing out semi-officially to the Governors of one or two of the more important

[1] Share certificates.
[2] Not printed.

territories on the lines suggested in Conclusion 5, rather than attempting to lay down from Whitehall a new policy for general application.

A.H.P.
25.3.52

1. I am not much impressed by these arguments and parts of paragraphs 11 and 13 might qualify for the epithet of redundant.

2. At the outset I should say that I agree:—

(a) that agricultural and peasant industries are in the main outside the subject;
(b) that I am not suggesting going back upon any concessions or their terms and trying to revise them.

In the main the new emphasis which I seek should be imparted to new projects and mainly to the exploitation of minerals.

3. I do not propose that hard and fast instructions should be sent out to governors or that equity in every case must be expressed in the form of shares but I must insist that a general letter is written which will point out the general lines on which Colonial Governments are advised to proceed.

4. The disappearance of the British investments in the Argentine either by purchase at low figures or by other forms of indirect expropriation (Anglo-Argentine Tramways etc.) and certain incidents which have occurred in Persia are admittedly outside the Colonial Office responsibility. But the Department should become aware of them and study the causes. Briefly these causes are that at the outset a diversity, instead of a community of interests, was set up between the local Government and inhabitants and the entrepreneur. I wish to avoid these mistakes being made again. There is intrinsically only this difference between a royalty and a share in the equity; the former is charged on the gross and the latter is a share of the nett.

5. Practically, under royalty arrangements the government is mainly interested in the continued existence of the entrepreneur but under equity arrangements Government is interested in his prosperity. In this vale of tears the Department will find the difference is a real one and that it is quite exhilarating to find how Governments will defend their own profits (even Departments have been known to attack other Departments if a departmental interest is damaged) and how comparatively lackadaisical they are over the entrepreneur when they are taxing him or exacting royalties.

6. These are matters of policy and I suggest that a general letter should be drafted to fit it and not that the policy should be eroded because it does not happen to accord with other predilections.[3]

O.L.
[nd]

[3] For the 'general letter' see 401.

400 CO 537/7857, no 5 [Apr 1952]

[Summary of colonial investment needs, 1952–55]: CO note for Mr Lyttelton

[It was understood in the CO that Lyttelton's purpose in requesting this note was 'to consider the possibilities of drawing up of a list of projects which can be used as a basis for attracting American capital. In short a sort of "prospectus" ' (minute by A Emanuel, CO 537/7857, 2 Apr 1952).]

1. *Public sector*

(1) The total foreseeable need for additional external capital for public investment for the period 1952–55 is just under £200 million of which:—

	£m.
(i) Loans in Colonial loan programme	142
(ii) Loans from H.M.G. for Volta and Aden	30
(iii) Loans from C.D.C., M.S.A., etc.	15
(iv) Additional C.D. & W. grant assistance (say)	10

(2) From the analysis of these needs in Appendix A,[1] it will be seen that it is expected that, of (i) above, the London market can absorb £120 million, and the International Bank might be willing to invest £30 million; but neither is certain and there may be a gap of £30/40 million. It is expected that H.M.G. will provide (ii) and the C.D.C. and M.S.A. (iii). There is no expectation that the additional grant assistance (of which the really difficult requirement is the £10 million for West Indies) will be available from H.M.G.; but if it is not, it is unlikely to come from outside sources.

(3) No estimate can be made of additional capital needs that would arise if planning could be based on a larger scale of financial availabilities than is at present foreseeable. There is some under-spending, especially by the larger Colonies, of present C.D. & W. allocations; but there is a presumption that, if grant assistance were made available on a substantially larger scale, additional development projects could be worked out. However, the amount spent would depend on physical and technical factors as well as on the additional burden of recurrent expenditure which Colonial budgets can carry.

(4) On the face of it, apart from the element of uncertainty in the loan programme, there is, *on present plans*, no serious and immediate need for an increase in the general flow of investment capital into the public sector.

2. *The private sector*

(1) Detailed information on plans of private enterprise is not available. An analysis of known facts is given in Appendix B.

(2) For most basic Colonial production, financial needs are not assessable solely in terms of a "gap".[2] Taxation, market conditions, technical factors, costs of credit are more significant in most cases and result in adjusting needs to the finance available on commercial terms.

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[1] Appendices not printed.

[2] ie, between financial needs and finance available.

(3) Financial institutions in the Colonies have still unused resources e.g. C.D.C., Development Corporations of the Banks, Government sponsored Finance Corporations etc.

(4) Projects involving private capital in which financial difficulties are among the problems yet to be solved include:

		Sum involved
(i)	Volta River	£100 million (Government and private)
(ii)	Kilembe Copper	$10 million
(iii)	Sukulu Project	?
(iv)	Northern Rhodesian Copper (Baluba)	£9m–£10m.
(v)	Sierra Leone Iron ore (Tonkolili)	£10m–£15m.
(vi)	Malayan Iron ore	$30 million (U.S.)
(vii)	Cyprus Pyrites	£½ million
(viii)	Aden Oil Refineries	£51 million
(ix)	Nigerian Lead-zinc	?

Needs may also arise for manufacturing industry, but no projects are before the Office at the moment.

3. *Colonial Development Corporation*

More than £60 million of the Corporation's capital is still to be allocated. At current rates of expenditure, the capital should last another five or six years. Details are given in Appendix C.

401 CO 537/7726, no 2 13 May 1952

'Mining policy': circular despatch no 477/52 from Mr Lyttelton to governors

I wish to draw attention to the severe blow which confidence in overseas investment has suffered as a result of the actions of certain foreign governments in expropriating investments created by overseas capital in return for compensation often equal to only a fraction of their true worth.[1]

2. The prime and underlying cause of the events which have led to such expropriation lay in a failure at the outset to create a proper sense of community of interest between the local government and the entrepreneur. If investment in the Colonial Empire is to be fostered on the scale required it will be essential to avoid a similar mistake in the future. If in the cases referred to a substantial share of the investments had been in local instead of overseas ownership, expropriation would probably not have taken place at all; if it had taken place the compensation paid would undoubtedly have been assessed on more equitable terms.

3. I recognise that in most Colonial teritories it will be many years before there is

[1] This refers in particular to the Persian government's nationalisation of the Anglo-Iranian Oil Company in May 1951.

sufficient private capital available locally to acquire even a nominal financial interest in large-scale mining enterprises, and that few local Governments have sufficient funds to enable them to participate to any great extent in the financing of mineral and similar developments in their territories. Where, however, such capital, whether private or governmental, is likely to be available for investment it is obviously desirable in granting concessions to ensure that the enterprise concerned will be willing to provide opportunities for such investment.

4. In mining, however, and also perhaps in other enterprises (e.g., hydro-electric development) there are in my view opportunities in other ways to create the proper community of interest. I have in mind the fact that under the terms of mining leases Governments normally receive a special return from the project in the form of royalties or duties on the minerals won. I consider that this principle should be taken a step further and that, especially where major new concessions are being negotiated, Governments should consider trying to secure appropriate shareholdings in the enterprises in return for waiving either wholly or partially the right to levy royalties.

5. Capitalisation of royalties in this manner would do much to ensure the community of interest between the Colonial territories and overseas capital which is essential if investment is to be as rapid as we desire. Under existing arrangements Governments may, I fear, be too apt to regard entrepreneurs mainly as sources of revenue: partnership between Government and entrepreneur would give each party a better appreciation of the difficulties of the other and help to ensure the continued prosperity of their common investment.

6. In putting forward this suggestion I have not overlooked that many Governments in recent years have related the rate of royalty to the grade and quantity of ore and the conditions under which it was extracted and have done this especially by levying royalties or mineral duties on a system by which the rate of royalty depends on the profitability of the individual mine as measured by the ratio of profits to output. In principle such arrangements are clearly desirable. I would suggest that in suitable cases the principle of Government having a progressively increasing share of profits might be preserved by part at least of the Government shareholding being in the form of deferred shares.

7. I do not wish in any event to suggest that existing concessions should be revised or that the royalty system should be abolished root and branch. Where, for instance, there is an established mining industry comprising many separate undertakings, the negotiation of shareholding arrangements would hardly be practicable or even desirable, and a system of royalties based on profitability is probably best. On the other hand, where new major enterprises are planned I should be obliged if you would consider carefully whether arrangements on the lines indicated above could be made. I should be glad to advise you further if difficulties arise in negotiations over individual concessions.

8. I should in any case welcome any views which you may have on the general issues raised in this despatch.

9. This circular has not been addressed to the Governments of Gibraltar, Leeward Islands, Malta and St. Helena. It has been sent to the High Commissioner, Federation of Malaya, under cover of a separate despatch.

402 CO 537/7844, no 155 12 June 1952

[American views on colonial investment]: letter from A Emanuel to E Melville [Extract]

[Having earlier called for a 'prospectus' of colonial investment opportunities (see 400), Lyttelton continued to give strong support to the idea of seeking to attract US investors (minute by Lyttelton, CO 537/7844, 22 May 1952). In June, Emanuel was sent to America to talk to finance houses and the Mutual Security Agency.]

. . . I saw Benny Buttenweiser this morning at Kuhn Loeb and am lunching with him and Sir William Wiseman next week. We had quite an interesting chat about American investment. There was little new but he rather inferred [sic] that (a) most Americans don't know the difference between the Colonies and other parts of the Commonwealth, and (b) that they are not likely to be interested in anything but a jolly specific project giving not only the chance of a net yield much higher than 5% to 8%, but also of substantial capital appreciation—say 50%. Other things that may be in their minds are that it is altogether too risky a business; and things like the flop of rubber development in Liberia, not to speak of East African groundnuts. He thought there was scope for "educating" big business, but it would be best not to try very hard unless we now got some real winners. . . .

403 CO 537/7858, no 37 27 June 1952

[Private investment in colonies]: letter from E Melville to M T Flett

[In May a Working Party on Dollar Investment in the Sterling Area was set up. It was chaired by M T Flett (under-secretary, Treasury, 1949–1956), with Melville as the CO's representative.]

You may remember my mentioning, in connection with our discussions in the Working Party on Dollar Investment in the Sterling Area, that the more important Colonial Governments had been asked to let us know whether there were any major private projects in their territories which, although apparently technically and commercially sound, were on the shelf because of difficulty in obtaining the required capital.

The replies to this enquiry suggest that virtually nothing of this sort is known to Governments, apart from the few major propositions of which we were previously aware and for which there are already fair prospects of attracting the needed capital, e.g. the Volta project.[1] This confirms what was previously suspected to be the position, namely that until communications and other basic services are greatly improved and skilled labour is more readily obtainable, few projects in the Colonies (outside, perhaps, mining) even if technically feasible, will pass the test of commercial soundness and so prove attractive to the private capital which is assumed to be available. Implementation of the various Colonial development plans is of course gradually making the ground more favourable for investment, but there is evidently a long way to go before anything remotely resembling an investor's paradise appears.

[1] See 409.

404 CO 537/7858, no 38 30 June 1952

[Private investment in colonies]: letter (reply) from M T Flett to E Melville

1. Thank you for your letter of the 27th June[1] about private investment projects in the Colonies. I have been watching the replies from Colonial Governments with interest and I agree very much with the conclusions that you draw from them.

2. But if these conclusions are correct they are something of quite exceptional importance and the sooner that we impress them upon our masters, the better; it seems to me that the whole conception of Commonwealth development as the solution to our difficulties is becoming something of a castle in the air. We know all the difficulties of raising funds either from the U.K. or from private American sources. We have a shrewd suspicion that U.S. Government aid won't go anywhere near to filling the gap. We haven't very much faith in the capacity of the new Dominions to pull themselves up by their bootstrings. And now we have evidence that, even if the money were forthcoming, there are very few winners in the Colonial Empire.

3. It really looks as if our only effective cards are:—

(a) pushing ahead with the slow business of basic development which is quite unremunerative in the short run; and

(b) hoping that the American mining companies will find new deposits to exploit in the sterling area.

This of course does not relieve us of the duty of trying to improve the other attractions we can offer to the American investor. But it does suggest that the flood of weekend speeches on the boundless possibilities of developing the Empire may be giving rise to quite exaggerated hopes both at home and in the Commonwealth.

4. We might have a word about this at the next meeting of the Working Party.

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[1] See 403.

405 CAB 134/842, EA 23(52)5 30 July 1952

'Rice production': Cabinet Economic Policy Committee minutes on rice production in South-East Asia

The Committee considered a memorandum by the Secretary of State for the Colonies (E.A.(52) 107) drawing attention to the long-term needs of South-East Asia for rice, and to the difficulty of meeting these needs from traditional sources, and recommending that Her Majesty's Government should announce their support for increased Colonial production and should help in financing preliminary experimental work at a cost of about £3 million over the next 3 or 4 years.

The Colonial Secretary said that the exportable surplus of rice from the traditional suppliers of the countries of South and South-East Asia had fallen sharply since before the war, while the demand was steadily increasing owing to the rapid increase in population. In consequence the price, which before the war had averaged about £7 a ton, had now risen to between £55 and £60 a ton. This presented a very serious

problem in the countries of South and South-East Asia, where the danger of famine already existed. In view of the importance of maintaining food supplies in these countries, and of the possibility that some of the present rice-exporting countries might come under Communist domination, it was essential to do everything possible to increase the production of rice. Despite the efforts they were already making to grow more rice, the British Colonial territories in South-East Asia still needed to import a minimum of 700,000 tons a year, and Ceylon and India required a further 1½ million tons. It was most unlikely that quantities of rice of this order could be obtained from traditional sources, or from other parts of the world, and it was therefore essential that new sources of supply should be sought; the most promising field for this seemed to be our Colonial territories. Surveys were already being made, and the prospects of development, particularly in British Guiana and Tanganyika, were excellent. However, unless additional finance could be provided progress would be slow, and it was essential that thorough experiments should be made in any areas where large-scale development appeared possible if disappointments were to be avoided. He therefore recommended that Her Majesty's Government should state publicly that they would do all they could to increase the production of rice in the Colonies, and that about £3 million should be made available during the next three or four years to finance preliminary surveys and experimental work.

The Parlimentary Under-Secretary of State for Commonwealth Relations[1] asked that any development possibilities in Brunei should not be overlooked, since it had been stated that a large part of the total need could be met by the development of rice production in that territory. *The Colonial Secretary* pointed out that the economy of Brunei was thriving on oil production, so that there was little incentive to develop new products there; furthermore, the population of the territory was only about 50,000.

The Chancellor of the Exechequer said that there were serious constitutional difficulties in financing long-term development schemes out of voted monies, and it appeared that the Colonial Development and Welfare Funds which were still unallocated would be inadequate for this purpose. Everything possible should be done to encourage pilot schemes in the Colonies, but it might be necessary to pass a further Colonial Development Act before any substantial funds could be made available for rice production.

The Committee:—

(1) Invited the Chancellor of the Exchequer, in consultation with the Colonial Secretary, to review the method of financing rice production and other long-term Colonial development schemes, in conjunction with a review of the present state of the Colonial Development and Welfare Funds.

(2) Approved the proposals in EA (52) 107, subject to the outcome of the review in Conclusion (1) above.[2]

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[1] Mr Foster.

[2] cf part I of this volume, 59, and part II, 346.

406 CO 537/7844, no 190 22 Aug 1952

'US private investment': circular despatch no 835/52 from Mr Lyttelton to governors[1]

I have the honour to inform you that I have had under consideration the question of ways and means of encouraging the flow of the right type of American private investment to the Colonial territories.

2. The expression "right type" requires explanation. Each case has to be considered on its merits. The profits of American investors have to be paid in dollars. The investors also expect the right to repatriate their capital across the exchanges and may well choose to exercise this right at periods when the outflow of dollars is most embarrassing to us, e.g. by increasing the strain upon sterling at a time when sterling is weakening. In these circumstances, it is necessary to consider whether or not any particular dollar investment is likely to contribute to the economic strength of the territory (in such ways as increasing the prospects of earning or saving dollars, or introducing valuable American skill and experience) sufficiently to counterbalance the exchange risks to which its approval will expose the central reserves; and proposals which, from this point of view, appear to be definitely bad risks should be rejected as undesirable.

3. Colonial development plans are normally based on the assumption that investment in the public section [? sector] should lead, as its complement, to expanded investment in private undertakings. Governments have therefore sought to create conditions favourable to the investor, whether local or external, on the one hand through the provision of basic facilities such as improved communications, power supplies etc., and on the other, through varying types of legislation and fiscal inducements. These measures are not normally designed to foster investment from any one source but in general, where the conditions mentioned above are satisfied, United States investment or investment from other external sources is welcomed as well as investment from within the sterling area.

4. The flow of private American investment capital into the sterling area (other than investment which is sponsored or assisted by official American Agencies e.g. the Mutual Security Agency or Defence Materials Procurement Agency) is small in relation both to local needs and possibilities and to the total volume of internal and external U.S. investment. There are numerous reasons for this. The attitude of the U.S. investor is influenced, amongst other things, by the relatively favourable conditions for investment inside the U.S.; the lack of knowledge of investment opportunities abroad; fears of inequitable treatment in foreign countries (including fears of nationalisation without adequate compensation); fears regarding convertibility of earnings or capital into dollars; dislike of hampering regulations; regulations inside the U.S. restricting the holding of foreign stocks or direct investment by financial institutions e.g. Insurance Companies etc. These factors are of varying importance for investment in different fields of enterprise or in different countries, but probably apply in greater or less degree in the British Colonial territories.

5. Because of these difficulties it is, in my view, too much to hope for any great

[1] Responsibility for drafting this despatch rested largely with Flett's inter-departmental Working Party on Dollar Investment in the Sterling Area.

movement of U.S. capital into the sterling area but Colonial governments desiring to encourage U.S. investment can do something to overcome these difficulties and so attract into their territories individual investments which help both the local economy and the sterling area's balance of payments. For example, Governments may make opportunities better known among potential investors. They may demonstrate their willingness to give fair and equitable treatment to foreign investment by improving basic conditions and by smoothing the path of investors as much as possible through the simplification of the administration of controls. I trust that Colonial Governments will keep matters such as these under continuous review.

6. Her Majesty's Government are also anxious to help in the creation of conditions which will stimulate the flow of the right kind of U.S. capital to the Colonial territories, both in the general development interests of the territories themselves and also in view of the general interest of the Sterling Area, on balance of payments grounds, in securing the benefit of U.S. knowledge and a share of the markets commanded by U.S. firms. For these reasons Her Majesty's Government have co-operated in numerous international studies of the problem. A number of studies have been, and are being, made under the auspices of the Organisation of European Economic Co-operation (see e.g. circular savingram of 10th October, 1951) and further study is being made of the Commonwealth aspect following the decision of the meeting of Finance Ministers held in January, 1952 (my circular telegram No. 5. of the 22nd January, 1952, refers). Recently, an official of the Colonial Office took the opportunity during a visit to Washington on other business, to discuss informally with representatives of the U.S. State Department, the Department of Commerce and other Agencies.[2] From these and other discussions with American officials and business men it is apparent that there is a general willingness on the part of the U.S. authorities to give whatever practical assistance they can not only to American investors but also to foreign countries seeking advice and guidance on ways and means of stimulating investment in their own territories.

7. I shall address you further on matters arising from these studies which may be of interest to you. Meanwhile in the remainder of this despatch I wish to bring to your notice certain specific suggestions which have arisen out of the discussions which have already take place, which may be of some immediate practical value. But however successful Governments may be in leading the horse to the water (or taking the water to the horse) the decision whether to drink lies with the horse. It is therefore desirable to consider what steps Governments can take to bring about closer contact between those who want capital and those who can supply it. Among such measures may be listed the following:—

(1) Statements of Government policy.
(2) Publicity on general economic conditions and specific opportunities.
(3) Organisation in the territory.
(4) Stimulation of business contacts.
(5) Dissemination of information in the United States.
(6) Follow up of individual cases.
(7) Officially sponsored surveys of investment opportunities.

8. I offer the following observations on each of these measures:—

[2] See 402.

(1) *Statements of policy*
A Government which wants to attract external private capital should be on public record to this effect. Statements of policy are most effective if made reasonably frequently. The methods will vary from territory to territory but they include statements in the legislatures or during public addresses on the economic conditions and policies. Such statements should not only express the Government's general attitude of welcome to U.S. capital and offer such assurances of fair treatment as may be practicable, but should also indicate the qualifications which are made on exchange control grounds, so as to avoid giving any false impression that U.S. investment is permitted without restriction of any sort. Lead the horse to the water, in other words, but do not lead him up the garden path.

(2) *Publicity on general economic conditions and specific opportunities*
A number of Governments have already, following my predecessor's various circular despatches of 1950 on information booklets, published booklets setting out the essential facts of interest to potential investors. Some of these have not been designed with special reference to the attraction of U.S. capital nor have they in all cases been kept up-to-date or re-issued. I should be grateful if Governments would review this question to see whether steps should be taken to revise their booklets and to improve their distribution.

It has been suggested that while booklets providing information on general conditions serve a useful purpose, information should also be made available, both through the booklets and by other means, on the specific opportunities that exist for investment. There are clearly limits to what can be done by Governments in this direction since adequate knowledge of the specific opportunities can only come after detailed investigation by the parties principally concerned. Nonetheless, it might in the case of some territories be worthwhile for Governments to attempt to compile, in consultation with business and commercial institutions or organisations in the territory, a list of particular industries which can be considered on *prima facie* grounds possibly suitable for U.S. investment. It might well be possible to show that some of the basic requisites for particular industries exist in the territory *viz.* particular types of labour and raw material, power, local markets etc. In addition it would help, in listing specific possibilities, to indicate any particular conditions which would be placed on the operations of investors in these industries. I suggest therefore that Governments consider the possibility of producing such lists. I should be happy to be of any assistance I can if advice from expert sources in this country is desired.

(3) *Organisation in the territory*
Often there is little natural incentive for businesses in the colonial territories to seek the co-operation of American capital in the establishment of new undertakings. Apart from the difficulties which a person seeking American capital may expect to find, the traditional commercial ties of the colonial territories lie for the most part with other countries, especially of course with the United Kingdom. An organisation which could at one and the same time keep the desirability of U.S. investment constantly before commercial and business circles in the territory and be a means of collating the experience of enterprise which has sought U.S. capital, as well as of helping to smooth the path of U.S. investors themselves, could, I suggest serve a useful

purpose. I recognise that some Governments already perform functions of this kind through their Departments of Commerce and Industry, but I suggest that consideration might be given in conjunction with local business and commercial organisations, to the establishment of non-official committees or organisations with the above objects in view.

(4) *Stimulation of business contacts*
Cases frequently arise in which Governments are consulted by businessmen concerning the establishment of new undertakings expecially when facilities and concessions are sought. It may sometimes happen that the businessmen concerned could by associating themselves with American concerns improve the efficiency, or the export prospects of the undertaking in a way that would benefit the balance of payments. Governments might in suitable cases discuss this possibility with the individual or company. Similarly, where Governmental institutions such as local Development Corporations contemplate the establishment of a new undertaking involving substantial capital sums, their attention might be drawn to Government policy in this connection.

(5) *Dissemination of information in the United States*
The mere general dissemination of information cannot of course by itself produce specific results. These can only come through the detailed working out of specific projects between those sponsoring and undertaking and those from whom capital is sought. The latter may be purely financial concerns or concerns carrying out the same kind of undertaking in the U.S. or elsewhere. Nevertheless provision of information such as that referred to in (2) above can be useful provided it reaches the circles to whom it is likely to be of interest. The discussions in Washington have led to the suggestion that more positive use should be made of the official American commercial channels i.e. the U.S. commercial and consular officers stationed throughout the world and in many colonial territories. I am told that these officers have standing instructions to be of every assistance to those seeking American capital. They are able to give assistance in various ways; perhaps the most important, apart from advice to businessmen or local officials on conditions in the U.S., being official comunication of information back to the U.S. Department of Commerce. Widespread publicity can, I believe, be given to such information through that Department's publication entitled "The Foreign Commerce Weekly". Thus if Governments brought their information booklets to the notice of the commercial or consular representative with the suggestion that it might be given such publicity the booklets could achieve a much greater diffusion in American business circles than by any other means. Secondly, the "Foreign Commerce Weekly" is used for the publication of information on specific projects. A scrutiny of recent numbers of this journal shows that a good deal of use is made of it in respect of opportunities for investment in foreign countries. There have, however, been relatively few cases relating to the colonial territories. These possibilities might usefully be discussed with the local U.S. consular or commercial representatives.

(6) *Follow up of individual cases*
Experience has shown that unless action of the kind referred to in the preceding paragraph is actually followed up in individual cases, opportunities may be lost. The

follow up is possible in various ways; repetition of the publicity information; personal visits by those concerned to the U.S.; use of official British channels in the U.S. etc. I should be glad to forward any request for assistance to the appropriate Department with a view to obtaining action through British commerce and trade representatives in the U.S. But official action is no substitute for action by the parties concerned. Governments must necessarily aim primarily at helping these to follow up, rather than seek to take the initative themselves.

(7) *Officially sponsored surveys of investment opportunities*
One means of determining possibilities of American investment in a given territory might be to send an expert or group of experts to work in conjunction with a local team and survey the territory itself. In principle no objection could be raised to such a suggestion. The timing and composition of any survey does, however, require much consideration if it is to achieve positive results. Surveys which are badly timed or planned and which may lead to wrong impressions may in the long run do greater harm than if reliance is placed on the normal methods of individual investigations by people directly concerned with investment. It is understood that a proposal is receiving serious consideration in Washington for the institution, experimental in the first place, of joint U.S. and local investment survey parties in one or two countries. If these prove successful they could be extended to others. I propose to keep in touch with developments in this field and I should be grateful to learn of Governments' views regarding the practicability and usefulness of such surveys in their territories and any suggestions they might want to make for timing and composition so far as local membership is concerned.

9. I should be glad to learn in due course of any views you may have on the subject of this despatch in general and of any action which your Government have been able to take or contemplate taking.

10. This circular has been addressed to all Colonial territories and regional organisations with the exception of the Falkland Islands, Gibraltar, St. Helena, Seychelles, Somaliland Protectorate, Western Pacific and Zanzibar. The substance of the despatch has been passed to the United States Department and Consular and Commercial officers. It has been sent to Malta for the attention of Ministers and to the High Commissioner, Federation of Malaya under cover of a separate despatch.

407 CO 537/7859, no 1 22 Sept 1952

'Colonial development': memorandum by United Kingdom delegation to Commonwealth Economic Conference preparatory meeting of officials[1]

Introduction

1. Most of the commodities produced for export in the Colonial territories are raw materials and primary products, which contribute to the sterling area's viability either as direct earners or savers of foreign exchange. Scope exists for the development of new commodities, and an important aim of economic policy is to

[1] The Commonwealth Economic Conference was convened in London in Nov–Dec 1952, in succession to the Jan 1952 conference.

diversify the economies of the Colonial territories so as to lessen dependence on one or two products liable to market fluctuations. But in the main an expanded contribution to the sterling area's viability must come through further efforts to improve techniques and extend basic facilities, such as roads, railways, harbours, irrigation and water control developments etc., which will promote the production of the commodities the Colonies already produce, since it is these which are best suited to their physical, climatic and economic conditions.

2. Growing populations and rising standards of living also necessitate the expansion of local food production which is sometimes complementary but sometimes competitive with the production of raw materials and cash crops for export.

Development programmes

3. The development plans for Colonial Governments, which involve expenditure running at an estimated rate of some £100 million a year, are based upon the principle of balanced economic and social progress. Colonial Governments have become increasingly aware of the importance in present conditions of concentrating as much as possible on types of development which will improve the capacity of the territories to carry the costs of needed social development, and in general the principles suggested in the Interim Report of the Commonwealth Development Working Party do not conflict with the present aims of development policy.

4. Government development plans are, of course, not rigid blueprints but broad statements of objectives which are themselves under continual review in the light of changing circumstances. In the past two or three years most plans have been revised to give greater emphasis to economic objectives, and in so doing account is taken of opportunities for the expansion of production in directions which may assist not only the territories themselves but also the balance of payments of the sterling area. In 1950 the funds available under the Colonial Development and Welfare Act were increased by £20 million it being made clear that this sum would be devoted primarily to development of an economic character.

5. The ability of Governments to carry out their plans or of producers to expand output depends on a number of well-known factors. These include finance, physical resources, such as steel and capital equipment, the recruitment and organisation of skilled man-power and the existence of favourable markets. Adequate supplies of consumer goods are also needed to provide an inducement to greater productivity and reduce inflationary pressures. The attention of Colonial Governments and of Her Majesty's Government in the United Kingdom has been constantly directed to the problems which arise under these heads and special efforts are made to solve them in cases of particular importance. At the present time it would be acceptable to most Colonial Governments that special efforts should be made to promote production in directions which would help to solve the problems of the sterling area with due regard to the needs of other types of essential development.

Projects for short term completion or initiation

6. In line with the suggestions in the Interim Report of the Commonwealth Working Party on Development that Governments should identify projects which are of particular importance, a list (Annex A)[2] has been prepared showing some of the

[2] Annexes not printed.

major schemes which are at present in operation in the Colonies, the substantial completion of which may be expected about the end of 1953, and which, when completed, should promote an important expansion in production in the desired direction. It has, however, to be emphasised that the greater part of expenditure on Colonial development is not in the form of large scale projects. The process of development, particularly in peasant agriculture, calls in the main for a general expansion on a small scale along a variety of fronts.

7. A further list is attached (Annex B) of large scale projects which are in their initial stages or in contemplation, for which provision in the shape of finance and material resources will be needed in the near future.

Requirements

8. A rapid expansion of the development effort is more likely to be dependent on overcoming difficulties in obtaining steel and capital equipment and in recruiting technical personnel than on securing new sources of finance. Over the next two or three years it is possible that sufficient funds will be forthcoming from existing sources of finance, including funds under the Colonial Development and Welfare Act, local resources and loans from London and from the International Bank of [sic] Reconstruction and Development, to cover immediately foreseeable needs in the field of Government expenditure on development. Needs in the private field cannot be precisely estimated, but, having regard to the funds available to the Colonial Development Corporation, to possible assistance to the development of strategic materials by the Mutual Security Agency and to the still relatively favourable markets for Colonial products, finance is not in general likely to be the main obstacle to carrying out producers' own plans in immediate view. The momentum of Colonial development may be expected to increase as a result of previous preparatory work and this may give rise to additional needs for which provision has not yet been made. An upward revision of plans such as is desirable if production is to be expanded at a more rapid rate than is at present possible would, however, undoubtedly require additional financial provision on a substantial scale.

Production possibilities

9. As has been stated, expansion of production must in the main be in commodities which are already being produced, though continual research and experiment can be expected to lead to the discovery and exploitation of new resources. A table showing the level of exports of the principal Colonial products is attached (Annex C). It will be seen that Colonial production has expanded appreciably in recent years as a result of favourable world demand and in response to considerable efforts made to restore and expand the basic economic services. Production for export is in general now about 75 per cent above the 1946 level and one-third larger than before the war. In the case of some commodities the present rate of expansion is not likely to continue whether for technical or market reasons. But if a net expansion in earning capacity is to be achieved, efforts to expand production of the other commodities should not be at the expense of reducing production in those which, though they cannot be further expanded, are already of value to the local economies or the balance of payments of the sterling area.

10. The principal commodities for which there are possibilities of expansion are:—

Copper, in Northern Rhodesia, Uganda and Cyprus
Aluminium in the Gold Coast
Manganese in the Gold Coast
Iron Ore in Sierra Leone and Malaya
Pyrites in Cyprus
Sugar in most sugar producing territories
Rice in Malaya, British Guiana and some parts of Africa
Oils and oil seeds in West Africa and Malaya
Bananas in Jamaica and the British Cameroons
Tobacco in Nyasaland, Northern Rhodesia and Tanganyika
Hides and skins in Nigeria and East Africa
Tea in East and Central Africa
Cotton in Nigeria, East Africa and Nyasaland.

Notes on these possibilities are given in Annex D.

11. From the information given in the annexes it will be seen that the prospects of expanded production depend on the fulfilment of a variety of conditions, some of which are outside the power of Colonial Governments to fulfil by their own efforts. Numerous decisions would also have to be taken before all the possibilities referred to could be completely realised, but the facts given in the annexes do indicate that in both the near and the more distant future substantial possibilities exist of expanding production in directions capable of assisting the balance of payments of the sterling area.

408 CO 537/7644, no 58/60 7 Oct 1952

[Colonial development finance]: letter from Mr Lyttelton to Mr Butler

I believe my officials have already told yours of the difficulties which are likely to arise in meeting the borrowing requirements of Colonial Governments in 1953. I am now writing to put you personally in the picture, as this is a matter of fundamental importance to the Colonies and I may have to ask for your active help later on.

On 1st August the Colonial Office sent the Treasury a preliminary programme for Colonial loans on the London market during the course of next year. The programme amounted to nearly £32 million. It was realised that the market might not be able to absorb the full amount, but the programme included a requirement of some £6 million for Uganda which could, at a pinch, have been postponed until 1954. The Colonial Office were reasonably confident, therefore, that the forecast as a whole, besides representing genuine requirements, was a practical proposition from the market point of view. But events of the past few weeks have upset our calculations.

I need not go into great detail, but the principal recent developments are as follows. Fiji, which was recently struck by a hurricane, has now indicated, contrary to previous expectations, that it will require a loan next year. A detailed justification has been asked for, but we may expect the requirement to be not much less than £3 million. Tanganyika has put up its bid by £750,000, and there are indications that even so the development of the territory is being retarded for lack of funds. Uganda has stated that it can no long carry on until 1954 and must have a loan of at least £2 million in 1953. Last but not least, the East African Railways and Harbours have told

us that their loan requirements next year will be £9 million higher than we had previously been led to expect. We had previously noted a requirement of £5 million, but had included nothing in the 1953 programme on the assumption that this money would be raised from the International Bank. We had since heard of a further possible £5 million, but had calculated that this might take the place of the Uganda requirement, assuming that the International Bank were good for only £5 million. I should add that even this increased requirement of the East Africa Railways and Harbours assumes the non repayment of outstanding advances by Her Majesty's Government by the Uganda Government and by the Tanganyika Government amounting to about £9 million in all.

The net result of all this is that we are faced with a programme of nearly £39 million, even assuming that Uganda borrowing is confined to £3 million in 1953 and that £5 million is lent to East African Railways and Harbours by the International Bank. This is a good £10 million above the estimated capacity of the London market to absorb Colonial loans, and the figure is based on the favourable assumptions (a) that the International Bank loan to East Africa comes off, (b) that the remaining Uganda requirement can be absorbed in a 1954 programme which looks like coming out at about £35 million on a very preliminary estimate, (c) that the outstanding 1952 requirements, amounting to £5 million, can be raised before the end of this year and (d) that no new urgent requirements, at present unforeseen even by Colonial Governments themselves, develop so rapidly that they cannot wait beyond 1953.

Obviously, my first job in these circumstances is to do everything I can to ease the situation. This is already being done, and I can assure you that it will continue to be done. The International Bank mission which is to go to East Africa is expected here very shortly. It is in fact already overdue, and we are sending agitated enquiries to the Bank to find out what has happened to it. When it comes, we shall try to sell it the idea of lending considerably more than £5 million to the East African authorities, and we shall tell the latter that their success in raising their total requirements may depend on this coming off. We may be able to provide Malaya's requirement of £6 million before the end of this year by an addition to existing stocks under which the Crown Agents will take up almost the whole of the requirement from Colonial funds already in their hands. There are possibilities, as yet embryonic, of Canadian and M.S.A. loans to East Africa which may further ease the position. Finally, we shall continue to vet all requirements to see that the work is really essential and that the money is really needed. It may be that these various efforts will succeed in reducing the 1953 programme to manageable proportions. But clearly I cannot count on this, and that is the reason for this letter.

I think it is too early to start discussing the special measures which may prove necessary. I should like, however, to make two general points. The first is that these 1953 loans are all or almost all in respect of work which is already being undertaken or to which Colonial Governments are firmly committed under approved development plans. To take one instance, Uganda's requirement is solely in respect of the great Owens Falls hydro-electric undertaking, which is fairly near completion. We must not think, therefore, that we can decide as a matter of policy whether these requirements should be met or not. They are the inevitable result of policy decisions taken some years ago, and we cannot refuse to meet them without stopping work already in progress, thus wasting very large sums of money already spent—to say

nothing of the catastrophic economic and political consequences. My second point is that all this looks rather like the beginning of a new trend in Colonial economic affairs. For some time the *potential* loan requirements of Colonial Governments have been considerably greater than the estimated absorptive capacity of the London market, and this problem has exercised the minds of the Treasury and the Colonial Office. The problem has, however, been continually postponed by non-financial shortages and by relative abundance of money in Colonial exchequers. Loan requirements have loomed up ominously but in the event Colonial Governments have either not been able to carry out the work as fast as they hoped or have been able to finance it very largely from available balances. It now begins to look very much as if this stage is passing. On the one hand the development of the Colonies is gathering momentum. Techniques are being learnt, basic work is being accomplished, shortages of skilled men and supplies are gradually though imperfectly being overcome. On the other hand the monetary boom in many Colonies is passing, at least for the time being. We shall of course go on doing our best to ensure that Colonial Governments seek external finance only when their own disposable balances are utilized to the limit of financial prudence, that all possibilities of raising money locally on reasonable terms are fully exploited (though I am afraid the growth of money markets in the Colonies is bound to be slow) and that Colonial development plans are carried out in an orderly manner, so as to concentrate on first things first and to avoid excessive strain on non-financial rersources which are still scarce. All the same, we cannot ignore the writing on the wall. At least in the sphere of direct development planning by Colonial Governments themselves, as opposed to private enterprise, it looks as if we are beginning to move, more rapidly than could have been foreseen, into an era of actual urgent demand for investment, in the financial sense, on an increasing scale.

All this, of course, is still largely conjecture. The shape of things three or four years ahead will depend partly on the speed with which Colonial demand increases and on the extent to which we succeed in securing the assistance of lending organisations such as the International Bank. It also depends partly on policy decisions which will be taken as a result of the Commonwealth talks. I have only mentioned long term prospects in this letter in order to let you know the direction in which things seem to be moving. As I have told you, I am not even asking for immediate consideration of special measures to deal with the problems of 1953 and 1954. There is only one plea which I should like to make at this stage, and that is that the Treasury will give the Colonial Office all the assistance they can in meeting a situation which will be difficult even on the most optimistic forecast. I am confident that even this plea is not really necessary, because the Colonial Office have always had the utmost co-operation from the Treasury in dealing with Colonial borrowing requirements.

409 CAB 129/57, C(52)402 12 Nov 1952

'Volta River aluminium scheme': joint Cabinet memorandum by Mr Lyttelton and Lord Swinton[1]

We propose to arrange for the publication, if possible before the Commonwealth Conference, of the annexed White Paper[2] announcing that the Government are favourable in principle to participation in the Volta River Aluminium scheme and that a Preparatory Commission will be set up at once to complete the preparatory work.

2. The proposals are summarised at the beginning of the White Paper. Briefly, the scheme will involve capital expenditure on hydro-electric and other works provisionally estimated at about £100 millions initially and about £144 millions ultimately. All the estimates are tentative and at present costs, but as will be seen from the table in paragraph 12 the share of the United Kingdom Government is expected to be of the order of £43 millions initially: it might rise to about £57 millions ultimately. The initial expenditure will be spread over a period of, say, seven years. On completion of the first stage of development, 80,000 tons of aluminium a year will be produced, and 210,000 tons will be the ultimate annual capacity, which it is hoped to attain within twenty years at most from first production: at least 75 per cent. of the output has to be offered to the United Kingdom.

3. The justification for the United Kingdom Government investment is the need for an aluminium smelter in the Sterling Area to meet the growing requirements of the United Kingdom industry and to reduce our dependence on dollar supplies. The scheme will also make a major contribution to the economic and social progress of the Gold Coast, and will further our policy of encouraging the development of the resources of the Commonwealth.

4. The best technical advice has been taken in preparing the scheme. The aluminium companies and the consultants employed by the two Governments—Sir William Halcrow and Partners (the consulting engineers to the Gold Coast Government) and Cooper Brothers and Company (the chartered accountants who have been advising us on the financial aspects)—agree that it is technically and economically sound at present levels of costs. With a scheme of this size under tropical conditions, it is essential that before final commitments are undertaken every precaution shall be taken. Hence the proposal to set up a Preparatory Commission at once to follow up the work which has been done already and to examine the problems in greater detail. The cost of the Preparatory Commission, which is not expected to exceed £400,000, will be shared equally by the two Governments, but it will be a charge on the hydro-electric project if it is decided to go ahead, and in that event they will be reimbursed.

5. Formally, none of the parties will have to commit themselves until the Preparatory Commission has reported—perhaps eighteen months or two years hence—but our colleagues should recognise that it will be difficult for us to withdraw later unless there is an unfavourable report from the Preparatory Commission or some change in the circumstances which justifies withdrawal or delay.

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[1] Swinton was chancellor of the Duchy of Lancaster at this time. He became Commonwealth relations secretary on 24 Nov.

[2] Not printed.

6. We must therefore face the political and other risks which are bound to arise from this scheme. We have done what we can to lessen these risks. Provisions have been included in the scheme—notably a guarantee by the aluminium companies which should ensure that the power project will fully service the Government loan—which will greatly reduce the risk of loss to the United Kingdom taxpayer. The Gold Coast Government at their own request have been given the right to an equity interest in the smelter company and will have a substantial direct stake in the success of the scheme. The participation of the aluminium producers should ensure that the smelter is managed efficiently, and their readiness to invest so much money in it is evidence of their confidence in the scheme. Nevertheless, there are some factors which cannot be foreseen. The scheme may, for instance, be endangered by future inflation in the Gold Coast, or by bad faith on the part of a future Gold Coast Government. The risks inherent in Colonial Development cannot be avoided. We have taken every possible precaution against them, and, if after taking such precautions we are not prepared to face risks of this kind, we should abdicate our position as a Colonial Power.

7. We ask our colleagues to agree to the publication of the White Paper and the early appointment of the Preparatory Commission.[3]

[3] Cabinet did so agree, subject to a change in the text of the White Paper enabling the government 'to avoid a direct expression of opinion that the scheme was soundly conceived' (CAB 128/25, CC 99(5)4, 20 Nov 1952). The White Paper issued as Cmd 8702, *Volta River Aluminium Scheme.*

410 T 229/712, pp 4–9 15 Nov 1952

'Colonial borrowing on London market': minute by A K Potter to M T Flett, commenting on Mr Lyttelton's letter of 7 Oct[1]

Please see the letter below dated 7th October from the Secretary of State for the Colonies to the Chancellor. The object of the letter is to put us on notice that in the sphere of development projects of Colonial Governments "it looks as if we are beginning to move, more rapidly than could have been foreseen, into an era of actual, urgent demand for investment (in a financial sense) on an increasing scale". The Secretary of State explains that the Colonial Office is faced with a programme of Colonial Governments borrowing on the London market of nearly £39m. for 1953 and of about £35m., on a very preliminary estimate, for 1954. He does not ask for immediate consideration of the problem of 1953 and 1954 but makes the plea "that the Treasury will give the Colonial Office all the assistance they can in meeting a situation which will be difficult even on the most optimistic forecast".

2. It will be remembered that in July 1951 it was decided, after discussion with the Colonial Office and Bank of England and after taking the Chancellor's orders, to give the Colonial Office £80m. as the order of magnitude of Colonial borrowing on the London market over the four years 1952–55, which they might assume for planning purposes. (The Colonial Office had pressed for a figure of £100m. There is no record of the final decision having been formally communicated to them. But it is evident that they knew it and accepted it, or at least acquiesced in it; for the figure of

[1] See 408.

£80m. appears in the memorandum which they prepared for the I.B.R.D. in August 1951.) The second sentence in the fourth paragraph of Mr. Lyttelton's letter of 7th October to the Chancellor indicates, however, that the Colonial Office is now thinking of a figure nearer £30m. than £20m. a year as the estimated annual capacity of the London market to absorb colonial loans.

3. Colonial loans actually placed on the London market in the last four years, according to the figures given by Mr. Lyttelton on 14th November in moving the second reading of the Colonial Loans Bill,* have totalled:—

1948	£3m.
1949	£11m.
1950	£17m.
1951	£25m.

Up to the date in 1952 the total is £23m.

4. The figure of £39m. mentioned by Mr. Lyttelton for 1953 assumes:—

(a) that the East African Railways and Harbours will require £14m. in 1953 but will be able to meet £5m. of this by means of a loan from I.B.R.D.;
(b) that £4m. of the £6m. required by Uganda can be postponed from 1953 until 1954;
(c) that the outstanding 1952 requirements can be raised before the end of this year;
(d) that no new urgent requirements, at present unforeseen by Colonial Governments themselves, will develop so rapidly that they cannot wait beyond 1953.

As regards (a) it seems reasonable to expect that East Africa will get a loan from I.B.R.D. in 1953 and indeed to hope that the loan may exceed £5m. I.B.R.D. have informed us privately that they will regard the Dependent Overseas Territories and Southern Rhodesia as credit-worthy for $50–60m. worth of new loans in the next twelve months.

As regards (c) it seems reasonable to except that the further sum required can be raised before the end of this year. Indeed the Colonial Office are, I understand, hoping that it may be possible in addition to place this year the loan of £2m. for Cyprus which has hitherto been programmed for 1953.

5. I have discussed the Colonial Office's forecast for 1953 orally with Mr. Bourdillon. Of the loans which have hitherto been programmed for 1953 and which made up Mr. Lyttelton's figures of £39m. the Colonial Office now know that £6m. for Malaya will not be needed until 1954, and believe that £1.25m. for Aden will be postponed to a further year. They are doubtful if delivery of the orders placed by the East African Railways and Harbours will be as good as they have hoped in putting their requirement of external finance at £14m. for 1953. The figure of £39m. is thus reduced to £33m. certainly and to £31.75m. probably. If the Cyprus loan is indeed placed in the current year the figure comes down to £29.75m. and it might, if the East African Railways and Harbours do not in fact require as much as £14m. in 1953 and if they succeed in raising more than £5m. from I.B.R.D., come down a further £5m. or more.

6. The position ahead as regards Colonial requirements from the London market

* According to the Bank of England, the figures for 1949, 1950 and 1951 are £13m., £21m. and £27m.

is obviously very uncertain. Evidently, however, the Colonial Office no longer take the view which Mr. Melville expressed last August in the Overseas Territories Committee of O.E.E.C., namely that over the next three years shortages of capital would not be the predominant factor in Colonial development and that such shortages as there were would be manageable. Mr. Lyttelton gives the reasons why this comfortable view can no longer be taken, as follows:—

> (a) the relative abundance of money in the Colonial Exchequers due to booming conditions in the Colonies has hitherto limited their needs for external finance, but the monetary boom in many Colonies is now passing, at least for the time being;
> (b) the non-financial shortages which have hitherto slowed the progress of Colonial development, and thus limited the Colonies' need of capital finance, are gradually becoming less acute as techniques are being learnt, basic work is being accomplished and shortages of skilled men and supplies are being overcome.[ø]

So it looks as if we must be prepared from now on for the Colonies having increasing difficulty in getting all their requirements on the London market and consequently for the Colonial Office exerting increasing pressure on us to assist.

7. The Bank of England consider that the Colonial Office should not expect the Colonies to be able to borrow on the London market more than £25m. in 1953. They think it would be unwise to give any estimates of the Colonies' prospects in subsequent years. I understand that H.F. concur in these views.

8. It is not clear what form of assistance the Colonial Office would expect from the Treasury in case the willingness of the London market to underwrite and take up Colonial loans at the near gilt-edged rates at which the Colonies expect to borrow, does not meet the Colonies' requirements. Probably the Colonial Office themselves have not formulated their ideas on this point. If, however, they have in mind preferential treatment for the Colonies as regards access to the London market or preferential treatment by way of direct loans from H.M.G., it would be necessary to sound the warning mentioned in Miss Turner's minute of 23rd October. First things will have to come first (as indeed is recognised in Mr. Lyttleton's letter) and this means projects which directly or indirectly aid the balance of payments. Many of the Colonial projects no doubt fulfil this criterion, but there would doubtless be some which would have to be held over in order to fit more important projects from other Commonwealth countries into the available resources. The whole emphasis of the discussions on Development at the recent Preparatory Meeting of Officials for the Commonwealth Economic Conference was on the restraint on less-essentials and concentration on more-essentials. The Colonies were not excluded from either half of this exercise.

[ø] It is probably true that these factors could not have been entirely provided for, however good the Colonial Office planning. But I am doubtful how much real planning in the light of probable availabilities of financial and material resources is done by the Colonial Office. As regards resources, it has been made quite clear to the Colonial Office that it would not be safe for them to plan on the assumption that the Colonies would be able to borrow on the London market at the rate of more than £20m. a year over the four years 1952–55. As regards material shortages, we suggested to the Colonial Office, at the time of our discussions with them in the summer of 1951, that they should consult C.E.P.S. as regards the programme of colonial development generally. Apparently they did not do so; for Mr. Stevenson in his letter of 18th August asked the Colonial Office whether they had yet consulted C.E.P.S. and, if so, with what result, but this question was never answered.

9. I recommend that in reply to the Secretary of State for the Colonies the Chancellor should:—

(a) take note of the Colonial Office view that the problem of meeting the Colonial Governments' needs of external finance in 1953 and 1954 will be difficult even on the most optimistic forecast;
(b) note with approval that the Colonial Office will exploit to the full the possibilities of I.B.R.D. finance and are also examining the possibilities of M.S.A. and Canadian finance;
(c) confirm that the Treasury will give the Colonial Office all possible assistance in dealing with the problem of meeting the Colonial Governments' needs (this is all that Mr. Lyttelton asks in his letter);
(d) remind Mr. Lyttelton that the Colonial Office were last year given £80m. as the order of magnitude of Colonial Governments' borrowing on the London market over the four years 1952–55 (i.e. an average of £20m. a year) which they should assume for planning purposes; say that he cannot at the moment hold out hope that Colonial Governments will be able to borrow more than £25m. in London in 1953; but add that the whole position may have to be reviewed in the light of decisions taken on the U.K. contribution to Commonwealth development as a result of the forthcoming Commonwealth Economic Conference.

411 T 220/258, pp 1–2 21 Feb 1953

'Development policy': circular despatch no 184/53 from Mr Lyttelton to governors

I have the honour to address you on the subject of development policy in the light of the conclusions of the recent Commonwealth Economic Conference. I attach, for convenience of reference, a copy of the relevant paragraphs (paragraphs 9 to 14) of the communiqué[1] which was issued after the Conference ended.

2. You will note that the Conference, while recognising the need for raising living standards and bettering social conditions, reached agreement that "in sterling area countries development should be concentrated on projects which directly or indirectly contribute to the improvement of the area's balance of payments with the rest of the world". (paragraph 9). This conclusion was the more readily acceptable to Her Majesty's Government on behalf of the Colonial territories because it was consistent with the policy already being followed, with the views I had received from Colonial Governments and with the advice given me by the Colonial Advisers attending the Conference. I feel, however, that it may be useful for Colonial Governments to have a fuller expression of my views on the implications of the Conference conclusions for Colonial development.

3. First, I should like to say that there is no question of any abrupt change in Colonial development policy or of any abandonment of pledges given by Her Majesty's Government in the past on this subject. Her Majesty's Government regard their present policy of assisting Colonial development as one to which they are committed on its own merits and recognise that it involves, as one of its fundamental

[1] Not printed.

objectives, the improvement of the standard of living of Colonial peoples. It was for that reason that Colonial Governments were encouraged, in preparing their Development Plans after the enactment of the 1945 Colonial Development and Welfare Act, to include adequate provision for the improvement of social services, such as health and education, as well as for the furtherance of economic activity. But it has always been recognised that, without solid economic foundations, there can be no hope of maintaining or improving social welfare or of achieving real political progress; and the problem [of] how to meet mounting recurrent expenditure has impressed itself increasingly upon Colonial governments and has encouraged them to concentrate their development planning on schemes which were likely to lay sound economic foundations. Moreover, many Governments, having reviewed their plans in the light of changes in their economic circumstances and experience, themselves decided to give greater attention to schemes which will bring about a foreseeable expansion in the economic and financial capacity of their territories—a policy which was urged by my predecessor in his secret circular telegram of 19th October, 1950, foreshadowing the enactment of the Colonial Development and Welfare Act of 1950.

4. As I see it, the result of the Commonwealth Economic Conference was to reinforce this trend by laying a new emphasis on economic development which contributes to the strengthening of the sterling area as a whole. I would therefore suggest that Colonial Governments should once again take stock of the position in their territories, as soon as opportunity offers, in order to determine whether there still remain possibilities of changes in priorities of development which, without distorting the progress or adversely affecting the essential interests of the territory, would enable development calculated to assist the balance of payments of the sterling area to proceed more rapidly than might otherwise be the case. I should be glad to learn in due course whether you consider that any opportunities for such a change in priorities exist in the territory under your administration.

5. Paragraph 12 of the communiqué announced that Her Majesty's Government had undertaken to make a special effort to provide additional capital by facilitating the financing of schemes which would contribute to the improvement of the sterling area's balance of payments. The needs and potentialities of the Colonial territories, no less than of the other Commonwealth countries, were in mind when this decision was taken and if Colonial Governments wish to put forward any special requests for assistance under the criteria referred to in the communiqué, I can assure them that such requests will be considered with the greatest care.

6. This circular has not been addressed to the governments of Bahamas and Bermuda. It has been sent to the High Commissioner for the Federation of Malaya under cover of a separate despatch.

412 CAB 129/61, C(53)167 9 June 1953

'Colonial development and welfare': Cabinet memorandum by Mr Lyttelton. *Annex*

The Colonial Development and Welfare Acts, which provide up to £140 millions for colonial development over 10 years, expire on 31st March, 1956. Although the

legislation still has 3 years to run, we must now start planning for the future. Otherwise continuity will be lost and hurried decisions will have to be taken on insufficient information. I therefore propose, with the concurrence of the Chancellor of the Exchequer, to send a despatch to Colonial Goverments now on the lines of paragraph 3 below. It should thus be possible to assemble by the beginning of next year the material on which we can decide what further funds we should ask Parliament to provide.

2. A new Act will, of course, be needed. I should hope to be able to introduce it before the 1954 summer recess and to bring it into force on 1st April, 1955, to run until 31st March, 1960. I have chosen 5 years because experience has shown that 10 yeas is too long for realistic planning in this field. The purpose of the overlap of one year with the present Acts is to ensure continuity.

3. My despatch to Colonial Governments will not propose any figure for future assistance from Her Majesty's Government. Instead, it will ask the Governments to draw up financial statements showing their total planned (or expected) expenditure on development for the five-year period and indicating how far they expect to be able to meet that expenditure from their own resources. I shall emphasise the magnitude of the burdens which the United Kingdom is carrying and therefore the need for the Colonies to make the maximum effort to meet their development requirements from their own resources. I shall underline the importance of furthering the policy agreed upon at the Commonwealth Economic Conference and draw attention to factors other than financial, such as transport and labour, which affect the speed of development. Finally, I shall make it clear that Her Majesty's Government is not now entering into any commitment to provide further funds of a specified amount, either by Treasury grants or loans or through access to the London loan market, and that when the statements have been examined here it may be beyond our power to provide out of our resources the sums of money which the Colonies say they need.

4. There is another, but related matter which is already causing difficulty to some Colonial Governments. Under the terms of the present Acts, the money (except for "research" schemes) stops on 31st March, 1956. My colleagues will agree that this could seriously distort planned development, for example, by encouraging Colonial Governments, for fear of losing their allocations, to crowd expenditure into the next three years at all costs. It would be premature to introduce new legislation, but I wish to assure Colonial Governments that unspent money from the present Acts may be carried forward beyond 1956. I should also like to be free, where this is absolutely necessary, to allow plans to proceed on the assumption that further funds will be provided by the United Kingdom in due course. This power of advance authorisation involving further funds will be limited to a maximum of £7 millions and will only be exercised with the concurrence of the Treasury. None of this would be spent before 1956.

5. I ask, therefore, that I should be authorised to make an early statement to Parliament in the form of the attached draft, with which the Chancellor of the Exchequer has already concurred. I would take the opportunity at the same time of explaining to Parliament the arrangements already made for providing special funds up to £3 millions for rice investigations in the Colonies.

6. In all future consideration of this question I will ensure, in consultation with the Chancellor, that the greatest possible use is made by the Colonies of their largely increased sterling balances, so far as the nature and purposes of those balances

permit. This subject is now being jointly studied by the Treasury and the Colonial Office.

Annex to 412: draft parliamentary question and answer (for written answer)

Question
To ask the Secretary of State for the Colonies whether he can yet make a statement about the future of Colonial development and welfare assistance after the termination of the present Colonial Development and Welfare Acts on 31st March, 1956.

Answer
Yes, Sir. I am asking Colonial Governments and other authorities concerned to provide me with material on which Her Majesty's Government can decide to approach Parliament for further funds for Colonial development. I hope it will be possible to introduce the necessary legislation during the first half of next year.

Meanwhile I am telling Colonial Governments that they may proceed on the assumption that the period in which the £140 millions provided under the Colonial Development and Welfare Acts of 1945 and 1950 may be spent will be extended by legislation beyond the 31st March, 1956.

I am also telling them that, where necessary for essential development, they may enter into commitments extending beyond 1956 and over and above the £140 millions already provided, on the understanding that Her Majesty's Government will in due course ask Parliament to vote the necessary monies. Such advance commitments will be limited to a total of £7 millions, and will not be made without the concurrence of the Treasury.

There is a further matter of which I should inform the House. In view of the serious world rice shortage, we have thought it necessary to make funds available to a maximum of £3 millions for experiments on the production of rice in the Colonies. Expenditure on such schemes is proper to the existing Colonial Development and Welfare Acts, but we do not wish it to displace desirable developments in other directions. These special rice schemes may therefore in due course involve allocations, and ultimately expenditure, in excess of the existing statutory limit of £140 millions. The legislation to which I have referred will also, if necessary, provide cover for expenditure up to £3 millions which may be incurred under these arrangements.

I should make it clear that there is no question of authorising in advance of the new legislation, actual expenditure in excess of the existing statutory limits. But the House should be aware that Colonial Governments may in the meantime be entering into commitments, to the extent which I have indicated, on the understanding that the necessary funds to meet these commitments will be provided by Her Majesty's Government under the new legislation. I can see no other way of ensuring that the continuity of Colonial development is not interrupted, and I feel confident that I have the full support of the House in the action I am now taking.[1]

[1] Cabinet approved Lyttelton's recommendations; the prime minister suggested, however, that in his parliamentary statement he should make some reference 'to the related question of attracting private capital' (CAB 128/26/1, CC 36(53)2, 24 June 1953).

413 CO 859/362, no 1 1 July 1953

'Future arrangements for development finance': circular despatch no 601/53 from Mr Lyttelton to governors

In my circular telegram of the 24th June I sent you my statement in the House of Commons on that day about further financial assistance by the United Kingdom to Colonial development. The text[1] is reproduced in Annex 'A'[2] herewith. I am addressing you separately on the arrangements for bridging the period between now and the introduction of the new Colonial Development and Welfare legislation. This despatch deals only with the broader question of financial needs for development in the new period.

2. The total sum provided in the Colonial Development and Welfare Act of 1945 was decided and allocated amongst Colonies on the basis of needs as known in London. Allocations of United Kingdom funds were of course supplemented, in a greater or lesser degree, by Colonial Government revenues and loans. Nevertheless these allocations helped to set the pattern of development planning and thus affected the broad lines on which development has since been carried forward. No other procedure was possible in 1945; but with the experience gained since then, both here and in the Colonies, I consider that the new approach I am now proposing may result in greater flexibility of planning and may ensure that the external financial assistance given to Colonial Governments in future goes as far as possible to meet their needs for development as they themselves assess them.

3. I propose as the first step that Colonial Governments should draw up statements showing for the five years from the 1st April, 1955 to the 31st March, 1960,

(a) the development, in broad categories with estimated costs, which they consider it practicable to carry out in the Government sector, given the physical limitations and the ability to meet recurrent charges (see paragraph 4 below);
(b) the funds estimated to be available for this development from local resources (including local loans); and
(c) the amount of external finance, distinguishing loans and grants, needed to bridge any gap between (a) and (b).

In Annex 'B' herewith I give some further guidance on how Colonial Governments might set about the preparation of these statements. Their purpose is to give me as complete as possible a picture of each Colony's total needs in the new period and thus to enable me to assess the needs of the Colonies as a whole for external financial assistance and to decide how best they can be met from the various available sources.

4. I rely on Colonial Governments to see that their statements are as realistic as possible. The persistent over-estimating of annual Colonial Development and Welfare expenditure and of annual loan requirements is a sign of the tendency to be too optimistic in the past about the physical capacity of Colonial territories to carry out development work. In preparing their statements, therefore, Colonial Governments should look carefully at the factors which set the speed and determine the priority of new development. Apart from possible external circumstances such as shortages of

[1] See 412. [2] Annexes not printed.

skilled staff from overseas, there are many local limitations, both physical and financial, which will have to be assessed before realistic statements can be completed. For example, there is a limit to the capacity of any Government to support recurrent charges on expanding social services. I do not under-estimate the importance of basic social improvement in Colonial territories. But Colonial Governments will defeat their own object if they saddle themselves with a crippling burden of recurrent charges on capital which does not earn a return. The only certain way of providing for these recurrent charges is to see that a proper place is given in development plans to those basic services which make a more direct contribution to the expansion of the territory's resources. I have no reason to believe that this is not already well understood by Colonial Governments. It was called to their attention recently, in a broader context, by the recommendations of the Commonwealth Economic Conference on which I commented in my circular despatch No. 184/53 of the 21st February, 1953.[3] I shall be bound, in considering the financial statements which Colonial Governments send me, to form a judgment on how far the balance of payments criterion on which these recommendations laid emphasis is likely to be satisfied by the broad lines of development envisaged for the new period.

5. The external sources of public finance open to Colonial Governments in the new period will include a new Colonial Development and Welfare provision (subject to the approval of Parliament), loans on the London market and assistance from outside bodies such as the International Bank. The type and amount of assistance which Colonies are offered from the United Kingdom will naturally depend, in part, on the assistance which other outside sources are likely to provide. However, I must make it clear now that, while Her Majesty's Government will make every effort to help Colonial Governments in carrying forward essential development, I can give no promise that it will be possible to meet stated needs in full. In reaching a decision Her Majesty's Government will have to weigh claims from Colonial territories for further assistance from United Kingdom resources against competing claims, both internal and external, upon those resources. Moreover, because of the extremely heavy economic and financial burdens which the United Kingdom is now carrying and is likely to have to continue to carry in the new period, Her Majesty's Government will have to be satisfied, before deciding how much assistance the Colonies can be promised, that Colonial Governments are themselves making the maximum efforts to meet their needs from local resources, including the proceeds of local loans and the use of disposable balances held in London. I hope that the statements will show that this requirement is fully met.

6. I recognise that the preparation of the statements I want will throw a heavy administrative task on Colonial Governments and will take some time to complete, but I hope it will be possible for all Governments to send me their statements by the 1st March, 1954, at the latest. If Colonial Governments want help or further guidance they should let me know as soon as possible.

7. Finally, some needs, e.g. for communications, will have to be dealt with on a regional basis and I should be grateful if the Commissioner General, South-East Asia,

[3] See 411. By stressing the need for economic expansion ahead of social expenditure, circular despatch no 601 aroused considerable concern in the CO's social services departments which had not been consulted when the despatch was drafted. See 486, 487.

the Chairman, East Africa High Commission, and the Comptroller, Development and Welfare Organisation, West Indies, to whom this despatch is also being sent, would make arrangements, in consultation with the Governments concerned, to draw up statements of the financial assistance required in respect of the regional needs of their areas.

(To Northern Rhodesia and Nyasaland only)

8. As regards Central Africa, I should be grateful if the Northern Rhodesia and Nyasaland Governments would prepare, in consultation with such co-ordinating authority as may be set up in advance of Federation, a separate statement covering those development projects which are expected to fall on the federal side.

9. This circular has not been addressed to the governments of Bahamas and Bermuda. It has been sent to the Regional Organizations and to the High Commissioner, Federation of Malaya, under cover of a separate despatch.

414 CO 1025/19, no 45 14 Aug 1953

'IBRD: lending to the colonies': briefing paper BF(53)23 by the Treasury for the United Kingdom delegation to the 8th annual meeting of the IMF and IBRD

1. It is the policy of H.M. Government to encourage the Colonies to borrow from the I.B.R.D. Such borrowing relieves the burden on the London market of providing for the capital development of the Colonies and moreover the raising of dollar loans relieves the United Kingdom economy to that extent of the immediate problem of providing the necessary capital. It also provides—if the proceeds are spent or largely spent on capital equipment from the United Kingdom—an immediate accretion of dollars to the reserve.

Limitations on I.B.R.D. lending

2. Under its Articles of Agreement the I.B.R.D. can only lend either to or with the guarantee of a member Government. The Colonies are not members of the I.B.R.D. in their own right and therefore a guarantee by H.M. Government in the United Kingdom is necessary. Such guarantees require statutory authority which has been given by the Colonial Loans Act 1951 and 1952, under which the maximum amount that may be guaranteed is £100 million. Apart from this, the willingness of the I.B.R.D. to lend is determined by its views of the credit-worthiness of the Colonial territories—that is, their ability to service debt and in particular dollar debt. An informal indication has been given to us by the Bank staff that, on present thinking, the Bank would be able to lend in dollars up to $50 million in each of the next three years to the Colonies as a whole. This appears to be as much as the Colonies are likely to be able to absorb in any case. Finally, the rate at which loans are granted depends on the rate at which the Colonies can prepare and put forward schemes for borrowing which satisfy the Bank's high standards of technical economic soundness. It is this last factor, rather than the two general limitations referred to, which has hitherto provided the main restriction on the rate of I.B.R.D. lending to the

Colonies. Only two loans to the Colonies have so far been made—one of $28 million to Southern Rhodesia in 1952 and one of $14 million to Northern Rhodesia in 1953.

Problems for discussion

3. There are no specific issues which we wish Ministers to take up with the Bank during the Annual Meeting. Discussions will, however, be proceeding between the Delegation and the Bank and there are three matters which it is possible may be mentioned—one particular question and two general ones.

East African High Commission

4. The next loan which it is hoped to secure from the Bank is one to the East African High Commission for the railway and harbour development programme in East Africa. An International Bank Mission visited Africa to study this development programme in 1952 and the President of the International Bank has subsequently informed the High Commission that the programme is one towards the financing of which the International Bank would in principle be prepared to contribute. But at the same time they added that they could not take any further steps until the situation in Kenya[1] had cleared up. It has been pointed out to I.B.R.D. the troubles in a limited area of Kenya are not of great significance for the economic development of East Africa as a whole and the ability of East Africa to service loans contracted for such development. The development programme of the Commission makes it very desirable that finance from the Bank as well as from other sources should be available during 1954.

5. The question of the timing of a loan will be discussed with the Bank by the Delegation. Our objective is not to frighten I.B.R.D. off with untimely pressure, but to try to ensure that they agree to negotiations in time for the loan to be available for disbursement in 1954.

Access to the London market clause

6. As explained in paragraph 2, the United Kingdom is required to guarantee any loan made by the International Bank to a Colony. This involves concluding a "guarantee agreement" with the bank under which we accept various obligations going rather beyond the mere financial guaranteeing of the loan. One clause in particular has been a source of great difficulty in these negotiations. It provides that if the finance available from all sources for the project towards which the Bank loan is being made falls short of the total required, then the United Kingdom will allow the Colony to raise the balance in the financial markets of the United Kingdom. It is the universal practice of the Bank only to make loans towards projects for which substantial amounts of finance are being found from other sources as well; this is a sound principle which we endorse. Furthermore, it is reasonable that if the Bank is lending towards a project it should have satisfactory assurances that its money will not be wasted because some other contributor fails to play his part and the project is not completed and put into operation.

7. But we do object to the access to the London market clause in its present unqualified form because it may result in a cumulative commitment which might give rise to considerable difficulty if it had to be honoured, having regard to the

[1] ie, the Mau Mau emergency.

capacity of the London market at any given time and other claims on the market. We have, therefore, asked the International Bank to agree to include in future guarantee agreements a less narrow and specific provision—something to the effect that if the finance available for the project from all sources falls short of the amount required, then the Bank, the borrower, and H.M. Government will consult together in order to concert measures to ensure the satisfactory conclusion of the project. One obvious solution, for instance, might be to reduce the scope of the project to what can be completed and put into operation with the finance available; and there are various other possibilities which might be explored. So far no material progress has been made in discussions with the Bank Staff, but there is no occasion as yet for any Ministerial intervention.

Use of sterling for I.B.R.D. loans

8. We have agree [sic] in principle to make releases within a total limit of £60 million from the United Kingdom sterling subscription to the International Bank for purposes of Commonwealth development which satisfy certain criteria. So far as we are concerned there would be no objection to the employment of some of this sterling in I.B.R.D. loans to the Colonies—though, as is explained in paragraph 1 above, we also welcome dollar loans and should not wish sterling loans to be employed to reduce the amount of dollar loans. The Articles of the Bank provide, however, that the Bank should not lend "local currency" except in exceptional circumstances—i.e. its loans are normally made only to cover external costs of a given project. In the case of the Colonies the Bank's lawyers consider that sterling is the "local currency" of the Colonies. We have not sought to contest this as a legal judgment but we have urged the bank that if sterling is the local currency, then certainly the circumstances are exceptional and that the Bank ought to be prepared to lend sterling to the Colonies, in cases where we are prepared to release sterling under the £60 million schema for projects which satisfy the criteria of that scheme, and in which the Bank considers it unwise to increase the dollar debt charge of the territory in question.

9. The matter was first taken up seriously with the Bank in February, 1953, after the main outline of the £60 million scheme had been agreed with the Bank. Discussions are continuing but so far, however, no definite progress has been made.[2]

[2] E Melville, who attended the IMF-IBRD meeting, also had talks with a senior American foreign aid official. Melville reported that 'there was no illusion about the possibility of getting any substantial flow of assistance [from the US] for the Colonies, even if we decided as a matter of policy to go out for it in a big way. If this is a correct assessment—and my own experience in Washington, both during and after the war, leads me to believe that it is—then I think we shall be wasting our time if we engage on theoretical exercises here about whether or not American assistance is a good thing for the U.K./Colonies relations' (minute by Melville, CO 1025/19, 23 Sept 1953).

415 CO 1025/14, no 1 30 Sept 1953

[Colonial loans on the London market]: letter from Sir G Seel[1] to Sir T Lloyd

You may have noticed that contrary to expectation, the recent East Africa High

[1] Sir G Seel, senior crown agent for overseas governments and administrations, 1953–1959.

Commission loan, although issued on terms which at the time were regarded by the Press and others as favourable to investors, opened at a discount and remained at a discount until the recent alteration in the Bank rate brought about a general increase in values in the gilt edged market. Even then, the increase in price was less than that enjoyed by a comparable British Government stock. The margin between the prices of British Government and Colonial stocks has been gradually increasing particularly during the last year, and we found a week or so ago that the placing of £700,000 of Sierra Leone 3½% could be made only at £89½, whereas but for this relative deterioration of Colonial credit we could have expected to get between £92 and £93.

We find on enquiry that there is quite an amount of the Tanganyika 4½% and East Africa 4% remaining on offer in the market, as well as other Colonial stocks, and this is naturally having a depressing effect on Colonial loans generally and African loans in particular. Further enquiry reveals that this somewhat disquieting situation is due to the attitude of the larger institutional investors and of persons responsible for administering trust funds, who apparently consider that their portfolios now contain as large a proportion of Colonial stocks as can be justified in the light of current events. This, of course, is a situation which is liable to develop from time to time, and which has in fact arisen before, but which does not usually last long, since the continuing growth of funds available for investment allows normally for a corresponding increase in the portion available for new investment in Colonial stocks.

On this occasion it may be that the funds available for investment are not accumulating at the same rate, or that the bigger investors are holding back for reasons which do not concern Colonial stocks. Our brokers advise us, however, that there is one factor which in their view is having an increasingly adverse effect upon Colonial credit. This is the growing apprehension on the part of investors as to the effect which the grant of self-government to a Colonial territory will have upon the security of that Colony's loans. They foresee a situation in which the Secretary of State will no longer be able to issue instructions designed to preserve a sound and prudent financial policy in the territory, and they observe that the financial experience acquired by local Ministers in the Colonies has, so far at any rate, been gained during a period of unprecedented prosperity, when financial problems are not usually so acute as they are in times of depression. Investors have in the past contented themselves with the knowledge that the Secretary of State was responsible to Parliament for seeing that the financial affairs of the territories were properly conducted, and have noted that this duty has been so well discharged that so far no Colonial territory has defaulted in its obligations to overseas investors. They are, however, now beginning to wonder what guarantees there will be of continued good financial behaviour when the Secretary of State's control has ceased. It has been represented to us that an authoritative statement on this subject would reassure investors and thus do much to strengthen the market for Colonial securities.

We have given considerable thought to this question, and to the closely allied question of the machinery to be employed in arranging loan finance for territories after they have achieved political independence.

We assume that it is accepted that the retention of Colonial territories in the sterling area and in the Commonwealth economic system is vitally important, and it seems to us to follow that every effort should be made, amongst other things, to smooth the way for capital investment in those territories on the one hand, and on

the other to encourage them to continue to make use of British financial institutions and facilities. For this, mutual confidence is essential, and the necessity for giving some consideration to the views of the United Kingdom investor is underlined.

We have therefore endeavoured to find ways and means of reassuring the United Kingdom investor, and at the same time providing Colonial Governments with a formal procedure and organisation which they could continue to use even after the achievement of political independence.

This is far from easy, but we should like to put forward for consideration the suggestion that H.M. government in the United Kingdom and Colonial Governments should enter now into a formal agreement or convention, the essential conditions being:—

(a) Colonial Governments would undertake to fulfil the terms of issue of loans already raised in the United Kingdom under the Colonial Stock Acts and gazetted by H.M. Treasury as trustee securities, as well as of future loans so raised.
(b) Loans would be of United Kingdom sterling, and both the payment of interest and the repayment of capital would be made in United Kingdom sterling.
(c) Colonial Governments would agree that loans issued on such terms by Governments who are parties to the agreements would be acceptable as investments for Colonial funds.
(d) H.M. Government would as far as possible facilitate the approach by Colonial Governments to the London capital market in suitable cases and would agree that, subject to the approval of the Security of State on each occasion, the Crown Agents would issue and manage loans raised in the United Kingdom by Colonial Governments who were parties to the Convention.

While such a convention would of course do no more than confirm existing practice, the reason for a more formal undertaking *now* is that it might well be found of some advantage later on to have a formal agreement of this sort in existence, instead of attempting to negotiate one at a time when argument might be taking place over other more contentious points. A Colonial Government achieving independence would be invited to continue to participate.

Naturally, the details would have to be worked out carefully and discussed with Colonial Governments. In the meantime, in order to deal with the immediate situation, a suitable opportunity might be taken for a Ministerial statement to the effect that the need for capital investment in Colonial territories will be in no way diminished but if anything increased by political advancement; that the question of ensuring as far as possible continuity in the flow of capital for public investment in these territories is under active consideration, and that the interests of investors, upon whose co-operation the flow of capital ultimately depends, will not be overlooked. It might be added that in respect of loans issued on behalf of Colonial Governments by the Crown Agents with the approval of the Secretary of State, it will be the concern of H.M. Government in the United Kingdom to secure the provision of suitable guarantees for the fulfilment of the terms and conditions on which the loans have been raised, when any Colonial Government proceeds to a stage of political independence where the Secretary of State no longer exercises any measure of financial control. While investors would no doubt like H.M. Government to accept full responsibility, it would obviously be unwise to go any further than we have suggested and we hope that this would be sufficient to assure the investor that while

the responsibility remains with the Colonial Government, H.M. Government in the United Kingdom will take what steps it can to ensure fulfulment of obligations. The investor would no doubt continue to assume that in the last resort, H.M. Government in the United Kingdom would come to the rescue.

We have not endeavoured at this stage to do more than indicate the broad lines of the steps which we suggest should be taken to meet a tendency which, if allowed to continue unchecked, may well affect seriously the ability of Colonial Governments to raise money on the London market.

We imagine that the Secretary of State would view such a possibility with much concern, and we should be grateful for the opportunity, if possible, of taking part in any discussion of the subject with him.

416 CO 1025/14, no 9 11 Jan 1954

[Colonial loans on the London market]: letter (reply) from Sir T Lloyd to Sir G Seel

I am very sorry that we have not replied sooner to your letter of 30th September[1] last about the present difficulties in the way of floating Colonial loans on the London market. As I believe Bourdillon has explained both to Beresford-Stooke[2] and yourself, the delay has been caused by the fact that we were awaiting the Bank of England's comments and (latterly) by pressure of work in our Finance Department. We did not, as you know, remain idle as a result of your letter, and I have no doubt that Beresford-Stooke will have shown you his copy of the note of the meeting which he attended in Melville's room on October 9th.

2. The Treasury sent us the Bank of England comments towards the end of November, and the upshot of them was to confirm the conclusions which had been provisionally reached at the meeting in Melville's room, particularly as regards the suggestion that an early statement might be made with the object of reassuring investors. On this point the Bank were very emphatic. Whilst they agreed that market apprehensions about Colonial issues were real, they expressed themselves strongly of the opinion that any declaration by H.M.G. on the lines proposed would arouse the worst suspicions and would have the reverse effect from that intended. They went on to say that there is a strong body of market opinion, particularly among the professionals, which refuses to believe that Colonial issues would be allowed to go into default, and they felt that we must rely on this stabilising factor, helped by a reasonable breathing space, to restore the market.

3. In passing on these comments I would not like to give you the impression that we in the Colonial Office (or for that matter the Bank of England themselves) in any way underestimate the warning you have given us. We realise, on the contrary, that the market continues to be unreceptive, and we cannot regard the possible further prolongation of this state of affairs without a good deal of apprehension. Fortunately it proved possible, however, to get rid of the Kenya and Aden issues before the end of 1953, and this means that we can probably afford, if necessary, to go slow for a few months without getting the whole programme hopelessly into arrears: (incidentally,

[1] See 415.
[2] Sir G Beresford-Stooke, second crown agent for overseas governments and administrations, 1953–1955.

Bourdillon has just sent Hicks[3] particulars of the latest forecast of the 1954 programme). This reinforces the view expressed at Melville's meeting that there is no occasion to be rushed into a statement which might set the cat among the pigeons, and that we ought to watch our occasion very carefully before considering a statement in however general terms. For the time being it is our feeling that the idea of a statement ought to be left in abeyance; but the Colonial Office and the Crown Agents will of course be in constant touch about market developments, and we can always consider the suggestion again if there are signs that we are getting into a real jam.

4. As regards the longer term proposal that the U.K. Government and Colonial Governments should enter into a formal convention, the Bank of England again confirm the provisional conclusions which had already been reached, though I am bound to say that they are not very hopeful about the prospect of independent Governments continuing for long to use the services of the Crown Agents on the financial side. It may be helpful to you if I quote their remarks on this subject in full:—

> "The idea of keeping the Crown Agents in being for the benefit of newly independent Dominions may be tempting in some ways, and indeed may well be practicable in so far as they are a procurement agency in respect of commercial contracts. But it is difficult to visualise the use of such a central agency for borrowing and lending by a group of independent territories which would doubtless each legislate for its own central bank and be unwilling to see a third party managing its sterling funds and lending them at will to other Dominions and Colonies. New central banks would expect to have direct relationships with existing central banks who are their natural counterparts and contacts. We can quite see, of course, that new independent machinery may in each case take some time to get going and that in greater or lesser degree the Crown Agents would continue to perform their functions as a bridge between the old and new state of affairs. But eventually they must surely withdraw from the position as a financial agent to territories which have achieved full independence both in principle and practice."

In spite of this we would certainly not wish to deter you from further elaborating your proposal in the broader context described by Beresford-Stooke at the meeting on 9th October (see paragraphs 7 and 8 of the record). At the same I think it is only fair to warn you that the proposal seems to us to have certain inherent difficulties which it may not be easy to overcome. Perhaps I might amplify this point by commenting on Beresford-Stooke's letter to Melville of 21st October, which I expect you have also seen. We accept Beresford-Stooke's point that the record of the meeting went rather astray in speaking of governments "which could not be trusted to honour their commitments", but I do not think we have in fact misunderstood the true position as set out in his third and fourth paragraphs. We quite appreciate that the purpose of your proposal is to cater for newly-fledged independent Governments and that such Governments might, at the time when the proposed convention was entered into, be able to satisfy the United Kingdom completely about their capacity and goodwill. But I am afraid that this does not seem to us to remove the difficulty.

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[3] A H Hicks, secretary of the Crown Agents.

However well satisfied the United Kingdom Government may be it does not follow that investors will feel the same confidence. If I may rephrase the rhetorical question which was put in paragraph 9 of the record: if new Dominions were regarded by investors as likely to follow policies which would lead to non-fulfilment of their commitments, would they be regarded by the same investors as likely to fulfil commitments-to-fulfil-their commitments? In such a context does a convention give any additional safeguard? I understand you have evidence for believing that the terms of the proposed convention would in fact satisfy investors; but even if that is true, I fear it only means that the investing public (whose views about the credit-worthiness of the borrower would presumably remain unaltered) would regard the convention as a veiled guarantee by H.M.G. Surely this would place H.M.G. in a rather invidious position. The trouble about independent Governments is that although we may be quite satisfied about them at a given moment, their whole complexion may alter in the space of a few years. Are we not in fact suggesting that H.M.G. should virtually guarantee the performance of Governments over whose future activities they would have no control whatever? Even if we accept (as I think we all do) Beresford-Stooke's statement of the United Kingdom interest in the maintenance of trade with the new independent countries of the Commonwealth, I suspect that H.M.G. would think twice before entering into such an open-ended commitment.

5. I am sorry to have written at such length and in what I am afraid you will regard as a discouraging vein. We are, I assure you, most grateful both for your timely warning about the present situation and for the thought which you have given to the future. I have expatiated on the possible difficulties only because I think you would like to have these clearly before you in considering your proposals further.

417 CO 1025/70 12 Feb–6 Apr 1954

[Effectiveness of colonial development and welfare]: minutes by P Selwyn and E N Fitzgerald[1]

In addition to the studies mentioned by Mrs. Maccoll in her minute, I have also done one on Singapore, the conclusion of which is the C.D. & W. money has made little, if any, difference to the rate of development there.

On looking through the experience of R.O.'s in studying this subject, I am struck by the random nature of the schemes selected by Colonial Governments for this type of finance. The main conclusion seems to me to be that Governments, except in the smaller territories which depend primarily on C.D. & W. money for development finance, choose schemes for this type of finance largely on grounds of administrative convenience rather than on any particular principles. I also feel that it is unrealistic to attempt to assess the results of the injection of this money by looking at the schemes on which it has been spent. The real question we have to ask ourselves is, how much less development would have been undertaken if this money had not been available, and what extra development might therefore be attributable to C.D. & W. money. To do this, what is required is *not* an analysis of C.D. & W. schemes as such and their results, but is [sic] rather a picture of the *total* development effort of the

[1] Both principals in the Economic Dept, CO.

Colonies concerned, with the results achieved, followed by a statement that C.D. & W. money has paid for x% of this development.

Even this, of course, will not give us a complete answer to the question what have been the results of the spending of this money. Presumably if it had not been available, the Governments concerned would have spent their available funds on schemes having the highest priority. Of the schemes which have in fact been undertaken, it might therefore be reasonable to say that C.D. & W. money has been responsible for those schemes which have been carried out bearing the lowest priority. On the other hand, we have to consider the psychological effects of the C.D. & W. Act in making Colonial Governments "development minded", and its probable effect in encouraging them to undertake capital expenditure on any scale at all.

The general conclusion from these random thoughts is that the piecemeal examination of C.D. & W. schemes is a waste of time if we are trying to assess the effects of the 1945 Act. What is more important is an assessment of the progress of development schemes as a whole (an assessment which is extremely difficult to obtain in territories without periodical reports on development progress) and the part played by C.D. & W. funds *as a whole* in this progress, and secondly, an estimation of the psychological effects of the Act, and this can be obtained only by tapping the personal experience of Financial Secretaries, Development Secretaries, etc., who have had the personal responsibilities of trying to "develop" the Colonies.

P.S.
12.2.54

I have the following comments. We are just having a list of annual and total C.D. and W. issues copied. That shows that C.D. and W. expenditure jumped from £6.4 million in 1948/49 to £13 million in 1949/50 and since has run at £14 million p.a. The underspending has been fairly general. Some colonies' total expenditure fluctuates up and down each year, due to the way in which expenditure on individual schemes falls out. For example Tanganyika spend [sic] £1.26 million in 1950/51 but only £719,000 in 1951/52.

2. I agree with the general conclusion that except in the grant-aided and poor and small territories C.D. and W. aid has not been a significant element in development (except in the special field of Higher and Technical Education). Its main value has been the impetus it gave to development planning and execution from 1946 onwards. In the poor territories, however, it has played a large and on the whole I would say useful part. . . .

E.N.F.
6.4.54

418 CO 1025/75, no 7 — 7 May 1954

[Exchequer loans to colonies]: letter from A E Drake to E Melville

[In March 1954 the CO approached the Treasury with the argument that 'If therefore Colonial development is not to be held up for lack of finance, we must devise some new means whereby H.M.G. can supplement the London market as necessary. . . . The drill would be that when a Colonial Government wished to raise a loan, having obtained our approval, we should first see if the London market could accommodate it, and if not then we would make an Exchequer loan' (letter from Melville to Drake, CO 1025/75, no 6, 2 Mar 1954).]

I am now able to give you the results of preliminary Treasury consideration of the major proposal you put to me at (b) of your letter of the 2nd March about the future of Colonial Development and Welfare. In scope and character, the proposal you made is of course very much more radical than any other of the Colonial Office thoughts on the new C.D. & W. period and I am therefore replying on this question separately. I hope to follow with a letter touching on all the other policy points raised between us on this subject including some of our own.

I have divided up the consideration of the Exchequer loans plan into two obvious parts of need and method.

"Need" may be defined as the need to initiate a new and secure means of channelling U.K. resources to the Colonies because of the unreliability of the London market as a source of Colonial external finance. An assessment of the reliability of the London market is fundamental in assessing whether such a need has in fact arisen. Our considered view of this is that while the market for Colonial borrowing during the later part of 1953 gave grounds for concern, what seemed necessary as a first step was rather a breathing space for the market than a precipitate action which anticipated (and might well encourage) a permanent state of difficulty. So far as the signs go at the moment, it appears that the breathing space has proved beneficial. The East African Posts and Telegraphs issue is a case in point. We must not therefore plunge into gloom and the pursuit of remedies, too hastily.

It would of course be too much to hope that the disturbed political conditions in many of the major Colonies during the last few years should have left the London investor quite unmoved. It is likely that a process of readjustment, especially in regard to terms, is in progress and it may be that the Colonies will in future years have as a general rule to pay rather more for their London money than they have hitherto. But in our view we are by no means at the stage when anything radical is called for.

Since 1948, the Colonies have been not inconsiderable borrowers on London, but up till now (in spite of the high preliminary total annual estimates that have become a stock feature of forward Colonial loans programming) no Colony which needed London market money has had to forego it because of market conditions. You may quite reasonably say on the other side this may not last, but we think that much more convincing evidence based on events or an indisputable forecast of events would have to be available before H.M.G. would be justified in setting up special means to supplement the market.

I do not think that an apparently indigestible total of loan needs for 1955–60 arising from the Colonial Office Working Party's present exercise[1] would necessarily provide such proof. The progress of Colonial development finance 1946–56 has shown that the Colonies are always over optimistic about their absorptive power, even after their views have been processed by Whitehall. You may say that there have been special reasons for this in the past and that we should not glibly assume the same pattern for the future. My answer is that past experience should at least make us cautious, and that the time to consider special measures is when actual demands, not paper forecasts, are pressing against the ceiling. We are not talking about figures at this stage, but it is fair to say that the amount you mention[2] is only about £20 million short of the whole of the Colonies' borrowing in London in the last five years.

[1] See 419.

[2] A maximum of £100 million for 1955–1960.

Even on the worst assumptions of increased Colonial demand and increasing market difficulty, it is difficult to envisage the need for additional help on anything like that scale.

To turn to method, I am afraid we find fundamental difficulties in the plan you propose for direct loans from the Exchequer. I think it is true to say that in all the ordinary methods by which capital resources are used, some form of automatic or imposed discipline exists which tends to prevent their use in a way which is wasteful from the financial point of view. In the public sector, in the case of U.K. resources tapped through the London market, there is the "discipline of the market"—the corporate judgement of investors as to the credit of the borrower and the soundness of his plans. Where money is provided by H.M.G. on Votes, there is the control and criticism of Parliament. In the case of Exchequer funds provided from the Consolidated Fund and not subject to Parliamentary Vote, various forms of discipline have been imposed: the interpolation of a corporate body like the C.D.C. with the duty of making both ends meet, or the creation of a body like the Public Works Loans Board with the duty of exercising independent financial judgement.

In the system of Exchequer loans which you propose, this discipline would (as in no other case I can think of) be left to be exercised by the Executive, with no effective control either Parliamentary or independent. With the best will in the world, the Executive in its dealings with the Colonies must be subject to pressure on political and other non-financial grounds.

A similar point was I think in the minds of the Working Party which was considering in 1952 the means by which U.K. Government assistance could be channelled to Commonwealth borrowers. In the event it was decided that the U.K.'s addtional effort for Commonwealth development, admittedly primarily in the context of independent Commonwealth development, should be met by means of releases of the U.K.'s I.B.R.D. sterling contribution. It was felt that the experience of the Bank, and its relatively independent and aloof position would make it both administratively efficient and safe from political pressure.

Prima facie therefore we feel that there are very grave objections in principle to any system of direct Exchequer loans to the Colonies. Further, we feel that the need either for this or for any other form of artificial help by H.M.G. (excluding, of course, ordinary C.D. & W.) has not yet been proved. At the same time, I don't want to think that we do not recognise that things *may* in the future deteriorate; and if we did reach the position that a Colony whose people were behaving quite sensibly found itself unable to raise essential finance in the London market for essential development, we should have to decide what other measures might be necessary.

419 T 230/249 Aug 1954

'Colonial development finance exercise (1955–1960)': report (conclusions) of the Colonial Development and Welfare Working Party[1] [Extract]

. . .

V *Conclusions*

98. Our examination of the information provided by Colonial Governments and by Departments of the Colonial Office concerned with Central requirements shows that the amount of desirable development (i.e. development which is both useful in itself and bearable as regards the burden of residual recurrent expenditure) which could be undertaken in the period 1955/60, if the necessary finance were available, is of the order of £650 million.*

99. We believe that nearly half of this can be found from local resources including those which can be obtained from the drawing down of external balances. The remainder would require external loans and grants. We calculate that the maximum amount of loans which it would be safe for the Colonies to raise in the period and which they could expect to service from the results of the development initiated during the period, is of the order of £200 million. The remaining £150 million approximately would have to be in the form of direct external grants of which £115 million would be additional to what is already available from the carry-over from the existing Act.

100. We have concluded that a programme on this scale does not represent much expansion in the current rate of development. It will do little more than maintain the current momentum. If the sums actually provided are appreciably less than the amounts shown in our calculations, the consequence will therefore be that development will not merely not proceed as rapidly as is desirable but it may actually slacken.

101. An investment of £650 million over 5 years represents an average of £130 million per annum. The population of the Colonies is some sixty to seventy million; the investment therefore represents roughly £2 per head annually. The external grant aid required is some £30 million per annum which represents about 12/- per head of the population of the U.K. As a proportion of the U.K. national income (taken as some £14,000 million) it represents one-fifth of 1% or one half-penny of every pound.

102. We believe that development on the scale envisaged is fully practicable so long as all appropriate administrative measures are adopted to ensure access to adequate external loans and to ease the flow of grants so that they issue as nearly as possible *pari passu* with progress of general development.

103. Our conclusions imply that external aid will be more important in the next

* Excluding the programmes of the Gold Coast, Bahamas, Bermuda and the Central African Federal Government.

[1] This working party was set up under Emanuel's chairmanship to scrutinise the replies from colonial governments to Lyttelton's despatch of 1 July 1953 (see 413) and to make recommendations. A Treasury representative attended the working party's meetings as an observer.

five years than in the last. At present grants represent some 15% of total development expenditure and external loans some 20%. In our calculations the proportion will rise to about 25% and 30% respectively. This is not surprising. Prior to the Korean boom the cost of Colonial development was expected to be financed to the extent roughly of one third local resources, one third loan and one third grants. The favourable economic climate after Korea enabled local revenues to rise substantially and territories were able to finance a much higher proportion of development from their own resources while also setting aside surpluses for the future.

104. Generally the next five years are not expected to be boom years for primary producers. But the financial needs of the Colonial territories are tending to rise. The cost of ordinary services rises with the higher level attained and with higher standards. The scope for fruitful development grows with the results of past activities. Thus revenue surpluses are likely to be smaller and past savings are to be drawn upon. If development is to progress at a satisfactory rate the need for external aid is therefore bound to be higher in the near future than in the past. Only an unexpected change in the economic climate or a failure to maintain the current pace of development would falisfy [sic] this expectation.[2]

[2] At an internal CO meeting it was decided to press for the full figure of CD(&)W assistance proposed in the working party's report. Lloyd confirmed 'that we should recommend to the Secretary of State not to take anything less than our full figure except from the Cabinet itself.' Bourdillon wrote: 'I particularly hope that we shall not allow ourselves to be beaten down by counter-arguments from the Treasury about the size of the Colonial sterling balances' ('Future C.D. & W. arrangements (1955–1960)', note by Bourdillon, CO 859/627, no 4, 11 Sept 1954).

420 T 229/865, pp 102–114 [21 Aug 1954]

[Aid to promote colonial development]: note by L Bristow[1] on the report of the Colonial Development and Welfare Working Party[2] [Extract][3]

. . .

The case for U.K. aid to promote colonial development

7. There are a number of reasons both political and economic which might be held to justify the United Kingdom giving financial assistance to the Colonial territories both in the form of C.D.W. grants and London loans. These can be summarised as follows:—

(a) As long as the Colonial territories have not yet achieved full political independence the United Kingdom Government has a political and moral responsibility for promoting their development.

(b) In the absence of sound development which will bring with it an improvement in the standards of living, some Colonies will be subject to strong political pressure from local Communist parties. A rapid falling off in the current rate of investment might cause unemployment and should, if possible, be avoided.

[1] Miss L Bristow, principal, Treasury. [2] See 419.

[3] Paras 1–3, *Origin of report* and paras 4–6, *Summary of working party's recommendations*, omitted.

(c) The highly industrialised countries are subject to constant pressure in the United Nations to assist the under-developed countries e.g. the proposal to set up a Special Fund for the Economic Development of poorer countries. This applies with particular force to Colonial powers such as the United Kingdom.
(d) Development projects which increase the resources of the sterling area with a view to saving or earning dollars are of importance to the United Kingdom central gold and dollar reserves.
(e) Private investment is required to exploit Colonial resources and will not be attracted on an adequate scale until development on essential services in the public sector has taken place.
(f) U.K. residents have invested a considerable amount of capital in Colonial territories. An adequate rate of development helps to ensure the political stability and prosperity of the Colonies which will enable the Colonies to meet their liabilities to the U.K. arising out of past investment.
(g) The demand for capital goods for development projects and for general imports generated by expenditure on investment should maintain a demand for United Kingdom exports. In 1953 the Colonies obtained some 34% of their imports from the United Kingdom. Allowing for the fact that several of the more ambitious development schemes are likely to be carried out by United Kingdom contractors, we might reasonably assume that some 40% of the Colonial demand for imports generated by development programmes will benefit United Kingdom exporters.
(h) The Colonial Territories have only recently been in a position to carry out development projects on an adequate scale. The next five years are likely to be critical years for many Colonies. Some such as Nigeria and Cyprus are at a critical stage in their constitutional development. Others may have to make painful adjustments in their economies to face up to competition in a buyers' market. Much of the benefit of earlier investments and Colonial goodwill for the future will be lost if the grants for the U.K. are not sufficient to maintain a reasonable level of investment.
(i) C.D.W. grants can be used as an incentive to encourage territories to make the maximum effort from their own resources. To promote this objective some modifications of existing procedures for approving C.D.W. schemes may be necessary (see paragraph 82 of Working Party Report).

Limiting factors on the rate and scale of colonial development programmes

8. There are a number of factors which limit the rate and scale at which the Colonies can develop their resources. The most important considerations which have been borne in mind are:—

(i) The possibilities for worthwhile development on an economic basis vary widely from colony to colony. Some Colonies are relatively well off in economic resources which await development e.g. Nigeria, Uganda and Tanganyika. Other Colonies have very little which they can hope to develop e.g. the small grant aided Colonies such as St. Helena, British Somaliland and some of the West Indian Islands.
(ii) The prospects in the next four years for the main Colonial exports on which the level of internal revenues will in turn depend are in some cases very uncertain. Many Colonies enjoyed very favourable conditions in the years 1950 to 1952 but have since seen the prices of their main exports fall considerably. The colonies which are most vulnerable to a downward movement in export prices include:—

Colonies	*Exports*
Jamaica	Bananas and citrus fruit
Windward Islands	Bananas and citrus fruit
Northern and Eastern Regions of Nigeria	Groundnuts and palm oil
Western Pacific	Copra
Nigeria and Gold Coast	Timber
Barbados and Mauritius	Sugar
Tanganyika	Sisal

The Working Party has based its recommendations on the assumption that the prices of the main Colonial exports will not fall much below their present levels. If in fact the position should deteriorate the development programmes of certain colonies would have to be re-assessed. One of the factors which makes it more difficult than usual to forecast the trend of prices is that H.M. Government may decide to make sterling convertible. If and when this happens Colonial territories will have to face up to increased competition from non-sterling countries, in particular the United States, in some of the export fields which are of particular interest to Colonial Governments. Even apart from convertibility further progress in liberalisation of imports into the United Kingdom might create a serious threat to certain Colonial products such as bananas. Another Colonial Office Working Party is giving separate consideration to these problems.

(iii) The capacity of Colonies to carry increases in recurrent expenditure arising from development programmes after 1960 is limited. This is of particular importance in territories which in addition to development grants receive a grant in aid of administration. It is the aim of sound development to assist such territories to become self-supporting, not to increase their dependence on U.K. grants-in-aid. Some Colonies have considerable reserves and balances on which they can draw.

(iv) These have been accumulated during the period when there was a 'sellers' market for the main Colonial products. We want to see the Colonies draw on these balances before looking elsewhere for help, but we do not wish to see the Colonies embarking upon a development programme which implies a rate of expenditure far beyond that which they can hope to maintain after 1960. The balances can only be spent once and there is a danger that they may encourage too ambitious a programme with unfortunate social and political consequences later.

(v) The external aid which certain Colonies obtain may not be as much as they could usefully spend but they will have to cut or spread their programmes according to the help they can count upon receiving. Some aid may be obtained from the International Bank and the United States but most of the external aid will have to come from the United Kindom either in the form of grants or loans.

The factors which limit the U.K. capacity to give aid to the colonies

9. H.M. Government has to take into account the following factors when deciding how much external aid it will be possible to give the Colonies in the period 1955 to 1960.

(a) The general budget position in the U.K. Expenditure met from current revenues already takes over 30% of the United Kingdom's total resources. This is a

heavy burden. In 1954 the Government appointed a Committee of Ministers under the Chairmanship of Lord Swinton to recommend measures to reduce the burden of expenditure. The needs of the Colonies will have to be considered in the light of other claims on U.K. resources including the claim of the U.K. taxpayer to some measure of tax relief.

(b) There are a number of other calls on United Kingdom resources. Since the war expenditure in the United Kingdom on basic and social development such as roads, schools and hospitals has had to be postponed to make room for more important development schemes in the economic sector or to prevent the burden of taxation rising even higher than it has already done.

(c) H.M. Government has to meet other claims from the Colonies on its resources in addition to Colonial development and welfare grants. The Colonial Development Corporation draws about £6 million a year from the Exchequer from which it makes loans to promote enterprises engaged in Colonial development. Its aim is not to replace but to stimulate and supplement private investment. Malaya and Kenya are subject to political disturbance and have needed financial assistance towards the costs of the emergency. Colonies which are not self-supporting receive grants-in-aid of administration. The Colonial Office Vote showed estimated expenditure on Colonial Services in 1953/54 and 1954/55 of £24 and £39 million respectively made up as follows:—

	£'000	
	1953/54	*1954/55*
Grant-in-aid of Local Revenues		
(a) Grants	7,064	17,660
(b) Loans	578	2,749
(c) War Damage Compensation	10,000	10,000
Grants for Special Purposes	25	21
Contributions to Organisations	120	118
Internal Security Measures	3,759	3,780
Miscellaneous Services	2,636	4,991
Total	24,182	39,319

(d) H.M. Government will probably wish to participate in the Volta River scheme in the Gold Coast in order to have an assured supply of aluminium. The amount of the United Kingdom participation foreseen in the Volta River scheme as shown in a White Paper Command 8702 published at the end of 1952 was just under £50 million which would be required round about 1958 to 1960. A Preparatory Commission which has been studying the financial and economic implications of the Volta River scheme will be reporting to the United Kingdom and Gold Coast Governments at the end of 1955.

(e) Grant aid to the Colonies is a charge on the U.K. balance of payments and has to be met along with other overseas claims from the United Kingdom's current surplus on balance of payments or the gold reserves. (See paragraph 10 below.) The surplus for the period 1953/54 was about £300 million but the surplus forecast for the year 1954/55 is £140 million. it is impossible to forecast the current surplus which the United Kingdom can hope to achieve in subsequent years with any degree of assurance. Any move towards the greater liberalisation of

trade and convertibility of sterling might produce considerable and unpredictable results.

External claims on U.K. resources

10. Early in 1953 an attempt was made to assess the external claims upon U.K. resources which have to be made during the next few years. It was then estimated that these claims were likely to average £300 to £350 million a year over a period of years. This estimate was based on the following calculations:—

	£ million
(a) Non-sterling debt repayment and long term investment (net)	50
(b) Repayment of debt to E.P.U.	50
(c) Fall in non-sterling area sterling balances (net)	50
(d) Investment in the Rest of the Sterling Area (i.e. R.S.A. overall current deficit after allowing for sales of new gold, dollar aid and non-sterling investment in the R.S.A.)	150–200
	300–350

The items in the calculation above should be treated as orders of magnitude showing what might be the average claims on U.K. resources over a period of years. The average figures may mask a very considerable range above and below from one year to another and the average itself will tend, other things being equal, to be reduced as sterling balances and our E.P.U. debts are worked off. They do not require substantial amendment to bring them up-to-date with the exception of:—

(i) Repayments to E.P.U. since the recent consolidation of U.K. debts will probably work out at not more than £25 million a year.

(ii) The R.S.A. overall current deficit may be somewhat higher in the period 1955–60 if the Colonies draw heavily on their sterling balances.

Some of our commitments for which we must make allowances are contractual e.g. the repayment of dollar aid and agreed releases of sterling balances mainly to India, Ceylon and Egypt. (Releases to the R.S.A. countries are included under (d) above). Other commitments while contingent are not inevitable. R.S.A. deficit of the order of £150–£200 million (1953–4 it was about £237 million and the forecast for 1954/5 is £220 million) does not mean that R.S.A. sterling balances would necessarily fall to any considerable extent for the deficit would be covered by U.K. long-term investment under present policy.* It will be seen from the size of the surplus on

* The main items which go on to make this figure of £150–200 million include:—

	£ million	
(i) Investment by U.K. oil companies	60	
(ii) Investment in South African Gold Mines	30	
(iii) U.K. gilt edge loans to R.S.A. countries	60	
(iv) Immigrants capital	20	
(v) I.B.R.D. sterling loans	10	
(vi) Other U.K. investment	?	(probably at least £50 million)

current balance of payments forecasts for 1954/5 as compared with the desirable surplus of £300 to £350 million, that there is no room to accommodate any big increase in U.K. commitments to the Colonies except in so far as such commitments might themselves generate a demand for U.K. exports which would in turn increase the current surplus. Even if C.D.W. grants, London market and C.D.C. loans to Colonial territories in the period 1955–60 are kept at roughly their 1953 level of £4 million (£15 million for grants £23 million for London market loans and £6 million for loans through the Colonial Development Corporation) there will be an increase in the demand on U.K. resources if and when the Colonies draw on their reserves to the extent of the £120 million forecast by the Working Party. We must reckon with the fact that the Colonies may spend at least 50% of the balances they draw down on imports from outside the U.K. and perhaps as much as 30% from outside the sterling area. In so far as the wealthier Colonies are still able to go on building up balances as a result of surpluses earned with countries other than the U.K. additional claims on U.K. resources will to that extent be offset, but the prospects of this happening after 1955 are not so good as in the past. If we look simply at the Colonial claims which might be made on H.M. Government in the period 1955–60 we find the picture looks as if it may be as follows:—

	£ million	
	Total 1955/60	*Annual Average 1955/60*
(i) Grants in aid of administration and defence	125	25
(ii) C.D.W. grants	100	20
(iii) Colonial Development Corporation	30	6
(iv) London Market Loans	125	25
(v) Drawings from sterling balances		
(a) Reinvestment of currency funds	30	6
(b) Disposal of surpluses and balances	120	24
	530	106

Assessment of colony's capacity to carry out programmes by March 1960

11. Treasury representatives have been present in an informal capacity at most of the meetings of the Colonial Office Working Party. They have formed the view that the Working Party has done a good job of work in reducing the Colonial programmes from a total figure of just under £700 million to £630 million. The quality of the material submitted by the Colonies has however, been uneven and has not permitted the Working Party to make more than a rough and ready assessment of capacity. In some cases the Working Party's recommendations are somewhat in excess of those which the Treasury would have considered reasonable or the conclusions reached in more detailed examination of the Development programmes such as those submitted by the Central African Federation in 1953. The difference between the proposals which the Working Party has made and those which the Treasury would support are of the order of £24 million for C.D.W. grants and £42 million for external loans. The largest cuts £10 million for grants and £29 million for loans relate to Nigeria where

the programme for various reasons was particularly difficult to assess. A list showing where the Treasury proposals differ from those of the Working Party's is at Appendix A.[4]

Acceleration in rate of development

12. The Working Party's recommendations would increase the current rate of expenditure on development from £111 million in 1953 to an average annual rate of £126 million in the five year period 1955/60. The increase is more startling, if the annual average expenditure of £126 million for the period 1955/60 is compared with an annual average expenditure of £60 million during the period 1946/56. It has to be admitted that until about 1950 many Colonies had not yet the experience, the staff or the materials to carry out development schemes on any considerable scale and that it was only after 1950 that they have been able to get into their stride and carry out development on anything like a satisfactory level. Moreover the fall in the value of money since 1946 must be taken into account when making such comparisons. On the other hand it can be argued that the years since 1950, in particular the year 1953, which is taken as the basis of the current assessment, are by no means normal years. 1953 was a year when development expenditure was exceptionally high both because schemes which might have been carried out earlier had been deferred and because funds which had been accumulated in the prosperous years following the Korean boom were available. The Treasury could therefore argue that it is wrong to take 1953 as a yardstick for measuring the annual rate of development in subsequent years and that Colonies must expect to cut their programmes more in accordance with their normal financial resources over a period of time. A point of importance to the Treasury is that although under the Working Party's recommendations the Colonies will contribute about 50% of the total cost of the programmes from their own resources a large part of this will be met from reserves and balances (£120 million) and for the remaining 50% the Colonies are looking for external aid from the United Kingdom. If the Working Party's recommendations are accepted the annual charge falling on the U.K. will be about £30 million a year for grants and about £40 million for loans, i.e. roughly twice as much as the United Kingdom provided in 1953. The financial implications for the United Kingdom are best shown by setting out the figures as follows:—

	Programmes 1946/56		*Programmes 1955/60*	
	£m.	%	*£m.*	%
United Kingdom grants	140	23⅓	152	23
United Kingdom loans	200	33⅓	195	29
Local Resources	260	43⅓	320	48
	600	100	667	100

13. There are seven Colonies where the Working Party's proposals would increase the annual average rate of expenditure in the period 1955-60 to double that in 1953/54. These are Nigeria, Cyprus, Fiji, British Guiana, Barbados and Aden Colony

[4] Appendices not printed.

and Aden Protectorate. There are adequate reasons to explain the very large increase in the case of Barbados and Aden Colony but not in the case of the other five which are included in the list of Colonies where the Treasury disagrees with the working Party's findings (see Appendix A).

C.D.W. grant aid—territorial allocations

14. The working Party in making recommendations for territorial allocations amounting to £115 million has grouped the Colonies in geographical areas. From the Treasury's point of view it may be more useful to consider the Colonies in the following groups:—

(a) The Treasury controlled Colonies in receipt of grant aid. The Working Party has recommended grants of nearly £7 million for Colonies in this group. The list of Colonies showing the grant in aid of administration and the C.D.W. allocation for 1946/56 together with the Working Party's recommendations for 1955/60 is set out at Appendix B. Other Colonies which are in danger of coming under Treasury control are St. Kitts-Neots [sic: Nevis], Grenada, Gambia and the Gilbert [and] Ellice Islands. The Working Party's proposals include £1.4 million for these four Colonies which are only just able to dispense with grant-in-aid and might therefore be treated in the same group. It would not be possible to make any large economies by recommending cuts in the allocations proposed for these Colonies. It is probable that even if there were no C.D.W. legislation the Treasury would be obliged to increase the grant in aid of administration by some amount near to the C.D.W. grant proposed in order (a) to retain a tolerable standard of social services and (b) to assist the Colony to become self-supporting in the hope of reducing the grant in aid. The Working Party has paid special attention to the fact that any increase in recurrent expenditure after 1960 not offset by increases in current revenues would increase the claim for a grant in aid. There is little hope of reducing the allocation of £8 million to this group without giving rise to more expenditure in other forms.

(b) Colonies requiring development grants largely owing to special political factors e.g. Kenya (£10 million), Malaya (£10 million) and British Guiana (£4 million). H.M. Government is committed by statements made in Parliament not to let development suffer because of the expenditure on emergency measures. In 1946/57 the Colonial C.D.W. allocations to these three Colonies were Kenya £4.6 million, Malaya £2.8 million and British Guiana £4.3 million. Had it not been for the emergency it is probable that these three Colonies would have been able to dispense with all but small C.D.W. grants. The C.D.W. grants for the period 1955/60 can therefore be regarded as a new commitment when comparing future annual rates of expenditure with past expenditure rates. It seems most unlikely that we shall be able to make any cuts in the provisional allocations recommended by the Working Party. If we do the same financial assistance will probably have to be given under another name.

(c) Colonies which are sufficiently wealthy to dispense with C.D.W. grants. These include:

Hong Kong	Aden Colony
Singapore*	Uganda
Gibraltar	Northern Rhodesia
Zanzibar*	Gold Coast*

* These colonies are also able to dispense with external loans.

The amount of £5.6 million (including £3 million for higher education) included in the Working Party's recommendations for grants to these Colonies are included for political and not for economic reasons. It will not be possible to make any economies in this group unless the Treasury decides to press the Colonial Office to exclude grants made on political grounds.

(d) The fourth group includes all the remaining Colonies and accounts for £55 million of the grants recommended by the Working Party. It will be seen from the following list that apart from Nigeria and Tanganyika, which account for more than half the total, the amounts involved are relatively small.

	£ million
Nigeria	25.28
Tanganyika	7.25
Sierra Leone	2.25
Nyasaland	1.5
North Borneo	2.8
Sarawak	3.2
Cyprus	1.10
Malta	1
Barbados	1
Jamaica	6.3
Trinidad	.5
Fiji	1.1
Aden Protectorate	.85
Mauritius	1
Seychelles Islands	.17
	55.30

If we cannot hope to make economies in the allocations recommended for groups (a) to (c), any cuts imposed by the Treasury would fall almost entirely on the Colonies in group (d). The Treasury's proposals for reducing the Working Party's recommendations include a cut of £10 million in the allocation to Nigeria and a number of minor cuts in the allocations to the smaller Colonies (see Appendix A). Apart from these suggestions which would not save more than £24 million at the most, it is hard to see where any further cuts could be made without falling with undue severity on the small Colonies. This leads to the conclusion that if U.K. budget and balance of payments considerations permit, the new legislation should give authority for the amount recommended by the Working Party, £115 million less, say, £15–25 million to meet Treasury criticism of the Working Party's findings.

C.D.W. grant aid—central schemes

15. The Working Party has recommended a total allocation of £34 million for central and research schemes. Of this total amount £5 million will be found by

reducing the territorial allocations and £11 million will be carried forward from the period 1946–56. The proposals of the various departments and advisory bodies concerned with the central schemes were accepted by the Working Party without any reductions. As these schemes are under fairly tight central control this is acceptable, provided that the recommendations of the working Party for territorial allocations can be met more or less in full. If, however, the territorial allocations have to be reduced to bring them into line with the amount of money which the U.K. can afford to provide, then some reduction should fall on the central and research schemes as well as on the territorial allocations. A £5 million cut in the new C.D.W. requirement is the maximum economy we could hope to achieve here.

Loans programme

16. The Working Party has recommended that external aid in the form of loans amounting to £195 million will be required by the Colonies in the five year period 1955/60. The amount of Colonial loans raised in 1953 was only about £23 million and the programme for 1954 amounts to £27 million. This is much less than the annual rate of the Working Party's proposals for 1955/60 which works out at £38 million a year. There are, however, certain factors which should reduce the total amount of loans required to round about £125 million i.e. rate of £25 million, more or less the same as the current rate. These are:—

(a) The Colonies have been informed that there would be no objection to them investing 20 per cent of the "hard core" of their currency funds in local loans. At present the currency funds are invested either in sterling assets or in other Colonial loans. It is not yet possible to say how much might be made available for local loans from this source, but we might safely count on something in the region of £20–30 million.

(b) External aid in the form of loans may be obtained from the International Bank. The International Bank has already carried out surveys in Jamaica, British Guiana, Nigeria and Malaya. Malaya expects to obtain nearly £3 million for an electricity scheme from the International Bank and Colonies with suitable schemes should be encouraged to look to the International Bank for loans to relieve the pressure on the London market. This applies in particular to Colonies such as Nigeria which have a very large loan programme. We might assume that I.B.R.D. would provide some £50 million during the period if Colonies put up good schemes.

(c) More American aid may become available for certain Colonies such as Malaya following discussions on a Security Pact for S.E. Asia. It is too early yet to guess how much the Americans might be prepared to spend on Development and Defence.

(d) Loans from U.S. controlled sterling funds obtained from the sale of surplus agricultural commodities under the provisions of the Agricultural Trade Development Act. (Law 480).

(e) Cuts in the loan programmes proposed by the Treasury.

17. The total programme includes £14.5 million for Northern Rhodesia and £5 million for Nyasaland to meet the territorial requirements of these Colonies which now form part of the Central African Federation. Under the provisions of the Federal constitution, the Federal Government is responsible for raising externals loans and the Federal Government has already been informed that about £10 million a year is

likely to be the maximum which the Federation can count on raising in any one year in London. Although Northern Rhodesia and Nyasaland are still treated as Colonial territories for C.D.W. purposes it would be advisable to exclude their requirements from the loan programme and to make allowance for them in U.K. loans to the independent members of the sterling area.

18. The Colonial Office consider that it is desirable to provide a safeguard against the possibility that the London market will not be able to meet the demand for all Colonial loans and have suggested that the new C.D.W. legislation should include a provision authorising H.M. Government to make loans to the Colonies direct from the Exchequer. The Treasury has hitherto taken the view that a case for special assistance of this kind has not been made out and that there are objections on principle to such a provision in C.D.W. legislation. The Treasury should maintain this line on the ground that the loan requirements for the period 1955/1960 after allowing for cuts in the loan programme, other external aid and the reinvestment of some of the currency reserves should not be beyond the capacity of the London Market.

19. The Nigerian request for £41 million takes up to a large slice of the loan requirement. This request could be reduced to a more modest figure of say, £13 million if the new Federal Government in Nigeria is prepared to set up a Loan Council with powers to raise money in the western region and to make loans to the northern and eastern regions. The centralisation of all funds held by Federal and Regional Governments and the public corporations would also enable more of Nigeria's requirements to be met from its own resources. We cannot press these points about the larger contributions from Nigeria's internal resources until we have more information about how the Nigerian constitution is working out in practice, but the position should be much clearer by about 1958, long before the Federal Government wishes to raise £40 million on the London Market.

20. The Loan Programme, while important as a factor in determining the scale of the programme on which Colonies will be able to embark in 1955, involves less of a commitment for H.M. Government than the figure for C.D.W. which is written into the new C.D.W. legislation. The Colonies know that their ability to raise loans on the London Market must depend upon creditworthiness and the nature of the public works which they wish to finance. H.M. Government's policy has always been to make it clear to Colonial territories that it cannot give any firm undertaking that Colonies will be able to raise a specific amount in the London market and this will hold good for the period 1955–60. The Loan Programme is useful, however, in enabling H.M. Government to assess the demand for Colonial loans which may be expected during the period. Allowing for other forms of external aid, re-investment of currency reserves and the probable delays in putting some of the Colonial schemes into effect, it looks as if we can reckon with a demand for Colonial loans not exceeding an average of £25 million a year.

Carry over problems

21. Although the Colonies were asked to draw up programmes on the basis of the expenditure which they expect to incur between the 1st April, 1955 and 31st March, 1960, experience in 1946/56 suggests that in 1959 they will find that they have entered into commitments which will not result in expenditure until after that date. Working on past experience the amount committed but not spent may be as much as

£20 million. C.D.W. legislation in its present form sets a limit to the time within which expenditure on C.D.W. schemes may be incurred, except in the case of research schemes. A case could be made out for removing the time limit on all C.D.W. expenditure and asking Parliament for authority to commit money not exceeding a certain sum within a given period without imposing a time limit on expenditure. If we don't do this we shall certainly be faced with the need to introduce further legislation, probably in 1958, in order to authorise expenditure for which commitments have been incurred under approved C.D.W. schemes but which will not fall due until after March 1960. Authority to commit rather than to spend would be more in accordance with the nature of development plans involving investment projects extending over a period of years. A limit on expenditure incurred in any one year should be sufficient to safeguard the United Kingdom's budget position.

Proposals for future legislation

22. Assuming that there will be liabilities of some £20 million on C.D.W. schemes outstanding at 31st March, 1960, and that there are no insuperable objections on principle to seeking authority to "commit" rather than to "spend" money within a given period, then we could recommend that the new legislation should contain authority to "commit" up to £100 million new C.D.W. money and at the same time safeguard the U.K. budget position by imposing a limit on C.D.W. expenditure of £25 million in any one financial year. Authority to spend £125 million over the five years would be sufficient to meet the £37 million relating to earlier C.D.W. allocations and £88 million relating to new C.D.W. allocations falling due before 31st March, 1960. If we can adopt such a policy it would allow us to agree to new C.D.W. allocations in line with the Working Party's subject to a reduction of £15 million to meet Treasury criticism of specific programmes. The difficulty of making more drastic cuts in C.D.W. allocations and the harm they might do to certain Colonies has been explained in paragraph 14 above. An increase of some £7 million above the current rate of C.D.W. expenditure (£18 million in 1953/54) could be justified on the grounds that grants totalling £24 million to Kenya, Malaya and British Guiana are a new commitment in that little, if any, C.D.W. grant would have been necessary had it not been for political disturbances. If it is desirable to maintain the proposed rate of development in these Colonies it should not result in a drastic cut to other Colonies which have not run into the same difficulties (see paragraph 14). If the proposal to legislate on a "commitment" basis is not acceptable, we should then have to make a cut of at least £30 million in the new C.D.W. request thereby reducing the Working Party figure from £115 million to £85 million. If in addition no special allowance is made to cover grants to Colonies in the 'political emergency' category then the Treasury cut in the new C.D.W. request would have to be as severe as £65 million so reducing the new allocation to £50 million.

Conclusions

23. Assuming that the U.K. will continue its present policy of permitting Colonial development within the limits prescribed by U.K. budget and balance of payments considerations, it would be reasonable for us to recommend:—

(a) That new legislation should authorise H.M. Government to commit C.D.W.

grants in the period 1st April, 1955 to 31st March, 1960 up to a limit not exceeding £100 million, with an annual limit of £25 million on expenditure in any one year.
(b) That Colonial Office pressure to make provision in the new C.D.W. legislation for loans to Colonial Governments direct from the Exchequer should be resisted.
(c) That we welcome the Colonial Office's proposal setting aside some 25 per cent of the new C.D.W. grants as a reserve in order to enable H.M. Government to re-assess C.D.W. allocations at a later stage in the period.

421 T 229/865, pp 12–14 30 Sept 1954

[Colonial development and welfare financial requirements]: letter from Mr Lennox-Boyd to Mr Butler

My dear Rab,
As you know, the Colonial Development and Welfare Acts expire in 1956. We have pledged ourselves publicly and in Parliament to continue assistance thereafter and have agreed to introduce legislation this session to make financial provision for the five years ending in March, 1960, (thus overlapping the current Acts by one year). What we must now decide is how much money we should ask Parliament to vote.

I am not going to argue at length the justification for further assistance to the Colonies. I know that you accept that; and that you have always shown a ready appreciation of the necessity for the United Kingdom doing whatever it can, within the limits of the resources available, to promote Colonial development. We have inescapable, direct and special responsibilities in those territories which no Government would refuse to face up to. So I shall come quickly to the figures.

Over the past few months my officials have been engaged in a close and careful review of the probable future trend of Colonial development. They have examined detailed statements in which Colonial Governments and other authorities have estimated their needs over the next five years and the local resources available to meet them. In that examination they have pruned any overstating of needs and discounted any under-estimating of local resources. I have studied their work and consider that it gives us a solid basis for decisions about the amount of help we should offer. Your officials are familiar with the details and I shall confine myself to summing up the main conclusions, which I endorse.

(1) The development programmes of the Colonies over the five-year period will require expenditure of the order of £675m. (excluding the main needs of the Gold Coast—which, save for the Volta River Scheme, will be met from local resources—and possible requirements of the Central African Federal Government).
(2) After making full allowance for the sums that the Colonies should be able to provide from their own resources (in the form of contributions from revenue and reserves) there will remain to be found from external sources a total of £350m. by loans and grants.
(3) The maximum amount of loans that it would be safe for the Colonies to raise in the period is £200m., so that the remaining £150m. will have to be met by direct external grants. However, there is available under the existing Acts a

"carry-over" of some £35m. for schemes already planned but not yet completed, so that the new money required under the new Act is £115m.

A sum of £150m. in grant assistance over five years may seem out of line with the total of £140m. provided under the existing Acts, which cover ten years. It might be argued that this means a very sudden and rapid acceleration in the rate of development which it will be beyond the Colonies' capacity to carry out. There is a simple answer to this. The Colonies have already made considerable progress as a result of past efforts and they will start from a higher level than in 1945. Their own revenues are also not likely to benefit, as they did after the Korean boom, from exceptionally high prices for their exports. Moreover, there is some evidence that desirable development has been held back by our not having set out our sights high enough in 1945 and, more recently, by our inability to make further grants under the present Acts. When allowance is made for these factors and for the decline in the value of money and the growth of Colonial populations, the programmes to which the grant figure of £150m. is related do not in fact represent much expansion in the current rate of development. Indeed, they will do little more than maintain the current momentum. Anything appreciably less would involve a slowing down of development. This is something which we must not risk. It could do much harm in the Colonies themselves to the Imperial connection; in these days it would expose us to international criticism; and it would undoubtedly provoke a reaction at home, not only amonst the supporters of forward policy of Colonial development (and you will have seen from the Opposition's recent statement on Colonial policy that one plank in their platform is to press for greatly increased Colonial Development and Welfare assistance) but also from the firms and industries with commercial connections in the Colonies which may fear a fall in their exports, particularly of capital goods.

From all these quarters—and in the House of Commons debate—I can see the matter being put in this sort of perspective. An investment of the order of £675m. over five years represents an average expenditure of £155m. a year. The population of the Colonies is some 60m. to 70m.; consequently the investment represents no more than about £2 per head annually. A grant of £150m. averages some £30m. a year. This represents about 12/- per head of the population of the United Kingdom annually and, expressed as a proportion of the United Kingdom national income, comes to about ½d. of every £.

I do not want to pursue that argument too far. I know that it is being used to support demands on the budget which, in the present financial stringency, you are compelled to refuse. In the last resort, having looked at your total burden of inescapable expenditure, you must propose a figure that you consider we can afford. I know that £150m. is more than you expect to have to provide for this purpose. Nevertheless, I hope that you can support me in going to the Cabinet on that basis. I would not ask you to agree unless I were convinced that the money is really needed and can be used to good purpose. It is, in my view, the minimum necessary if we are to make our rightful contribution to Colonial development over these years.

But that is not all. We are left with a need for external loans of up to £200m. I believe that the Colonies can themselves help in the following ways. Colonial Goverments have the power to invest a portion of their Savings Banks' reserves in their own securities. Not all Governments have made full use of this power but I intend to urge them to do so. I have also told Colonial Governments that I am ready

to agree to the use of a certain portion of their currency reserves for investment in locally issued securities.[1] We might get a maximum of £50m. from these two sources (£15m. from Savings Banks' reserves, and £35m. from currency reserves) which would reduce the need for external loans to about £150m. But will the Colonies in fact be able to raise as much as £150m. in loans on the London market or from other recognised sources such as the International Bank? This is one of my greatest worries in all this. To achieve £150m. we would have to raise the average from something in the neighbourhood of £20m. a year at present to £30m. a year. Experience over the past few years gives me serious reason to doubt whether this is possible.

First, the capacity of the London money market, at least for Colonial loans, is extremely difficult to estimate and the market cannot always be relied upon to absorb a loan when it is needed. The difficulty will be increased by the running down of Colonial sterling assets, which will mean that the Crown Agents may not be able to take up as much in new Colonial issues as they have done in the past.

Secondly, there are some Colonies (at present e.g. Cyprus, British Guiana and Kenya) which, because of their political stituation, might not be attractive clients to the London market, even though they could afford to borrow there.

Thirdly, while we shall make every effort to utilise such sources as the International Bank, we cannot rely on getting much outside the United Kingdom.

In consequence, if we are to invite the Colonies to plan on a basis which will keep up the gathering momentum of development, we must do something to ensure that they will be able to find the necessary loan funds. I believe that this means that the Exchequer must be prepared to take special measures. I know there are objections to Exchequer loans, the main one being that the Colonies concerned would so to speak be withdrawn from the discipine of the market. But I do not believe that this is an insuperable obstacle or that it would be beyond our power to devise an acceptable scheme for Exchequer loans on the clear understanding, of course, that recourse would be had to them only to meet legitimate and proven needs which could not be met by the market. I certainly hope that you will be able to accept this idea in principle: otherwise we cannot ask the Colonies to plan up to the total level of expenditure I have suggested and our main purpose of maintaining a steady increase in development would again be frustrated. I do not know whether legislation would be needed to enable Exchequer loans to be made. If so, we might consider whether the necessary provisions could conveniently be included in the new Colonial Development and Welfare Bill which we already have Cabinet authority to introduce early in the forthcoming Session.

To sum up. I want you to agree to make provision in the new Colonial Development and Welfare legislation for assistance up to a maximum of £150m. for the five years beginning in April, 1955. I also want an assurance that if during the same period the Colonies cannot raise in public loans from the London market and elsewhere the sum of £150m., the Excheqer will find means of helping out in cases of proven need. Given these two props from United Kingdom resources, the Colonies should be able to devote substantially greater sums from their reserves and future revenues to expanding programmes of development, thus enlarging their own

[1] 'Investment of currency funds in local securities', circular despatch no 859/54 from Lennox-Boyd to governors (CO 1025/97, no 24, 10 Sept 1954); see 379, note 8.

economies and bringing new strength to the sterling area, while at the same time proving to Colonial peoples and to the world at large that the United Kingdom is not falling down on its responsibilities towards the dependent territories.

As I am leaving for East Africa on the 1st of October, I am sending this letter to await your return in the hope that you will be able to reflect upon it while I am away. If, as I greatly hope, you are able to accept my propositions, I shall be delighted to have word of that as soon as possible after I get back about the 18th of October. But, if you feel unable to accept, I should like to have the opportunity of a talk with you before you commit yourself finally to rejecting any part of my proposals, and I hope that, in that event, you will be able to give me a time soon after my return.

I am sending a copy of this letter to Philip Swinton.

I have followed with the greatest of admiration your American odyssey.[2]

Yours ever,
Alan

[2]A reference to Butler's visit to Washington in Sept 1954 for the annual meeting of the World Bank and the IMF, the first such international gathering he had attended in his three years as chancellor.

422 T 230/249 6 Nov 1954

[Colonial development and welfare financial requirements]: brief by A E Drake for Sir A Johnston[1] on Mr Lennox-Boyd's letter of 30 Sept[2]

In 1946, the amount of Colonial Development and Welfare money to be available to the Colonies for ten years was fixed (at £120m., later raised to £140m.) by a general look at Colonial possibilities; the bulk of the amount was then allocated between different Colonies, and they were told to prepare development plans taking these allocations into account. This has not proved very satisfactory in several ways: it has turned out that some Colonies get more than they really needed, others less; major readjustments have not been possible since not much of the total was kept in reserve; the ten years has proved much too long as conditions have changed so enormously.

2. It was therefore decided in June 1953 to proceed for the new period on a different basis. Colonies were asked what finance they would expect to want for development, and how they would expect to find it—i.e. local resources, external loans, or H.M.G. grants. These "financial forecasts"—they were specifically not called development plans—were examined by a Colonial Office Working Party, on which the Treasury had an observer (who managed to do a certain amount in stiffening the Working Party's attitude). The Working Party scaled down the Colonies' requests a good deal, and on the basis of their results the Colonial Secretary has made two propositions:—

(a) That a further sum of £115m. should be made available for Colonial Development and Welfare for the period 1955–60. Since at the beginning of this period the Colonies will still have at least £35m. unspent from the £140m. already provided under the Acts, this would mean a total of £150m. available for spending by the Colonies in the new period.

(b) That the Chancellor should give an assurance that if during the same period

[1] Sir A Johnston, 3rd secretary, Treasury, 1951–1958. [2] See 421.

Colonies cannot raise what they need in loans from the London market and elsewhere, the Exchequer will find means of helping out in cases of proven need. The suggestion here is that there should be legislation to provide for a system of direct loans from the Exchequer to the Colonies.

3. Attached is a Memorandum prepared by the Treasury examining the Colonial Secretary's case.[3] This examination has been conducted from two points of view; what the Colonies are really likely to need, and what the U.K. can afford to give them. It was realised from the first, and has continually been emphasised by the Treasury, that the new method of approach, although providing a more reasonable basis for determining the level of our help to the Colonies in the next five years, would not in itself provide the final answer, which must be determined by what the U.K. can afford. It was also realised that the Colonies would be bound to bid high, and that the Colonial Office, with the best will in the world, would not find it easy to cut down as much as the Treasury would think necessary. This has in fact happened. Our view of the whole matter is therefore first that there is a limit to what H.M.G. can afford both from the budgetary and from the balance of payments point of view; and secondly, that the Colonial Office figures are unreliable and greatly exaggerated. The Memorandum lists the arguments on these points.

4. There is of course a wealth of detailed argumentation which could be used: the main complication is that no two Colonies are the same, or have the same circumstances, needs and resources. We think it would be unwise for us to get involved in arguments with the Colonial Office on detailed points and that it is better to take their proposals in the round and attack them on broad grounds. The Chancellor's attention is, however, drawn to the following:—

(i) *The Working Party's figures.* A summary of the Working Party's results, on which the secretary of State bases his requests, is as follows:—

A. *Total useful development and welfare expenditure 1955–1960*		
	£m.	
1. Colonial Territories	625	
2. High Commission Territories	5	
3. Central C.D. and W. Schemes	24	
4. Research	10	
5. Contingencies	3	
		667
B. *Proposed sources of finance*		
1. *Local resources*		
(a) Reserves and balances	120	
(b) Current Revenues and Local Loans	200	
		320
2. *External finance*		
(a) Market Loans	195	195
(b) C.D&W. carry-over from current period	37	
(c) NEW C.D.&W. money	115	
		152
		667

[3] For the final draft of the memo, and the chancellor's covering letter (para 6 of this minute refers), see 423.

(ii) *Local reserves.* The Colonial Office agree with us that the Colonies' maximum resources must be mobilised before outside aid is sought. The Colonial Office figures show a contribution of about 48% from local resources, which is probably slightly higher than the percentage figure in the past. But £120m. of this is from reserves built up quite fortuitously as a result of the Korean boom. We believe that the Colonies (particularly Nigeria) could and should do considerably more from current revenues and local loans.

(iii) *Colonial sterling balances.* The Colonial Office have reduced the external loan requirement from £195m. to £150m. by taking in part of the Colonies' currency reserves and savings bank funds. This of course we welcome, and we think that as much as practicable has been done by the Colonial Office in this direction. The Colonial sterling balances as a whole are still rising, but the Working Party which examined this problem last year concluded that only a proportion of them could in fact be made available to finance development, and that to some extent their use in that way would in itself deprive the London market of funds. It is also clear that generally speaking Colonies for which the largest amounts of assistance are proposed are those with the smallest balances.

(iv) *Politically disturbed colonies.* Some £25m. of the new C.D. & W. recommended is for political hot spots, such as Kenya, Malaya, British Guiana and British Honduras. The Colonial Secretary will probably claim that this distorts the picture and that the amount we offer would not, when these claims have been met, leave enough for the other Colonies. There is always of course this danger that political trouble-makers get more than their more docile brethren. But the answer in this case is surely that the grants to these territories must be scaled down too, since it is of no ultimate political advantage to give them more than they can usefully spend, or to promise their peoples more or faster development than is likely to be achieved.

(v) *Other "political" grants.* About £6m. is included by the Colonial Office for territories like the Gold Coast and Singapore, which on any showing need nothing. The argument is that it would be politically difficult to leave them out altogether. We should firmly refuse to accept this argument.

Proposals for Exchequer loans

5. The arguments against any system of Exchequer loans for the Colonies are given in the Annex[4] to this brief. They have already been stated to the Colonial Office. Arguments to show that the problem is not immediate are contained in the Memorandum. The Chancellor of the Exchequer's line (which the Treasury at official level have consistently maintained over several months) is that the situation envisaged should be left to be dealt with if and when it arises. It must at this stage be left open to us to say that in such circumstances the right course is for the Colony to cut down its development expenditure, rather than for us to take special measures.

Recommendations

6. It is suggested that the Chancellor should send the Treasury Memorandum to the Colonial Secretary with a short covering letter (draft attached) suggesting a discussion on the basis of it. The Colonial Secretary has asked for such a discussion,

[4] Not printed.

and we feel that we shall not make any headway with the Colonial Office at Divisional level since quite frankly we know too much about it and any discussion would at once get bogged down in endless detail. It seems better for a stand to be taken at Ministerial level on the basis of what the United Kingdom can afford.

7. Although the whole exercise on Colonial Development has examined the question of external loan finance in equal detail, the main point of the Colonial Office approach at this time is the amount of Colonial Development and Welfare money for the next five year period. This is of immediate importance since a Bill to extend the C.D. and W. Acts has to be introduced very early in the next Session and the figure must be filled in. We have suggested £18m. a year, or a total of £90m., which means after deducting a carry-over of £35m., new money of £55m. The Colonial Secretary will almost certainly argue that this is not enough in the present political atmosphere, with the emphasis on U.K. aid to under-developed countries as a whole and the Colonies in particular. The Chancellor may feel that there is room for compromise, and if so there is some merit in a final compromise figure of £110m. instead of £90m. Starting with last year's figure of £14m. actually spent, this would provide for a progressive increase of £2m. a year up to 1959–60, and a final figure of £16m. in that year. This would fit in with the concept brought out in the Memorandum of a slow and steady rise in the rate of Colonial Development; and it would mean that we had provided for a rate of spending in the next five years just double the average of the last nine years. £110m. for five years would compare very favourably with £140m. which the Colonies had available in the ten years 1946–56; and new money at £75m., would be for the five year period more than half what was provided for the ten year period. It would be difficult therefore for the Colonial Secretary to argue that a figure of £110m. was not perfectly defensible from the poitical point of view.

423 T 230/249 17 Nov 1954

[Colonial development and welfare financial requirements]: letter (reply) from Mr Butler to Mr Lennox-Boyd. *Enclosure*: Treasury memorandum on 'Colonial development finance, 1955–60'

I am sorry that I have not been able to reply earlier to your letter of 30th September[1] about the financial provision to be made for Colonial Development and Welfare in the period 1955/60.

The work so far done in the Colonial Office on this subject has been related to Colonial needs, and it is next necessary to consider what the U.K. Exchequer can bear. I am afraid that I do not see my way to agree to more than £90m. in all, including the carry-over from the present period, in the next five years. This works out at an average of £18m. a year, which is the estimate provision for the present year.

As the subject is a complicated one, it would be difficult to develop my arguments in a letter of any reasonable length. I am, therefore, enclosing a memorandum prepared in the Treasury, with which I am in agreement. I hope you may see your was to accept the conclusions I have reached.

[1] See 421.

As regards external borrowing by the Colonies, I am sure that we should wait until the difficulty actually arises before we consider what special measures should be taken; but, you have my assurance that, if the occasion arises, we shall do our best to find some suitable way to help.

One final point. Your proposals are on the basis that the suggested contribution from the capital reserves of the Colonies is the most we can expect, and you do not mention the possibility of their getting some financial help from sources other than the U.K.—e.g. the Americans. I am not satisfied that we have gone sufficiently deeply into either point, and I suggest that we should now—without holding up a decision on the C.D. and W. question—set on foot a thoroughgoing examination by our two Departments of the existing capital resources of the Colonies and other possible sources of capital, including the United States.

I am sending a copy of this letter and the enclosure to the Commonwealth Secretary.

Enclosure to 423

As a result of the Report of the Colonial Office Working Party which has examined development plans for individual Colonies and the local resources available to finance them, the Colonial Secretary has asked the Chancellor to agree to the following, for the new period 1955–60:—

(i) Colonial Development and Welfare assistance totalling £150 million.

(ii) An assurance that, if during the new period the Colonies cannot raise from the London Market and elsewhere the sum of £150 million which they are said to need from external loans, the Exchequer will find means of helping out in cases of proven need. The suggestion is some system of direct loans to Colonies from the Exchequer.

2. It is accepted that in present conditions H.M.G. should continue to contribute towards balanced development in the Colonies both by opening the London market to borrowing by Colonial Governments and by development grants where necessary. The amount of U.K. resources which are thus to be used in the Colonies must depend upon two factors: first the amount which the U.K. can afford; and secondly the amount which the Colonies can usefully and in the longer run safely absorb in worthwhile development, after making full use of their own resources.

What the U.K. can afford

3. (a) *Budget considerations.* The Chancellor has already made it known that he is unlikely to be able to see his way to provide more on the C.D. and W. Vote for the next five years than £18 million a year. In many important services expenditures by U.K Departments is being held at its present level, or reduced; desirable developments in national health, education and other social services cannot be made for financial reasons. This position is likely to continue for some years. A contribution by the U.K. to C.D. and W. must have regard to the limits being imposed on other forms of Government expenditure and to many other claims on the Exchequer. £18 million would be an increase on the present rate of expenditure on the C.D. and W. Vote. The total amounts

authorised to be paid from the U.K. Exchequer for Colonial Development and Welfare in *ten* year periods have risen from the £50 million authorised by the Act of 1940, to £120 under the Act of 1945, and £140 million under the Act of 1950. The Colonial Office now propose that assistance should be raised to £150 million in *five* years. The annual limits have risen from £5 million under the Act of 1940, to £17 million, then £20 million and finally £25 million. The Colonial Office speak of a possible limit of £35 million under the new arrangements. Admittedly costs have been rising during the period under review; but when and how do the Colonial Office see the process of constantly increasing grants being arrested? What do they anticipate is likely to happen in 1960, when the period of grants which we are now considering come to an end?

Quite apart from the problems presented by proposals for mounting U.K. contributions, there is the additional complication that many of the larger colonies are approaching independence. It is presumably not contemplated that grants will continue to be made to Colonies which become fully independent—such grants would be quite inconsistent with the hitherto accepted conception of independent status within the Commonwealth—and, if they are to be cut off, colonies should be encouraged to become less, not more, dependent on the U.K. for development finance. From this angle one would have expected a tapering-down of development grants in the case of the larger Colonies, and not increases.

(b) *Balance of payments.* We are likely to have the greatest difficulty in keeping our overseas commitments within average surplus earnings in the next few years and must be extremely cautious in increasing our obligations. What we can afford to give or lend the Colonies is determined primarily by U.K. overseas earnings, not by U.K. national income as a whole, and commitments to the Colonies already represent a heavy burden on the total available surplus. Only a proportion of what we give them comes back—last year Colonial imports from the U.K. were 34% of their total imports.

What the colonies can use

4. In the Treasury view £18 million a year for C.D. and W. is not out of scale with what the Colonies are likely in fact to use. Valuable though the Working Party exercise has been in analysing and defining the problems involved, there are several reasons for thinking that their actual figures are of doubtful validity.

(i) Totals are based on data of very varying quality from the Colonies, adjusted more or less arbitrarily by the Colonial Office.

(ii) Past experience shows that forward estimates of C.D. and W. expenditure have almost always been much too high. The attached Tables show this for both C.D. and W. and loan requirements.

(iii) The Colonial Office conclusion that their figure of £667 million for total Colonial Development in the five years is "no more than a maintenance of the existing momentum", is based on very shaky premises. It relies on an assumed current rate of development expenditure in the Colonies themselves of £110–£120 million, which is derived at least partly from Colonial estimates and is therefore almost certainly over-optimistic. The Treasury believes that £100 million or rather

less would be nearer the mark, and on this basis the Colonial Office figures would mean a much greater rate of increase than has taken place in the last few years.
(iv) Progress in Colonial Development depends on Colonial administrative and technical resources. These are improving, but it is a slow process, and the acceleration of the pace of development must be slow and steady to keep step with this process.
(v) The Colonial Office C.D. and W. figure means an annual average of £30 million. Expenditure in 1953–54 was £13.9 million. The first half of this year shows an outturn of £3.8 million against £3.6 million in the same period in 1953—which does not indicate a greatly increased expenditure rate. Even if expenditure this year reached £16 million, an average of £30 million for the five year period would require an annual increase of at least £5 million and a final figure in 1959–60 of £40 million. The Treasury believes this to be unlikely to be achieved, even if the money were available.
(vi) We think the Colonies could do more from local resources than the Colonial Office allows. This is particularly true of Nigeria, which accounts for 27½% of the C.D. and W. territorial allocation now asked for by the Colonial Office, and 21½% of the external loan finance. This Colony now consists of separate regions varying from rich to poor, and if its resources could be properly pooled, as they should be before the U.K. is asked to step in, a much larger part of the development expenditure could be borne locally.

5. These factors tend to show (a) that the total development figure is pitched too high, and (b) that towards some lower figure Colonies themselves could do more. We think that in these circumstances an average of £18 million a year from C.D. and W. grants is not unreasonable. This figure of course includes the "carry over" from the current period, but nevertheless it means that the Colonies would have available for the next five year period £90 million as against the £140 million which was available to them for the ten years 1946–1956—a pro rata increase of 29%. If they spend it all, they would in fact be spending C.D. and W. grant money at an average rate of 69% above the average for the last eight completed years, and 27% above the average for the last four years. It seems improbable that a greater increase than this could in fact be achieved.

External loans

6. The Colonial Secretary's second proposition relates to the loan requirements of the Colonies. The Working Party put these at £200m. over the five year period, but the Colonial Secretary suggests that by the further drawing down of the Colonial Balances (£15 million from Savings Banks' reserves and £35 million from currency reserves) the requirement can be reduced to £150 million. He asks, however, for an assurance that if this sum cannot be raised over the five years from the London market, "the Exchequer will find means of helping out in cases of proven need". What he has in mind is the institution of a system of Exchequer loans.

7. As the Colonial Secretary is aware, it is not possible for the Chancellor or anyone else to foresee, still less to guarantee, the amounts likely to be available in the London market in the future for Colonial issues. In practice the amount raised in any one year will depend on the attractiveness to the market of the individual propositions which come forward, and it may well be that, as Colonies move towards

independence, their actions will cause investors in London to become more cautious in taking up their stocks. Having regard, however, to the level of Colonial borrowing in recent years, there is no reason to suppose that it will not be possible for the Colonies to continue to raise from the London market some £25 million annually, or £125 million over the five year period.

8. This is somewhat less than the £150 million put forward by the Colonial Secretary; but

(a) in the earlier part of this paper (paragraph 4) reasons have been put forward for supposing that in the event the pace of development generally may prove to be somewhat slower than that estimated by the Working Party;

(b) there are other sources of external loans available to the Colonies, including in particular I.B.R.D.

(c) there is the question of the adequacy of the proposed use of the Colonies' own resources.

Taking these factors into account there would appear to be a reasonable prospect of meeting, in the period 1955–60 the likely requirements of the Colonies on the London market, provided no entirely new situation arises, and provided that other sources of external borrowing are tapped.

9. This being so, it would seem premature to consider now the possibility of direct Exchequer assistance to the Colonies by way of loans or guarantees. There are, as the Secretary of State appreciates, considerable objections of principle to the Government making general powers to give such assistance, and in present circumstances the taking of so drastic a step could not be justified. If, however, circumstances should arise in which a particular Colony was clearly faced with grave difficulties in raising the money which it needed from the London market, the Treasury would be prepared to consider with the Colonial Office what steps might be appropriate at that time to deal with the situation.

TABLE

Colonial development and welfare

£m.

Years	*Original estimate*	*Actual issues*
1946–47	9.639	3.546
1947–48	7.808	5.339
1948–49	4.593	6.445
1949–50	7.656	12.985
1950–51	19.508	13.558
1951–52	19.908	14.633
1952–53	15.480	14.482
1953–54	17.980	14.072
Total: (8 years)	102.572	85.060

Such figures as are available show a similar tendency to over-estimation in the case of Colonial loan requirements. Somewhat comparable to the Working Party's attempt to forecast six years ahead was a Colonial Office forecast in December 1950 of loan requirements for the years 1952–54 as follows:—

	£m.
1952	45.25
1953	41
1954	34.75

Actual Colonial issues on the London Market have been:—

	£m.
1952	27.63
1953	21.34
1954	24.09 (17.09 to date: 7 to come)

The difference between these two tables cannot be accounted for by the holding back of requests for loans and the figures therefore must throw doubt on the Colonial Office Working Party's forecast figures on loan requirements for 1955–60.

424 CO 1025/60, no 101 10 Jan 1955

[Colonial development and welfare financial requirements]: letter from Mr Butler to Mr Lennox-Boyd

Following our meeting on 21st December about the amount of additional CD and W money to be made available for the five years, 1955–60; I spent a fructuous recess going into the matter further. I was helped by a discussion between your officials and mine, and felt able to agree that the figure to be put into the Bill should be £220 millions. I now understand that this figure will be agreeable to you and I am writing to confirm it.

This amount covers £80 m. of entirely new money for the period, which, together with the figure of carry-over from the present period of £35 m., will mean that £115 m. is available for actual spending during the five years (as compared with the £100 m. approximately which will have been spent in the last nine years). This is, I think, quite a handsome contribution to Colonial Development and Welfare and I have no doubt that it will be welcomed as such.

The figure covers, of course, the needs both of the Colonial Office and of the Commonwealth Relations Office.

I am sending a copy of this letter to P. Swinton.

425 CO 1025/75, no 17 18 Mar 1955

[Colonial loans on the London market]: letter from J Scrimgeour[1] to A H Hicks[2]

The recent announcement of the details of the International Bank Loan to East Africa draws attention to the need for some statement of intention by H.M. Government regarding the security and status of existing Colonial Loans, having particular regard to the doubts in the minds of investors regarding the position after Constitutional

[1] J Scrimgeour, partner (1929–1969) in J & A Scrimgeour, brokers to the Crown Agents.
[2] Head of Finance Dept, Crown Agents.

changes have taken place during the life of these Loans. We have stated that the demand for Colonial Loans in the London market under present conditions of political change in overseas territories would be greatly improved if some such statement could be made.

In our previous discussions the view has been advanced that any sort of H.M. Government guarantee on, or special arrangements for, the security of un-matured Loans at the time of the Constitutional change would be almost impossible to put into effect, even if it were politically acceptable. It is recognised that it would be impossible to alter the contract of the existing loans, and that it would be undesirable to create a special status for the existing loans, since this might create an invidious comparison between these loans and further loans raised once self-government, Dominion status, or like Constitutional change, takes place.

It must be remembered, however, that existing loans have been raised under the umbrella of a British Governor General, responsible for advising the Secretary of State for the Colonies, who in turn has been answerable to Parliament.

In any event, are not some of the arguments previously advanced[3] somewhat vitiated by the issue of a loan by the World Bank guaranteed by the British Government, and is it not asking the British investor rather a lot to subscribe in future for Colonial Loans without such a guarantee and at a lower rate of interest? We are already aware that demand has been falling off during the last year or two.

Whether the British Government guarantees a loan by the World Bank or by the British investing public does not alter the fact that the British Government at once has a more direct financial interest in the Colony. Presumably the point is that the World Bank, as a direct creditor of the Colony, is more acceptable politically than the British investor.

The effect of all this seems to be to divert the interest on capital goods purchased in the U.K. by a Colony from the U.K. to the World Bank. In the light of further explanation, this seems highly undesirable in view of the urgent requirement for the U.K. to build up overseas investment and invisible exports in the form of interest thereon. But this aspect of the matter is, perhaps, somewhat beside the point.

However, I have little doubt that if some formula could be devised, the future demand for Colonial Loans in the London market could be greatly improved. The position at present, as we are aware, is that the Colonies have to be more or less strictly rationed as regards Sterling Loans, which seems very unfortunate.

Would something on the following lines be worth considering?

Question in Parliament:
Having regard to the recent announcement of the British Government Guaranteed Loan by the World Bank, would the Minister state whether the status of existing Colonial Loans raised in London during the last few years, and subscribed by British investors, has been prejudiced and whether these Loans must now be regarded as inferior securities?

Answer:
H.M. Government would always take such action as they deemed necessary to protect the interest of British investors overseas, and under the Constitutional changes now

[3] See 416.

taking place and contemplated in the future in the Colonial territories they recognise a special responsibility in this matter. Having regard to this, it is not considered that the issue of World Bank Loans to the Colonial territories guaranteed by H.M. Government has prejudiced the security and status of existing Colonial Loans raised in London. Furthermore, it is considered that the interest of the World Bank in Colonial territories will in future tend to improve the economy of these territories, which should be reflected in an improvement in their credit generally.

426 CO 1025/82, nos 22, 22B, 22C 16–27 Sept 1955

[Need for additional colonial development finance]: minutes by W L Gorell Barnes, Sir J Martin and C G Eastwood

However hard we may try to apply the brake, I think we must face the fact that political development over the next 10–15 years in East Africa is going to be rapid.

It seems to me that that political development can lead to nothing but disaster unless social and economic development at least keeps pace with it.

What happens in East Africa will inevitably have its repercussions in Central Africa, particularly in Nyasaland.

Against this background, very large expenditures are needed, particularly on transport and water, the development of African agriculture, the proper development of towns, and education.

Up to date we have been able to do a fair proportion of what is necessary in Uganda because of the high prices of coffee and cotton, upon which we can no longer count. In Kenya we took the opportunity of the Emergency to get a very special programme of agriculture approved and to establish the sort of administrative basis needed to carry a really forward development programme, but more money is needed for education, housing, and social development. Elsewhere, both the administrative basis and the money for anything like what is really required are lacking. The position is in my view particularly serious in Nyasaland where, in making C.D. & W. allocations, we undoubtedly made a mistake (which we have only been able to go a very small way towards rectifying) in assuming that Nyasaland would get greater immediate economic benefit from Federation than is at all probable. Again, it is becoming clear that, in the Somaliland Protectorate, we need to make a much bigger effort on education than the present C.D. & W. allocation will allow.[1]

In the past we have been apt to shrug or laugh off proposals such as those put forward from time to time by Sir G Colby[2] for increases in Nyasaland's C.D. & W. allocation of the order of something like £5 million and by Mr. Vasey[3] for interest-free loans to finance educational expansion. I do not think we can really afford to do so any longer. Indeed, if we are not going to let East Africa and probably Central Africa too drift into chaos, I am not sure that we ought not to take the initiative ourselves in the preparation of a broad plan of social and economic development at any rate for East Africa.

The opportunity to think and move on large lines is perhaps presented by a

[1] cf part I of this volume, 97, Appendix A, paras 12–13, 21–23.
[2] Sir G Colby, gov of Nyasaland, 1948–1956.
[3] E A Vasey, minister for finance and development, Kenya, 1952–1959.

combination of the publication of the Report of East Africa Royal Commission and the first glimmers of the possibility of a reduction in expenditure on armaments.

I realise that these issues cannot be considered in terms of East or East and Central Africa alone. From reactions to the C.D. & W. allocations from other parts of the Colonial Empire I know that in many other territories too it is a fact that the money available for these purposes is at present woefully inadequate.

Briefly, therefore, the object of this minute is to ask that higher authority should consider whether the moment may not be propitious for the Secretary of State to suggest to his colleagues that there should be a very considerable increase in the monies made available by one means or another for development of the kind I have outlined above. It might perhaps be suggested that Colonial development might have a first call on a given percentage of any Government expenditure saved as a result of a reduction in the defence bill. . . .

W.L.G.B.
16.9.55

I agree that the issues raised in Mr. Gorell Barnes' minute of 16.9.55, about additional funds for welfare and development, cannot be considered in terms of East and Central Africa alone. The inadequacy of the resources at our disposal from C.D. & W. funds is serious elsewhere and I refer below to the particular examples of Malaya and Cyprus. I wonder, however, if this is really a "propitious moment" to approach the Treasury for any substantial additional allocation or whether there is any likelihood of the Chancellor agreeing that savings on one main head of expenditure should be applied to any other particular service. The economy of the United Kingdom is at present under severe strain through trying to do too many things at the same time and the principal aim of the Treasury in the immediate future must surely be to seize on any possible means of reducing the pressure.

But it is not for me to argue the Treasury case. If there is any practical possibility of obtaining more money, we can certainly produce several instances where there is a strong case for doing so on political grounds. In the Federation of Malaya for example there is an immensely important educational job to tackle. I quote Mr. Mackintosh'[s][4] description:—

> "Everyone is agreed on political as well as on educational grounds that a powerful new impetus should be applied as soon as possible to the educational system in the Federation of Malaya, where more than half the population is under 21 and the proportion of children of primary school age to the total population is the highest in the world. The Federation Government cannot at present provide any sort of education for anything like all the children of school age. Further, they cannot out of their own resources make more than the feeblest impact upon the creation of the system of "National Schools" (in which children of all races are educated together through a common medium) which we all believe to be politically essential to the building of an united Malayan nation. The most modest plan for doing the job involves over fourteen years a total of capital and recurrent expenditure amounting to some £45m., of which it is estimated that the Federation Government could meet only about £13 to £18m."

[4] A M MacKintosh, assistant secretary, CO, 1952–1955, deputy commissioner-general in South-East Asia, 1956–1959.

Expenditure on internal security perhaps does not fall under "Development and Welfare", but in this connection it should be mentioned that we may have to approach the Treasury for relatively vast sums which are estimated to be required from the United Kingdom if the local forces in Malaya and Singapore are to be raised to a level at which the two Governments could provide for their own internal security when they attain self-government (£50m. in initial costs and £28m. per annum in recurrent costs over 10 years).

In Cyprus the £500,000 provided out of the new C.D. & W. money could be explained as sufficient on the grounds of the Colony's substantial balances and buoyant revenue at the time. But it is quite clear now that, on political grounds, there is a crying need (to which the Prime Minister has recently drawn attention) for a spectacular plan of economic development. Although we have agreed that it seems possible that the money can be found from existing resources and loans (probably requiring a United Kingdom guarantee), this is by no means certain now in view of the strain of extraordinary police and military expenditure and the effect on the economy of the present internal security situation. On account of these latter considerations and on political grounds we may have to ask for much greater assistance from the United Kingdom.

In Malta we are I think now committed to assistance for development of a scale which could not be met from existing C.D. & W. funds and will therefore presumably have to come from funds specially voted. Perhaps it is by similar arrangements that our best chance lies of obtaining additional funds going beyond the amounts provided by the latest C.D. & W. Act to meet the special political requirements in East and Central Africa, Malaya and elsewhere. . . .

J.M.M.
27.9.55

Sir Hilton Poynton

Mr. Gorell Barnes' minute of the 16th September about additional funds for development and welfare in East and Central Africa: and the minutes by Sir John Martin and Mr. Rogers commenting on it.

I think we can leave the Gold Coast out of the picture. They are very rich already and should be independent within the next 18 months or so.

In Nigeria the Federation could spend, to very good purpose, a great deal of money on communications of all sorts, particularly posts and telegraphs and roads. The West are, for the moment at least, pretty well off but even their resources will be strained by their expenditure on education (universal primary education). There is a crying demand for more education in the Eastern Region which is much poorer. In the North there is also great need for expenditure not only on education but on many other useful objects too. The Cameroons is crying out for more money, particularly for roads. It is perhaps the most "developable" of any part of the Colonial Empire at the moment.

In Sierra Leone a great deal of money could and should be spent, primarily on communications (it is particularly difficult terrain) and education.

But none of the many millions more money which could easily be spent would be spent usefully unless the administrative machine is working properly, and that will not happen unless we can man the public services with an adequate number of efficient officers, and for the next five or ten years at least that means British officers.

You know something of the problem of securing this.

I agree with Sir John Martin's doubts as to whether we shall find this a propitious moment for approaching the Treasury. But we ought if we possibly can to take time by the forelock—too often we have not done so—and expenditure on development may be just as essential and effective from the Imperial point of view as expenditure on defence. I do not think that we ought to feel ourselves debarred by the present strains on the U.K. economy from making our desires known. This is just one more of the too many things which the U.K. ought to be doing now and I feel that we should do well to put in our bid. . . .

C.G.E.
27.9.55

427 CO 859/818, no 58 Oct 1955

'Notes on capital development in the colonies': CO Information Department memorandum

1. The object of this memorandum is to show first, how a policy of economic development in the Colonies will further the interests of both the Colonies and the United Kingdom as well as the world at large; secondly how such a policy, if actively pursued, implies substantial capital investment in the Colonies; and thirdly, the resources available for Colonial development.

The benefits of colonial development for the colonies, the United Kingdom and the world

2. The interest of the United Kingdom may be readily understood. The trade of the Colonial Empire was a factor of great importance to us before the war. The Colonies provided some of the food we ate and some of the raw materials on which we worked. But we sold to them more than we bought of them for our own use so that we earned a claim upon the currencies they earned from the sales of the rest of their exports to other countries. For example, when a large proportion of the Malayan rubber and tin or West African cocoa was sold to the United States this was one side of a four sided transaction. It was completed by the sale of American manufactures to Canada, the sale of Canadian wheat and timber to this country and finally, our sales of textiles and other manufactures to Malaya and West Africa. Thus, both we and the Colonies were able to import the goods we each required. Multilateral transactions of this kind did not stop even during the war years, but naturally, they diminished. The renewal and extension of such trade is essential if we are to become independent of external assistance. Our Long Term Programme has shown that we are likely for some time to have a deficit with the Western Hemisphere not-with-standing our efforts to increase our earnings and to diminish our imports. A principal way of covering that deficit is by receipts from sales of Colonial exports to America. Thus we need to foster the development of Colonial exports both for our direct use and for sale to other countries, particularly those where hard currency will be earned to strengthen the sterling pool. In 1954 the Colonies (not including Northern Rhodesia and Nyasaland) provided 10.5 per cent of our imports (£355 million) and took 12.7 per cent of our exports and re-exports (£352 million). This is roughly double the pre-war proportion.

3. Even when economic development of productive resources is interpreted in the most narrow way, it is to the interest of the Colonies for it is the essential foundation for progress in the social and political spheres. Most of the Colonies are primitive communities in which the people enjoy only a low standard of living, many indeed barely surviving in a life-long struggle against the chances of pests, disease, soil erosion or adverse weather. Considerable improvements can in time be achieved by teaching the Colonial peoples how to make more effective use of their existing resources but the advance is painfully slow. The growth of productive capacity is hindered in some territories by poor health and physique of the people, but this is being remedied by the expanding social services. To secure a more speedy and more substantial advance will require considerable capital investment. The development and welfare funds made available to honour the pledges of H.M. Government to foster the advancement of the Colonial peoples will help to break the vicious circle, but if the work thus begun is to be continued and maintained, the Colonies must themselves earn the resources to devote to these purposes. We might raise their living standards by making them our pensioners, but economic independence is essential if they are to progress towards political self-government. Economic independence at a higher standard of living demands an active policy of development through wise investment which maintains a balance between social and political welfare and economic production.

4. The Colonies have another reason for having a close interest in a policy of economic development. For historical reasons the Colonies have many ties with the United Kingdom. One such tie, which in the present connection is of great importance, is the fact that their trade is based upon sterling and much of it conducted with this country. The strength of sterling as an international currency is, therefore, of great and direct concern to them and thus they have an incentive to help forward their own economic development because that in itself would strengthen sterling as paragraph 2 showed.

Varied type of investment required

5. Though development with the object of raising production in the Colonies is in the mutual interest of both Colonies and the United Kingdom it cannot even in present circumstances be concentrated solely on directly productive work. New agricultural, mining or secondary industry cannot be started without complementary development of basic services such as transport. Moreover, the native peoples will also look to receive some benefit from higher production in more generous social services, particularly education and health, and indeed better educated and more healthy people will be needed if present primitive methods of production are to be displaced in favour of modern practice.

6. A large programme of capital development in the Colonies is thus implied; we have to bring up to date the existing ports, harbours, railways, roads, agricultural, mining and industrial equipment, schools, hospitals, etc. We have to ensure that improvements and extensions of one kind do not result in them outstripping the capacity of another kind. That is a proper balance must be secured and maintained.

7. It is broadly true that the capital facilities existing in the Colonies before the War did not provide more than a small margin above the current needs. In many cases, and most notably on the railways, the small margin disappeared during the war when new equipment was difficult to obtain and a policy of "make-do-and-mend"

up to £100 million with up to an additional 10% for temporary borrowing. Means are thus provided for expanding existing industries and starting promising new ones.

Other means of colonial development

18. *U.S.A. assistance for colonial development.* Close working relations exist between Her Majesty's Government and the United Government which ensure that the latter can be made aware of the needs of the Colonies in the field of development. There is contact between the Colonial Office and the London Mission of the International Co-operation Administration, and similar contacts exist in Washington between the British Embassy and the American authorities. A number of visits have been made to Colonial territories by representatives of I.C.A. so that ample opportunity has been afforded to them to learn of the problems on the spot.

Direct United States assistance for Colonial Development has taken the form of financial and technical assistance. But while for external assistance the Colonies must rely primarily on the United Kingdom, American assistance is a welcome supplementary source.

19. *Technical assistance from the United Nations and specialised agencies.* The main source of assistance from the United Nations and Specialised Agencies is the expanded programme of technical assistance which was launched in July, 1950 and which is financed by annual contributions from Member Governments. Assistance has also been given under the regular programme of the United Nations and the Specialised Agencies.

The main source of technical assistance for Colonial terrorities is the United Kingdom: the assistance sought under the expanded programme is a useful supplement in fields where it would be impracticable for the assistance required to be provided from the United Kingdom.

20. *International Finance Corporation.* The purpose of the Corporation will be to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas, by making investments without a guarantee of repayment by the Government concerned. It will thus supplement and not compete with the activities of the International Bank. Under the terms of its charter the Corporation will be free to operate in all the territories for whose international relations a member is responsible, including the British dependent territories.

428 CO 1025/82, no 25 — 25 Jan 1956

[Colonial savings certificates]: letter from Mr Lennox-Boyd to Mr Macmillan

Ever since I took over here, I have been worried about the London Market not being able to provide the public loan funds which the Colonies need, to supplement C.D & W. grants and other sources of finance, for carrying out basic development. When I put to Rab Butler last September my proposals for the C.D. & W. provision for 1955/60, I pressed him to agree there and then that, if the London Market let us down, Exchequer loans would be provided instead. Rab felt that we should face that one when the time came; but he did give me an assurance that, if the occasion arose,

he would do his best to find some suitable way to help.[1]

For some months now, the evidence has been piling up that we are not in fact going to be able to find, from the London Market or the International Bank, anything like the amounts of loan finance that the Colonies need. Then there are Colonies, like Cyprus, which cannot raise their loans by the normal methods. In the case of Cyprus, Government has as you know, committed itself publicly to lending full support in helping the Colony to secure the loan funds she will require. Although no Colonial Government is at the moment in financial difficulties through inability to raise loan funds, I am satisfied that this situation is going to arise pretty soon unless we can find suitable means of supplementing the amounts that can be raised from the London Market and such alternative sources as the International Bank. I am therefore very anxious that we should consider now appropriate measures for doing so.

So as to avoid the difficulties which Rab saw in Exchequer loans, I have been thinking of other possible devices. The one which appeals to me most—and which follows an idea which you yourself have recently advocated as a means of stimulating savings at home—is outlined in the attached Note.[2] It is a very simple plan, involving the placing on sale to the public in this country of a new series of savings certificates, which I suggest might be termed "Colonial Development Certificates" which would be issued on exactly the same terms as ordinary National Savings Certificates, but the proceeds from which would be relent to the Colonies at current Market rates.

I personally believe that, if accompanied by suitable publicity—that would of course be an essential part of any such scheme—my plan would be well received by the public here; and I also believe that, if the public were enabled to hold up to a stated amount of Colonial Development Certificates over and above the maximum permitted holding of National Services Savings Certificates, fresh savings would be stimulated and we should be killing two birds with one stone. The sum I have in mind to be raised in this way is about £100 million over the next five years. I am advised that a scheme on these lines would not in any way prejudice the raising of loans by Colonial Governments in the ordinary way on the London Market.

I hope this suggestion will appeal to you, both on domestic grounds and in the interests of Colonial development. I am convinced that we have got to devise special measures to provide loan finance for the Colonies and if, as I hope, you share my view that this is an attractive line to pursue it should be possible for your officials and mine to agree on a detailed scheme which we would then put to our colleagues. I have not consulted any other Department at this stage.

Would you let me know what you think of this idea?

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[1] See 421 & 423.

[2] Not printed.

429 CO 1025/75, no 25 [Feb 1956]

'Note on Mr Scrimgeour's suggestion for improving confidence in colonial loan issues': CO note

[At a meeting of 2 Feb 1956 with Mr Hare (minister of state, CO, 1955–1956), J Scrimgeour, broker to the Crown Agents, sought to renew the discussion initiated by Seel's letter of 30 Sept 1953 (see 415), calling for a ministerial statement that would reassure investors. He argued that the problem was intensifying in that 'Market conditions in those days were very easy compared with the credit squeeze position that exists today'. In Hare's view, 'Surely this is a matter of high Government policy. Should it not be laid down that a set proportion of British investment should be earmarked for the Colonies even though this might be at the expense of home development, i.e. U.K. local authority spending?' (minute by Hare to Lennox-Boyd, CO 1025/75, 3 Feb 1956). Lennox-Boyd agreed 'as to the *very great* importance of this' (minute from Lennox-Boyd to Hare, CO 1025/75, 6 Feb 1956).]

Mr. Scrimgeour is concerned to remedy the situation in which the investors who in the past have subscribed to Colonial loans are now tending to divert their funds to other securities. He attributes this tendency to a feeling that as more and more Colonies attain self-government the ability of the Secretary of State to ensure the servicing of existing debt will disappear, so that the security of the stock is weakened. This feeling means that investors are reluctant to take up new stock in addition to their holdings of existing stock, and also that transactions in existing stock are falling off because of absence of buyers.

To counteract this tendency Mr. Scrimgeour considers it desirable that some sort of authoritative statement should be made which, while falling short of an explicit undertaking by HMG to guarantee the servicing of existing loans and loans taken before the borrowing territory becomes independent, will serve to assure investors that HMG will ensure that their interests are safeguarded after the date of independence. Given such a statement, Mr. Scrimgeour asserts, confidence would be restored to a degree which would enable substantially larger issues of Colonial stock to be made in the coming years.

Mr. Scrimgeour's idea of the sort of statement which might be made is annexed to this Note.[1] It was prepared in the context of the IBRD loan made to East African Railways in March 1955, and the wording would have to be modified to meet the occasion on which it might be made. But the intent of the statement is clear and should probably be reflected in not very different terms in any statement made. It purports to be no more than a hint to investors that HMG regards Colonial Loans as sound investments, but does not undertake to guarantee them, nor does it make any explicit promises about the steps which might be taken by HMG to secure the rights of investors in them.

What the statement does not[2] involve

Mr. Scrimgeour's suggestion does not involve the giving of a formal guarantee by HMG, so that no legislative action is necessary. The guarded undertaking given would apply only to loans already raised or raised before the borrowing territory attains independence. It would not extend to loans raised by the territories after independence.

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[1] Not printed, see 425 for the statement proposed.

[2] Emphasis in original.

Advantages of making the statement

1. It would help to restore confidence in Colonial stock, and thus have some effect in stopping the drift of money away from Colonial issues and possibly in attracting marginal investment. This should permit some increase in the amounts sought by the Colonies and at worst would help to relieve the current burden on underwriters, who will become increasingly reluctant to underwrite unsaleable issues.

2. It would reassure Colonial Governments of the continuing interest of HMG in the satisfaction of their capital needs (the stringency of London money is a cause of much dismay in the East and Central African territories).

3. Since the scheme applies only to existing or 'pre-independence' borrowing Colonial Governments would have to operate in the knowledge that if they fall down on their commitments either deliberately or by the pursuit of unwise financial policies, so that HMG has to bail them out, then their chances of borrowing after independence (i.e. without the UK cover) would be seriously damaged. This would induce financial prudence.

4. Because of 3 above the possibility that HMG would have to honour the undertaking would be remote. The advantages of giving it have to be weighed in the light of the probability that the contingent liability undertaken would not fall in.

5. By enabling more of the capital needs of the Colonies to be met from London we increase the links between the territories and London, so that after independence they have a real interest in preserving the strength of the London connection and a vested interest in the strength of the sterling area. If London will not advance capital they will look elsewhere.

Risks involved in making the statement

1. The heavy borrowers are not those territories which are approaching self-government. East Africa is and is likely to be the major borrower, and her difficulty is not the approach of self-government but the quite natural reluctance of investors to add more East African stock to already overloaded portfolios. The statement will not resolve this difficulty. By making the statement, therefore, we incur a contigent [sic] liability, and all the disadvantages listed below, without getting at the root of our main problem, which is the lack of money for East Africa. Very little difficulty has been met in raising loans for other areas (though the forthcoming British Guiana issue may alter this picture).

2. By making an imprecise statement of the kind suggested we lay ourselves open to pressure for concrete guarantees, or to the risk that our failure to go the whole way will create speculation about our sincerity. This would damage rather than improve confidence.

3. The UK undertaking would tempt Governments to borrow more heavily now than they have need to. To ration them would lead to political difficulties.

4. The undertaking would lay HMG open to political blackmail after independence, in that the territories could use the threat of failure to honour their obligations for political ends, while relying on other (e.g. international, Asian, or Russian) capital to replace the loss of London money which would result from the carrying out of this threat. They may, they would, bluff us on this, but would we risk calling their bluff?

5. If the undertaking is given territories would in effect be borrowing on UK

credit, and not on their own. They would not be paying the economic price for loans, and when they were obliged to do so after independence they might either run into financial trouble, or turn to the UK for further aid.

6. The lapsing of the undertaking on independence would make the market even more reluctant to lend to the newly independent colonies, who would in this situation be competing for capital with Colonial Governments still covered by the undertaking.

7. It is by no means certain that the UK economy could continue to provide subsatantial [sic] sums for export to the Colonies and the newly independent territories. If the supply of capital dried up for the newly independent territories, they would have no incentive to keep up their credit on the Market i.e. they would have no incentive to honour the obligations covered by the undertaking.

Most of these risks are very real, and likely to become [sic] quickly into the field of practical working. In weighing them against the advantages of the statement we shall in fact be deciding whether or not to accept the risk of future discord and financial strife for the sake of present advantage.

If it is decided to make a statement, its timing will be all-important. It must appear in some natural context, and not be conjured artificially out of the blue, if we are to avoid the difficulty about confidence mentioned under 2 above.

430 CAB 128/30/1, CM 20(56)5 8 Mar 1956
'Volta River project': Cabinet conclusions

The Cabinet had before them memoranda by the President of the Board of Trade (C.P. (56) 60) and the Colonial Secretary (C.P. (56) 71) on the next stage of negotiations on the Volta River aluminium scheme.[1]

The President of the Board of Trade said that the Preparatory Commission would shortly complete its examination of the scheme. Their report would disclose a formidable increase in the prospective capital cost of the project. The United Kingdom would be required to make a direct investment of £72 millions instead of £52 millions as formerly expected. Moreover, as the Gold Coast would be able to draw on their sterling balances for their investment of £75 millions, and the aluminium companies would have the right to raise half of their investment on the London market, the total burden on our balance of payments might amount to well over £150 millions.

The economic purpose of the scheme might have been achieved by a much smaller investment in Canada. It had, however, other advantages as a means of reducing dollar expenditure and as an imaginative project of Commonwealth development. We could not now withdraw from it without adverse effects on our relations with the Gold Coast. But, if it were to go forward, we must find an external source for a substantial part of the capital sum required. He therefore proposed that we should

[1] In his memo Lennox-Boyd stressed that 'the example of the Aswan dam and the Indian steel works has not been overlooked in Africa and there would be no surer way of driving the present anti-Communist Gold Coast Government to seek economic ties with the Soviet *bloc* than to fail in our endeavours to bring the Volta scheme to fruition' ('Volta River aluminium scheme', Cabinet memo by Lennox-Boyd, CAB 129/80, CP(56)71, 7 Mar 1956).

inform the Gold Coast Government that the pattern of investment contemplated in 1952[2] would now need to be reconsidered, and that the World bank should be approached as a possible external source of funds. Finally, if the project were to be undertaken, he would wish to consider with his colleagues how the participation of the Government in it could best be organised. The management of a complicated scheme of this kind could not readily be undertaken as part of the ordinary responsibilities of a single Department of Government.

The Colonial Secretary supported this view. He added that the difficulties of arranging for effective control and management of this project in the Gold Coast would be enhanced by the gradual withdrawal of British officials and technical experts from the service of the Gold Coast Government during the period of transition to self-government.

The Chancellor of the Exchequer said that he agreed that external funds should be sought for this project. He had arranged for calculations to be made of the scale of investment which, assuming participation by the World Bank, we might be able to afford.

In further discussion the following points were made:—

(a) Our views on the financing of this scheme should be explained to the Gold Coast Government well in advance of the meeting of experts which was to be held in London in April.

(b) The preliminary investigation of the scheme had been undertaken on the basis of evidence, set out in Cmd. 8702, that a serious shortage of aluminium must be expected to develop if no steps were taken to meet it. This evidence had not yet been questioned. It was important, therefore, that the matter should not be handled in such a way as to induce pessimism in the aluminium companies as that would in turn influence the attitude of the World Bank to the project.

(c) The World Bank, if they agreed to participate, were likely to insist that the project should be put to international tender. This possibility would have to be faced, although it might result in contracts for some of the work on the project being placed elsewhere, with significant consequences for our balance of payments.

The Cabinet:—

(1) Endorsed the proposals in C.P. (56) 60 for handling the next stage of the negotiations on the Volta River aluminium scheme.

(2) Invited the President of the Board of Trade and the Colonial Secretary, in consultation, to arrange for the United Kingdom's present attitude in the matter, and the reasons for it, to be outlined to the Gold Coast Government in advance of the discussions due to take place in April.

(3) Invited the Chancellor of the Exchequer to circulate to the Cabinet a memorandum setting out the level of investment in the scheme which the United Kingdom might, in present circumstances, be able to finance.[3]

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[2] See 409.

[3] Thorneycroft reported in May that the aluminium companies too were concerned at the rising cost of the scheme and were 'anxious to avoid any further commitment until they had seen how the Gold Coast would conduct its affairs as an independent country.' But the International Bank had undertaken to examine the scheme; 'A delay of something between six and twelve months had thus been secured' (CAB 128/30/1, CM 37(56)6, 17 May 1956).

431 CO 1025/75, no 29 26 Mar 1956

[Yugoslav loan]: minute by Sir H Poynton to Lord Lloyd

On the 17th March I spotted in the "Financial Times" a report from Belgrade that the United Kingdom had been negotiating an agreement with Yugoslavia for the conversion of certain outstanding loans made by the United Kingdom to Yugoslavia, involving not only the extension of the period of the loan but also a reduction of the interest to 3% with retroactive validity from the date when the credits were used. Bearing in mind the great difficulty that we are having in getting loans for Colonial development against the background of a United Kingdom economy which is geared to a bank rate of 5½% I was greatly disturbed at this rumour, particularly coming at a time when we are supposed to be intensifying our propaganda on Colonial development as part of the counter-blast to Soviet offers of aid to all and sundry. I therefore asked the Department to investigate the matter, and you will see from the attached minutes that the story is, alas, substantially true.[1] The agreement was in fact signed last January but was kept secret. The exchange of notes is to be published as a White Paper on Wednesday of this week.

Further words fail me.

[1] Having consulted the FO, W G Wilson minuted on 23 Mar: 'The background to the agreement is wholly political, as one might expect . . . I gather that we have reaped certain fairly concrete political gains from the operation' (CO 1025/75).

432 CO 1025/82, no 26 26 Mar 1956

[Colonial savings certificates]: letter (reply) from Mr Macmillan to Mr Lennox-Boyd

You wrote to me on 25th January about loan finance for the Colonies, putting forward a scheme for Colonial Development Certificates as a supplement to normal loans on the London Market.[1] I am sorry that it has taken so long to reply.

I fear that the expedient you suggest is open to considerable objections. The Exchequer does not borrow for specific purposes, and we feel that all sorts of complications would follow if it did. There would be demands for special road loans and so on. This would weaken Parliamentary control and would be quite contrary to the whole conception of the Consolidated Fund. Nor would we expect that the new savings medium would really tap significant quantities of new money. The exemption from tax would amount to a new subsidy to the Colonies. We are already doing all that we can afford in this respect, and apart from that, the principle of a disguised subsidy of this kind is contrary to good Parliamentary practice. Then, although the memorandum enclosed with your letter draws a distinction between the scheme you propose and a U.K. Government guarantee of Colonial Government loans, the arrangements envisaged for issue of the Certificates on exactly the same terms as U.K. National Savings Certificates (*including U.K. Government security*) amount to the same thing. This is confirmed by the proposal in paragraph 7 of Appendix A, that in so far as repayments from the Colonies are insufficient to meet encashments,

[1] See 428.

H.M.G. would find the necessary cash, if only temporarily. This is surely as much a U.K. guarantee as anything can be. I am obliged therefore to say that the new scheme seems to me to have objections to it at least as great as the earlier proposals for Exchequer loans to which, as you know the Treasury cannot assent for reasons that have been fully expounded.

At the same time I fully understand your anxiety at the difficulties Colonial Governments are facing in raising funds on the London Market. I recognise the importance of the matter, and I appreciate that in view of the falling off of market loans in 1955, you may well be wondering how the 1954 plans for financing Colonial development are going to work out. But present conditions are, I hope, abnormal. In so far as they are due to measures we have had to take to restore our external position, we may hope that when they succeed we shall eventually get into a much easier position: that after all is one of the main purposes of these measures. It would be wrong in these abnormal times to attempt to make estimates of future market possibilities and base on them revised plans for several years ahead. Therefore, while some reassessment of the position may well be required, I do not think that it would be of any practical use to carry it out just now. I suggest we look at the question again in six months' time. I note that you say that no Colonial Government is in immediate difficulties, and I understand that Colonial capital formation is rising briskly. So it does not look as though a delay of six months or so would have any serious disadvantage. I feel I should add one point. If when we review the matter again, it still seems that there is likely to be a gap between estimated needs and prospective resources under the then current policies, I shall be glad to examine all suggestions for filling any gap; but I shall have also to ask that among the alternatives to be considered should be some slowing down of development expenditure in the Colonies in so far as it would depend on additional assistance from the U.K. Exchequer.

433 CO 1025/74, no 35 A 25 April 1956

[Colonial development finance]: letter (reply) from Mr Lennox-Boyd to Mr Macmillan

Thank you for your letter of the 26th March about my Colonial Development Certificates Scheme.[1] I think I must take up immediately the point in your last sentence in which you say that one of the possibilities we might have to consider would be some slowing down of development expenditure in the Colonies in so far as it would depend on additional assistance from the Exchequer. I know the immense difficulties you are facing, and I am doing my utmost to keep our calls on the Exchequer to the minimum. I also agree that if we were driven by lack of funds from more orthodox sources to seek an increasing measure of aid from the Exchequer, it would be necessary to consider very carefully the purpose for which that additional aid was required against the then situation of the United Kingdom economy. But you will, I hope, agree with me that to ask Colonial Governments to slow down their agreed development programmes would be a very serious step indeed, and one which

[1] See 432.

would cause us the most acute embarrassment not only in the political field (where our proposed participation in the Aswan Dam project and the like would be quoted against us) but also in the general economic relationship between the Colonies and the United Kingdom within the sterling area.

I am sure that our task must to be avoid such a step. It is for this reason that I have been giving so much thought to devising methods of ensuring an adequate supply of loan finance for this development without calling for further substantial aid from the Exchequer. I do not think we can, as you suggest, let matters rest as they are for another six months before we get down to the task of finding a solution to this problem; it is true that, at this moment, no Colonial Government is actually in difficulties, but this is mainly due to the system of short term advances operated by the Crown Agents through the Joint Colonial Fund. The time is rapidly approaching when actual difficulties will appear unless we are able to supplement the present arrangements; and already in 1956 we are faced with a Colonial Loans Programme of £31m. as against the £20m. which on the most optimistic forecast, is the most we can poossibly hope to arrange.

What then can we do? You have not been able to accept the Savings Certificate Scheme and, although I am writing to you separately about some of the arguments you used in objection to it, I do not wish to press this proposal further at this stage if you feel that that particular form of loan assistance to the Colonies would present you with especial difficulties. As an alternative which will not, I hope, be open to the same objections we have framed some proposals which I have asked my Department to put to your officials.[2] I very much hope that these proposals, with which I agree, will solve the short term problem—the need to find cash in the next few months—and also go some way to meeting the long term difficulty.

As I have said, my object in putting these various ideas forward is to attempt to find some way of meeting the legitimate needs of the Colonies without increasing the direct burden on the United Kingdom Exchequer. But in all conscience I do not think we could seriously maintain that Colonial Government loans in London have, over the last few years, represented much of a drain on U.K. resources. For public consumption both the Treasury and the Colonial Office have made use of the impressive nominal total of Colonial issues in London since 1949—about £130 m. or so. But in point of fact much more than half of the total Colonial stock has been taken up by the Crown Agents; and after making allowance for the purchases by the Crown Agents of Colonial stocks, and redemptions, the *net* annual investment by the U.K. public has been trifling during the last few years, as the following figures show:—

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[2] In a letter and memo to H L Jenkyns (Treasury, 1945–1966) on 28 Apr, A N Galsworthy proposed three possible methods of raising finance: (1) some colonial statutory corporations might use the London short term money market; (2) UK public departments might subscribe to colonial government stock; (3) the crown agents might issue colonial treasury bills in London (letter from Gaslworthy to Jenkyns, T 220/489, pp 9–11, 28 Apr 1956). In the Treasury it was felt that there might be a case for considering these proposals 'in order to avoid pressure for something worse, i.e. Exchequer loans' (minute by A K Rawlinson, principal, Treasury, 1955–1958, T 220/489, p 17, 4 May 1956). For later developments, see 449–451.

	Net addition to outstanding amount of Colonial stock	*Net increase in Crown Agents holding of Colonial stock*	*Amounts of loan taken up locally*	*Approximate amounts of increase in holdings by the U.K. public*
	£m	*£m*	*£m*	*£m*
1951	29	20½	1½	7
1952	30	14½	3½	12
1953	24	16	2	6
1954	17	13½	½	3
1955	4	3½	¼	¼

To a quite remarkable extent, therefore, the Colonies have been meeting their own and each others' loan needs during these years.

434 CO 1025/75, no 41 — 10 May 1956

[Colonial development finance]: letter (reply) from Mr Macmillan to Mr Lennox-Boyd

Thank you for your two letters of 25th April about Colonial borrowing in London.[1]

I am sorry that I was not able to return a more forthcoming reply to your letter proposing Colonial Development Certificates, but the difficulties set out in my letter of 26th March[2] seemed to me real ones, and I confess that they still seem so despite your comments on the points I made. But I will not continue the argument since you are good enough to say that you will not pursue the proposal for the present.

The Treasury shall certainly examine the new proposals being put forward by your officials and I note your personal support for them. I am grateful for your efforts to avoid recourse to any proposal for additional aid from the U.K. Exchequer as a solution to your present difficulties about loan finance. I quite agree that to ask Colonial Governments to slow down their development programmes would be a serious step, although how serious would surely depend on the degree of slowing down requested. In our present economic situation serious and unpalatable steps may have to be taken. I could not accept that Colonial Development should in all circumstances be exempt from review. But I certainly would not readily suggest such a step nor do I under-estimate the difficulties which it might cause. For the present, let us await the result of examination of the proposals you have now had put to the Treasury.

[1] See 433. [2] See 432.

435 CAB 129/81, CP(56)123 — 16 May 1956

'Kariba hydro-electric scheme': Cabinet memorandum by Mr Macmillan

My colleagues should be aware of the situation to which the attached report[1] officials

[1] Not printed.

have drawn attention. It is proposed that, following earlier understandings, we should now agree to make available from the United Kingdom loans to the total of £28 millions. Against this sum it is estimated that United kingdom firms are likely to get direct orders to the value of about £15 millions.

2. This is a very disappointing result. Although our prime reason for entering on this investment has been in pursuit of our policy for helping Commonwealth development, we have always made clear our interest that United Kingdom firms should play a substantial part in this very important project. The Federal authorities have been fully aware of this and have indeed amply demonstrated that they would like to place their orders with us; moreover, our people have enjoyed the advantages of British consulting engineers, British standards and Imperial Preference. We accepted that the contracts should be placed on the basis of international tendering, chiefly because the financial support of the International Bank was required.

3. When the result becomes known, there will undoubtedly be a considerable outcry and we shall be asked why we did not tie our loans to British goods and services. The President of the Board of Trade and I believe that we should have a good defence on this point, both because the bulk of the money we are lending is required for local expenditure (since International Bank money is not available for this purpose) and because it can be argued that we get advantages from free international competition in contracts of this kind. In so far as we can show that our firms have been beaten in fair competition, we can hold the position, particularly since we can point to the substantial opportunities which this vital development of the Federation will bring to our industry.

4. We should, however, be in much greater difficulty if it could be shown that contracts had been secured by foreign firms with the help of subsidies. No question of a subsidy appears to arise in the case of the main civil engineering contract for which an Italian firm is the lowest bidder. The question does arise, however, in the case of two other contracts; those for the transmission lines (valued at about £10 millions) and for the turbines (valued at about £1 million).

5. For the transmission lines contract the two lowest tenders are from Italian firms, and the third from a South African firm with Italian connections. We suspect, but are not yet in a position to prove, that the Italian firms are enjoying a subsidy. We are trying to ascertain the facts but it is clear that the subsidy element is not enough to account for the difference between the Italian bids and the rest. Moreover, if the Italian firms were eliminated because of the subsidy the contract would go to a concern which might get its pylons from Italy. The best of the purely British bids is much too high to come into consideration.

6. On the contract for the turbines the lowest bid is from a British firm who are most unlikely to be excluded. The second best is from a French firm who enjoy the benefit of a price variation guarantee from the French Government, in addition to the remission of the French social welfare charges in respect of their export business.

7. I have considered whether we should try to secure the general agreement of all concerned (i.e. the Federation authorities and the International Bank) that subsidised bids should be excluded. Although, as I have shown, the practical advantage to us in this case might not be very great, it would be a demonstration of the importance we attach to the elimination of export subsidies and show that we had introduced a valuable safeguard in agreeing to provide capital for the project. We are, however, up against a number of difficulties:—

(a) There is an important time factor in that our agreement to make our money available and to guarantee the Bank loan is required within the next few days if the Federation authorities are to be in a position to let the main contract in time to take advantage of the next dry season. If this is missed the whole project will be held up for at least a year.
(b) The International Bank will find great difficulty in agreeing to outlaw subsidy arrangements unless they can be shown to have been internationally condemned. (The French government subsidies have been give a further period of grace in the Organisation for European Economic Co-operation, and the fact that there is an Italian subsidy has yet to be proved.) Moreover it will be some weeks before the technical examination of the tenders is complete and the full facts about the various bids are known; in these circumstances argument on these cases with the Bank will inevitably lead to delay.
(c) It would be most difficult for us to link the question of subsidies with our agreement to release £10 millions. We have already told the Bank that the precise amount would be governed by our general policy towards such releases. This policy enables us to insist that about three-quarters of the release should be spent in the United Kingdom. We have not, however, hitherto claimed to impose a veto on subsidised bids.

8. Because of these difficulties and since we are likely to get the turbine contract in spite of the French subsidy, while the Italians seem likely to get the transmission line contract even discounting the subsidy element, my view is that we should agree to give the consents required to enable this project to go ahead. At the same time, however, I think we should make clear, both to the International Bank and the Federal authorities, our view that a contract should not be awarded to a firm whose bid is better than the next solely because of a subsidy.

436 CAB 128/30/1, CM 38(56)7 29 May 1956
'Kariba hydro-electric scheme': Cabinet conclusions

The Chancellor of the Exchequer said that a report had been received from Washington that the federal authorities of Rhodesia and Nyasaland would be prepared to give any assurance which would also be acceptable to the International Bank regarding the conditions on which contracts for this project would be awarded. The International Bank would not be willing to give an assurance in the terms which the Cabinet had previously considered, namely that contracts would not be awarded to firms whose tenders were more favourable solely because of a subsidy, and would seek to raise wider issues if this were pressed.[1] It would, however, remain open to us to place on record our views on the subject and it would be a further defence against criticism from industry if Ministers were able eventually to say that, after consultation with the Federation Government, they had satisfied themselves that no contracts had in fact been awarded to foreign firms whose tenders were more

[1] This is a reference to the Commonwealth preference system in relation to contracts of this kind. Macmillan had earlier explained to Cabinet that 'The Bank had been induced with some difficulty to accept the existence of the preference system and it would not be to our advantage to give them grounds for reopening that question' (CAB 128/30/1, CM 37(56)7, 17 May 1956).

favourable solely because of a subsidy. This would not give rise to difficulties with the International Bank. Alternatively, it might be considered whether we should go further than this and attempt to secure an assurance in advance from the Federation Government that no contracts "were likely" to be awarded to foreign firms whose tenders were favourable simply because of a subsidy. Despite the criticism which might be expected from industry at any failure to induce the International Bank to agree to satisfactory assurances, the fact remained that United Kingdom firms had obtained £70 millions worth of business from operations financed by International Bank funds towards which we had contributed only £20 millions.

The Lord President said that the Federation Government could be trusted to award contracts to United Kingdom firms if it were at all possible to do so. It would be embarrassing to them and it might prove embarrassing to us in other contexts if it became known that by seeking in advance an assurance of the kind proposed we had attempted to influence the adjudication of tenders. He therefore considered that it would be sufficient if Ministers were able to make a statement on the lines of the first alternative suggested by the Chancellor of the Exchequer.

The President of the Board of Trade said that this course would be acceptable to him—though, in view of the pressure to which he was subject from industry, he would have preferred some form of assurance, however limited, in advance of the adjudication on contracts.

The Cabinet:—

Invited the Chancellor of the Exchequer to arrange for further instructions to be sent to H.M. Treasury Representative in Washington in terms of the first alternative suggested by him in the course of the discussion.

437 CAB 128/30/1, CM 41(56)1 12 June 1956

'Trinidad Oil Company': Cabinet conclusions on the sale to the Texas Oil Company

The Cabinet considered a note by the Chancellor of the Exchequer (C.P. (56) 14) covering a report by officials on the considerations to be taken into account in determining whether consent should be given for the transfer of the British stockholding in the Trinidad Oil Company to the Texas Oil Company of the United States.

The Chancellor of the Exchequer said that, on the merits of the matter, the governing factor was that in the oil industry of to-day it was no longer possible for a small concern to flourish. The Trinidad Oil Company was not now capable of supporting itself in competition with the main oil companies. If, therefore, consent for its purchase by the Texas Oil Company were withheld, it would be necessary—unless the Government were to assume direct responsibility for it at a cost of £30 millions—to persuade one or other of the "British" oil companies to take it over. He had ascertained that, for good reasons, neither the British Petroleum, Limited (B.P.), nor the Shell Oil Company (Shell) would wish to absorb this company. Although B.P. had expressed some interest in the Canadian operations of Trinidad Oil if control over these could be secured in isolation, neither company considered that it would be to its commercial advantage to take over the company's production operations in

Trinidad or its distribution operations in the United Kingdom. There were no valid grounds on which either company could be pressed to modify this commercial judgment. For the reasons given in the memorandum annexed to C.P. (56) 140 there was, from the economic point of view, a balance of advantage in consenting to the proposed transfer provided that certain conditions, designed to safeguard the interests of Trinidad and our own balance of payments interests, were satisfied. If the Cabinet approved the transfer he would propose, as a first step, to convey these conditions to the Chairman of the Trinidad Oil Company.

The Colonial Secretary said that he had been reluctant to contemplate the sale of this important Colonial enterprise. He had, however, come to the conclusion that it would not be in the interests of Trinidad to refuse consent to this transaction. Although some anxiety had been voiced in Trinidad over the ultimate consequences of yielding control over the Island's oil to an American concern, the balance of opinion in Trinidad was in favour of the transfer. The Governor of Trinidad endorsed this opinion and supported the agreement of the Texas Company to conditions (b) to (h) set out in paragraph 15 of the memorandum. Of these, the condition that production and refining should be carried on by a company registered in Trinidad was particularly important from the point of view of trade relations.

In further discussion the following points were made:—

(a) It was understood that the Texas Oil Company were primarily anxious to secure a share in the distribution of oil in the United Kingdom. The Trinidad Oil Company, through the Regent Oil Company, had a 15 per cent. share of this market.

(b) The loss to British interests of the Trinidad Oil Company's business in Canada would be unfortunate, but it could not be regarded as decisive. The Canadian Government, who had been consulted, had raised no objection to the transaction.

(c) It was understood that the Texas Company were prepared to accept those conditions which were specifically designed to protect the interests of Trinidad. It was possible, however, that for reasons of taxation the company might find some difficulty in accepting the condition that production and refining operations in Trinidad should be carried out by a company registered there.

(d) It would tend to impair our relations with the United States if consent were withheld. It was our policy to press the argument that the United States as a creditor country should be ready freely to invest overseas; correspondingly, we ourselves wished to be free to build up and restore dollar-earning assets in the United States. The transaction would be put in its proper context if these points were given prominence in any public statement on the matter.

The Prime Minister, summing up the discussion, said that it was unfortunate that, on the eve of the formation of the Caribbean Federation, one of the most important industries in the West Indies should pass under foreign control. He had no doubt, however, that the transfer was in the best economic interests both of Trinidad and of the West Indies generally. It was evident that the Cabinet were agreed that consent to the transfer should not be withheld if the two companies concerned were prepared to accept the conditions set out in paragraph 15 of C.P. (56) 140.

The Cabinet then considered how the decision could best be presented to Parliament and to the public.

It was agreed that the Chancellor of the Exchequer should first communicate to Mr. Vos, the Chairman of the Trinidad Oil Company, the conditions on which the Government would be prepared to give their consent to the transaction and that, in

view of the great public interest in the matter, a Parliamentary statement should be made as soon as possible. The proposed transfer had, however, aroused considerable disquiet among Government supporters and it would be convenient if some guidance could be given to them before any debate took place in the House of Commons. This could not, however, be done before the Government's decision was announced, in view of the risk of speculation in the shares of the Company. For the same reason it was important that there should be the shortest possible interval between the communication to Mr. Vos and an announcement in Parliament. If Mr. Vos were to indicate that any of the decisions might prove unacceptable, the Parliamentary statement would have to be framed in somewhat more general terms indicating that the Government were prepared to consent to the transaction in principle provided that satisfactory conditions could be worked out in negotiation.

The Cabinet:—

(1) Agreed in principle that consent should be given for the transfer to the Texas Oil Company of the British stockholding in the Trinidad Oil Company, subject to conditions on the lines of those set out in paragraph 15 of the memorandum annexed to C.P. (56) 140.

(2) Authorised the Chancellor of the Exchequer to convey to the Chairman of the Trinidad Oil Company on 14th June the terms on which the Government were prepared to give their consent to the transaction, and thereafter to make an announcement in the House of Commons in the course of that afternoon.

438 CO 1025/76, no 49C 5 July 1956

[Problems of colonial development]: minute by Sir H Poynton to Mr Lennox-Boyd

I am afraid that I have held on to these papers for a little while, though I had a talk with the Minister of State recently when we agreed that I should try to get out a short list of points for a Departmental talk at which I suggest all three Ministers should be present, as well as Mr. Galsworthy, Mr. Wilson and myself. I was on the point of asking the Private Secretaries to try and arrange such a meeting when I heard from Mr. Galsworthy that the Treasury were now ready to discuss between officials the proposals about loan finance which you authorised us to put to the Treasury at the end of April.[1] A preliminary discussion took place last week and I attach a Note of the meeting with a commentary by Mr. Galsworthy.

I suggest that, if we have a meeting, its purpose should be mainly analytical.

I. I suggest that first we should discuss the diagnosis. *What is the fundamental cause of our general financial and economic difficulties in regard to Colonial development*? Is it, for example, due to wrong policies at home, to wrong policies in the Colonies, or is it the result of adversities to which there can be no quick cure?

I believe myself that it is very largely the last reason. You will remember that in connection with the Debate on Trinidad Oil I dug out for you, and you quoted to the House, the fact that Great Britain entered the second World War as the largest

[1] See 433, note 2.

creditor nation and emerged from it as the biggest debtor nation with a swing over to the bad of £6,000m. That is not something which any country can expect to recover from easily in a decade, particularly one which has virtually no raw materials of its own, and particularly when it concides with strong pressure for improved standards of living at home as well as for more rapid Colonial development. I do feel, however, that we must bear in mind all the time that the problem is fundamentally a balance of payments problem and not a budgetary problem. That incidentally seems to be the weakness of the "Braithwaite Motion",[2] which appears to confuse savings on the Budget with an improvement in the surplus on the balance of payments. Obviously savings on the Budget have some effect on the balance of payments insofar as one may be cutting out unnecessary imports for Government programmes, or may be freeing labour and factory space for the export trade. But to think that you can cut X pounds of the domestic budget and use it instead for Colonial development is a fallacy.

While, as I say, I believe this to be the fundamental cause of our difficulties, we must also recognise quite frankly that the advance of Colonies towards self-government is itself making it increasing difficult to raise long-term loans for them. The only real way of countering this is action by H.M.G. to strengthen the market for Colonial loans, by agreeing that the Public Departments may invest in them. Exchequer loans would not have this effect: they would simply provide an alternative source of loan finance, but would do nothing whatsoever to strengthen the market for Colonial securities. Indeed a system of Exchequer loans could conceivably even weaken the prospects for market loans.

II. *We should then, I suggest, consider in what particular sector of Colonial investment the shortage of funds is most felt.* Is it (a) in Exchequer grants? or (b) in Colonial Government loans? or (c) in private investment?

I think we can, for the time being, ignore (a). While admitting that the 1955 C.D.W. Act did not provide as much as we had hoped, I do not think that we are being seriously held up on this front and, in any case, there can be no question of increasing it so long as the present balance of payments difficulty continues. So far as (b) is concerned, if we ultimately persuade the Treasury to agree to the April proposals, I think we shall have gone a good way towards overcoming our difficulties regarding Colonial Government loans. (c) (Private Investment) is a more difficult problem. So far as home policy is concerned, the Chancellor's recent statement about overseas trading corporations and pioneer industries was very encouraging but, without wishing to appear ungracious, I must reiterate that the pioneer industry problem (which the Chancellor has definitely promised to tackle) is not really of first importance, though it engenders a lot of heat in the West Indies. It is the overseas trading corporation problem, which the Chancellor has not yet been able definitely to promise to tackle, which is the really important one.

III. We should also, presumably, consider to what extent it is practicable or sound policy to enlist further foreign capital for Colonial development.

In this minute I have not raised the much more fundamental question whether this country can continue to afford Colonial development on the present scale at all. But I know that there is a school of thought which holds that, if the available

[2]cf 464 & 476.

resources are too small to go round, we may have to begin to have a deliberate policy of shedding some of our Colonial burdens.

If you agree that a meeting would still be desirable perhaps you could ask Mr. Moreton[3] to make the necessary arrangements.

[3] J O Moreton, private secretary of S of S, 1955–1956; principal private secretary, 1956–1959.

439 DO 35/4243 13 Aug 1956

[Role of colonial development and welfare after colonies become independent]: letter from A K Rawlinson[1] to P H F Dodd[2]

We have been considering here the question of C.D.W. and former Colonies which attain independence. I had a word with Galsworthy about it, and agreed to write to you.

In the case of Malaya it has been agreed that when Malaya becomes independent, a sum of money equivalent to the unspent balance of any C.D.W. allocation will be made available. There is a possibility that a similar arrangement may be proposed for the Gold Coast, although the Treasury has not yet agreed to this. The same point may arise in other Territories.

The question with which I am concerned is just how this should be done, in Malaya and any other Territories where the arrangement is agreed. As soon as a Territory becomes independent, it ceases of course to be eligible for C.D.W. payments under the present C.D.W. Act. The Malayan agreement was worded with this difficulty in mind, so as to leave open the possibility of a lump sum payment from some other source, presumably the Colonial Services Vote. But there are objections to this. First, we have not hitherto made available C.D.W. money in a lump sum; we do it against specified schemes. There seems no particular reason why we should relax control completely at this juncture. Second and more important, the Treasury will naturally be very anxious to ensure that whatever sum is made available counts against the £120,000,000 total agreed for C.D.W. expenditure in the present quinquennium. Even if certain safeguards were recorded and understandings reached between Departments, it would be difficult in practice to prevent the sums becoming in effect new and additional money if they are paid from another Vote.

Our preliminary view therefore is that the best plan would be to include in the Bill which makes Malaya or [any] other relevant territory independent a clause which will have the effect of amending the existing C.D.W. Act so that payments can continue, within specified limits to the Territory concerned in accordance with the present C.D.W. procedure.

The question will also arise who should administer these payments. Presumably the Territories concerned will on independence pass from the Colonial Office to C.R.O. Presumably therefore the C.D.W. administration would go over to C.R.O. at the same time.

I should be grateful for your comments on these ideas, *and those of C.R.O.* I am sending a copy of this letter to Fairlie,[3] since he regularly deals with C.D.W. matters. No doubt this would when the time comes be dealt with in some other department of

[1] See 433, note 2. [2] P H F Dodd, principal, CO, 1950–1958. [3] M J Fairlie, principal, CRO.

C.R.O. But perhaps Fairlie would kindly deal with the matter for the time being, or else direct the letter to the proper quarter.

440 CO 544/1428, no 1 20 Sept 1956

['Colombo Plan' for West Africa]: inward savingram no 1582 from Sir J Robertson (Nigeria) to Mr Lennox-Boyd

Possibility of a "Colombo Plan" for West Africa.

2. This Savingram seeks to apprise you of certain discussions that took place during the last meeting of the National Economic Council and to ask you to indicate the lines along which you consider the question could most usefully be studied, with a view to a formal approach at a later stage.

3. The background to the matter is contained in a Memorandum by the Western Region Government, of which a copy is attached.[1] The National Economic Council, meeting on the 28th of August, welcomed in principle the suggestion that an approach should be made to you to promote the establishment for West Africa of some organisation similar to the Colombo Plan, and recommended that the Federal Government should examine the problem and consider how best the approach could be made.

4. This Government is aware that Her Majesty's Government appreciates the need for continued mutual assistance at a Commonwealth level if self-government for territories emerging from their previous colonial status is to mean more than the bare transfer of constitutional powers. This fundamental proposition was most clearly set out in your opening address to the Conference on British Caribbean Federation held in London last February, when you said:—

> "Self-Government means something more than the formal relinquishment by Her Majesty's Government in the United Kingdom of constitutional powers of control. It means that a country must be able to stand on its own feet economically and financially, that it can finance its own administration and that it is able and prepared to assume responsibility for its own defence and its own international relations to the extent that either is involved by its geographical or international standing. On the other hand, in these days no country is independent in the sense of being entirely self-contained and self-sufficient. Mutual help is one of the great principles of the Commonwealth and there is no reason why one member or group of members should not help other members with their economic development, perhaps on the lines of the Colombo Plan. . . . Unlike the situation where a state relies for its existence on outside help, there is nothing derogatory to a country's dignity in accepting the help of other partners to improve its economic situation and develop its resources to the general advantage of the partnership."[2]

5. In this context, the Report of the Conference goes on to record (paragraph 24 of Cmd. 8733) that proposals were put forward by the West Indian delegations in regard to outside assistance towards the economic and social development of the Caribbean area; and that Her Majesty's Government welcomed the initiative taken in raising this matter and undertook to consider the next step to be taken on it. It is in

[1] Not printed.

[2] See part II of this volume, 199.

view of the fact that Her Majesty's Government will already have been considering the problem in relation to the British Caribbean that it is thought opportune that the matter should be raised now in relation to the West African territories, bearing in mind the rapid approach to self-government of Nigeria and the Gold Coast, and the willingness already evidenced by these territories to assume the responsibilities and obligations involved.

6. It is naturally fully appreciated here that the formulation of a Colombo type Plan for West Africa presents complications, although these are in certain respects not dissimilar from those that arise in the Caribbean. In the first place, the background is not, as is broadly the case with the British Caribbean, one of small and scattered economies balanced precariously on an export trade in sugar, cirtus and bananas that requires the support of special marketing arrangements such as the Commonwealth Sugar Agreement—but, whether they are dependencies of metropolitan powers or independent states (as Liberia is now and, presumably, the Gold Coast will be in the very near future), there is a basic common pattern of poor communications, inadequate supplies of power, woefully scarce water supplies, educational facilities that cannot keep pace with the demand and, above all, a dearth of investment capital. Secondly, whilst several metropolitan powers are involved, co-operation between them for the common good is, as in the Caribbean, not a new thing: the Commission for Technical Co-operation in Africa south of the Sahara can for this purpose be regarded as comparable with the Caribbean Commission.

7. It is clear that any formal approach to you would involve consultation with the other British West African Governments, as well as, assuming that Her Majesty's Government is prepared to sponsor the proposal, an approach to the Dominions and, at a later stage, to the other metropolitan territories concerned and (if the Colombo pattern were to be followed) to the United States. At one stage, we had thought that informal talks might be initiated with the other three British West African territories before even an exploratory approach was made to you; but the references to the Caribbean which have been quoted above show that you have already been giving thought to the problem and suggests that your advice should therefore be sought from the outset.

8. It would therefore be appreciated if you would consider what line of approach you feel would be most constructive and favour this Government with the benefit of your advice, so that matters can be advanced before the next meeting of the National Economic Council (which is due to take place in mid-December). If at the same time you could provide a short factual summary of the operations of the Colombo Plan and of Her Majesty's Government attitude thereto, this would be most helpful, as the only material available here is contained in non-Government publications.

441 DO 35/6218, no 1 4 Oct 1956

[Role of colonial development and welfare after colonies become independent]: letter from A N Galsworthy to I M R Maclennan[1]

You will have seen the Governor's despatch enclosing Cuming-Bruce's [sic] letter to

[1] I M R Maclennan, assistant under-secretary of state, CRO, 1955–1957.

Laithwaite of the 18th July[2] about the vulnerability of an independent Gold Coast to Soviet economic penetration and the need to consider the possibility of giving external aid after independence. You may also know that the Gold Coast have suggested that the Independence Bill should include a clause enabling the territory to continue to draw after independence the unspent balance of their existing C.D. & W. Allocation.

2. A similar point has arisen over the Federation of Malaya where Her Majesty's Government has already undertaken to continue after independence financial aid towards the armed forces expansion programme and to make available in some form or other a sum equivalent to the unspent balance of the Federation's C.D. & W. allocations.

3. We have been considering these two cases in relation to the general question whether C.D. & W. aid could and should be continued to former Colonies after they have become fully self-governing members of the Commonwealth and if so by what method. In this connection you will probably have seen Rawlinson's letter to Dodd of the 13th August, which was copied to Fairlie.[3] We have now reached tentative conclusions on these points. We recognise that they are of even greater concern to the C.R.O. than to ourselves and that you will already have been giving thought to them, but I am sure you will agree that we ought to try to co-ordinate our views in consultation with the Treasury before a submission is made to Ministers, and what follows is intended as a basis for discussion between the Treasury, the C.R.O. and ourselves which we hope will lead to agreed proposals for submission to our respective Ministers. The need to complete work on the Gold Coast Independence Bill at a very early date makes it urgent to conclude our discussions as quickly as possible.

4. The starting point in our consideration of the policy question whether U.K. financial aid should be continued after independence has been the report of the Malayan Constitutional Conference of January and February 1956, summarised in paragraphs 36 and 37 of Command 9714. H.M. Government is in any case committed to help the Federation to the tune of £7.29 million for the agreed Armed Forces Expansion Programme up to 1962, of which some £5.5 million seems likely to remain unspent by August next year which is the agreed target date for the Federation to be granted independence. At the Malayan talks a possibility was envisaged that further U.K. aid towards the capital costs of expanding the armed forces, additional to the £7.29 millions programme, might be given if proposals for this were agreed between the U.K. and the Federation. The unspent balance of the Federation's territorial C.D. & W. allocation seems likely to be about £4 million on the same date. In addition to these commitments of some £9½ million H.M. Government has undertaken to consider the need for further special assistance towards the Emergency if—as now seems likely—the Emergency has not ended by the date of independence. Apart from the Federation's territorial C.D. & W. allocation there is sub-allocation of Central C.D. & W. funds for the University of Malaya and it seems unlikely that all the C.D. & W. money provided for University expenditure in the Federation will have been exhausted before independence. There is also a possibility that commitments from other Central C.D. & W. funds, e.g. for research, will not have been fully discharged by that time. The two latter points are of

[2] cf BDEEP series B, R Rathbone, ed, *Ghana*, part II, 238 & 240.

[3] See 439.

relatively minor financial significance but it seems clear that in any case there will be a sizeable annual U.K. contribution towards the Federation's defence and development needs for some years to come.

5. It is against this background that we have considered the request of the Gold Coast mentioned in paragraph 1 of this letter. It is the Governor's view that if all direct U.K. aid were cut off from the Gold Coast when it attains independence it would increase the risk of the Gold Coast breaking the link with the Commonwealth and the Western Powers. This of course raises much wider issues than the problem of what is to be done about the C.D. & W. assistance which is now being provided to the Gold Coast in accordance with previous commitments. But the Governor's assessment is relevant to this latter question; and both for this reason and having regard to what we have already promised to the Federation of Malaya we consider that it would be politically most unwise to cut off the relatively small volume of development aid which, arising from previous commitments, is at present going to the Gold Coast through the C.D. & W. channel.

6. The Gold Coast estimate that there will be unspent at the date of independence just over £1 m. of the C.D. & W. money they have been given in the past, comprising nearly £750,000 of the Gold Coast territorial allocation and £350,000 from Central Funds for the Kumasi College of Technology. In addition, the Gold Coast gets some small benefit from C.D. & W. Central Higher Education funds, and also enjoys C.D. & W. assistance through its participation in a number of West African Regional Research Organisations to which C.D. & W. Central Research funds are committed to make annual contributions up to 1960. The notional Gold Coast share of such contributions amounts to about £500,000 up to 1960. We had previously hoped that, after attaining independence, the Gold Coast would be able to increase its contributions to these Research Organisations, with corresponding relief to C.D. & W. Research funds. We have recently heard that there are considerable doubts as to whether the Gold Coast will be able to do so. But we consider it essential that the Regional Research Organisations, which are an important channel of British influence, should not be allowed to decline if the Gold Coast are unable to contribute at more than their existing level.

7. We realise that what we do now for the Gold Coast and Malaya will inevitably set a pattern for the future. Assuming the general political and economic climate of world affairs remains substantially unchanged when the time for Nigerian independence comes, it would clearly be very difficult to adopt for the Nigerian territories a policy less favourable in this particular matter of C.D. & W. assistance than what we have already promised to the Federation of Malaya and what we feel we must now accord to the Gold Coast.

8. If the policy recommended in paragraph 5 of this letter in relation to the Gold Coast is accepted we have to consider how to give effect to it, and also to our undertaking to the Federation of Malaya regarding the balance of their C.D. & W. monies (*vide* paragraph 2 above). We have considered the possibility proposed in Rawlinson's letter to Dodd of the 13th August that the Gold Coast and the Federation should remain eligible under the C.D. & W. Acts and should continue to draw this assistance under the present rules until the schemes had been completed. We are advised that if nothing is said on this point in the Independence Bills and those Bills provide that these territories will form part of H.M.'s dominions, they would continue to be eligible for C.D. & W. aid until a new substantive C.D. & W. Act was

passed. Technically therefore there would be no difficulty as regards the Gold Coast if this solution were adopted; but it is by no means certain that the Federation of Malaya will remain part of H.M.'s dominions in the requisite sense, in which event it would be necessary to include a suitable provision in the Malayan Independence Bill. Leaving the technical position aside, however, we are doubtful whether it would be suitable or proper to extend the eligibility of these territories beyond the date of full independence within the Commonwealth. The main disadvantages of seeking to continue C.D. & W. aid in its present form seem to be:

(i) that it could be interpreted as contrary to Parliament's intention: C.D. & W. was intended for dependent territories and the countries to which the Statute of Westminister, 1931, applies were never intended to be included in its scope;
(ii) the detailed system of control and accounting which applies to C.D. & W. expenditure is not really appropriate for aid to independent countries: in particular it would be difficult to enforce more than a very general control over development expenditure in the independent territory and it would be undesirable to seek to apply the normal C.D. & W. procedural rules when we might not be able to enforce them.

Ways and means might be found of overcoming the difficulties under (ii) above but (i) seems to be a substantial objection.

9. We have therefore looked for some other method. The solution we should prefer is that this assistance should be provided through the Commonwealth Services Vote. Various forms of aid to independent Commonwealth countries are already provided for in that Vote, for example Colombo Plan aid. It might be that development aid to the Federation could in some way be integrated with the Colombo Plan. Our feeling is that if that could be done it would be likely to be much more welcome to the Federation than the direct continuance of C.D. & W. assistance. Subject to your views and to those of the Treasury there seems no reason why the Gold Coast should not similarly receive development aid under the Commonwealth Services Vote even though in this case there is no ready made regional plan into which it could be fitted. Our broad conclusions on procedure, which we would like to discuss with you and the Treasury, are therefore that:—

(a) the assistance we have hitherto been providing to the Federation of Malaya and the Gold Coast through C.D. & W. should, after they have attained independence, be provided through the Commonwealth Services Vote;
(b) that the Gold Coast and the Federation of Malaya (unless the latter territory becomes an independent territory not part of H.M.'s dominions) should be expressly declared ineligible for further issues of C.D. & W. money after they have attained independence, by means of an appropriate clause in the respective Independence Bills.

This seems to us to be a logical method of proceeding, and one more appropriate to independent status.

Making due allowance for the differences which exist between the nature of C.D. & W. assistance and that of assistance through the Colonial Development Corporation, (b) above would be in accord with the spirit of the policy which, in agreement with the Treasury and the C.R.O., has been decided on in regard to the position of the C.D.C. in relation to territories which achieve independence. Briefly, when a

territory to which the Overseas Resources Development Act of 1948 applied achieves independence, the Corporation would not be debarred on legal grounds from continuing to operate in that territory. On grounds of policy however it has been decided that, though the Corporation must be able to carry on with schemes which were in existence before the change of status took place, they should not be permitted to embark on any new schemes in a territory after it achieves independence.[4] We are now considering urgently whether this policy should be reflected in a suitable provision in the Gold Coast and Federation of Malaya Independence Bills.

10. In his letter of the 13th August Rawlinson explained that if this continuing assistance were made available from a source other than C.D. & W. the Treasury would be very anxious to ensure that whatever sum were provided in this way would count against the £120 m. total agreed for C.D. & W. expenditure in the present quinquennium. We admit that *prima facie* there is validity in this argument. But there seem to us to be valid arguments in the other sense. I have mentioned above that continued eligibility for C.D. & W. assistance of independent territories would in our view be contrary to Parliament's intentions; and if it is accepted, as it has been for the Federation of Malaya, that a measure of development aid should continue to be given after independence, we think there is a strong argument that sums authorised by Parliament for expenditure in dependent territories should not be affected by a later and separate decision to give some aid to independent territories. The amount involved would be of the order of between £5 and £6 million out of £120 million, and it could perhaps be argued that this is not very significant either way, especially when we remember that the £5 to £6 million would not be spent all at once but would probably be spread over several years. But our main point is that we consider it right in principle and more defensible in Parliament to provide assistance for independent territories outside the C.D. & W. total; and our view is therefore that if the proposal in paragraph 9 above is agreed the sums in the C.D. & W. Act should remain unaltered and that the £5 or £6 million saved should go to the Central C.D. & W. reserve.

11. I am sending a copy of this letter to Tony Peck[5] at the Treasury and I am also sending him a copy of the Gold Coast despatch referred to at the beginning of this letter. I think it would be most useful if you, the Treasury and we here could meet to discuss these various matters. It is urgent to settle something for the Gold Coast without delay, since Instructions must be given to Parliamentary Counsel within the next ten days or so about the contents of the Gold Coast Independence Bill. I will therefore get in touch with you and Tony Peck as soon as you receive this letter to see if we can arrange a meeting. I should also mention that Sir Ralph Hone[6] spoke recently with Sir Hilton Poynton about the instructions that will have to be given on this subject in connection with the preparation of the Gold Coast Independence Bill, and it would therefore be extremely helpful if you could show him this letter so that he may know exactly how matters stand.

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[4] See 459.

[5] A D Peck, assistant secretary, Treasury, 1950–1959.

[6] Sir R Hone, assistant legal adviser, CO, and head of legal division, CRO, 1954–1961.

442 CO 554/891, no 8 10 Oct 1956

[Role of colonial development and welfare after colonies become independent]: minute by P H F Dodd on a CO-Treasury-CRO inter-departmental meeting

(8)[1] was discussed this afternoon at the Treasury with Mr. Peck and Mr. Rawlinson at a meeting attended by Mr. Hunt,[2] C.R.O., Mr. Galsworthy, Mr. Vile and myself.

2. The Treasury could not accept our proposals as they stood and in particular refused to contemplate the suggestion in para. 10 of (8).[3] We did not press this one.

3. After much discussion it was agreed:—

(i) that the Treasury would submit to thier [sic] Ministers for a very early decision the question whether the Gold Coast should receive from the U.K. aid after independence equivalent to the balance of the territorial and Kumasi C.D.W. allocations at the date of independence;
(ii) that this would be without prejudice to the question how this aid would be made available (through the continuance of C.D. & W. or other means);
(iii) that the C.O. would ask Legal Advisers to draft on the basis of the exclusion of the G.C. from all C.D. & W. assistance w.e.f. the date of independence;
(iv) that the covering despatch to the Gold Coast should explain that the C.D. & W. clause should be regarded as provisional, since the S. of S. was still considering the means by which the unspent balance of the C.D. & W. allocations should be made available.

4. Para.3(iv) above assumes that a favourable decision has been reached on para 3(i) and the despatch cannot go until we have heard from the Treasury on this point, but drafting may at least proceed so that the despatch can be sent without delay as soon as the Treasury decision is known.

5. Indications are that the Treasury may give way on 3(i) above, possibly with some attempt to limit the further aid to the balance unspent on existing schemes, as distinct from allocations. The Treasury are still attracted to the idea of continuing C.D. & W. procedures for any aid that may be given, even if this involves complicated legal drafting to distinguish between future eligibility and existing schemes, but they were somewhat shaken by our account of the difficulties and objections attached to this and we may possibly prevail in the end with our view that the Commonwealth Services Vote is the right medium.

6. The C.R.O. started off rather unhelpfully but in the end came round broadly to our views.

7. Mr. Eastwood will wish to see urgently with particular reference to paras. 3 and 4 above.

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[1] ie, 441.

[2] D W S Hunt, assistant secretary, CRO, 1952–1959.

[3] Vile noted that the Treasury officials' 'experience with Jordan and Libya leads them to believe that there is in fact no easy or satisfactory method of giving financial assistance to independent countries' (minute by Vile, CO 1025/74, 11 Oct 1956).

443 CO 554/891, no 13 19 Oct 1956

[Role of colonial development and welfare in independent Ghana]: letter from A D Peck[1] to A N Galsworthy.

I am writing to confirm what I think Rawlinson has already told you, namely that we think it would be wrong to allow the Gold Coast to be given access to the remainder of her C.D. and W. allocation. You are, of course, familiar with the line of argument which leads us to this conclusion since we discussed the matter at considerable length when you were kind enough to come over. I need, therefore, only summarise our arguments which are:—

(i) that C.D. & W. money is intended for colonies and not for independent members of the Commonwealth;
(ii) that in our present very difficult financial situation it is vital to retrench wherever we can. The amount involved for the Gold Coast must be no more than marginal. I believe that her revenues are running £50–55m. and that she has reserves of £60m.
(iii) Just as the case for a concession on financial grounds is extremely weak, the case on political grounds for making some gesture is far from convincing. Given our policy of concentrating our resources on areas where we have vital interests at stake, it would seem quite wrong to expend them in the Gold Coast. Surely it cannot be argued that a refusal to make the money available would do very serious political damage in an area in which we are vitally interested?

I should perhaps add that we think that our case is reinforced by the fact that we are still faced with the possibility of having to pay up large sums of money in the years ahead for the Volta River project.

I am copying this to Hunt in the Commonwealth Relations Office.

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[1] See 441, note 4.

444 CO 554/891, no 14 23 Oct 1956

[Role of colonial development and welfare in independent Ghana]: letter from Mr Lennox-Boyd to Mr Macmillan

Our officials have been discussing the question of making available to the Gold Coast after independence the unspent balances at that date of their existing Colonial Development and Welfare allocations. The amount involved at that date will be about £1 million.

I understand that you considered this question last week and took the view that the Gold Coast should not be allowed to draw this money.

I must beg you most earnestly to reconsider this decision, for I am convinced that it would have really serious repercussions in the Gold Coast. As you know, the Gold Coast will be the first of the 'black' British African territories to achieve independence within the Commonwealth, and the experiment is therefore a most vital one since it will inevitably profoundly influence the course of future political development not only in our African territories, but throughout the Colonial Empire. One of

the prime objectives of our policy in recent years has therefore been to hand over power in a spirit of amity and goodwill in an endeavour to ensure that the future State of Ghana maintains a friendly attitude towards the United Kingdom and the Commonwealth in general. There is no doubt whatever in my mind that the withdrawal of United Kingdom funds *which have in fact already been allocated to the country*[1] and which, rightly or wrongly they have always counted on getting, would be regarded locally as a most unfriendly act, and would very seriously prejudice the good relations which in other ways we are making such strenuous efforts to preserve.

We cannot moreover be unmindful of the fact that fairly considerable sums of United Kingdom money are to be allocated to the Federation of Malaya after the attainment of independence by that country. This fact will be public knowledge and even though it might be argued that the Emergency situation in the Federation puts that country into a special category, the fact that differential treatment in this respect is meted out to the Gold Coast might well create a sense of grievance which would continue to rankle for many years to come. As you know, African politicans suffer from an inferiority complex and would be bound to feel this kind of discrimination most keenly.

These arguments are strengthened by those adduced in a letter from Cumming-Bruce (the C.R.O. representative in Accra) forwarded under cover of a despatch from the Governor of the Gold Coast dated 18th July (of which your Department has a copy) about the dangers of Soviet economic penetration after independence.[2] The reality of the fears expressed in that memorandum has been emphasised by recent events in Egypt. He was arguing (and the Governor agreed with him) that after independence continued financial assistance over and above C.D. & W. money might well be needed to prevent them turning to other less desirable quarters. That is not the immediate point: it will have to be considered separately: but if it can seriously be argued even now that assistance over and above C.D. & W. is necessary, a *portion* on the scale of the unexpended C.D.W. allocations is at least required.

I should like in particular to mention that a considerable proportion (£350,000) of the unspent C.D. & W. allocations consists of funds allocated to the Kumasi College of Technology on the advice of my Advisory Committee on Colonial Colleges of Arts, Science and Technology. This College is of the first importance to the Gold Coast, since it is the main local source to which the country must look for future supplies of the trained technicians for which there will be an ever increasing need in the years as the expatriate staff gradually leave and as the economic development of the country gathers momentum. It is, I suggest, an important long term economic interest of the United Kingdom that the teaching and general influence in this College should be British so that the future technical staff throughout the Gold Coast will naturally tend towards using British specifications and British equipment. To cut off British aid at this stage might well lead to other influences and other trade connexions ousting us. It is also not unimportant from the political standpoint that the College is situated in the heart of Ashanti, which is the stronghold of the Opposition movement within the Gold Coast.

I am also most anxious that we should not do anything which would cause the Gold Coast Government to break away from the various Inter-territorial research

[1] Emphasis throughout in original.

[2] See 441, note 1.

organisations in West Africa in which they at present participate. This would have damaging effects outside the Gold Coast.

The main arguments for allowing this money to continue to be made available to the Gold Coast after independence are political. I should, however, say that from the economic standpoint Gold Coast Ministers are certainly (and rightly) convinced that they are faced with a period of genuine economic difficulty involving serious retrenchment of expenditure. During recent years the social and educational services of the country have been considerably developed—for which there was a great need—with the result that the Government is now faced with a substantially increased bill for recurrent expenditure. This coincides with a drastic slump in the world price of cocoa which is the main source of the country's livelihood. It would be completely inconsistent with the advice which we have given to the Gold Coast in the past to suggest that funds should be withdrawn from the Marketing Board reserves for general revenue purposes. It is not unfair to say that the Gold Coast's need for financial assistance from the United Kingdom is now and will in the period immediately following independence continue to be considerably greater than it was at the time that these C.D.W. funds were allocated. I do not think therefore that we should have any difficulty in justifying this assistance to the Gold Coast on economic grounds.

I agree that it will probably be inappropriate to allow the Gold Coast to draw the money after independence under the C.D. & W. Acts as such. That is not, however, the point at issue: what we are concerned with is the question of allowing the money to be made available *in some form or other.* One possibility which has been suggested is that the money should come from the Commonwealth Services Vote. That is, however, a question of mechanics which can be discussed later between our officials and which should not be allowed to influence the decision on the point of substance.

A decision on this matter is needed extremely urgently because it affects the drafting of the Gold Coast Independence Bill. The parliamentary timetable to which we are obliged to work if we are to adhere to our present undertaking to award independence by the 6th March, 1957 makes it essential that we should have a decision on this point within the next day or two. If you feel that it would make it easier to reach an early decision, I shall be very glad to discuss with you.

I am sending a copy of this letter to Alec Home.

445 DO 35/6218, no 5 24 Oct 1956

[Role of colonial development and welfare in independent Ghana]: letter from Lord Home to Mr Macmillan

My dear Harold

Lennox-Boyd has sent me a copy of his letter[1] to you about the unspent allocations from Colonial Development and Welfare allocations to the Gold Coast likely to exist when the Gold Coast becomes independent on 6th March, 1957.

2. We know from experience in Asia that the lack of trained men, whether administrators, professional workers, engineers, or technicians of all grades con-

[1] See 444.

fronts the Government of any under-developed country achieving independence with perhaps its greatest problem. There are no arrangements for technical aid in African territories such as we support in Asia under the Colombo Plan. It would seem all the more necessary, in these circumstances, to strengthen, wherever possible, technical training facilities in the Gold Coast, and to be seen to be doing so. In the meantime I am sure that it is necessary as a transitional measure to let the Gold Coast draw somehow her unspent balances under C.D. and W. or their equivalent.

3. The Gold Coast Government will be discussing with the International Bank Mission which is going there shortly, both the scope of their economic development plans and the resources available to meet them. No doubt in doing this the Gold Coast Government will take into account Colonial Development and Welfare funds allocated but not yet used. Both parties in these discussions will presumably be assuming in all good faith, in the absence of any knowledge to the contrary, that the allocations, once made, will stand until utilized.

4. Apart from these points, the arguments advanced by the Colonial Secretary in favour of making unspent allocations of Colonial Development and Welfare funds available in some form or other to the Gold Coast after Independence seem to me to be both sound and powerful. It would be bound to be most damaging to the new relationship we hope to establish with the Gold Coast, for which the Commonwealth Relations Office will be responsible, if we appear to be mean in this matter, and especially if we appear to be treating the Gold Coast differently from Malaya.[2] I very much hope that after further consideration you will feel able to meet in principle what is now proposed.

5. At the same time I would like to ensure that unspent allocations are given to the Gold Coast in a way which makes it clear that they constitute a purely transitional payment and are a purely residual legacy from the past. The payment will have to be presented in a way which gives no possible justification for it to be regarded by the Gold Coast as a precedent for continuing aid from us. If we have to consider giving the Gold Coast aid after it achieves independence, e.g. for technical assistance, that is a matter which will have to be considered separately and later on. But I do not expect any difficulty over this purely presentational point.

Yours ever
Alec

[2] cf in this respect, BDEEP series B, R Rathbone, ed, *Ghana*, part II, 377.

446 CO 554/1428, EDA(56)1 29 Oct 1956

'International co-operation for economic development in Africa': CO minutes of a meeting of a Working Party on International Co-operation for Economic Development in Africa[1]

1. *Title of Working Party*
It was *agreed* that the Working Party should be entitled "Working Party on International Co-operation for Economic Development in Africa".

[1] This was a CO-FO-CRO working party with A N Galsworthy in the chair.

2. *Terms of reference*
It was *agreed* that the terms of reference of the Working Party should be:—

"to consider whether there is a need for any new inter-governmental machinery for economic development in Africa and, if so, what form that machinery should take".

3. *Membership of Working Party*
The Working Party considered whether other Government Departments should be invited to join the Working Party.

It was *agreed*:—

(1) that the Treasury should be invited to send a regular representative.
(2) that the question of inviting other Departments might be considered if it became apparent as the work developed that an enlarged representation was desirable.

4. *Circulation of papers*
It was *agreed* that 4 copies of the Working Party documents would be sent to the F.O. (Mr. Maxwell) and 2 copies to the C.R.O. (Mr. Thomson). The Secretariat would also arrange for internal circulation of papers in the Colonial Office.

5. *Discussion of work to be undertaken*
The Chairman said that there was two factors to be considered in assessing whether there was a need for the establishment of any new inter-governmental machinery for economic development in Africa:—

(a) the purely economic factor—what were the needs of the territories in the area, what resources were available to meet those needs, and whether any new machinery could be expected to mobilise additional resources (e.g. from the United States or Western Europe).
(b) the political factor. There were three constitutent elements of this factor which had been suggested by the Foreign Office:—

(i) that some sort of inter-governmental machinery for economic co-operation in Africa would be a stabilizing force in the area;
(ii) that it might help to counter Soviet economic penetration and influence; and
(iii) that it might provide an outlet for new finanancial resources from Europe, notably Western Germany.

The Chairman suggested that the Working Party should first reach a conclusion on the geographical area to be covered, since the decision on this point would affect the relative weight to be given to some of these factors. The following points were made in discussion:—

(1) The Colonial Office would be firmly opposed to the inclusion of Egypt in any plans for international co-operation in promoting the economic develoment of Africa, in view of Egypt's Pan-Arab imperialism. If Egypt's exclusion were accepted, the exclusion of the Arab countries of North Africa followed. In any case their economies were quite separate from those of Africa south of the Sahara. The

problem of aligning these North African countries with the West would therefore be outside the scope of the Working Party.

(2) A line drawn below Egypt and North Africa would include, in the Horn of Africa, Ethiopia, British Somaliland, Somalia and French Somaliland. It was recognised that there were special problems in this area, but it seemed unlikely that Ethiopia would refuse to join an organisation in which British Somaliland participated if she thought there were material advantages in membership. It seemed likely that the same would be true of British Somaliland *vis-à-vis* Ethiopian participation. There would be advantage in including the Sudan.

(3) It was difficult to say whether the Governments of Belgium, Portugal and Spain would be interested in respect of their territories in Africa, but it would be consistent with the objective to include them, as well as French West Africa and French Equatorial Africa.

(4) Liberia would have to be invited to participate. Her inclusion might incidentally facilitate an approach to the United States as a potential 'donor' country.

(5) There would be both political and economic reasons for inviting the Union of South Africa to participate: she might also be regarded as a potential 'donor'.

(6) The British dependent territories in East and West Africa should be included. It would also be important to invite the Gold Coast. The West African territories might be keen to participate in any international scheme, but there was a danger that they would be disillusioned if no additional assistance was forthcoming as a result. The East African territories would be likely to be more sceptical about participating unless there was a definite promise of more economic assistance.

(7) There would be likely to be strong political objections to excluding the High Commission territories from the scope of any plan for international co-operation in the economic development of Africa, but the Commonwealth Relations Office would wish to give further consideration to the position of these territories in relation to any proposals that might be made by the Working Party.

(8) The Central African Federation would expect to be associated. The Federation might be a potential contributor of technical assistance but its main interest would be in obtaining more capital.

It was *agreed* that (subject to further consideration being given by the Foreign Office to the position of the North African countries) the Working Party should proceed on the assumption that, if it were decided that some form of intergovernmental machinery should be established, the countries in Africa which would logically have to be included would be the territories within the geographical scope of the C.C.T.A., plus Liberia, the Sudan, Ethiopia, British Somaliland, Somalia, French Somaliland and the Spanish territories.

The Working Party then discussed the needs of the African territories and the existing resources for meeting them. *The Chairman* said that, so far as the British dependent territories in Africa (and particularly in East Africa), were concerned, the essential need was for more capital for basic development. The Colonial Office had pretty detailed information about the extent of the requirements of the British territories up to 1960. C.D. and W. funds were limited, and it was not proving possible to raise anything like adequate amounts of loan finance from the London market. The Colonial Office were discussing with the Treasury various possible ways of increasing the flow of loan finance from the London Market to the Colonies.

Generally speaking, the needs of the independent territories for technical assistance were probably greater than those of the Colonial territories.

The following points were made in discussion:—

(1) Attempts by the Colonial Office to obtain capital from European countries on acceptable terms had so far been unsuccessful. Negotiations with the Swiss Banking Corporation for a loan for the East African Railways and Harbours Administration had recently broken down owing to Swiss insistence on a U.K. Government guarantee, which we would not be willing to give. Another difficulty likely to be encountered was that Western European countries would provide loan finance only on the basis of its being either wholly or partially tied to expenditure in the creditor country. The Foreign Office representative doubted whether the existence of an inter-governmental organisation would lead these countries to depart from the policy of tied loans.

(2) Recent indications were that the I.B.R.D. were getting near the limit for the time being of the amount of money they were prepared to invest in Africa.

(3) As far as the dependent territories in Africa were concerned, the attitude of the U.S. Government appeared to be that the lion's share of external finance for dependent territories should come from the responsible metropolitan power.

(4) There would be little justification for proceeding with proposals for establishing machinery unless it was likely to result in providing substantial additional capital over and above what could be obtained already through existing machinery. To interest potential donor countries the case would have to be made out as much on political as on economic grounds.

Conclusion

It was *agreed* that the following papers should be prepared for the next meeting:—

(1) a paper by the F.O. on the possibility of attracting capital from Europe and the United States, and the conditions on which such capital might be provided, with particular reference to the question whether the establishment of any new inter-governmental machinery would be likely to lead to the provision of additional capital from these sources.

(2) a paper by the F.O. on the potential threat of Soviet economic penetration, showing which territories in Africa were, in the view of the Foreign Office, likely to be most susceptible.

(3) a paper by the Colonial Office on the development needs of the British dependent territories in Africa.

447 CO 554/891, no 28 16 Nov 1956

[Role of colonial development and welfare in independent Ghana]: letter from Mr Lennox-Boyd to Mr Macmillan

[Macmillan had not been convinced by the arguments presented by Lennox-Boyd in his letter of 23 Oct (see 444). Accordingly the two ministers began preparing to take the matter to Cabinet (letter from Macmillan to Lennox-Boyd, CO 554/891, no 18, 30 Oct 1956; letter from Lennox-Boyd to Macmillan, CO 554/891, no 20, 1 Nov 1956).]

I wrote to you on the 1st November about the Gold Coast Development and Welfare allocation.

Since then the situation has changed in two ways. Recent discussions between officials in our two Departments, the Foreign Office and the Commonwealth Relations Office have led to the conclusion that United Kingdom funds will have to meet, in one way or another, a claim by the Swiss Government to the tune of about £350,000 for damage suffered by a Swiss firm trading in the Gold Coast during the 1948 riots; and the Gold Coast Government have just told us that the unspent C.D. & W. balance of their territorial and Kumasi College allocations is likely on independence day to be only of the order of £650,000 and not of £1 million.

I need not trouble you with the details of the Swiss claim which are known to your officials. The important point is that, while technically the liability rests on Her Majesty's Government in the United Kingdom, we had earlier hoped to persuade the Gold Coast Government to settle the claim, possibly by means of a loan to the Swiss firm concerned, with some limited assistance from the United Kingdom. It is now clear that a loan is completely unacceptable to the Swiss. We already knew that the Gold Coast Government would find great difficulty in obtaining legislative authority for a straight payment to the Swiss firm concerned. There would also be the very serious risk that by drawing public attention to the matter claims would be stimulated from other foreign Governments to a total of up to £2 millions, for which we (that is the United Kingdom Government) would be liable in international law. Even if we could persuade the Gold Coast Government to run the considerable political risks involved in putting the case at all to their legislature, they would still expect us to take such a payment fully into account when deciding our policy about the unspent balance of their C.D.W. allocation. The same result can be achieved without running into these difficulties in the Gold Coast by abating the amount which we might otherwise have made available to the Gold Coast by the amount of the Swiss claim; and this is now my proposal. I recognise that this does not completely meet the point of principle that Colonial Governments should accept full responsibility for compensation for riot damage, but I am sure that it is sufficiently in accord with that principle to avoid any unfortunate precedent; and with the Gold Coast on the verge of independence there is no way of compelling them to accept that responsibility if (as might well be the case) they refused to do so.

I therefore propose that we should pay the £350,000 to the Swiss, that the Gold Coast should be given the Kumasi College C.D. & W. allocation of £350,000 through the Commonwealth Services Vote but no more; instead they should surrender the rest of the balance of the territorial allocation, which is at present estimated at £300,000 but which may well turn out to be higher. The arrangements to give effect to these proposals could be made administratively and need not be written into the Ghana Independence Bill, although Parliament would probably have to be told about the Kumasi allocation. The Bill would then simply disqualify the territory for C.D. & W. assistance after independence day, subject to adjustments in respect of expenditure before that.

These proposals are more modest and perhaps less difficult from your point of view than my earlier ones and I hope that we may be able to reach agreement on them without reference to the Cabinet. A decision on this matter is required urgently because it affects the text of the Bill which (subject to the Legislation Committee) is likely to have its first reading before the end of this month; and before the Bill is

published we need a few days in which to tell the Gold Coast of the decision.

My officials have discussed these proposals with their opposite numbers at the Foreign Office and the Commonwealth Relations Office. I am sending copies of this letter to Selwyn Lloyd and Alec Home.[1]

[1] On 22 Nov Macmillan accepted this proposal, although 'still far from happy' (letter from Macmillan to Lennox-Boyd, CO 554/891, no 36, 22 Nov 1956). It was afterwards noted in the CO that the delay in resolving the problem 'was caused largely by the pre-occupation of Ministers with the Suez crises' [sic] (minute by Miss M Z Terry, temporary principal, CO, to J S Bennett, CO 554/891, no 46, 11 Dec 1956).

448 CO 554/428 Dec 1956

['Colombo Plan' for West Africa]: draft despatch (reply) from Mr Lennox-Boyd to Sir J Robertson (Nigeria) [Extract]

. . . 5. I should not, at this stage, like to be dogmatic on whether similar arrangements to the "Colombo Plan" could with advantage be made in West Africa.[1] A few points may, however, be made. In the first place it seems clear that "Colombo Plan" arrangements could not be confined to one territory, such as Nigeria, alone; as the Memorandum of the Western Regional Government recognises, it would have to apply to a wider area. The question would therefore arise to which territories it should apply. It might well be that the territorial scope of the Plan in Africa would have to extend beyond West Africa in order to secure the active participation of certain non-African countries whose participation would be desirable.

6. Secondly, it would seem essential that each country in the area which participated should be in a position to formulate and carry out development plans for its own territory, and utilise adequately any assistance provided. In Nigeria itself it would seem a pre-condition that effective central machinery for planning should be in operation between the several Nigerian Governments. (Such as will be developed, for example, through the National Economic Council). If a "Colombo Plan" involving Nigeria became feasible from the international point of view, this would certainly provide a further reason for wishing to see effective co-operation internally between all the Governments.

7. Thirdly, a key question is whether a "Colombo Plan" would secure more assistance from outside the area than is obtainable at present. I need not stress that the aid of the United Kingdom is forthcoming already to Nigeria on a scale which is unlikely to be matched by any other contributor. United States aid has also been available, though on a small scale, for some years. Undoubtedly among the difficulties in attracting further United States aid has been the relative lack of major projects of a kind in which the United States might be interested, and for which a financial need could be proved, as well as the limited degree to which the United States has been able or willing to provide funds. While it is not possible to forecast United States policy, it is not my view that the scale of aid in the future will depend primarily on whether there is machinery through which it can be given. It is more likely to depend on a policy decision to give aid to a territory or an area, and this deision will presumably depend on the relative priority given by the Americans to the many different claims on their resources. I therefore feel it is reasonable to doubt

[1] See 440.

whether the establishment of "Colombo Plan" machinery would of itself ensure that more U.S. aid would be directed to Nigeria than is likely to be forthcoming under bilateral arrangements.

8. Apart from financial aid, technical assistance is also already available from the United Kingdom, from the United Nations Specialised Agencies, and from the U.S. International Co-operation Administration, and machinery for technical co-operation exists through the C.C.T.A. In addition, Regional co-operation in West Africa between the British territories has been facilitated hitherto through the West African Inter-territorial Secretariat. Co-operation with neighbouring territories is of course also possible bilaterally.

9. In these circumstances, it seems a fair conclusion that the amount of aid, financial and technical, and the degree of international co-operation, would not necessarily be substantially enhanced by establishing new international machinery, unless other countries in the Commonwealth or in Europe would thereby be induced to participate in the development of Nigeria—and of other territories in Africa. This question is at present being studied and I hope to give you my views on it at a later stage.

10. Meanwhile, it is worth emphasising that various methods are already open to the Nigerian Governments as well as to H.M.G. to demonstrate their interest in attracting the participation of other countries in development. Encouraging statements by the Nigerian Governments welcoming overseas private investment, such as have been made in the recent past, should be beneficial in this respect. I hope also that the Statement presented by H.M.G. to the Council of Europe (My Circular Saving No. 1252/56) will help to show that the door is open to those who wish to help on acceptable terms. There is also no reason to rule out direct approaches by H.M.G. to individual Commonwealth countries e.g. Canada.

11. It is my intention to keep these matters under review, and any further views you may wish to express in the light of the above will have my earnest attention. Meanwhile, however, I do not consider that present circumstances are opportune for an initiative to be taken by H.M.G., and of course before any such initiative could be taken it would be necessary for H.M.G. to seek the views of other Governments in Africa likely to be concerned, including those of the Commonwealth.

12. I trust that the above will be of assistance to you in considering this matter further.

449 CO 1025/76 6 Dec 1956

[Colonial development finance]: minute by W G Wilson to R J Vile

You asked that these papers should be sent forward so that the Secretary of State might be aware of the present state of our efforts to solve the problem of London Loans Finance for the Colonies before he discusses this subject with Mr. Hicks of the Crown Agents in accordance with the arrangements made, I understand, at the Crown Agents' Office on the 5th December. The Secretary of State could confine his reading to the short draft EPC paper marked "A" opposite but it might be convenient to summarise in this minute the events which have led up to the preparation of that paper:—

(a) In March the Chancellor of the Exchequer rejected the Secretary of State's proposals for the introduction of Colonial Development certificates to be put on sale in the United Kingdom in the same basis as National Savings certificates, and the proceeds from which would be devoted to Colonial Development.[1]

(b) In April we sent to the Treasury a memorandum setting out alternative methods of ensuring the supply of U.K. capital to Colonial Governments for basic development.[2] Of these proposals the most important was that the United Kingdom Public Departments (whose funds are managed by the National Debt Commissioner) should be empowered to invest in Colonial Government securities. This arrangement would ensure both that the amount of money available to the Colonies would be increased by the addition to the market for them of an important investor, and also that the marketability and therefore the attractiveness of the stocks themselves would be enhanced by evidence of H.M.G's confidence in Colonial stock.

(c) In June we were called to a meeting at the Treasury to explain our proposals, and at the Treasury request we submitted detailed information to indicate the level of need of the Colonies for finance for basic development, and also the extent to which that need could be reduced by the application of their own resources, principally the sterling assets held on their behalf by the Crown Agents in London. Our memorandum described in conservative terms the situation which faces us in 1957 and succeeding years, and advanced the view that unless some £40 millions of London loan finance became available in the course of 1957, and some £25 to £30m. per annum were available in the succeeding years, basic development in the Colonies would slow down, and, eventually stop altogether. The problem, we pointed out, was particularly pressing in the case of the East African territories. It should be noted that we are concerned in this exercise only with London finance for basic development to be undertaken by Colonial Governments and Colonial Public Utilities. There is no evidence so far that private industry in the Colonies is suffering from shortage of U.K. capital—indeed we are in the paradoxical situation that it is easier for private industry to attract capital from London for expansion in the Colonies than it is for Colonial Governments to provide basic amenities (transport, harbour works, power and water supplies etc.) which are essential as a foundation for the expansion of private industry and activity.

(d) The arrival of our June memorandum in the Treasury coincided with the beginning of the Suez Crisis. Mainly for this reason, though also because of the prolonged consideration given to our suggestion by the Bank of England, we have not so far had any definitive reply from the Treasury to our suggestion that the U.K. Public Departments should be permitted to invest in Colonial Government securities.

(e) Beause of this delay, and because the critical year 1957 is almost upon us, it was decided (see Sir H Poynton's minute of 24/8) that we should prepare a draft paper for the Economic Policy Committee designed to take discussion of our difficulties to ministerial level. The minutes of 24/9 onwards above explain the evolution of this paper, which is attached at "A" opposite.

(f) Meantime the Bank of England had informed the Treasury of their objection to our April proposal, but had put forward no alternative suggestion. At the request of

[1] See 428 & 432.

[2] See 433, note 2.

the Treasury (see Mr. Galsworthy's minute of 8/11 above), we sent the draft of our EPC paper to the Treasury to assist them in their further consideration of the problem. The draft paper would in any case have had to be cleared with the Treasury before its submission to the EPC, and we saw no disadvantage in apprising them of the contents of the paper before proceeding on our independent line towards ministerial consideration.

(g) We now understand that the Treasury will shortly write to us rejecting out of hand our proposal that the Public Department [sic] should be committed to invest in Colonial Government securities. It thus appears that unless we are prepared to take the matter to the EPC or the Cabinet in the knowledge that the Treasury regard our proposals with disfavour, we are back where we started from in April. We do not know whether the Treasury have any alternative solution to put forward, but since we know a good deal more about the problem they they do, and since we ourselves are unable to discover any satisfactory alternative to the Public Departments idea, it seems unlikely that the Treasury will in fact be able to contribute an alternative solution.

2. We appear, therefore, to have reached an impasse. It is important, I think, to recognise what the implications of this are. In the first place we are irrevocably committed in producing something over £20m for Colonial Governments in the course of 1957. There is no escape from this commitment (the details are given in the paper at "A" opposite and its supporting annexure) and if the money is not made available to us through the market, as it can only be if H.M.G. gives special support to Colonial issues, it must be found from the Exchequer in one form or another. The whole of this £20m odd is required to cover expenditures which have already been incurred and which have been financed from advances, except for £8m which we are obliged to find in order to honour our agreement with the International Bank and the conditions upon which the Bank made its loan to East African Railways in 1955.

3. Over and above this £20m we need close on another £20m in 1957 if new development is to continue in certain major Colonies, principally in East Africa. After 1957 we shall need £25 to £30m a year. Unless sums of this order are forthcoming from the market or some alternative channel over the period up to 1960 we must face the fact that all our development planning must be discarded. It becomes imperative, in this situation, that we should inform the Colonial Governments affected by the drying up of the London market at the earliest possible date so that they may adjust their expenditure plans accordingly. The consequences of such an adjustment will, of course, be incalculable, but among the first will be a halt on the development of basic rail and harbour facilities in East Africa, and in the works on the Owen Falls Hydro-Electric scheme.

4. There can be no doubt that we face here a crisis of the first magnitude in Colonial affairs. It may be that the state of the United Kingdom economy makes it inevitable that the supply of finance for the Colonies through the market must be allowed to dry up. But if this is so we must inform the Colonies of this situation as soon as possible unless they are to go on spending money from advance accounts and building up liabilities which they will be unable to discharge.

5. There are various lines of enquiry which still remain to be followed up and which might make some marginal contribution to a relief of our difficulties. One of them is indicated in paragraph 3 of the minute of 3rd October above: namely, the

conversion of C.D.& W. into a pool administered from London in accordance with the approved need as it arises year by year, rather than as a series of fixed territorial allocations. We might also consider to what extent channels such as the Colonial Development Corporation should be reconstructed so as to allow them to feed money into basic development on government account in the Colonies; and we could also explore the validity of the Treasury and Bank of England reasoning which asserts that payments to the Colonies should be set against the U.K. Overseas account, despite the fact that Colonial currencies are at par with and freely interchangeable with the U.K. currency. But all of these matters are complex in the extreme, and two of them at least will involve legislation, not to mention formidable political difficulties *vis-à-vis* the Colonies and, for example, the CDC in London. It would be unwise to assume that they can be explored and brought to the point at which they contribute to a solution of our difficulties in time to help us in 1957.

450 T 220/489, pp 152–153 31 Dec 1956

'Exchequer loans for the colonies': minute by Sir A Johnston[1]

[This document bears an earlier date than 451 and hence precedes it in this chapter. However, the meeting reported in 451 took place before Johnston's minute was written. The sequence of events will be better grasped if 451 is read before 450.]

I think it falls to our side of the house to consider the machinery for financial aid to the colonies and there are various aspects of the matter which I should like to discuss.

I am not clear how all this would look if one excluded the colonies which are approaching self-government. The Colonial Office note seems to include loans to parts of Nigeria and West Indies colonies after they are likely to become independent. Whatever the existing position, the problem is a shrinking one and that, I think, has a considerable bearing on the form of organisation which should be set up to handle it.

Prima facie I should have thought that the funds at present distributed under Colonial Development and Welfare, or by the Colonial Development Corporation, or through the proposed Exchequer loans, ought all to be administered by the same body. Admittedly one cannot take a final view on this until one has a clearer view than we seem to have at present about the criteria which would guide any body administering the proposed Exchequer loans. But we shall get into an awful mess if, in a shrinking Colonial Empire, we have three or four bodies all doling out money. After all, the C.D.W. Acts envisaged the possibility of loans and now the need for loans has arisen. We could set up a board to administer all these different sources of financial assistance, or it could be advisory to the Colonial Office; and Lord Reith[2] could queen over it all as Chairman of the Board.

If we enlarge the C.D.C. or set up a special body to deal with nothing but Exchequer loans, you can depend upon it that, before any of us are much older, the Corporation will be dealing with colonies that have achieved independence and the Board will be making Exchequer loans to them. As I see it, we can only avoid this by enlarging the field of assistance within what is necessarily a shrinking area.

[1] See 422, note 1.

[2] Lord Reith, chairman, Colonial Development Corporation, 1950–1959.

451 CO 1025/76, no 69 4 Jan 1957

'Loan finance for colonial governments': Treasury note of a meeting with officials from the CO and the Bank of England on 13 Dec 1956[1]

1. The purpose of the meeting was to consider:—

(a) the draft E.P.C. paper "Colonial loans on the London market", prepared by the Colonial Office, and enclosed with Mr. Galsworthy's letter of 8th November to Mr. Armstrong, and
(b) Sir Edmund Compton's letter of 4th December to Sir Hilton Poynton, giving the Treasury's comments on the draft paper and on the general problem of loan finance for Colonial Governments.

The problem

2. *Sir Hilton Poynton* recalled that, in 1954, the Colonial Development and Welfare provision for the period 1955–1960 had been fixed at £80 million on the assumption that Colonial Governments would be able to raise an additional £25 million a year in loans from the London market; the then Chancellor of the Exchequer had given a definite assurance that, if funds from the London market appeared to be drying up, he would do his best to give Colonial Governments some extra help.[2] Such help was now needed since, in the two years 1955 and 1956, Colonial Governments had been able to raise only £20 million in total on the London market. Before the end of 1957 they would need to raise approximately

*£19.5 million** to finance their inescapable commitments, i.e. to carry on with the existing level of economic development;
£35–40 million to finance the expansion of the development which had been decided on in 1954.

3. *Sir Hilton* said that one alternative to raising the above sums on the London market would be to reduce the size of Colonial development programmes; this however would be an admission of defeat and was unlikely to be acceptable either to Ministers or to Parliament. The constructive alternatives appeared to be:—

(a) to authorise the National Debt Commissioners to invest in Colonial Government stock;
(b) direct Exchequer loans (which the Colonial Office would regard only as a *pis aller*);
(c) extending the functions of the Colonial Development Corporation (which was unlikely to be satisfactory).

Sir Hilton said he appreciated that there were objections to each of these alternatives but the Colonial Office Ministers were now pressing for some solution to be found

* This is a reduction on the figure of £22.5 million given in the draft paper, obtained by cutting Aden from £4 million to £2 million and Tanganyika from £5 million to £4 million.

[1] The Treasury was represented by Sir E Compton (3rd secretary, 1949–1958) (in the chair), W Armstrong, A D Peck, S L Lees and J M Forsyth; the CO by Poynton, Galsworthy, Vile and Wilson; the Bank by L K O'Brien.
[2] See 423.

urgently; it was therefore necessary to select the least objectionable alternative; we could not continue to think around the problem as we had for the past year.

4. *Sir Edmond Compton* said that, since 1954, there had been two fundamental changes which affected both the estimates that had then been made and the pledge which the former Chancellor had given. First, there had been a pronounced change in the economic climate: in order to counter inflation H.M. Government had embarked on an active monetary policy; this included the credit squeeze which cut down the funds available for all borrowers. Secondly, there had been an increase in the unpopularity of Colonial stocks relatively to other stocks. For these reasons, Sir Edmund said, the Treasury could not exclude the possibility of recommending to Ministers that Colonial development programmes should be cut down; he appreciated that a decision to do this would have to be taken by the Cabinet.

5. *Mr. Peck* said that there were two further changes since 1954. First, assistance was no longer generally limited to grants-in-aid, based on strict tests of need, and to development monies; H.M. Goverment was being asked to find large sums for political or strategic reasons in Malta, Cyprus and Malaya. Secondly, there were disturbing indications that, so far from C.D. and W. aid improving the economic position of the colonies, it might in fact be tending to drive them on grant-in-aid to meet recurrent charges thrown up by the programmes.

6. In discussion of the general problem, the following additional points were raised by the Colonial Office representatives:—

(a) That one of the dangers at present was that Colonies always had to have an "emergency" in order to get more money from H.M. Government.

(b) That the share of H.M. Government's overseas loans and grants which had gone to the Colonies did not seem extravagant compared with the shares given to Jordan, Libya and Germany.

(c) That it was becoming increasingly difficult, in the face of grants to non-Commonwealth Governments, to justify a refusal to give more to Colonial Governments, particularly as the latter were asking for loans not grants.

(d) That the Colonies would not be content not to be developed; if the United Kingdom could not provide loans they would turn their eyes elsewhere, possibly to the Soviet Union.

(e) That, from the point of view of H.M. Government, the vital question appeared to be whether the real resources were available for investment of the amount needed in the Colonies (and this amount was an infinitesimal proportion of total United Kindom investment); the financial problem would seem to be a technical one of how to arrange for the transfer of resources. The Treasury reply to this was that the "financial" and "real" problems could not be separated in this way; the reason for the drying up of the market was partly the unwillingness of private bodies to make their savings available to Colonial borrowers; and the Exchequer itself already had a major problem on hand in trying to finance the vast loans to which it was already committed.

Position of Crown Agents

7. *Sir Edmund Compton* said that the Treasury and Bank of England had been surprised to see from the draft E.P.C. paper that such a large amount of Colonial stock was taken up by the Crown Agents and that the latter were holding on to this

stock; he feared this might aggravate the difficulties of Colonial borrowers on the London market in the future.

8. *Mr. O'Brien* said that the Bank were concerned about this because of their obligation to manage the London market so as to provide the best possible arrangements for all borrowers; the Crown Agents were a large investor, remote from the people who managed the market, yet their actions could easily have an upsetting effect on the market, e.g. if they decided to liquify [sic] a large portion of their stock all at once. Mr. O'Brien said that the Bank would therefore like to have greater knowledge than at present of the Crown Agents' intentions over the buying and selling of stocks; the Bank would not want to interfere with the Crown Agents but simply to know about their market plans. The Crown Agents could be assured that such consultation would pay dividends in terms of extending the capacity of the market.

9. *Sir Hilton Poynton* said that this question would have to be raised with the Crown Agents rather tactfully since they were an independent body, working for the Governments who were their Principals; they were not responsible to H.M. Government. *Mr. Wilson* said that in fact the Crown Agents were seldom net sellers of stock; their normal practice was to switch Colonial securities around among the different Colonial funds which they held. It was generally considered however, that there should be no difficulty in getting the Crown Agents to co-operate to the extent that the Bank desired.

10. *The meeting agreed*:—

(i) to invite the Colonial Office to have a preliminary talk with Sir George Seel and then to arrange a meeting, in the New Year, between senior officials of the Colonial Office, Bank of England and Crown Agents, to discuss the question of consultation between the Bank of England and Crown Agents on the latter's market operations.

Market expectations

11. The meeting then considered how much Colonial Governments could expect to raise on the London market in 1957, using ordinary market methods. The draft E.P.C. paper stated that the Crown Agents estimated that if market conditions were fairly stable, Colonial Governments could expect to take £7–9 million from the public in 1957, and that they themselves would expect to be able to invest about £5 million in London market issues during the year.

12. *Mr. Galsworthy* said that the considered sum of £5 million from the Crown Agents represented considerably less than they had contributed to new issues in the past two years. There were two reasons for this reduction. First, that when the Gold Coast and Malaya became independent, some of their sterling reserves were likely to be withdrawn from the Crown Agents: for instance when they established Central Banks their currency reserves would be transferred to the Bank of England. Secondly, in accordance with Colonial Office and Treasury policy, Colonial Governments would be drawing substantial sums from their sterling reserves to finance their development programmes.

13. *Sir Edmund Compton* and *Mr. O'Brien* agreed that Colonial Governments could not expect to exceed the Crown Agents' estimate for investment by the public in Colonial Stock issues.

14. *The meeting agreed*:—

(ii) that as a working basis the amount which Colonial Governments could expect to raise on the London market in 1957 should be regarded as about £12 million; as the amount required by those Governments was £19.5 million for inescapable commitments and £40 million for reasonable needs, this left a gap of between £7.5 million and £28 million.

N.D.O. contribution

15. *Sir Hilton Poynton* said that an arrangement whereby the funds managed by the National Debt Office could be invested in Colonial stocks would seem likely to have two results: first it would provide additional funds for the market, secondly, as an indication of official support, it would increase the marketability of Colonial stocks. The Colonial Office favoured this solution: it would enable Colonial Governments to continue to operate through the market and to be subject to the discipline which it provided.

16. *Sir Edmund Compton* said, however, that the Treasury had several objections to this alternative. In particular the National Debt Office was at present a net seller of stock and this situation was likely to continue; the Colonial Office proposals would therefore mean that the N.D.O. would have to sell United Kingdom Government stock and switch its funds to Colonial stock, a proceeding which would reduce the remaining funds available on the market for investment in Colonial stock. The proposal would be strongly opposed by the National Debt Commissioners on fiduciary and Parliamentary grounds. The Treasury conclusion was that support of Colonial Stock issues by the N.D.O., with all its disadvantages, had the same effect as direct Exchequer lending and would be recognised as such.

17. *The meeting agreed*:—

(iii) that in the E.P.C. paper the N.D.O. alternative should be mentioned but acknowledged not to be a feasible solution.

Direct Exchequer loans

18. *Sir Hilton Poynton* said that if an N.D.O. contribution were ruled out, Exchequer loans would seem the best way of meeting the colonies' needs; the sums involved were tiny compared with other Exchequer loans, e.g. to nationalised industries. Sir Hilton said he appreciated that once Exchequer loans were started it was difficult to find a rational basis for limiting them but he suggested that any Act which provided for such loans to the colonies could also include a definite limit of say £25 million a year.

19. *Sir Edmund Compton* said that the Exchequer was already faced with serious difficulties in trying to finance its existing commitments "below the line"; he would be most reluctant to add anything to these difficulties. There would also be a presentational problem about increasing the Exchequer's commitments, in that taxpayers might well wonder where the process was going to stop. Nevertheless, Sir Edmund said, if Ministers took the view that money for the colonies had to be found from somewhere, he thought that Exchequer loans would be preferable to the other alternatives which had been suggested.

20. In discussion it was suggested that if loans were to be made from the Exchequer to Colonial Governments, they should be circumscribed as follows:

(a) there should be a statutory limit of £X million a year for the four years 1957–1960;
(b) the £X million should be reduced to the extent that Colonial Governments were in fact able to raise loans on the London market;
(c) the rate of interest and terms of each loan should be the same as those which the borrowers would have to offer on the open market in order to raise a loan of the same amount (so as not to make the Exchequer a preferred source);
(d) an independent Board might be set up (on the lines of Public Works Loan Board for local authorities) for the purpose of examining potential colonial borrowers to see whether they had tried all other reasonable sources of finance before they approached the Exchequer; a colonial borrower would then only be allowed an Exchequer loan if the Board were satisfied that it was unable to raise the money on the London market or from its own resources.

21. *The meeting agreed*:—

(iv) that the E.P.C. paper should put forward Exchequer loans, on the above conditions, as one alternative solution to the problem of loan finance for Colonial Governments.

C.D.C. loans

22. *Sir Hilton Poynton* said that, although an extension of the power and functions of the Colonial Development Corporation was a possible alternative, it was unlikely to be a satisfactory one because:—

(a) the rates of interest were about 1% higher on C.D.C. loans that on London market loans; while this might be appropriate to cover loans to private borrowers, it would be difficult to justify to Colonial Governments;
(b) the C.D.C. was an independent body and could not be compelled to make a loan to a particular applicant; it would therefore not be possible to provide for a loan to be made at the time and for the purpose for which a Colonial Government wanted it.

Sir Hilton said that if some supervision were needed for Exchequer loans to the colonies he would prefer this to be done by Treasury and Colonial Office officials or by a new Board set up for the purpose.

23. *The meeting agreed*:—

(v) that the E.P.C. paper should list the C.D.C. as a possible source of extra finance but should state the reasons for which the Colonial Office objected to this course.

Higher rates of interest

24. *Mr. O'Brien* said that the Bank of England would like to discover whether a higher rate of interest for Colonial Government issues, to put them on a markedly different yield level from the rest of the Trustee List, would enable Colonial governments to raise the loans they needed on the London market. Mr. O'Brien said he appreciated that it might not be practicable to experiment with high interest rates since to do so might spoil the market for other borrowers; there should, however, be a difference between the rate of interest offered by H.M. Government and that offered

by Colonial Governments which reflected the market's relative assessment of their stocks; it was possible that the differential was too small at present.

25. *Sir Hilton Poynton* said that on the basis of past experience it seemed that the raising of interest rates on Colonial loans was likely to have a spiral effect: e.g. it was a Colonial borrower which had first pushed through the 5% barrier but now all Trustee stocks had followed the fashion and it looked as though Colonial borrowers would push through the 6% barrier. *Mr. Galsworthy* added that two other disadvantages of very high interest rates for Colonial loans were:—

(a) the increase in recurrent charges on Colonial budgets; such charges were often financed from C.D. and W. grants and if they went up might lead to requests for an increase in these grants;
(b) the Colonial Office had recently been advised by the brokers to the Crown Agents that while high interest rates might atttract more money for Colonial stocks in the short run, in the longer run they might well make the investor suspicious of such stocks. Mr. O'Brien agreed that this was a possibility.

26. *The meeting agreed*:—

(vi) to invite the Bank of England to give further thought to the idea of increasing the differential in rates of interest on Colonial Government issues of stock.

27. *Sir Edmund Compton* asked whether any of the projects which were included in the development programmes of Colonial Governments could be carried out and financed by private enterprise instead; for instance, could housing, which used to be provided by pioneering companies for their employees, but was later provided by Governments, again become the responsibility of companies?

28. *Sir Hilton Poynton* said that it was still the policy of the Colonial Office to make housing the responsibility of companies who were pioneering in remote areas; the housing which was included in Colonial development programmes, however, was the equivalent of a United Kingdom local authority housing estate and was usually for the purpose of slum-clearance in towns; it could not therefore be made the task of particular companies. In general Sir Hilton said that the projects which now remained in colonial development plans were the sort (such as hydro-electric power stations and railways) which would not interest the private investor and which Governments wanted to have under the control of local public authorities; it had been the practice of the Colonial Office to swing projects over from Governments to private enterprise wherever possible but he did not think this could be carried much further.

Sources other than London

29. *Sir Edmund Compton* said that hitherto it had been taken for granted that London should be the main source of supply for loans to the Colonies but that this assumption might have to be reconsidered. *Mr. Galsworthy* said that the Colonial Office were already doing their best to tap other sources: they had several applications on hand with the International Bank and they had tried to get loans from markets in other countries (United States, Canada, Netherlands and Switzerland) but so far without much success.

30. *Mr. Vile* said that one danger of pressing Colonial Governments to try other

sources was likely to be that they would look to their own commercial banks to invest more of their reserves locally; they might for instance legislate to limit the amount of capital which such banks could export.

Larger fiduciary issues

31. *Mr. Galsworthy* said that there was one final alternative, namely, that Colonial Governments should be authorised to raise the proportion of their currency reserve which was invested in locally-issued Government securities from the present 20% to 50%. The latter figure was the maximum that had been recommended by the 1954 Working Party on Sterling Balances.[3] This alternative raised several difficulties: it might not provide enough finance in the areas (such as East Africa) where it was most needed; currency boards might be unwilling to co-operate; and it might be inadvisable for immature Colonies to take such a large step away from an automatic currency system. However, Mr. Galsworthy said, the possibility might be further considered.

32. *The meeting agreed*:—

(vii) to invite the Colonial Office to give further thought, as they proposed, to devices for increasing local finance for Colonial Governments including larger fiduciary issues.

Action

33. *Sir Hilton Poynton* said that the Colonial Office now wanted to bring the whole problem of loan finance for Colonial Governments to the consideration of Ministers as soon as possible. *Mr. Armstrong* said that the statement of the problem set out in the draft E.P.C. paper was acceptable to the Treasury; he suggested that the N.D.O. solution, which was emphasised in the paper, should now become a minor part of it and that instead the other alternatives should be put forward, on the basis of the preceding discussion.

34. *The meeting agreed*:—

(viii) to invite the Colonial Office to revise the draft E.P.C. paper, taking account of conclusions (ii) to (vii) above; i.e. Ministers should be invited to consider the problem and to choose either to cut Colonial development expenditure below the level which had been agreed in 1954 or to supplement the loan finance which Colonial Governments could obtain from the London Market by one of the methods set out in the paper.[4]

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[3] See 379, note 8.

[4] The most significant outcome of this meeting was the Treasury's concession that if money had to be found, Exchequer loans would be preferable to the other alternatives (paras 19–21). The CO revised its EPC paper accordingly, proposing that such loans should be made through the agency of a new statutory body, the Colonial Loans Board—although it appeared unlikely that the requisite legislation could be enacted before the end of 1957 ('Loan finance for colonial development', [draft] note by Lennox-Boyd to Cabinet Economic Policy Committee, CO 1025/76, no 1, Dec 1956). In the event, it was not until the CD(&)W Act of 1959 that legislative authorisation for Exchequer loans was given. This Act provided that Exchequer loans to colonies could be made, to the extent that market finance was unavailable, up to a limit of £100 million over the five years 1959–1964 and with a ceiling of £25 million in any one year. Loans would be made at the UK public authority lending rate plus .25 per cent. See D J Morgan, *The official history of colonial development*, vol 3 (London, 1980), 69–73.

452 CO 537/7847, nos 2 & 3 [Oct–Nov 1951]

'Colonial Development Corporation': CO memorandum on the future of the CDC. *Minute* by Mr Lyttelton

[Sir H Poynton minuted Lyttelton on this memo (1 Nov): 'Among the points which I included in my list of subjects on the economic side of the Office which would require early Ministerial consideration was the whole future of the Colonial Development Corporation and its relationship with Government. I said that a separate memorandum on this subject was being prepared in the Department. Here it is. . . . This is all, politically speaking, pretty explosive stuff, and I suggest that when you have had time to study the memorandum you might like to talk the position over with Mr. Emanuel, Mr. Gorell Barnes and myself (and possibly Sir Thomas Lloyd)' (CO 537/7847).]

The present position and future of the Corporation

1. The attached note Annex A[1] describes the present position of Colonial Development Corporation schemes. It is a position which gives cause for anxiety. Capital losses on schemes which it has proved necessary to abandon or reshape seem too high in relation to the amount of capital so far committed and further such capital losses seem inevitable. Operating losses must be expected in the early years, even though, through the operation of the fructification period, the Corporation do not yet have to pay any interest on their advances from the Treasury; but there is as yet no sign of any decline in the rate of those losses and, more disturbing, far too many of the schemes which are by now in their second or third operational year are still incurring losses. There are other reasons, too, for disquiet and disappointment—notably the poor reputation of the Corporation with Colonial Governments and with business and financial circles both at home and overseas.

2. It is difficult, if not impossible, for anyone who has not seen the Corporation from the inside to judge how far its failure so far to live up to the hopes placed upon it has been due simply to errors of policy and administration, and how far to difficulties and weaknesses in the whole conception of the Corporation.

3. That there are inherent difficulties and what one might almost call inconsistencies in the terms of reference given to the Corporation by the Overseas Resources Development Act cannot be denied. Firstly, it may be questioned whether a single board sitting in London can be expected to control a large number of projects of great variety scattered all over the world without a degree of devolution which would probably make it impossible for the Secretary of State to exercise even that degree of general responsibility which Parliament must expect him to exercise over the expenditure of such large sums of public money. Secondly, if the Corporation is to take risks, as it is clearly expected to do, it is bound to have some failures and consequent losses, even though it has the benefit of getting all its long-term finance at gilt-edged rates. This means that it can only fulfil its statutory obligation to break even over a period of years if it makes on some of its projects profits of an order which it is not likely to make without encroaching on fields attractive to private enterprise. Thirdly, external private companies operating in the Colonies are apt to be criticised not so much because they are private but because they are external and remit the greater part of their profits. Consequently the Colonial Development Corporation, though a partial answer to this criticism, is by no means a complete

[1] Annexes not printed.

one. Whilst it is freely criticised for inefficiency when it makes losses, it may well be criticised for exploitation if and when it makes substantial profits in any Colonial territory; for that territory is not likely to find much consolation in the fact that these profits are being used to offset losses incurred in other territories.

4. Recognition of these fundamental difficulties, combined with acknowledgment of disappointing results to date, does not, however, necessarily lead to the conclusion that the experiment should be abandoned. If the C.D.C. were to disappear, the gap which it was established to fill would remain. Private capital might well do more if it were given more encouragement; but it is in varying degree, according to the territory and the nature of the project concerned, suspect and is also apt to be deterred, on the one hand, by the high taxation of modern times and, on the other by the political uncertainty. Local corporations responsible to the local Colonial Government are, it is true, being used in varying fields with increasing success. But there is obviously a limit to the number of such projects which Colonial governments can staff and over which they can exercise general responsibility. Moreover, it is almost certainly too early to be certain that the inherent difficulties and inconsistencies in the Corporation's conception cannot be accepted as a challenge and overcome, and that its early failures have not been due mainly to its early mistakes.

5. That the Corporation made many mistakes in its early days there can be no doubt. Lack of conscious definition of aim and policy seems to have led to a rather haphazard selection of projects. Anxiety to show quick results has led to the launching of projects without sufficient enquiry and experiment. Over-eagerness and weakness in negotiation seem sometimes to have led to too high a price being paid for assets taken over from others. Mistakes have been made because of lack of experience in Colonial production and in Colonial affairs generally, and, in the early days, an unwillingness to seek guidance from the Colonial Office and Colonial Governments. Bad judgment of people also seems to have led to a number of bad appointments, particularly overseas, and there have been frequent cases of inadequate management; and all this, in the early days, naturally increased a tendency to concentrate all power and decisions at headquarters. Many, if not all, of these mistakes have been freely admitted in the annual report of the Corporation for 1950 and, if they have not all been wholly overcome, there is at least some evidence of an attempt to overcome some of them.

6. The grounds for doubt and anxiety about the Corporation are sufficiently serious to warrant a close watch being kept on its progress during the next few months; and the time may not be far distant when there should be a full review of all its implications, economic and political, for the future of Colonial development. The view of the Department, however, is that the need, let alone the scope and method, of such a review cannot be finally determined until the present Chairman, who has now been in office for one year, has had a little longer to pull things round and until the Secretary of State has had some experience of the problems thrown up by the Corporation as they actually arise in practice.

Supply of information to government by the Corporation

7. Meanwhile the principal outstanding question of policy between the Government and the Corporation is that of the extent of the information which should be made available by the Corporation to the Colonial Office both in submitting its

applications for capital sanction for new schemes and in its progress reports on schemes already in operation. Whilst Lord Reith, unlike the previous Chairman, has displayed the greatest willingness to furnish on request whatever information the Secretary of State or the Colonial Office desires, and has often taken the initiative in giving us information which he considers might be useful to the Secretary of State, the Secretary of State and the Chancellor in the last Government had come to the conclusion that they could not properly discharge their responsibilities under the Overseas Resources Development Act unless certain specific information were furnished in a systematic manner with applications for capital sanction and with quarterly progress reports. The extent of the information requested can be seen from the copy of a letter from the former Secretary of State to Lord Reith dated the 14th August which is attached as Annex B.[2] Lord Reith has not yet answered the Secretary of State's letter. In informal discussions and correspondence, however, he has, whilst questioning some of the arguments in the letter, particularly the "banker" analogy, indicated that he is willing to accept the proposals in general, but with the exception of point 8 (which we had agreed, subject to Ministers' approval, to amend to read "information about the technical and commercial data on which schemes are based and the advice, if any, received from outside sources": this in order to meet the point made by Lord Reith that the original wording would have included advice given by expert members of the Board).

8. It is the view of the Department that all the information requested in the letter of the 14th August, including information under point 8, is necessary in order to enable the Secretary of State both to discharge his general responsibilities and to keep that close watch over the progress of the Corporation which will be necessary to enable him to form a judgment on the major questions discussed in the earlier part of this memorandum. It is accordingly recommended that an early opportunity be taken to request Lord Reith for a definite answer to the letter of the 14th August. If the Secretary of State agrees, the request might be accompanied by an indication that, whilst wishing to reserve his general position until he has more experience of the working of the Corporation, and whilst ready to discuss any of the Corporation's problems with Lord Reith, he is in general agreement with the proposals in the letter of the 14th August so far as concerns the systematic and regular provision of information on new and existing schemes covering all matters relevant to the determination of H.M.G.'s attitude towards the schemes.

Extent to which Corporation should undertake "finance house" business

9. Another question on which, though it has not yet become an issue with the Corporation, the Department would welcome early guidance is the extent to which the Corporation should be permitted and/or encouraged to use the capital made available to it for the purpose of making fixed interest loans, particularly to Colonial Governments and to publicly-owned corporations in the Colonies. Whilst the Corporation have taken on a certain amount of business of this kind—e.g. their loans to the Malayan Electricity Corporation and to the Lagos Executive Development Board, of which the latter is guaranteed by the Nigerian Government—we told them some time ago, with the agreement of the Treasury, that we did not think it right

[2] For a summary of the information requested in the letter of 14 Aug 1951, see the addendum to this document.

that they should lay out more than a modest proportion of their capital in this way. Our reason for taking this line, which was acceptable to the Corporation at that time, was that we regarded the London market as the right source of loan funds to finance public works in the Colonies, and considered that the main purpose of the Corporation was to provide a combination of finance and skilled management for projects which could not be undertaken without their intervention.

10. At the present moment, when it looks as though we shall have difficulty in meeting from the London market all the loan requirements of Colonial Governments, and when the Corporation have not yet shown much aptitude for providing things other than finance, it is tempting to suggest that our previous view should be changed and that the Corporation should be permitted, nay even encouraged, to do more purely finance house business. The considered view of the Department, however, is that this would be wrong. If the London market cannot meet the full loan requirements of Colonial Governments and it is agreed that the shortfall must somehow be made good, then it would appear to be much better that the necessary funds should be made available to Colonial Governments direct from the Exchequer at gilt-edged rates, rather than that they should be passed through the Colonial Development Corporation which has to charge something like 1% higher to cover its overheads and, in return for that charge, performs no services which the Colonial Office could not perform with virtually no cost. Whilst, therefore, it is not suggested that the Corporation should never be permitted to make a fixed-interest loan to a Colonial Government or a public body in the Colonies, the Department recommend that the present policy of confining this kind of business to a small proportion of the Corporation's capital should be maintained.

Treatment of capital losses incurred by the Corporation

11. Although capital losses incurred by the Corporation are written off in the Corporation's own books, the Corporation remain liable to repay this capital, with interest, to the Treasury. This liability, which is of course increasing with every scheme that is abandoned or remodelled with capital loss, will hang like a mill-stone round the Corporation's neck for nearly forty years and is bound to make them less willing and able than they would otherwise be to adopt those marginal and somewhat experimental schemes which may be the most important from the point of view of progress in the techniques of Colonial development. There have been indications that Lord Reith is much concerned about this position and it is possible that he may suggest that Exchequer advances to the Corporation to the amount of the Corporation's capital losses should be written off—in other words that it should be recognised that, to the extent of these capital losses, the Corporation cannot fulfil its statutory obligation to break even over a period of years. In the view of the Department any such proposal should be treated with great caution at this stage. This is a process which could too easily be repeated, with accumulating loss of public funds; and even as a once-for-all measure it could hardly be justified unless, after searching enquiry, the Government had first satisfied itself that the capital losses incurred had been due not to inherent weakness in the conception of the Corporation but to early mismanagement, and that all necessary remedies had been applied to ensure that that mismanagement would not be repeated. Moreover, it is no bad thing that, at this particular juncture, the Corporation should have this extra incentive to caution.

12. At this point, therefore, the view of the Department is that, whilst the writing off of Treasury advances to the extent of capital losses incurred up to a certain date should not be entirely ruled out from consideration if and when the full review suggested in paragraph 6 above is carried out, no proposal of this kind should be entertained at the present time.

Summary of conclusions

13. The conclusions reached in this memorandum may be summarised as follows:—

(i) The present position of the Corporation gives cause for anxiety (paragraph 1).
(ii) It is too early to judge how far the Corporation's comparative failure to date is due to inherent difficulties of its conception and how far to early mistakes of policy and administration (paragraphs 2–5).
(iii) There may, a little later, be need for a full review of all the Corporation's implications [sic], economic and political, for the future of Colonial development (paragraph 6).
(iv) Lord Reith should be asked for an answer to the proposals about the regular supply of information about new and existing schemes contained in the late Secretary of State's letter of the 14th August. If the Secretary of State agrees, he should be pressed to agree to the provision of the information asked for in that letter (paragraph 7 and 8).
(v) The Corporation should not be permitted or encouraged to devote more than a modest proportion of its capital to "finance house" business (paragraphs 9 and 10).
(vi) No proposal for the writing off of Treasury advances to the extent of the Corporation's capital losses should for the present be entertained (paragraphs 11 and 12).

ADDENDUM

List of points to be covered in CDC applications for capital sanction

1. Anticipated phasing of expenditure.
2. Anticipated phasing of production.
3. Anticipated phasing of return on investment after allowing for interest on advances and taxation calculated at current rates.
4. Information on availability of materials and man-power on which the scheme is to be based.
5. Estimate of hard currency requirements.
6. Information about market prospects.
7. The extent to which Colonial Governments have been consulted, and the advice they have given.
8. The expert technical and commercial advice on which the scheme is based.
9. (Where applicable). Whether there has been or will be a pilot scheme instituted and if not on what grounds a pilot scheme is considered unnecessary.

Minute on 452

I have read this penetrating analysis with great interest.

I cannot offhand recall any exploitation Company of this kind that has won through in this century. We must therefore recognize that the Corporation is unlikely to succeed. Moreover certain fundamental principles, in my opinion, have been violated by its constitution, aims, organization.

These are:—

(a) That the object of organization is to face the management at all levels with problems that they are specially trained to solve and that therefore businesses should deal as far as possible with homogeneous affairs, commodities, or services. To run an hotel not only requires a different management but an entirely different mentality from running a hydro-electric scheme. A Board that tries to do both is either in the hands of an hotelier or an electrical engineer (possibly of both). I blush to state anything so obvious but my excuse is that it is so obvious that it was not seen.

(b) The control should be delegated not centralised. The difficulties of (a) are magnified by the necessary dispersal all over the world.

(c) It has not been quite clear whether the Corporation is designed to be an investment, finance, or operating Company.

I am quite prepared to press for more information under (iv). I must, however, point out that the pressing does not require to be carried very far before we shall become de facto responsible, i.e. "What is not vetoed must be approved etc". "The Colonial Office should have stopped this at once".

The argument about "finance house" business in the sense this term is used seems sound, but the description would, I think mislead many, especially experts, who differentiate banking and lending, issuing and underwriting, from financing & "nursing".

To sum up:—

(a) I endorse all the conclusions above except (ii).

(b) The trend of the Corporation policy should in my opinion be towards local companies with Memoranda and Articles limited to one kind of job and ancillary services.

(c) These local companies should invariably seek local investment, especially corporate, in the equity (geared *where appropriate* by the Corporation taking some loan or preference capital).

(d) Even if (c) is unsuccessful as it frequently will be till confidence is built up, local directors should invariably, or almost invariably, be appointed with adequate fees at the outset and some vista of an occasional 'K' and some 'C.B.Es' opened out to them.

(e) This policy would go some way if not to ease at least to mitigate the heterogeneous nature and huge though inevitable geographical sprawl: it should avoid at least the grosser errors springing from ignorance of local conditions and labour.

(f) On this system the Corporation will emerge more as a finance house or investment house with wide powers to help the local management rather than an

operating Company in the first instance. It requires to finance, supervise, advise, admonish, expand or wind up its subsidiaries, not in my view to operate itself.

I add that I have confidence in Lord Reith's approach to his thankless task and I would hope that his assent to the above might be forthcoming.

O.L.
[Nov 1951]

453 CO 537/7847, no 14 13 Feb 1952
[Relationship between CO and Colonial Development Corporation]: letter from Mr Lyttelton to Lord Reith

I think that it would be useful if I put on record the broad principles by which I propose that the Colonial Office and I should be guided in dealing with Colonial Development Corporation matters in general and capital sanctions in particular.

First, it is common ground that I must have the information necessary to enable me to judge whether a *prima facie* case has been made out. That is all that I can do. It is the Board's function, not mine, to work out the details to satisfy themselves that a project is commercially sound and to indicate the degree of risk which they think attaches to it. I certainly do not want to trespass upon the functions of the Board in this matter. I am sure that I can leave it to you to supply me with the fullest information that you can to enable me to satisfy myself that there is a *prima facie* case. I do not think that we need any specific questionnaire. If I find that the information supplied in respect of any project is insufficient to enable me to judge whether a *prima facie* case has been made out, I shall ask for fuller information.

Second, since the business of the Corporation is heterogenous in nature and widely spaced geographically, I should as a general rule find it difficult to authorize capital expenditure on any scheme which did not satisfy at least one of the following conditions:—

(i) either:—

(a) local investment involving a degree of risk which the local interest would regard as important;
(b) investment by the Colonial Government of the territory; or
(c) the participation of a United Kingdom company carrying on similar business (cp. your cement and rubber ventures); and

(ii) local representation on the Board.

The Corporation would generally have a controlling interest in each concern. I do, of course, realise that there may be exceptional cases to which this general rule will not apply and I also recognize that your own development has been tending in what seems to me the right direction.

I know that you and the Board are acutely aware that no commercial undertaking has ever successfully carried out your task. But then you are not a purely commercial undertaking but an instrument of development required only to "cut even".

Nevertheless, you have to operate in a field into which by the nature of things private enterprise has not been willing to enter alone. Moreover, the local interest

will always be to get money invested in the territory whatever the risk. These are grave difficulties which have to be added to the almost infinite variety of projects and almost infinitely varying circumstances of climate, transport and labour which make up a truly formidable task.

In my opinion, the steps which you have described to me for the delegation of responsibility to Regional Controllers and for securing the participation of commercial enterprise and local Governments, coupled with the kind of action which I have set out in general terms (which are not intended to be rigid), give the best chance of success. Mistakes not only will but should be made if the objects are to be attained, and it will require the greatest skill if the successes are to outnumber the mistakes.

The Board seems to be tackling the job with energy and address.

454 CO 537/7847, no 16 25 Feb 1952

[Colonial Development Corporation losses]: letter from Mr Lyttelton to Mr Butler

I have recently had a general discussion with Reith about the affairs of the Colonial Development Corporation, and capital sanctions in particular.

Reith accepted my general ideas on the procedure to be followed in submitting schemes for financial approval but was anxious that I should not tie him down too closely in advance on the form in which information should be provided for particular projects. His main point was that a decision on the commercial soundness of a scheme must rest with his Board; in consequence, it was unnecessary for me to be provided in all cases with detailed information about, e.g., the sources of the technical and commercial advice on which the Board's decision had been based.

I enclose a copy of the letter which I have sent him.[1] I am sure that you will agree that this leaves us entirely free to deal with individual submissions. You will see that I have said that, if I consider the information on any project to be insufficient to enable me to establish a *prima facie* case, I shall ask for more.

In the course of the discussion Reith raised the question of writing off capital which has been irretrievably lost. He has two things in mind. First, the capital of schemes which have proved unsatisfactory and as a result are now over-capitalised should be written down by the Corporation to its true value, the Government writing off the balance as a bad debt. Second, the provision of some form of standing authority by which bad debts could be written off without further reference at intervals of, perhaps, every five years. An idea that he has subsequently put forward orally is that I should approve advances up to, say £¼ million per annum which it would be understood from the start would be logged up against the next quinquennial write-off.

I have given a good deal of thought to this question and realise that there are a lot of arguments which could be advanced against any form of write-off at this stage. I cannot support Reith's idea of a standing authority for write-offs or of advancing a specific sum for this purpose. That would be equivalent to stating that it was no longer an obligation of the Corporation to break even and would in effect mean an

[1] See 453.

undertaking to subsidise the Corporation. While cases may conceivably arise in which the Government might wish to assist a particular undertaking, even at the cost of a Government subsidy, such cases must be dealt with on their merits and I do not think that we can justify any general arrangement which would have this effect.

But I do feel that it is only realistic to allow the Corporation to write off a certain sum, to be agreed, as a once-for-all operation. Some of the losses are irretrievable and if they are to figure in the balance sheets will be a millstone round the neck of the Corporation. And psychologically it is bad for an organisation to be saddled with losses for which (as in this case, since there have been considerable changes of staff at all levels) little or no responsibility is felt. If by some stroke of fortune the Corporation eventually shows a profit on the written down assets, it is ultimately at the disposal of Her Majesty's Government; so nothing is in fact lost.

I should therefore like your agreement in principle to the idea of a once-for-all specific write-off. I cannot at this stage say definitely how much would be involved but a rough estimate given to my Department by the Corporation is £2 million. I understand that a write-off of this kind would require legislation. When you have had time to consider this suggestion, perhaps you would arrange for your officials to get in touch with mine to follow it up and to discuss at the same time one or two subsidiary points which the Corporation have raised with us.

455 CO 537/7848, no 25 31 Mar 1952

[Colonial Development Corporation losses]: letter (reply) from Mr Butler to Mr Lyttelton

Thank you for your letter of 25th February[1] enclosing a copy of a letter you have now sent to the Chairman of the Colonial Development Corporation about the principles which should govern the relations between the Colonial Office and the Corporation generally but particularly in the matter of capital sanctions.

I cannot help saying that I am a little disappointed that you should have gone so far to meet Reith in the matter of supply of information on projects without giving me a further opportunity to express a view. Considerable care was, as you know, taken over the drawing up of the statement of information to be supplied by the Corporation and there does appear to me to me [sic] to be a real risk that, in the absence of such an agreed statement, we shall, in practice, find it harder to obtain the evidence we shall require to enable us to judge the soundness of the projects put forward for our consideration. As it is, we shall have to rely entirely on the right which you have reserved to insist on receiving fuller information than the Corporation may have seen fit to provide in the first instance. I feel bound, in my turn, to reserve absolutely my right to press you in this matter.

I have thought very carefully about the suggestion that legislation should be introduced to permit a once for all write-off of capital which the Corporation has irretrievably lost. I can quite understand the natural desire of the Corporation's new management to start with a clean sheet but I must confess to being very doubtful how far action of this kind would be either justifiable or desirable at this juncture. In order to get the problem in perspective it is, I think, necessary to remember that

[1] See 454.

capital of £2 millions (the figure which you mentioned tentatively) is not great in relation to the £33 millions of capital already sanctioned (of which some £20 millions has so far been issued) and could not, therefore, reasonably be held to constitute a very formidable millstone. Nor can I altogether accept the view that H.M.G. would stand to lose nothing by such a write-off on the ground that any profit eventually shown by the Corporation is ultimately at H.M.G's disposal; the relevant Section of the Act (Section 15 (2)) does not seem to me to bear out this contention.

It also appears to me to be doubtful whether it would be wise to choose this moment to take action of a kind which would be bound to revive controversy in Parliament about the operations of the Corporation. At a rather later date perhaps, after the operations of the Corporation have reflected for a period what we hope will be the beneficial effects of the change of management and of Government, a write-off of this kind you have in mind might perhaps become a practicable proposition though I should not wish to feel in any way committed at this stage to so important a departure from the principles of the original Act.

I shall, of course, be quite content for my officials to discuss with yours the subsidary points which the Corporation has raised with you.

456 CO 852/1481, no 43 Oct 1955

[Capital sanction procedure]: report of the Joint Working Party of the Colonial Development Corporation, Colonial Office and Treasury

[Extract]

[The working party was set up in Sept 1954 following an agreement between Lord Reith and Mr Lennox-Boyd that there was a need to address the difficulties in the relationship between CDC and government, with particular reference to what Reith called 'the conditions precedent to capital sanction'. The working party was chaired by E Melville ('Informal preparatory meeting of working party to discuss government relations with Colonial Development Corporation', CO 852/1481, no 2, 28 Sept 1954).]

. . .

6. The Working Party recognised that the main continuing source of difficulty in working contacts between the Colonial Office and the Corporation is the administration of the capital sanction procedure. It is in this field that relations are at their most formal, since it is not until capital sanction has been granted that the Corporation can incur financial commitments and so proceed with a project. The Working Party therefore examined the system of capital sanctions and the difficulties to which it has given rise in practice.

7. It is not thought necessary in this report to describe in detail the origin and purpose of the system since it was found that there is no dispute between the Corporation and the Government side as to the necessity for some such system. Where the two sides cannot agree is on the extent to which the system should enable the Secretary of State, advised by his officials, to examine and criticise the commercial and technical aspects of individual projects put up for sanction.

8. The Corporation take their stand upon their reading of the Act. They maintain that having laid down in Section 1 the duties of the Corporation, and having given the Secretary of State under Section 2 the power to appoint the members of the

Board from persons having prescribed qualifications, the Act leaves the Corporation free to operate within the terms of reference laid down in the Act as it considers best subject only to such further directions of a general character as the responsible Minister may give under Section 9. They instance the criteria for capital sanction set out in correspondence between Lord Chandos, (then Mr. Lyttelton) and Lord Reith as in effect a direction under Section 9. The Corporation contend that the function of the application for capital sanction should be confined to satisfying the Secretary of State that in planning a new project they have taken account of the provisions of the Act and of any directives he may have made under Section 9. They point out that apart from the constitutional issue of executive responsibility considerable work is put into the planning of a project before the Board approve its submission to the Secretary of State for capital sanction and that prior moral commitments to prospective partners and others cannot be avoided at that advanced stage however conscientiously a formal caveat about the need for Secretary of State sanction is repeated during negotiations. They are therefore placed in a most embarrassing position if in considering the application for capital sanction Government take exception to some point of detail not covered by a prior general directive and so not recognised during the planning stage as officially objectionable. This would be avoided if the capital sanction procedure were modified as they suggest.

9. The Government side does not dispute that the Corporation as a commercial organisation should take full responsibility for technical investigation and commercial judgment, that is to say, for assessing and weighing up the risks involved in an undertaking and deciding whether, having regard to the general financial position of the Corporation and the obligations to pay its way overall, it is justified in undertaking a project. It is also recognised that the capital sanction procedure, as it has been operated up to the present, is not specifically required by the Act. It is felt, however, that Ministerial responsibility under Section 11 (2) for the Corporation's borrowing powers and general Ministerial responsibility for the use of public funds cannot be exercised unless the Secretary of State has full information about the purposes for which the money is to be borrowed and is satisfied if considered necessary from examination of evidence furnished by the Corporation that they have in fact given appropriate attention to the technical and commercial problems involved.

10. Moreover, the powers granted to the Minister under the Act to call for and verify information, to issue directions regarding the disposal of assets and to give general directions on matters of public policy are wide. In the view of the Government side they are such as to carry the implication that, without interfering with day-to-day administration, the Secretary of State has the right to satisfy himself, from knowledge of the working of the Corporation that they are in fact devoting their work to the purposes which Parliament intended and for which Government can and must take ultimate responsibility.

11. The Government side feel that the Corporation's proposal that Ministerial control of individual new operations should be restricted as proposed in paragraph 8 is impracticable. With so wide a field of activity, it is not possible to foresee every eventuality and for that reason an ad hoc procedure in regard to new projects was adopted. For that reason, control by Ministerial directive in advance, if that were possible at all, might be more restrictive to the Corporation than the present method.

12. While the Working Party agreed to record this divergence of views, it was

noted that the Corporation were entirely happy to provide information on individual new schemes so long as this information was not required to enable the Colonial Office and Treasury to check on the technical and commercial aspects of the proposed activities. The Government side explained that there was not in fact much substance for the Corporation's fear. It is true that from time to time the Government side asked for information bearing on the technical and commercial justification of a project. This has been done in order that the Government side, at the official level, can be put in a position to advise Ministers on all the factors which have led the Corporation to its decision to go forward with a scheme and on its relation to general Government policy. In practice, there had been only one scheme in which the full facts relating to the technical and commercial prospects had been provided and the Corporation had been asked to consider the views of Government. In practically all cases supplementary information on the technical and commercial aspects has been required in order to elicit a full appreciation of the relevant factors and when this has been done sanction normally followed fairly rapidly.

13. On the other hand, the Government side expressed the view that the Secretary of State could not take responsibility for defending the Corporation in Parliament unless, in any case in which he had reasonable doubts about the advisability of a project, he could bring these doubts to the notice of the Corporation and satisfy himself that they had been fully taken into account. Again, while the Government side felt that cases in which the Secretary of State would wish to withhold sanction would be rare, they considered the Secretary of State could not divest himself entirely of the right to withhold sanction of a project if he were satisfied that there were sufficient grounds for doing so, whether these were grounds of wider public policy or technical and commercial grounds. They did not consider that the exercise of this right would in fact mean that Government would have to duplicate the Corporation's own work.

14. Having established that, subject to the reservations indicated above, the Corporation did not object to the obligation to submit applications for capital sanction before proceeding with a scheme, the Working Party took the opportunity to examine the form in which such applications were made. . . .[1]

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[1] This report never went forward as an agreed document. W Rendell (general manager, Colonial/Commonwealth Development Corporation, 1953–1973) refused to give CDC endorsement to the report because of an outstanding legal dispute in the field of housing loans (letter from Rendell to Melville, CO 852/1481, no 46, 17 Oct 1955). Hence the report was shelved and the disagreements between the principal parties continued unresolved.

457 CO 852/1483 19 Apr 1956

[Role of Colonial Development Corporation after colonies become independent]: minute by Sir H Poynton to A Emanuel

Has any thought be given to the question whether territories now within the statutory ambit of the C.D.C. will remain in it after becoming independent? This subdivides into two subquestions:—

(a) in respect of new projects starting after independence;
(b) for the completion (or continuation) of projects started before independence.

The point is not academic, at any rate as regards (b). It has been put into my mind immediately however by a letter from Lord Reith to the S. of S. in which Lord R. says the CDC would like to come into the Volta River project "as HMGs agent". As VRP will not start till after G.C. independence one is tempted to reply "ultra vires" on territorial grounds.

Could we get legal advice on these points since, if it were necessary to do anything to cover case (b) (eg in Malaya) the necessary clauses had better be included (subject to the necessary approvals) in the Bill which has got to be presented to Parliament anyhow this Session[?]

458 CO 852/1484, no 2 [6 July 1956]

[Change of Colonial Development Corporation name]: CO brief (item 3) for Mr Lennox-Boyd's meeting with Lord Reith

This has been considered previously, and was last raised by Lord Reith in 1954. The idea is that the word "Colonial" is no longer wholly appropriate, and may indeed be offensive to certain territories; hence, some word such as "Overseas" or "Commonwealth" should be substituted. The Departmental view was that there was no real evidence that the work of the C.D.C. was being prejudiced by the word "Colonial" in its title, and that there were objections to "Overseas" and "Commonwealth", and that on balance there were insufficient grounds for making any change.

The main objection to "Commonwealth" is that the C.D.C. is confined to "colonial territories" and cannot operate in the Commonwealth generally. The use of "Overseas" would suggest an even wider field of activities. . . .[1]

[1] Poynton made a manuscript addition at this point: 'We must resist any attempt by Lord Reith to "build a ladder" here—i.e. first to argue that "colonial" should be altered for political and presentational reasons; & then, if some title such as "overseas" is substituted, to argue the field of activities must be widened (territorially) to match the new title.'

459 CO 852/1483, no 7 30 Aug 1956

[Role of Colonial Development Corporation after colonies become independent]: letter from Mr Lennox-Boyd to Lord Reith

[The policy outlined in this letter had been devised chiefly by Poynton, and had been cleared with Treasury and CRO.]

I have been giving some thought to the position of the Corporation in relation to colonial territories which attain independence.

There is first of all the legal position under the Act. On this, I am advised that when a colonial territory to which the Act of 1948 applied achieves independence, the Corporation would not on legal grounds be debarred from continuing to operate in that territory.

I am sure, however, that it would be contrary to the original intentions of Parliament if the Corporation were to go on financing further schemes in a territory

after it had achieved independence; for, at that stage, the responsibility of the United Kingdom Government for its development ceases.

It seems to me therefore that the policy we must adopt—and it is the policy which the Government has in mind—is as follows:—

(i) When a territory attains independence the Corporation must obviously be able to carry on with schemes which were in existence before the change in status took place. But the Corporation should not embark on any new schemes in a territory after it achieves independence.
(ii) The injection of further C.D.C. capital into schemes that were already in existence at the time when the change in status takes place should normally be avoided, but would be permissible where this was considered necessary.

The legislative and other arrangements required to give effect to this policy would need to be considered as and when the occasion arises. But I am advised that, so far as the legislation side is concerned, a suitable method might be the inclusion of a provision in the instrument effecting the constitutional change in the territory concerned, rather than an amendment of the Overseas Resources Development Act itself.

I think you will probably wish to discuss this matter with me when you have had time to study this letter. I am sure that would be very useful; and I should like to hear from you whether you would see any special difficulty from the Corporation's point of view in applying this policy.[1]

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[1] Reith replied: 'Your letter of August 30 about CDC and colonial territories attaining independence, I should indeed like to talk with you. This is an almost terribly serious matter. I am ready anytime' (letter from Reith to Lennox-Boyd, CO 852/1483, no 12, 17 Sept 1956).

460 CO 852/1483, no 32 [Sept 1956]

'CDC and emergent territories': note by Lord Reith

S of S's letter of 30.8.56[1] considered by CDC Board; it causes great and anxious concern.

2. Gold Coast, Malaya, Nigeria, Singapore, Central African Federation and Caribbean Federation in that order and the first two next year, may all be independent in five years.

3. CDC was established to provide:—

(a) finance for economically self-supporting development which was not attractive to private enterprise capital;
(b) economic advice and management techniques where not available from official or private enterprise sources.

4. Independence will not mean less need for these services; on the contrary the gap between demand and supply for both types may well become greater, due to withdrawal of official support both in men and money, and political insecurity. What then; and who then?

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[1] See 459.

5. Some continuing policy and organisation is surely needed that will:—

(1) Handle UK Government money in colonial territories, emergent territories, independent territories, anywhere in the Commonwealth, with appropriate responsibility to Parliament.
(2) Enable co-operation in selected projects (direct or through regional bodies) with other powers—notably European in Africa and Colombo Plan in Far East—and thus avoid vulnerability of exclusively UK investment.
(3) Avoid so placing block sums of UK savings as in a crisis permits them to be used against UK interests.
(4) Fit into a rationing scheme for a scarce commodity—ie export capital.
(5) Make most of established good will.
(6) Retain UK influence in key financial places in newly-independent territories important to sterling area balance of payments.
(7) Ensure that UK money supports UK industry in appropriate cases (cf Export/Import Bank).
(8) Link economic planning with management experience and responsibility so that planning is sane and sound.

6. (1) CDC, with change in name and some changes in terms of reference, could do what is needed as in [6] above; it has fitted and prepared itself for such requirements.
(2) It is experienced in handling public money, UK and continental; it has made contacts and established confidence with territorial Governments; an unfortunate gap would be left if it were withdrawn.
(3) Corporation starts in an advantage in that the incidence of territorial independence brings no automatic curtailment of CDC powers under the existing Act.

7. Alternatives are:—

(1) UNO organisations like IBRD and IFC—usefulness limited by terms of reference and inevitably American outlook.
(2) NATO (for Africa) and Colombo Plan (for Far East)—as planning bodies with regional representation they meet some requirements but lack local business–financial organisation and management experience.
(3) CDFC—private enterprise concerned with small resources and without (it seems) organisation.
(4) USSR.

8. (1) And now from the narrower even parochial CDC point of view—and why not?—exclusion of territories in 3 above would radically change the scale and detail of its operations.
(2) No organisation of intelligent humans geared to a difficult job can be expected to tolerate stagnation still less liquidation by controlled stages. If its members see no hope of expansion collapse is sure and quick; the best men will leave; no good ones join; there will be left only those serving on till pension or unable to get jobs elsewhere.
(3) That apart, and despite a superficial neatness and logic, the proposed redefinition of scope does not seem to bear close inspection since:—

(a) projects themselves are *ex hypothesi* developing in all sorts of ways including fission into new projects, and further new projects may be required to round off the development. Will lawyers have to draw the line between a new and an existing project?
(b) who will determine whether injection of new money into an existing project is "necessary" or not? An what is "further capital"?
(c) projects do not exist on money alone; will project staffs remain knowing that expansion will be subject to stringent restriction?

9. (1) CDC is now an efficient organisation in a field where continuing services are shown above to be required; it is surely wasteful on any terms deliberately to scrap an efficient organisation; they are not very common.
(2) Government policy for CDC is derivatively and inevitably liquidation; this issue cannot be evaded.

CDC directors hope profoundly that S of S and Government will reconsider.

461 CO 852/1483 13 Nov 1956

[Proposed Colonial Development Corporation project in the Gold Coast]: minute by I H Harris[1]

I think that I ought to draw attention to the fact that the CDC are very interested in and seem likely to reach an early decision on a proposal that they should join with the Gold Coast Government and the Tunnel Portland Co Ltd in financing the construction of a new cement works in the Gold Coast.[2] This project is referred to on page 7 of the latest CDC Report of Schemes under Investigation—copy opposite.

2. The policy regarding CDC operations in colonial territories which achieve independence is that they can carry on with existing schemes but must not start any new ones. Legislative effect is being given to this policy in the draft Gold Coast Independence Bill.[3]

3. I don't suppose that we would look very favourably on any attempt by the CDC to rush new projects through in the last few weeks before Independence Day. That would certainly not be within the spirit of the law. But would we also wish to oppose this cement project if we received an application for capital sanction in the next month or so? Provided the application was satisfactory, on merits, I think that we would be prepared to see it approved, but if there is any doubt that we ought in my view to warn the CDC without delay, otherwise the negotiations will proceed and we shall find ourselves in yet another awkward situation *vis à vis* the CDC and the local government. Conversely, if, as I think, we are prepared to agree to CDC participation, provided that the project is a sound one, the Corporation had better be told to submit their application as soon as possible—they are quite capable of leaving it until the last minute. A further factor to be taken into account is that Lord Reith disagrees with the policy referred to above, and considers that the CDC should continue to operate as before in territories which achieve independence. He is to see the S. of S.

[1] I H Harris, principal, CO, 1952–1964.
[2] cf BDEEP series B, R Rathbone, ed, *Ghana*, part III, 272 & 277.
[3] cf *ibid*, 273, 283, 285, 286.

on this. As a consequence, the Gold Coast have not yet been informed of the policy either.

4. Finally, I must record that the Board of Trade have received a letter from their Trade Commissioner in the Gold Coast, urging high level action to get the project under way, with CDC assistance. I have asked the B. of T. to refer the letter to us before any action is taken.

462 CO 852/1483, nos 29 & 30 [22 Nov 1956]

'Position of CDC in colonial territories after they attain independence': CO brief for Mr Lennox-Boyd's meeting with Lord Reith

I. *Legal position*

1. The terms of Section 19 of the Overseas Resources Development Act are such that when a colonial territory to which the Act applies achieves independence, the Corporation would not on *legal* grounds be debarred from continuing to operate in that territory.

II. *Policy as notified to the Corporation in the secretary of state's letter to Lord Reith of the 30th August, 1956*

2. (i) When a territory attains independence the Corporation must obviously be able to carry on with schemes which were in existence before the change in status took place. But the Corporation should not embark on any new schemes in a territory after it achieves independence.

(ii) The injection of further C.D.C. capital into schemes that were already in existence at the time when the change in status takes place should normally be avoided, but would be permissible where this was considered necessary.

(iii) The legislative and other arrangements to give effect to this policy should be considered as and when the occasion arises. So far as legislation is concerned, suitable provision might be made in the instrument effecting the constitutional change in the territory concerned, rather than in an amendment of the O.R.D. Act itself.

3. The history on section 19 of the O.R.D. Act of 1948 is described in Appendix I to this Note.[1] This shows that, when clause 19 was being drafted in 1947, it was clearly understood that its *legal* effect would be as set out in section I of this Note. But, though the references in the earlier files, as set out in the Appendix, are not entirely conclusive on the point, they do suggest that the intention of those concerned at the time was that the *policy* should be as stated in paragraph 2 above. In this connection the quotation (in section V of Appendix I) from the Corporation's Annual Report for 1949 is significant. It shows that the Corporation in those days at least conceived their task in terms of the economic development of the British dependent territories only.

III. *General considerations involved*

4. It would be contrary to the original intentions of Parliament for the Corporation to go on financing further projects in a territory after it had achieved

[1] Appendices not printed.

independence. C.D.C. was set up to develop "colonial" territories, i.e. territories for whose progress the U.K. is responsible, and is an essential part of the pattern of U.K. aid to those territories. To divert the Corporation's resources to independent members of the Commonwealth would deprive colonial territories of the assistance of the organisation set up solely for their benefit, and would change the whole character and purpose of the C.D.C. If it is desired to make U.K. finance available to independent Commonwealth countries this should be done in other ways—e.g. by loans, or through the C.D.F.C.

5. The Secretary of State will remember that as recently as the 13th November, 1956, Mr. James Griffiths[2] explicitly recognised that the Gold Coast and the Caribbean Federation would, on attaining independence, "cease to be colonies and to be entitled to any advantage and benefit derived from the two principal methods of granting such help, through the Colonial Development and Welfare Act and the Colonial Development Corporation." (Hansard Vol. 560, No. 6, Col. 768). The Secretary of State is thus in a position to demonstrate to Lord Reith that his policy is clearly recognised by the Opposition.

6. Lord Reith has not explained in detail why he disagrees with this policy (which he has described as an "almost terribly serious matter"), but we have some indications as to the points he is likely to put to the Secretary of State.

(a) At a talk with Sir J Macpherson on September 6th, Lord Reith said that unless the C.D.C. could continue to operate in territories after independence it was "finished", and that the possibility of this was already having an effect on his staff, and on the willingness of first-rate people to accept employment with the Corporation. Sir J Macpherson referred to the situation of officers of H.M.O.C.S., and suggested that it will be a long time before more than a few territories would become independent.

It is difficult to believe that the C.D.C. will really experience difficulties in retaining their present staff, or recruiting men of the right calibre, unless their charter is extended to embrace self-governing members of the Commonwealth as well as the dependent territories. It seems probable therefore that the real reason why Lord Reith is contesting the Government's policy in this matter is the one referred to in (b) below.

(b) We have some reason to think that the C.D.C. may have rather grandiose ideas of becoming the major instrument of Commonwealth, as opposed to Colonial, development. The short answer is that the C.D.C. was set up to assist in Colonial development, and that that still remains their task.

IV. *Special considerations with regard to the Gold Coast and Malaya*

7. Legislative effect is being given to the policy set out in section II above in the case of the Gold Coast by the inclusion of a suitable provision in the draft Gold Coast Independence Bill, which has not yet been published. This Bill includes the following clause:—

"Without prejudice to the continuance of any operations commenced by the C.D.C. in any part of Ghana before the appointed day, as from that day the expression 'colonial territories' in the Overseas Resources Development Acts 1948 to 1956 shall not include Ghana or any part thereof.'

[2] S of S for colonies, 1950–1951; Labour Party opposition spokesman on colonial affairs.

The General Manager of the C.D.C. was informed by telephone on the 6th November that provision to this effect was being included in the draft Bill, so that he could let Lord Reith know confidentially how matters stood. Subsequently, on the 14th November, the General Manager was handed a copy of the draft clause for the Corporation's confidential information.

8. It will be necessary to explain the policy to the Gold Coast Government and the Malayan Government. This has not yet been done. In the case of the Gold Coast it is proposed to send an explanatory despatch or telegram in the interval between approval of the draft Bill by the Legislation Committee and its actual publication on First Reading, for which no date has yet been fixed, but which may take place round about the beginning of December. It is proposed to inform the Gold Coast Government at the same time about the policy with regard to C.D. & W. assistance, which is still the subject of correspondence with the Treasury. In the case of the Malayan Government, the matter will undoubtedly be raised when Malayan Ministers come to London in December for financial talks. It has already been raised semi-officially by the Deputy Commissioner-General for the U.K. in South East Asia, and a letter will be sent to him (with copies to the Governors concerned) setting out the general policy.

9. The Secretary of State should be aware that the C.D.C. are contemplating substantial further investments in the Gold Coast and Malaya, of which details are given in Appendix II to this Note. A separate note is being submitted on these proposed projects, suggesting the line that the Secretary of State might take with Lord Reith about them at the discussion on November 23rd.

10. In view of Lord Reith's habitual reluctance to accept decisions by H.M.G. as final, as well as his proclivity for enlisting the support of those who might think in the same way to bring pressure against H.M.G., the Secretary of State may think it advisable to warn Lord Reith against any attempt to enlist the support of Malayan or Gold Coast Ministers or of Members of Parliament for his view that the policy set out in section II above is wrong. Such activity would create the gravest embarrassment for H.M.G. by presenting the new Governments with an aritifically [sic] created grievance at a time when everything must be done to avoid spoiling our relations with them.

Additional note for the Secretary of State's meeting with Lord Reith

Policy regarding initiation of new C.D.C. projects shortly before a colonial territory becomes independent

1. The intention is that the Corporation shall not be entitled to undertake new schemes in the Gold Coast after March 6th 1957, or in Malaya after that territory attains independence, although they will be able to carry on with operations commenced before independence.

2. The Corporation are at present contemplating four substantial new investments in Malaya and the Gold Coast, *viz*:—

Gold Coast – Cement factory (C.D.C. share not known)
Malaya – Federal Land Development Authority
(C.D.C. share £0.6 million)
Malayan Industrial Development Corporation
(C.D.C. share £291,666)
Port Swettenham development
(C.D.C. share £3 million)

3. Would it be in keeping with the above policy, and in other respects appropriate, for the C.D.C. now to be allowed to undertake new schemes during the few months which remain before the Gold Coast and Malaya become independent? It is obviously difficult to lay down a rigid rule applicable to all territories and circumstances. We do not wish to restrict the Corporation unreasonably, yet on the other hand it would be absurd for them to rush new projects through at the last moment. In general, we think that new projects could normally be approved when a territory's independence is still some years ahead, but that when the period of waiting begins to be reckoned in months it is time for the C.D.C. to call a halt.

4. A strict application of this criterion would rule out C.D.C. participation in all four schemes mentioned in paragraph 2 above. We think, however, that a distinction can be made between:—

(a) proposals which are of long-standing, which the C.D.C. have been negotiating for some considerable time, and
(b) proposals in which the C.D.C. have only recently begun to take an active interest.

To allow the C.D.C. to continue with the latter would not be in keeping with the general policy; but schemes in the former category might properly be approved provided that actual physical operations in the territory concerned begin well before independence day.

On this basis, the *Gold Coast Cement Factory* (first proposed to C.D.C. in September 1956, i.e. *after* Lord Reith had been told what the policy was) and the *Port Swettenham extension* (first proposed in June 1956) would be ruled out. The Port Swettenham project is also open to objection on other grounds: it is pure finance-house, and £3 million is too large a sum for the C.D.C. to invest in Malaya just before independence. Also, on our present information the Port Swettenham project would not be likely to be undertaken by the Federation government for some time after independence.

5. The *Federal Land Development Authority* (first proposed to C.D.C. in August 1955), and the *Malayan Industrial Development Corporation* (first proposed in this form in May 1956, but developed from much earlier proposals for financing industrial development in Malaya), would fall in the first category of long-standing schemes in which C.D.C. participation might, even at this late stage, be approved, provided that they were in fact able to start before independence (i.e. that their Boards would be set up and be in effective operation).

6. The attitude we adopt towards these four schemes will have to be agreed with the Treasury, the C.R.O., and the Board of Trade (who are eager to see the Gold Coast Cement Factory established with U.K. assistance). In the case of the Gold Coast, at least, we would hope to be able to interest the C.D.F.C. so that withdrawal of the C.D.C. would not prejudice the project.

7. It would not be possible to reach agreement with the other Departments before tomorrow afternoon, but it is important that something should be said to Lord Reith without delay. It is therefore suggested that the Secretary of State should tell Lord Reith tomorrow:—

(a) that he has been considering to what extent the Corporation ought to undertake new projects in a territory in the period immediately before independence;
(b) that he notes that the C.D.C. have four substantial new schemes under investigation in the Gold Coast and Malaya;
(c) that the Port Swettenham scheme must be ruled out on all grounds (too large an investment in present circumstances, only recently proposed, finance-house, and most unlikely to come to fruition until some time after independence);
(d) that he is examining the other three schemes, but meanwhile, Lord Reith must *not* assume that it will be possible for the C.D.C. to proceed with them;
(e) that he does not wish Lord Reith to say anything yet about Government policy on these matters to Gold Coast or Malayan Ministers.

463 CO 852/1483, no 33 28 Nov 1956

[Role of Colonial Development corporation in emergent territories]: CO record of a meeting between Mr Lennox-Boyd and Lord Reith on 27 Nov 1956 [Extract]

. . .

II. *Emergent territories*

The Secretary of State referred to his letter of the 30th August,[1] to which Lord Reith had replied, and said he would not go over that correspondence again in detail but would like to emphasise that it was particularly important that care should be taken to avoid the spending of money in territories which were not eligible to receive aid under the Act. This meant looking particularly carefully at expenditure in the Gold Coast and Malaya, which were approaching independence.

The Secretary of State said that the distinction he proposed to draw was that when territories were due to become independent in a matter of months as opposed to years, no new schemes should be put forward. An exception to this could be made when the plans for schemes had been under consideration for some time; in these cases the schemes would be looked at more sympathetically. In any event independence would not normally affect the continuation of schemes already in existence.

Applying the above criteria to the Gold Coast and Malaya the following would be the result.

Gold Coast. The Cement Factory would be ruled out.
Malaya. The Port Swettenham development scheme would be ruled out but the Federal Land Development Authority and the Malayan Industrial Development Corporation would fall in the category of long-standing schemes in which C.D.C. participation would be sympathetically considered provided they were in fact able to start before independence.

[1] See 459.

Lord Reith said there would be no difficulty about these two schemes starting before independence provided the Colonial Office agreed to them quickly.

The Secretary of State explained that it was now necessary to consult the C.R.O. as well as the Treasury and this took a little time, but he promised that decisions would be made as soon as possible.

Lord Reith said he did not think he could accept the criteria proposed by the Secretary of State. He enquired whether there was not to be any continuing interest or responsibility in colonial territories once they had become independent. The Secretary of State said that of course there would be, but the Corporation, which had been set up to deal with colonies, could not continue to function in self-governing dominions.

Lord Reith thought it most serious if, on a colony attaining independence, the C.D.C.'s work in the territory came to an end. He handed the Secretary of State a copy of a paper prepared for his Board on the subject.[2]

The Secretary of State explained that it was not possible for him to answer to Parliament for activities in the self-governing dominions; but Lord Reith enquired whether it could not be the general responsibility of two Secretaries of State. The Secretary of State said he would study Lord Reith's paper and thereafter they might have a further talk on it.

The Secretary of State explained that the following clause would be appearing in the Gold Coast Independence Bill which was shortly due to be published:—

> "Without prejudice to the continuance of any operations commenced by the Colonial Development Corporation in any part of Ghana before the appointed day, as from that day the expression 'colonial territories' in the Overseas Resources Development Acts 1948–56 shall not include Ghana or any part thereof."

It would be necessary to explain in Parliament that this was the normal policy it was proposed to adopt in this matter when territories achieved independence.

Lord Reith said he should warn the Secretary of State that Tunku Abdul Rahman[3] would shortly be asking him to arrange for the continued operation of the C.D.C. in the Federation of Malaya after independence. For this reason he objected strongly to the clause the Secretary of State had read out since it would be regarded as a precedent. He drew the Secretary of State's attention in the paper he had handed him to the danger of a decline in the Corporation and its eventual extinction if there was no hope of expanding their activities and if in fact they had to face an inevitable contraction as a result of Government policy. He also pointed out that the Secretary of State's own letter of 30th August had admitted that there was no legal bar to the Corporation continuing to operate in an independent territory.

The Secretary of State suggested that it would be useful if he met the whole Board and had a further discussion on this subject.

Lord Reith agreed. . . .

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[2] See 460.

[3] Chief minister of Malaya, 1955–1957; prime minister, 1957–1959, 1959–1963; prime minister of Malaysia, 1963–1970.

464 CO 852/1483, no 38 30 Nov 1956

'CDC and "emergent territories" ': minute by Sir H Poynton to Mr Lennox-Boyd

I am sorry to return to the charge, but I am gravely worried about what appears to be a last-minute change of policy on this matter. I gather from Mr. Harris that Sir Albert Braithwaite,[1] supported by Mr. Griffiths and Mrs. White,[2] are all pressing that the C.D.C. should continue to be allowed to operate (including starting new schemes) in colonial territories which become independent, and that they intend to ask for a clarification of policy by the Government spokesman.[3]

My latest information is that Lord John Hope intends to say that the policy described in the Ghana Independence Bill is confined to the Gold Coast. I sincerely hope that this is not the line which he is going to take, because if so this discrimination against the Gold Coast is bound to provoke political repercussions in that territory, and I should have thought that it would also have a longer term "boomerang" effect in raising a lot of false hopes in Malaya.

We are, I admit, rather in the dark because no one in the department or in the C.R.O. knows exactly the upshot of your personal conversation with Lord John Hope. Whatever the reactions of the C.D.C. Board may be (and I thought that you had told Lord Reith finally that this policy had been decided upon), I feel sure that the risk of creating a political row with the Gold Coast and possibly Malaya is more serious.

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[1] Sir A Braithwaite, Con MP for Harrow West, 1951–1959.
[2] E White, Lab MP for East Flint, 1950–1970.
[3] cf 476.

465 CO 852/1483, no 54 6 Dec 1956

[Role of Colonial Development Corporation after colonies become independent]: letter from Lord Home to Mr Lennox-Boyd

My dear Alan

I have been thinking over the debate in the House of Commons last Friday on Commonwealth development when, as you will remember, there was considerable pressure from both sides of the House for the Colonial Development Corporation to be allowed to extend its activities to independent Commonwealth territories. Particular reference was made by several speakers to the provisions of the Ghana Independence Bill which (in Clause 3(4)) removes Ghana from the scope of the Colonial Development Corporation's activities as from the day of independence.

I am pretty sure that, in the debate on the Ghana Independence Bill, this point will be taken up and there will be considerable pressure for this provision to be modified.

We made the constitutional position clear in the debate, and it is important to maintain the principle in it. For all that I am inclined to think that in this matter the critics have a point of some substance, and that we ought to be ready to consider some transitional provision. The pure milk of the doctrine, of course, is that a Colony which becomes independent should take the full responsibilities of that state, including standing on its own feet financially; if it requires capital from abroad for development, it should be able to borrow in the ordinary way on the market. But the

creation of investors' confidence in a country like Ghana must take some considerable time.

There is thus a danger that a country like Ghana, on emerging into independence, may find itself falling between two stools, being neither eligible for further funds from the Colonial Development Corporation, nor for some years in a position to raise a market loan in London or to attract other capital on commercial terms. I think it would be unfortunate politically, and wrong in principle, if we were to leave a country in this position simply to sink or swim as from the day of independence.

I feel, therefore, that we ought to consider whether some transitional arrangement should be made in favour of Ghana, and other Colonies emerging into independence, by which they could continue for a transitional period to be eligible for finance from the Colonial Development Corporation. (I do not, of course, suggest that similar arrangements should be made for Colonial Development and Welfare grants, which clearly ought to be restricted to Colonies.) What I have in mind is that such a country, if it wished, would continue as at present to be eligible for Colonial Development Corporation finance for a period of, say, three years, with the possibility of renewal for another three years. The terms, would, of course, have to be such that we did not reduce the incentive to attain a credit-worthy condition as rapidly as possible.

An arrangement of this sort would no doubt require amendment of the Colonial Development and Welfare Acts (including I imagine provision for the Commonwealth Secretary to be responsible for approving schemes in relation to the independent countries). A change of name might also be required.

I understand that the second reading of the Ghana Independence Bill has been fixed for next Tuesday (11th December). I do not think that we can work out anything cut and dried in time for that but, if your reaction—and that of the Chancellor—to the above ideas is favourable, you might wish to say in the debate that the question was being examined further. Our officials could get together and work out details.

I am sending a copy of this letter to Macmillan.

Yours ever
Alec

P.S.
Since the above was drafted I have seen the notes for your talk today with the Conservative Commonwealth Group. A suggestion such as I have outlined would clearly have to be considered by us Ministerially (it might be a good thing if we were to discuss it in a Colonial Policy Committee?) and we certainly could not show our hand until we had done so and had reached agreement. I am sure that being so that the line you propose to take with the Commonwealth Group is the right one at this stage. But you may be able to gauge from your talk with them how strong pressure for some concession (it is bound to come from the Opposition) is likely to be on our side of the House; and if after consideration we decided to defer to it, we could do so in Committee or at some later stage of the Bill?

466 CO 852/1483, no 51 6 Dec 1956
[Role of Colonial Development Corporation after colonies become independent]: minute by Sir G Laithwaite

I circulate a copy of the Commowealth Secretary's letter of 6th December to the Colonial Secretary.[1]

2. I understand that Lord Home subsequently spoke to Mr. Lennox-Boyd who thought that it would probably be necessary to make some concession on this matter but that the right answer was to use the C.D.F.C. and that he should go ahead with the relevant clause in the Ghana Independence Bill as at present drafted.

3. Ministers in C.R.O. have considered this further and feel that it would be advantageous to clear the ground if possible before Monday.

4. As at present advised Lord Home does not feel that the C.D.F.C. would be the right answer and Lord John Hope doubts it [sic] something of this nature would meet the political pressure in the House. The Colonial Secretary may have a view on this after his talk tonight with the Commonwealth Group.

5. The Commonwealth Secretary's view is still that a possible solution would be:

(a) a reconstitution of the C.D.C. (this would, of course, mean legislation) which would
(b) change its title to Development Corporation;
(c) make provision on the lines of his letter to the Colonial Secretary for its employment for a limited transitional period by new Commonwealth countries as they cease to be colonies and become independent;
(d) provide that in respect of such Territories the Commonwealth Secretary and not the Colonial Secretary should be the Minister who would require to be satisfied;
(e) the Colonial Secretary remaining responsible as at present for Colonial Territories.

6. Two points of difficulty will have to be faced in any proposition to make benefits of this type continuingly available to new Commonwealth countries.

7. These are:—

(a) Position of Southern Rhodesia. This can be discussed in more detail at the meeting.

8. The second and more fundamental point is that while control can be exercised over the Governments of Colonies benefitting from the C.D.C., and steps be taken by Ministers here responsible to Parliament to ensure that they pursue temperate and responsible policies, that would not be possible in the case of an independent Commonwealth country unless some special machinery is devised to protect the position.

9. The C.R.O. thought that it might be possible to meet this last point if by agreement between the new Commonwealth country concerned and H.M.G. (as represented by the Commonwealth Secretary) an authority was to be set up or an agreement reached which would provide safeguards and a right to demand informa-

[1] See 465.

tion, etc. or even to restrict further issues of money would be vested in H.M.G. because of its Parliamentary responsibility to the taxpayer.

10. *Parliamentary tactics*

Various possibilities have been tentatively canvassed in the C.R.O. as follows:—

(a) That the Colonial Secretary should introduce the Bill as at present drafted but should say in doing so that H.M.G. had taken note of the debate on last Friday and were well disposed to some provision being made for a short transitional period during which the facilities of the C.D.C. could be continued to be made available to newly independent Commonwealth countries so as to soften the immediate impact on them; that this did obviously necessitate consideration of some very difficult questions; that the Government would try, if possible, to move an amendment representing their conclusions in the Lords which could then be considered in the Commons as a Lords' Amendment.

If in the event it proved impossible to reach conclusions before the Bill returned to the Commons, the explanation of intention then to be given to the House and the method of dealing with the C.D.C. clause in the Bill, would have to be considered further nearer the time by Ministers.

(b) The alternative would be to omit altogether the provision in the Bill that Ghana will not be able to employ the C.D.C. but it is understood in C.R.O. that the Colonial Office lawyers advise that if no provision to that effect is included there will be nothing to stop Ghana continuing, though an independent country, to utilise the C.D.C.

11. The Commonwealth Secretary is anxious that the matter should be considered by officials on Friday morning with a view to clearing the ground and possibly formulating suggestions which Ministers could consider (Lord John Hope in his absence to represent him) on Monday morning because of the effect of whatever decision is taken on the handling of the Bill on Second Reading on Tuesday, 11th December.

467 CO 852/1483, no 50 6 Dec 1956

'Gold Coast independence bill—CDC clause': minute by A Emanuel to J O Moreton[1]

We were informed late last night that Lord Home was being advised by his officials to suggest to the Secretary of State that if Parliamentary objection to the line proposed in our brief made it necessary the Government should change its policy, even at this last moment. The change suggested (which we heard for the first time last night) is that there should be a free period during which the C.D.C. should continue to operate as normal.

The Secretary of State will no doubt wish to have our comments at the earliest possible moment. I suggest the following:—

(1) Whether there will be Parliamentary difficulty in securing the acceptance of the policy already established is not for officials to advise on. But the C.R.O. base

[1] Lennox-Boyd's private secretary.

their view on the opinions expressed in last Friday's Debate. We have of course fully taken account of those opinions in our own brief, and the C.R.O. may, therefore, be entirely exaggerating the difficulty of getting the existing policy across. But the S. of S. will be fully aware that at least part of the pressure in Parliament derives from lobbying activities by the Corporation. We have no certain evidence, but there are clear indications that various Members of Parliament have been briefed by Lord Reith on the subject of the role of the C.D.C. Consequently, to give way would merely be to allow Lord Reith to get by political pressure what the Government have hitherto refused on policy grounds to let him have.

(2) The three-year period of grace is, in principle, objectionable. It has no inherent justification, and postulates an initial period of independence which is different from real independence. Politically this seems indefensible; independence surely means independence, neither more nor less.

(3) There is no justification for a three-year period in the case of the Gold Coast. The C.D.C. has done practically no development in the Gold Coast; it has merely contracted for road construction, the primary purpose being to put to use equipment which had previously been acquired. The new policy, by giving the C.D.C. the right to carry on new development would in fact mean that in the post-independence period the C.D.C. would extend its work, contrary to the general aim of cutting down. This could be very important if the Volta River scheme were to be contemplated since vast sums of C.D.C. resources could be swallowed up.

(4) It would constitute a most undesirable precedent. The same principle would obviously apply to Malaya and other territories gaining independence. The Government's hand would therefore be tied in advance, instead of the Government being entirely free to determine, in the circumstances at the time, what assistance it gives to a newly independent country.

(5) If the suggested policy were agreed for C.D.C. there could be no real reason for not doing the same in respect of C.D. & W.

(6) The suggestion would not get over the difficulty already mentioned in the brief that the operation of the C.D.C. in independent countries would give rise to political problems. Furthermore, the arrangement would, in practice, be almost unworkable. Presumably the S. of S. for Commonwealth Relations would have the major say in determining the local merits of a proposed C.D.C. investment. But the S. of S. for the Colonies would be concerned with the general questions of C.D.C. policy which each individual investment raised (e.g. finance-house). To have two Ministers responsible for the C.D.C.'s activities would create the maximum opportunity for Lord Reith to "divide and rule". To keep full responsibility under the C.O. would create problems in the independent countries. But we could not obviously transfer full responsibility to the C.R.O.

P.S. We have not of course been able to consult Tsy but the proposal would almost certainly be unacceptable to them & we could count on their support to oppose it.[2]

[2] Some days later I H Harris noted: 'I believe that this was discussed by Ministers and that the C.R.O. idea was dropped' (minute from Harris to Emanuel, CO 852/1483, 12 Dec 1956).

In the next few months the government did make one concession to the CDC's desire to operate in independent Commonwealth countries, envisaging for it a managerial—but not an investment—role. 'Her Majesty's Government accordingly proposes that the Corporation should be enabled, with the

agreement of the Government of the independent Commonwealth country concerned, to undertake the management of any project on a managing agency basis without commitment of the Corporation's funds' (*The United Kingdom's role in Commonwealth Development*, Cmnd 237, July 1957, para 32).

Another five years later, in mid-1962, the government at last came fully round to the view that Reith had urged in 1956. By this time 'it was felt that circumstances had changed with the transition to independence of several poor Colonies, which still needed the kind of help the CDC could provide' (Morgan, *The official history of colonial development*, vol 4, 185). It was announced that the corporation's name would be changed to Commonwealth Development Corporation and that it would be permitted to embark on new projects in independent countries, though without any increase in the ceiling of Exchequer lending to the corporation. These changes were given effect by the Commonwealth Development Act of July 1963.

468 T 220/262, pp 14–16 26 Nov 1951
[CO expenditure]: letter from Mr Lyttelton to Mr Butler

My dear Rab

Thank you for your letter of the 12th November about economy in Government expenditure. As you know, I am off to Malaya today but I have been able to go into the question in consultation with my senior officials.

A memorandum enclosed in Lloyd's letter to Bridges of the 27th February last explained why no reduction in the expenditure under the Colonial Office Vote would be possible unless policy decisions were taken to cut certain services at present carried out here for, or on behalf of, territories coming under the Colonial Office. I agree with the views of my predecessor as explained in that memorandum and covering letter; in particular I feel that it would be very inadvisable to cut any of those services which help so much in countering "cold war" attacks on the Colonial system. Just now when the Colonial territories are helping so much on balance of payments would clearly be the worst time to cut what we here do for them.

In fact, it will be necessary to ask for a slightly larger provision under the Colonial Office Vote next year than this. Even if staff numbers are held at the October figure there will be an inescapable increase in the cost for reasons (such as increments and improved rates of pay) common to all Departments; also, as Lloyd has explained in a letter to Bridges, some increase should be made in the provision for overseas travel since I am very anxious that Ministers should be able to travel much more widely in Colonial territories and that this should not be at the expense of normal Office travel abroad, which is very strictly regulated.

As against this I have told the Department that they must be constantly on the lookout for savings by cutting down from time to time on the odd post; but any such savings must, in the nature of things, be inconsiderable.

The Colonial Office is responsible also for the Vote for Development and Welfare (Colonies etc.), the Vote for Colonial and Middle Eastern Services, and the Overseas Food Corporation Vote. The latter makes provision in accordance with the policy described in the White Paper which was approved by the last Parliament. The provision likely to be required next year within the overall sum of £6 million promised should be slightly less than the sum inserted for this year.

I cannot yet say exactly what provision will be needed next year under the two other Votes. The preparation of these Estimates depends largely upon the supply of information by Colonial Governments. Some of that has still to come and may, when it arrives, affect the forecasts given in my next two paragraphs.

The Vote for Development and Welfare, as you know, is subject to a statutory limit of £25 million per annum. For 1951–2 the provision of just over £19 million was based on the expenditure which Colonial Governments expected to be able to incur in the course of the year. Owing to difficulties over the supply of manpower and materials, actual expenditure is likely to fall well short of the estimate, as it did last year. These deterrents are likely to operate again next year and it is likely that we shall ask, subject to certain conditions, for provision on this Vote showing a saving of some £4 million compared with this year.

The forecast for the Vote for Colonial and Middle Eastern Services which was rendered to the Treasury last June provided roughly £27 million for next year. Since then His Majesty's Government have promised substantial assistance towards costs of the hurricane in Jamaica. Also, defence services in Malaya and Africa are likely to show some increase on the present year's figures. I should hope, however, that any increase on this Vote would be counter-balanced by the saving on the Vote for Development and Welfare and that the total provision for which the Colonial Office will be asking Parliament on its Votes for next year will be no more than for the present year.

Yours ever
Oliver

469 T 220/262, p 31 28 Dec 1951

[Reductions in CO expenditure]: letter (reply) from Mr Butler to Mr Lyttelton [Extract]

Dear Oliver
Welcome home! I am now replying to your letter of 26th November[1] about the likely trend of expenditure in the Votes for which the Colonial Office is responsible.

I note that the total provision you foresee as necessary will be on approximately the same scale as for this year. I recognise the difficulties in the way of achieving any notable savings but I am afraid I must ask you to re-examine the possibility of making some reductions, however small they may appear, even at the cost of sacrificing some services which are otherwise desirable. This will be in line with some of the painful decisions we've had to take on other Votes in your absence.

I do not want to say anything about the Vote either for Development and Welfare or for the Overseas Food Corporation: I agree with your comments on these. Although it may seem harsh in the light of our Colonial policy, I feel bound to ask you to effect some saving on the Colonial Office Vote. Desirable though I am sure all the tasks performed by the Colonial Office are, there are bound to be some which are less valuable than others and some whose discontinuance would cause relatively little damage to the policy of countering the cold war. I would hesitate to try to suggest to you which these are. But our examination here leaves me in little doubt that they exist and I am therefore going to ask you to reconsider whether the Vote for the Colonial Office, as submitted for approval, can be cut by 7½%. . . .

Yours ever
Rab

[1] See 468.

470 T 220/262, p 35 16 Jan 1952

[Reductions in CO expenditure]: letter (reply) from Mr Lyttelton to Mr Butler [Extract]

My dear Rab
I have examined most carefully, as requested in your letter of the 28th December,[1] the possibility of making a reduction on the Colonial Office Vote for 1952–1953. As a result of that examination my officials will be putting to the Treasury revised figures which are 6% lower than those previously submitted for approval; the revised Estimate also achieves the target set by the Treasury for the reduced manpower ceiling.

This has involved (a) the reduction of staff to a level which allows no margin for exceptional sickness or absence on duty, etc. and (b) cuts in the small provision for anti-Communist measures in Africa. It will also involve the curtailing of some facilities—such as professional advice on certain subjects—which Colonial Governments have come to expect of us and which, since we are so much indebted to those Governments in other ways, I should have liked to retain in full.

That is as far as I can go to meet your request, and I must earnestly ask you to accept these revised proposals, which involve real sacrifice not only here but indirectly on the part of Colonial Governments. . . .

Yours ever
Oliver

[1] See 469.

471 T 220/262, pp 60 & 62 2–8 Dec 1952

[Reductions in CO expenditure]: minutes by A E Drake and Sir J Crombie[1]

. . . 3. The only possible scope for reduction, therefore, is on the Establishment side, in the Colonial Office Vote. In his note to the Prime Minister last February the Chancellor of the Exchequer made it clear that he reserved his position on the question of the tasks which the Colonial Office now perform. I think we must accept the fact that if the Colonial Office are to continue to perform their present tasks in full, there is no scope for further reduction of the Colonial Office Vote. But I have been thinking for some time about the two points mentioned in Mr. Sharp's minute on the file.

4. The first is that at present H.M.G. incurs considerable expenditure performing free for the Colonies services in connection with the recruitment and management of the Colonial Service. It would obviously be impossible immediately to insist that the Colonies should reimburse us in full for all this work; it is in our interests, as well as being our duty, to see that the Colonies are efficiently run and that they have the right type of administrator and senior technician to run them. If we suddenly sought to recoup from the Colonies the cost of recruiting these people, many of the

[1] Sir J Crombie, 3rd secretary, Treasury, 1946–1955.

Colonies, particularly those with some measure of self-Government, would tell us they did not want them and would do their own recruiting—probably with disastrous results. But it might be possible to approach the matter gradually, and slowly to introduce some system of partial recoupment of some of the expenses we now incur on behalf of the Colonies for this purpose.

5. Secondly, the Colonial Office is obviously very pleased with all the arrangements it at present has for giving free advice to the Colonies on a number of technical and semi-technical subjects. But we are by no means satisfied that the Colonies really need the whole of this elaborate structure, nor in fact that they really desire it in all cases. It seems to us that there is scope for a detailed enquiry as to the real value of some of the activities in which the Colonial Office is at present engaged.

6. I should say at once that to pursue either or both of these lines would be a matter of extreme difficulty and would meet with very great opposition. . . .

A.E.D.
2.8.52

. . . I think it is probably true that the Colonial Office has now become in some respects a little too grandmotherly in what it does for the Colonies, but I share Mr. Drake's doubts about whether it is worth while initiating a full scale enquiry into the matter. The amount which is likely to be saved as a result of such an enquiry is relatively small and no sooner would it be mentioned than a cry that H.M.G. were seeking some fundamental changes in their relations with the Colonies, to the disadvantage of the latter, would be raised, and I doubt whether Ministers would be well advised to stir up this issue, particularly at a time when we are stressing the need for development in the Empire. On the whole, therefore, my advice would be against any high level enquiry into the problem, though the Treasury should continue to peg away as hard as it can in the direction of restricting and reducing the Colonial Office's activities in recruiting for and advising the Colonies on technical matters.[2]

J.I.C.C.
8.2.52.

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[2] In the following year Drake referred again to the CO's advisory services 'for which there is little demand in the Colonies'. But against the arguments for cutting them down 'There is the argument, which undoubtedly has some force, that as the Secretary of State progressively loses direct control of the Colonies, he must increasingly rely on influence and advice to them' ('Possible economies of IF votes', minute by Drake, T 220/395, pp 92A–92B, 3 Oct 1953).

472 T 220/262, pp 68–70 28 Oct 1953
[Reductions in CO expenditure]: letter from Mr Lyttelton to Mr Butler

My dear Rab

In your letter of the 7th October you asked me to carry out a review of all possible major economies in connection with the preparation of my Department's Estimates for 1954–55.

I am bound to pay the most serious attention to the facts about the financial position of the United Kingdom which are given in your letter, and I am anxious to

do everything I can to help. As regards major changes in policy, however, I am afraid there is nothing which I can add to the second paragraph of my letter of the 10th November, 1952. Everything which I said there is as true today as it was then. Indeed, with recent developments in British Guiana and elsewhere, we are more than ever committed to a forward policy of development in the Colonies and to the maintenance of order and good government, the cost of which is reflected in the main items of expenditure on the Votes for which my Department is responsible.

I fear, therefore, that there is nothing I can do to help you in the direction of major economies springing from any changes in policy and that, as in past years, we in the Colonial Office will have to make what contribution we can towards the easing of your burdens by careful scrutiny of all items which have to be inserted in the Estimates.

This, of course, we will do; but I ought to warn you now that the requirements for the Colonial Office Votes next year threaten us with a considerable increase over the total of the current year's Estimates. I am thinking particularly of the assistance which will have to be provided for the Federation of Malaya to meet the continuing cost of the emergency. The need for this assistance is a direct result of the fall in the price of rubber and tin, and we can count ourselves as fortunate that the Federation has hitherto been able to carry so much of the cost on its own budget. There is also Kenya's need for financial aid in her battle against the Mau Mau. Although I am not yet in a position to put to you a firm figure of assistance in either of these cases, there can be no doubt that between them they will involve a very substantial addition to the Estimates.

You also asked me to see that my Department's Estimates are with you by the 1st December. We will to do all we possibly can to achieve this, although it is inevitable that some of the figures inserted in the Estimates will, at that date, have to be provisional and subject to modification later.

Yours ever
Oliver

473 CO 1025/56, no 1 14 Apr 1954

[Reductions in government expenditure]: letter from Lord Swinton to Mr Lyttelton

The Chancellor of the Exchequer has reported that, on present forecasts, Budget expenditure in 1955–56 will exceed prospective revenue by a very substantial margin; and the Prime Minister has therefore appointed a Committee under my Chairmanship to submit to the Cabinet, by 1st July next, "proposals for ensuring that civil expenditure in the financial year 1955 shall be reduced by £100 millions below the total at present forecast for that year".

At their first meeting yesterday this Committee agreed that I should write to you and the other Ministers responsible for civil expenditure, to emphasise the extreme importance of securing a substantial reduction in public expenditure and to enlist your help in enabling the Committee to frame effective proposals to this end.

In accordance with the normal procedure, the Secretary to the Treasury will be asking your Permanent Secretary for an up-to-date revision of your Forecast Estimates for the financial years 1955 and 1956. We shall be using the 1956 figures as

a general guide only, and shall concentrate on the year 1955. We propose to make a start on our task by considering what would be involved by a 5 per cent and a 10 per cent reduction on the revised Forecast Estimates. For this purpose we need from each Department answers to the following questions:—

(a) If the total of the Forecast for 1955 exceeds the total of the Estimate for 1954, what steps would be necessary to restrict expenditure to the 1954 level?
(b) If a cut of 5 per cent had to be made in the total of the 1955 Forecast Estimates, in what way could such a cut best be made and what steps would be necessary to achieve it?
(c) Simularly, in what way could a cut of 10 per cent be made?

We recognise that reductions on this scale would involve questions of policy, and that Ministers must go into this personally and see what contribution they could make. Needless to say, no Minister will be committed to any particular measures as a result of the replies we receive to these questions. But we need this information from all Departments in order to form a firm appreciation of the measures which would be required to achieve the necessary economy in civil expenditure as a whole. We shall also need to know whether legislation would be necessary to effect the whole or part of this reduction.

I should be obliged if you would let me have replies to these questions by 4th May. When we have made our initial survey of the whole field, we shall consult you on any particular proposals we may be disposed to put forward affecting your Department.

474 T 220/396, pp 11–14 5 May 1954

[CO expenditure]: letter (reply) from Mr Hopkinson to Lord Swinton

You wrote to Oliver Lyttelton on the 14th April about the Committee appointed under your Chairmanship to review the civil expenditure forecast for the financial year 1955.[1]

The Secretary of the Treasury is being sent an up-to-date revision of the Forecast Estimates for the financial years 1955 and 1956 for the Votes administered by this Department. These Votes, and the sums involved, are as follows:—

	1954/55 Estimate £	*1955/56 Forecast* £	*1956/57 Forecast* £
Colonial Services Vote	39,248,928	28,681,890	22,177,140
Development and Welfare (Colonies, etc.) Vote	17,500,000	18,000,000*	18,500,000*[2]
Overseas Food Corporation Vote	309,010	–	–
Colonial Office Vote	1,069,660	1,106,000	1,122,000
Totals:	£57,818,588	47,787,890	41,799,140

[1] See 473.

[2] A Treasury official inserted the asterisks in the table and added the following footnote: 'Colonial Office have revised these figures to read £17,500,000 for 1955/56 and £18,000,000 for 1956/7. Totals thus become £47,287,890 and £41,299,140 respectively.'

The trend shown by these Votes as a whole is one of quite sharp decline in expenditure in the next two years. This is almost wholly due to heavy reductions in foreseeable requirements for the Colonial Services Vote, helped to a small extent by the disappearance of the Overseas Food Corporation Vote (under legislation to be introduced this session to transfer the Corporation's assets to the Tanganyika Government). The precise needs, and the underlying circumstances, of the three Votes which will remain differ one from the other and to answer the specific questions in your letter, I must deal with each in turn.

Colonial services vote

The forecasts are more than usually uncertain. Almost half the estimate for 1955/56 is taken up with two items of grants towards the costs of the emergencies in Kenya and Malaya. The figures (£8 million and £6 million respectively) are tentative estimates only since we have not yet discussed with the territories concerned what their needs are, nor decided what it is in our power to do to help to meet them. Assuming, however, that these two items are about right, the total of the forecast for next year is substantially below this year's estimates so that question (a) of your letter does not arise. On your (b) and (c), the uncertainty of our total forecast (for reasons I have just given) makes it difficult to quantify the percentage cuts which you ask us to take as hypotheses, and I can attempt an answer in general terms only. We could cut the forecasts by reducing the grants to be made to Kenya and Malaya if we were to decide here and now that the size of the operations against the terrorists in each territory should be reduced to come within a set financial ceiling; or, if military operations were to remain a prior charge on the local budgets, that other essential Colonial Government services should be cut or abandoned. In the discussions which we are to have with both Governments in the coming months about assistance next year, we and the Treasury will of course take full account of the need for the most stringent economy and we will also ensure, as we have done in the past, that the territories themselves make the maximum contributions they can. But the situation in both territories must be cleaned up as quickly as possible and this, I think you will agree, must continue to be the test by which we judge the need for expenditure falling on the United Kingdom Vote; so that there is no scope here for imposing arbitrary cuts.

Many of the other items in this Vote represent firm commitments already entered into by Her Majesty's Government with Colonial Governments or, in some cases, foreign Governments. It would be most damaging to Her Majesty's Government's reputation, as well as to our declared policy of Colonial advancement, if any attempt were made to cut these items arbitrarily, though of course we always see that the strictest economy is maintained in administering the funds concerned. An attempt might also be made to find savings from the annual grants-in-aid which are made to certain Colonial territories ("A" group in the estimates). Claims for these grants-in-aid are on the annual estimates submitted by the Colonial Governments concerned and are most strictly scrutinised to ensure that the utmost economy is preserved. The forecasts in these grants do not provide for any increase in existing services, though they are now only barely adequate to maintain administration at a reasonable level. It would be most damaging to what can still best be described as the "Imperial connection" in these territories, and would inflict severe hardship upon their administration and peoples, if we are to impose an arbitrary cut in the services. A cut

in the internal security forces of the African and West Indian territories ("E" group in the estimates) could be made only at the expense of gravely endangering security in these two troublesome parts of the world.

These are the only items in this Vote whose reduction would make an appreciable contribution towards a reduction in the total. Generally, therefore, the answer to your question is that if we were compelled to effect a reduction in the forecasts, either of 5 per cent or 10 per cent, that would involve either grave detriment to security (Kenya and Malaya emergencies) and African and West Indian internal security, or grave damage to the good name of Great Britain. I personally believe that under any of these headings the damage would be out of all proportion to the financial savings. Even on financial grounds alone cutting expenditure on security now would only lead to heavier expenditure later. But that, I admit, is not quite how your question is couched.

Development and welfare vote

There is also an element of uncertainty in the forecasts for this Vote since the amount spent out of the provision in the present Colonial Development and Welfare Act is under the control of Colonial Governments within the totals of the approved grants made to them. As you know, it is intended to introduce a new Act later this year to continue Colonial Development and Welfare assistance until 1960. This has been announced in Parliament. We are already scrutinising most carefully the estimates submitted by Colonial Governments for additional grants under this Act and the final decision on the sum which we shall ask Parliament to provide (which will of course be a Cabinet decision) will naturally have to take account not only of Colonial needs but also of our ability to meet them. The short answer you mention means repudiation of commitments embodied in Acts of Parliament or of promises already made in Parliament.

Colonial Office vote

To restrict expenditure to the estimated 1954 level, it would be necessary to make cuts in the 1955 forecast totalling £36,340. To reduce the 1955 forecast by 5 per cent would mean economising to the tune of £55,300. To reduce by 10 per cent would involve a cut of £110,000.

Economies of this order could be achieved only by some combination of the following measures:—

(i) Eliminating some or all of the projected United Kingdom Information Offices; but this would mean a reversal of the recent Cabinet decision to go ahead with the extension of overseas information work in this field.[2]

(ii) Reducing the provision for overseas travelling; but any appreciable reduction would make the proper working of this Office impracticable.

(iii) Charging Colonial Governments some agency fee for the recruitment of staff for the Colonial Service; but (even supposing that the Colonial Governments agreed to pay) this would prejudice our ability to get British officers into the public services of the territories, make it impossible to retain our control of selection and undermine the position of the Secretary of State in relation to the unified Services.

(iv) Eliminating some of the higher administrative or advisory posts in the

[2] See part I of this volume, 12.

Colonial Office establishment. The Office is not large enough for any significant saving to be realised by cuts in the lower grades and ancillary services. We shall continue to prune at all levels as and when we can, but it is unrealistic to suppose that considerable numbers of the administrative and advisory staffs could be dispensed with so long as the Office's responsibilities are what they are.

(v) Charging Colonial Governments an agency fee for the work done here on their behalf in the placing of Colonial students in Universities and Colleges in this country. It is true to say that, as time goes on and as some of the more advanced territories progressively take over the full liability for placing students in this country and for their welfare, we shall look to some reduction in the overhead expenditure on our Students Department. That, however, is of necessity a gradual and slow process. But at this critical time when, as I know you realise, it is so vitally important to keep a watchful eye on student activities over here, I do not think that we should accept any loosening of control which must result from any sudden change of relationship between the Colonial Office and Colonial Governments in this field.

Individually each one of these courses is, as I have shown, open to very grave objection; collectively, their effect on our relations with the Colonial territories would be very serious indeed.

I realise that many of the replies which your Committee receives will claim special circumstances for the expenditure with which they deal. But, as the Secretary of State has said to the Chancellor on previous occasions, expenditure on Colonial purposes is in a very special category and any proposal to cut it by setting arbitrary limits in advance raises very special issues of high policy. I feel convinced—and I know that this is Oliver's view—that at this critical time in the evolution of the Colonial Empire we should be taking unacceptable risks if we impose such economies that only a reversal of our forward Colonial policy could make possible.

475 CO 1025/56 20–23 Aug 1954

[CO expenditure]: minutes by A N Galsworthy and Sir H Poynton

Sir H. Poynton

The Report of the Swinton Committee on economy in next year's civil expenditure was, as you know, taken recently by the Cabinet. Both the Report and the Cabinet conclusions thereon contained only marginal references to the Colonial Office and much that in our view rendered them unsuitable for departmental registration. We have therefore returned both documents to the Private Office, retaining on this file (at No. 13 and No. 13a) only those extracts from the Report which concern the Colonial Office.

The upshot of the whole business, so far as we are concerned, is as follows.

On the basis of our forecast estimates for 1955/56 we have, subject to the two qualifications mentioned below, come through completely unscathed. This I think is eminently satisfactory. Indeed we have collected the incidental advantage that the Swinton Committee is on record (see No. 12) to the effect that our Overseas Travelling Vote is already severely limited and that any further restrictions would be undesirable. We may find this opinion very useful when we cone to framing our estimates for next year.

The two qualifications are as follows:–

(a) The Swinton Committee Report suggested that it may be possible to save a substantial amount on emergency expenditure in Kenya and Malaya (see No. 13a). Our forecast estimates included a sum of £14m. for this purpose (£8m. for Kenya and £6m. for Malaya.) Our recent discussions with Sir Donald MacGillivray[1] have confirmed that, subject to unforeseen requirements, it is most unlikely that H.M.G. will need to provide anything for emergency expenditure in Malaya in 1955/56. We know we shall require a substantial sum for Kenya, but we cannot yet say how much we shall need, and it has rightly been decided that the amounts we shall need to provide for emergency expenditure in Kenya and Malaya (if required) cannot be determined until later in the year. This again is a wholly satisfactory conclusion from our point of view.

(b) The least satisfactory part concerns Information Services. The Swinton Committee recommended to the Cabinet that there should be an overall cut of £¾m. in the Overseas Information Services, and that a body should be set up under Ministerial supervision to achieve this reduction (see (13) on this file). Our brief for the Secretary of State (No. 14) advised against this recommendation, for the reasons given in paragraph 6 of annexure I to the brief. From the conclusions of the Cabinet meeting at which this Report was considered it was not at all clear what decision had been taken on this particular recommendation. The Private Office therefore consulted the Cabinet Office, who have stated that their understanding of the position is that the Cabinet have as yet taken no decision on this particular recommendation, and that they will be considering it at some future date. The threat of a possible cut in our Information Services is therefore still hanging over us. Any further action on this point will be pursued on Information Department files.

No further action is required on these papers for the time being.

A.N.G.
20.8.54.

Seen. Recommendations to save on emergency expenditure are not really realistic. If you have an emergency you also have to do *more*, not less, on ordinary Govt. services. Consequently the only ways to "save" the U.K. expenditure on a colonial emergency are (a) to bring the emergency under control—which *ex hypothesi* you are doing your best to achieve anyhow, & won't help by reducing expenditure on it or (b) an increase in colonial revenues which is mainly dependent on world market forces outside your control. Fortunately the Malayan financial position does seem to be improving.

A.H.P.
23.8.54.

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[1] Sir D MacGillivray, high commissioner, Malaya, 1954–1958.

476 T 220/498, pp 7–12 12 May 1956

[Reductions in CO expenditure: letter from Mr Lennox-Boyd to Mr Macmillan

Dear Harold

I have been giving a great deal of thought to the request you made to me in your letter of the 3rd May that I should let you know what steps would be necessary to achieve, in the three Civil Votes for which I am responsible, a cut of 4% as my contribution towards the saving of £100m. in this year's Estimates that you promised in your Budget speech.

In the framing of our Estimates for this year, the estimates submitted to us by Colonial Governments and other bodies concerned upon which our various Vote provisions are based, were, in accordance with an undertaking given to the Public Accounts Committee last year, subjected to a particularly close and rigorous scrutiny by my officials and yours so as to ensure that the provisions actually inserted represented no more than the minimum necessary to meet the services to which we are committed. I am confident, therefore, that we could not expect to identify the savings for which you ask merely by a further scrutiny of the figures. They could only be achieved by means of distinct changes in our existing policies which I would feel bound to put to the Cabinet, because of the implications such changes would have. And I must add that I am sincerely convinced that such alterations of policy would not be consonant with our acknowledged responsibilities in the Colonial field, and that they would be a grave mistake on our part.

Let us first take the *Development and Welfare (Colonies etc.) Vote* where a sum of £18m. is provided for the current year. This is, in itself, already substantially below the average annual rate of expenditure of £24m. over the five years 1955/60 provided for in the Colonial Development and Welfare Act of 1955. It is the same as the estimate for 1955/56, when we spent just on £16m.; but represents the best possible estimate we can make of what Colonial Governments will be able in practice to spend during the year. It is possible that in the event there might be some underspending. But a deliberate reduction in the provision could be achieved only by giving a specific instruction to Colonial Governments to slow down the rate of their expenditure on schemes which I have already approved, and by adopting a deliberate "go slow" policy in the making of new schemes. Any such approach would have wide political repercussions in the Colonies where it would, in my view quite rightly, be regarded as a breach of faith on the part of the United Kingdom; would be a negation of the policy embodied in the C.D. & W. Act of 1955; and would, I have no doubt, cause great difficulties for us in Parliament, on both sides of the House. In this last connection I would mention two points. First, when the C.D. & W. Bill of 1955 was introduced in the House, it was attacked by the Opposition on the score that (in the words of James Griffiths) it was "woefully and pitifully inadequate", and they sought to amend it so as to provide £120m. for three years instead of five. Secondly, you will be aware of the terms of the Motion regarding Commonwealth Development standing in the names of Braithwaite and 130 others of our supporters.[1]

[1] The Braithwaite Motion on Commonwealth development, which was moved in the House of Commons on 30 Nov 1956, read: 'That this House, being of opinion that the development of natural resources throughout the Commonwealth and in the Colonial Territories, for which the United Kingdom has special

Two years ago the Swinton Committee decided that it would be inappropriate to attempt to reduce the rate of C.D. & W. expenditure; and for the reasons and against the background I have mentioned above, I am convinced that it would be politically out of the question to attempt to do so today, or to reduce the estimate below £18m.

Broadly speaking, much the same considerations apply in regard to the *Colonial Services Vote* (£22,496,526). Some £15.4m. of this Vote consists of grants and loans to Colonial Governments, either by way of grants-in-aid of administration, or in the form of grants or loans for specific purposes such as hurricane rehabilitation, the cost of emergencies, etc. These provisions were negotiated in detail with the Treasury and represent specific commitments to the Colonial Governments concerned. They have now been made public and reflected in the Colonial Governments' own printed estimates. We could not reduce any of those commitments now without going back on specific promises. Some £3.85m. represent contributions (in the form of reimbursements to the War Office) towards the cost of local forces in West and East Africa, Somaliland and the West Indies, and stem from agreements entered into with the Governments concerned. We cannot cut down on any of that. The other large items are: just over £1.5m. for the Aden Protectorate, which we may have to increase as a result of pressures from outside on our position there; some £750,000 to meet pension liabilities and debt charges arising from our former responsibilities in Palestine, which are inescapable; and £584,000 for the British Council, where I cannot see any scope for cuts. This accounts for just over £22m. The remainder of the Vote consists almost wholly of smallish sums promised for specific purposes to Colonial Governments, international organisations, and certain other bodies, to which we are firmly committed.

There is in fact virtually no expenditure in the Vote of which we can regulate the flow at will without going back on specific commitments to Colonial Governments or international and other bodies (though the sums involved in the last two categories are very small indeed). There is thus close affinity between these services and those which, in the fourth paragraph of your letter, you say must be regarded as having been settled for this year; and I hope that, in the light of the foregoing analysis, you will agree with me that the reasons you have given for excluding some of the services mentioned in that paragraph of your letter from a contribution towards the cut must apply with equal force and validity here. Cuts of any significance at all on this Vote could only be achieved by deliberate modification of our existing policies, which, as I have said, could only be decided at Cabinet level. I have been considering where the necessary savings could be found if such decisions had to be taken (though I personally cannot conceive that they would be), and I had been examining the implications of asking Kenya, since they are the largest recipient of grant-in-aid assistance, if they could manage with a substantial reduction in the financial assistance of up to £6m. we have promised them for this year. However both the Governor and the Finance Minister of Kenya are over here this week, and though I have not discussed this possibility with them I am quite convinced, from the talks I

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responsibilities, will contribute to the welfare and prosperity of all its peoples, and believing that the task of implementing that development is one that this country should devote its urgent attention to in partnership with other members of the Commonwealth, urges Her Majesty's Government to invite them to join in the setting up of Commonwealth machinery for that purpose' (*H of C Debs*, vol 561, col 740). During the course of the debate Braithwaite urged that the CDC should be allowed to continue to operate, including starting new schemes, in newly independent Commonwealth countries. See 464.

have had with them, that it would not be a practicable proposition. Indeed, the problem Kenya faces is that there is now growing disaffection in a part of the Territory hitherto unaffected by Mau Mau, and the measures that will have to be adopted to nip in the bud what could otherwise develop into a serious security situation will involve additional expenditures not foreseen at the January discussions at which the level of financial assistance to Kenya for this year was determined. Certain other items of unforeseen but inescapable expenditure are also arising there. Full details of this are being given to your officials. I mention it now because, although the Kenya Government intend to accommodate these new expenditures within the financial assistance we have promised them by some rearrangement of their priorities, we clearly could not look to that provision for savings of the order you are seeking, if the Cabinet were to decide that they must somehow be found. If therefore that were to be the decision, the savings would have to come from a number of the subheads in the Vote. That would mean that we would have to embark on a fresh series of negotiations with several Colonial Governments, who would probably insist upon sending delegations back to London to argue their cases. Not only would the negotiations prove exceedingly difficult, involving, as I have said, going back on specific promises and commitments, but there is no possibility that such negotiations could be completed in anything like the time available.

I think I must also mention, though I realise that it is not altogether relevant to the problem you are at present examining, that I shall in fact have to seek supplementary provision during the course of the year on the Colonial Services Vote (for example for Malta, which is inescapable for reasons already known to your officials) and possibly for one or two other services. Naturally, as in the case of the C.D. & W. Vote, we cannot rule out the possibility of fortuitous savings emerging in the course of the year, owing to changing circumstances and conditions. But I cannot forecast any specific savings now, and I have set out above the political objections to attempting any deliberate reductions at this stage.

There remains the *Colonial Office Vote*, where the comparatively small total of £1,353,000 is involved. It is possible that there might be certain very small savings that could be effected here, and I would be perfectly willing for your officials and mine to go into this. But I should say that a detailed examination of this Vote was made by the Swinton Committee two years ago to see whether any significant savings could be found by modification of any of the existing policies on which the Vote is framed. They came to the conclusion that this would not be practicable, and I do not think that any re-examination of the matter today would lead to any different conclusion.

I know this reply to your letter will not help you at all in your problem. If there were any way I could see in which I could help, I would do so. But I could not in honesty give you any other answer than this. I sincerely believe that to attempt to go back on our present commitments to Colonial Governments, which is what your request would involve, would be a very wrong and dangerous policy for us to adopt.[2]

Yours ever
Alan

[2] The chancellor responded by renewing his request that economies be found: 'You stand in solitary eminence as the only Minister who has not found it possible to help me at all. . . . you are, in effect asking other Ministers to do a good deal more than their share' (letter from Macmillan to Lennox-Boyd, CO 1025/57, no 7, 28 May 1956).

477 T 220/498, pp 25–28 1 June 1956

[Reductions in CO expenditure]: letter from Mr Lennox-Boyd to Mr Macmillan

My dear Harold

Thank you for your letter of the 28th May[1] about the saving of £100 million in this year's Estimate which you promised in your budget speech.

You say that I stand in solitary eminence as the only Minister who has not found it possible to help you. But you recognised in paragraph 4 of your letter of the 3rd May that there are Votes that cannot be touched because they provide for commitments which must be regarded as settled for this year, and I explained in my reply that this was precisely the position of almost all the services covered by my Votes. They represent liabilities which have been openly negotiated and accepted all round, and to retreat from them now would, in my opinion, have deplorable results. I certainly could not contemplate such a course unless I had a plain direction from the Cabinet.

However, I do realise your difficulties in finding the savings to which we are all committed and I have, as you asked, considered again most carefully what I can do to help you.

I remain convinced that, for the reasons I have already given you, any attempt to enforce true savings in my Votes would expose us to irrefutable charges of breach of faith, since the provisions made do no more than reflect expenditure to which we are committed. I have, however, some propositions to put you in the hope that you will find them useful and perhaps bring me a little off that solitary eminence!

I would be prepared to undertake to make a saving of £500,000 in the present provision of £18 million for Colonial Development and Welfare. As you know, it is difficult to see with precision what the exact requirement may be so long ahead, but if, later on, it became clear that the rate of expenditure threatened to require the full provision of £18 million I would approach one or two of the larger territories with a view to arranging that claims for reimbursements of their local expenditure should be held over into the next financial year and so ensure that not more than £17.5 million was expended from the Vote this year. I must stress that this would represent no true saving; it would be no more than a deferring of expenditure which would have to be met by increased provision subsequently, and I can make the proposal only on the clear understanding that if I were asked in the House whether this involved any "go slow" policy in the field of Colonial development (and you will see from what I said in the third paragraph of my letter of the 12th May[2] that this is a very likely question), I would be free to assure the House that there is no such intention.

To turn to the Colonial Services Vote, I don't think that I can do better than to comment on the various items you mention in your letter.

There is nothing we can do about the provision for the Desert Locust Campaign. The provision is made in arrear and the £125,000 included in this year's Estimates is for the reimbursement of expenditure incurred by the East African High Commission in the campaign that has now ended with our assurance that expenditure up to this amount would be refunded. We have made no provision for expenditure for next season's campaign.

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[1] See 476, note 2.

[2] See 476.

The provision of £320,000 under Subhead B4 represents the final instalment of the loan of £3 million promised to the Aden Government. The loan is to meet expenditure on the provision of municipal services in connection with the construction of the oil refinery. The work is very near completion and we cannot, under present circumstances in Aden, back out from the obligation to reimburse the balance of this expenditure as soon as it is claimed, which will certainly be in this financial year.

We are, of course, fully committed to the loans to Kenya and Hong Kong and it would not, I think, be practicable or, in the long run, economic to slow down expenditure on the airport in Hong Kong or on measures in Kenya consequent upon, and arising from the emergency in Kenya. If it would help you, however, I could ask the Governments of Kenya and Hong Kong to reduce their demands for reimbursement this year by £500,000 and £250,000 respectively. I think they would agree to such a proposal if it were made clear that they would be fully reimbursed early in the following year.

These two items on the Colonial Services Vote, together with the suggested saving of £500,000 on the Development and Welfare Vote, would bring my contribution up to £1,250,000. I realise that to accept it on the terms I have offered may put you in some difficulty when the matter come before the House; for if I have to say, as I must, that the reductions in my estimates do not represent any slowing down of expenditure on the services to which they refer, then, by the same token, you may be laid open to the charge that that part of your £100 million cut is phoney. The Opposition might therefore have us either way. Unless we have a ready answer to this, then my proposals will not, I realise, be of any help to you.

In addition, there is one real saving I can now offer in the provision for grant-in-aid to Somaliland. The financial discussions with representatives of the Somaliland Government on which we are now engaged have gone far enough to show that we can confidently assume that Somaliland can get by this year with a reduction of £30,000 in the grant-in-aid provision after taking into account additional budgetary commitments arising from the current political and security situation there.

Finally, you suggest that I should consider cutting the information services directed to the Colonies, and particularly the British Council's activities. I am prepared to have a look at this, with the Foreign Secretary and the Commonwealth Relations Secretary; but I feel that we ought to be doing more rather than less in this field during these crucial years for our Colonial policy and that, in any case, the savings which could be achieved this year would be very small indeed.

Yours ever
Alan

478 T 220/498, p 35 26 June 1956

[Reductions in CO expenditure]: letter from Mr Lennox-Boyd to Mr Macmillan [Extract]

At the Cabinet meeting on the 14th June I undertook to put a firm request to the Government of Kenya that they should agree to a reduction of £500,000 in the loan element of the assistance we have promised them this year. This I did, and the Kenya Government have, as you will know, responded by offering to add a further £500,000 making a contribution of £1m. in all to the £100m. we are seeking.

As we understood that it was necessary for the revised Civil Estimates to go to the printers last weekend, my officials passed on this information to yours by telephone then. I am so glad that in the event we were able to make this contribution. I confess I feel less troubled now about that solitary eminence. Indeed, with the £1m. from Kenya and the reduction of £750,000 on the C.D. & W. Vote I think I now stand there as the one Minister who has actually over-fulfilled his 4% norm! What a curious result it is. . . .

CHAPTER 7

Social policies

Document numbers 479–526

479 CO 859/351 17 Jan 1952

[The meaning of community development]: minute by F D Webber[1] to Sir J Martin [Extract]

[In Nov 1948 Mr Creech Jones issued a circular despatch on mass education for community development (see BDEEP series A, R Hyam, ed, *The Labour government and the end of empire 1945–1951*, part IV, 365). The CO began drafting a successor despatch in 1951. W H Chinn (adviser on social welfare, CO, 1947–1961) contributed a paper arguing that colonial governments should establish specialised departments of community development. At a meeting of the Advisory Committee on Mass Education (Community Development), Sir A Cohen argued that 'It was urgently necessary to stress the importance of training, the need for which was not yet appreciated in Africa outside the Gold Coast and Kenya. Organisation was of lesser importance' (CO 859/355, no 2, CME (CD)(52)22, 11 Jan 1952). Cohen's view prevailed (see 480).]

. . . Community Development is basically a term of art used to describe the process of putting ideas across to undeveloped communities. The ideas which are put across are aimed at bringing about some form of betterment. Manifestations of the movement are the so-called Community Development projects and Community Development campaigns. The ingredients which are regarded as essential to the success of the movement are interdepartmental co-operation at all levels and the co-operation of the people themselves in translating ideas into action. It is synonymous with mass education (c.f. the last sentence of paragraph 14 of Mr. Chinn's Report). It is not synonymous with Colonial administration or with "what we have been doing in Africa for years". It is a special idea stemming from the relatively recent recognition that special techniques are required to overcome the inertia of apathy and ignorance which is found among backward peoples. Confusion arises if the term, or its two components words, are taken too literally. In some cases, as Mr. Chinn points out, it has become nothing more than another way of describing the implementation of development plans. Reminding us that we must not overlook the human factor Mr. Chinn has, with some justification, stressed that the operative word is community, not development. But if ones goes too far with this argument the result is muddle. The Owen Falls scheme will better the community but it is not community development. Constitutional improvements will do the same and the same applies. I take these absurd examples to show that it is bound to lead to confusion if one attempts to equate Community Development with every manifestation of development. . . . Community Development is to do with getting backward

[1] F D Webber, assistant secretary, CO, 1950–1952; establishment officer, 1952–1958.

people in the right frame of mind for doing things; its business is to breathe new life into the processes by which standards of living, moral as well as material, are being raised. . . .

[T]o my mind it is not the function or purpose of Community Development which is in question as a result of Mr. Chinn's diagnosis but the function and purpose of Social Welfare. . . . Indeed inasmuch as it is concerned with individuals and communities as such it can be said to be a purer form of social service than the historic services like Education, Health and Labour. It stands in a special position because it should be concerned not only with the social implications of economic development but also of those arising from the development of the historic services themselves. In my view the word "social" is not so much suspect as highly inconvenient for the purposes of definition. Welfare is certainly suspect because of its association with ping-pong tables and canteens. . . .

Once we have all these activities in, so to speak, a departmental niche, I think it eases our task in putting Social Welfare and indeed the work of other departments whether "social" or economic into relationship with Community Development. If, for instance the movement is carried on through the machinery of departmental teams then it would seem to follow that the District Officer should have at his disposal Social Welfare advice as much as any other kind of advice. I see no distinction between town and countryside in theory but in practice, as apathy and ignorance are overcome, the need for Community Development techniques would in all probability diminish. . . . On the Local Government issue I would only say that, where there is no Local Government, if the Community Development movement is successful, it awakens people to ideas of progress and responsibilities etc. and that process of awakening should, other things being equal, make fertile ground for the assumption of local political responsibilities. And where there is Local Government and the Community Development movement is going forward there seems no reason why the machinery of Government should not be mobilised to give the movement further momentum.

I am afraid this is a long minute to send you just before you are going away. I want, if possible, to clear the policy issue with those chiefly concerned including Mr. Chinn so that we shall be better placed to deal with the replies to the despatch opposite. My comments on Community Development make me sound over-critical of Mr. Chinn's preface, but that is only in an attempt to clear up confusions over phraseology. I am very concerned that we should get his main idea across and he has done us a service in his contributions both in the Community Development Committee and on these Reports. Although I have emphasised my conception of Community Development as a movement rather than as a departmentalised service I do not see anything necessarily illogical in Mr. Chinn's comments relating to the association of the "higher direction" of Community Development with Social Welfare Departments. This answer is being produced in the field e.g. Gold Coast, Tanganyika, British Honduras and I believe it follows from what I can only describe as the specially social character of Social Welfare. I will not develop the point any further here, however, but it is bound to come up in office discussion.

480 CO 859/349, no 1 19 Mar 1952

'Mass education': circular despatch no 264/52 from Mr Lyttelton to governors

I have the honour to inform you that the Advisory Committee on Mass Education (Community Development) has recently undertaken a general survey of the progress of Community Development in Colonial territories. Their principal object in doing so was to attempt to assess how far the main recommendations in Mr. Creech Jones' despatch of the 10th November, 1948, to African territories (copies of which were subsequently sent to South-East Asian territories with Mr. Creech Jones' despatch of the 9th May, 1949, and to all other territories with Mr. Creech Jones' circular despatch of the 25th May, 1949) had been implemented, and to assist the Committee in considering future lines of development. As a result of this review the Committee have concluded that it is in the sphere of training, both central and local, that immediate and further thought on Community Development should be concentrated. I endorse this conclusion and am therefore anxious to explore with Colonial Governments ways and means of extending and improving such facilities as at present exist for training officers in the techniques of Community Development.

2. Accordingly, I would commend to Colonial Governments the attached memorandum[1] which has been prepared in the Colonial Office on the basis of the views expressed by the Committee. Although the memorandum is of primary concern to African territories, I am giving it a wider circulation since much of it is also applicable elsewhere.

3. In paragraphs 2 and 3 of the memorandum it is suggested that it would be timely to initiate training courses organised on a regional basis. I attach great importance to this recommendation and should be obliged if you would let me know whether suitable officers in your service could take part in such courses, how soon a start could be made with this experiment and, after consultation with other Governments in your region, in which territories it is suggested the first regional courses should be held. Thereafter a series of such courses might be planned to take place over the next few years, each territory in turn acting as host.

4. The memorandum devotes considerable attention to the problem of training local field workers in sufficient numbers and quality. I am most interested in this important aspect of the problem and am anxious where I can to help Colonial Governments to solve it. I trust therefore that when you forward the report requested below, you will give me a full picture of your local training needs and your suggestions for ways in which you consider outside assistance may be mobilised to help your local training schemes.

5. I would stress the value of comparative and analytical statements of Community Development policy and should be most grateful to have reports from all Governments within the next six months covering the ground indicated in paragraph 14 of the memorandum with, in addition, a description of the machinery employed for consultation with the people at local level and a statement of the progress of financial devolution. (To African territories only) It would be most useful if I could also have within this period your comments or provisional comments pending local

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[1] Not printed.

discussion on the Report of Group IV of the Cambridge Summer Conference, 1951, copies of which were circulated under cover of Sir Andrew Cohen's letter of the 15th October, 1951. (To All) I shall be equally interested in any suggestions which Governors may wish to make about the future reporting of Community Development.[2]

[2] The attached memo proposed that in the first instance training for community development might be provided for (1) village or other local leaders; (2) government servants, including assistants in technical departments, and native authority or local authority staffs; (3) voluntary leaders; and (4) teachers.

481 CO 859/338, no 43 7 July 1952

'Conference on social development': background paper prepared in the CO

[On 15 July 1952 the CO convened a meeting of members of the Social Welfare Advisory Committee, the Community Development Committee and the Adult Education Sub-Committee of the Advisory Committee on Education in the Colonies. The main object was 'to ventilate the idea held by a number of people that development is being pushed ahead in Colonial territories with too little attention being paid to the human factor. Rapid economic and "social" change have disruptive effects on the communities themselves. How can those effects be cushioned? (minute by F D Webber, CO 859/338, 19 June 1952).]

This paper has been written to enable members attending the conference to focus on the several issues which will come up for discussion. No detailed agenda has been prepared for the conference but it is hoped that, after some introductory remarks by the Chairman,[1] Professor Margaret Read[2] will outline in general terms the problem of social development as she sees it. Thereafter members will be invited to join in a general discussion. It is not contemplated that the conference should aim at recording specific recommendations, but it is hoped that any tentative conclusions reached as a result of the discussion will help to guide Colonial Office thought.

2. *Background.* When the Social Welfare Advisory Committee began to study the organisation of social welfare in Colonial territories they quickly came to the conclusion that before any one advisory committee could presume to establish criteria as regards social objectives, the first thing was to be sure that there was sufficient co-ordination of study and advice at the committee level in London, it being apparent that there was no hard and fast line between its work and that of the Community Development Committee and the Adult Education sub-committee of the Advisory Committee on Education. Examples of common ground are the interest of social welfare workers in some aspects of the adult education movement, and the overlapping interest of the Social Welfare and the Community Development Committees in the development and strengthening of local social groups by means of community centres, group activities, youth work, etc. Also the Community Development Committee, for its part, found some difficulty, when considering the philosophy of Community Development, in establishing to what ends that training should

[1] Mr. Hopkinson.

[2] Professor M Read, head of Department of Education in Tropical Areas, Institute of Education, University of London, 1940–1955.

be directed. A great deal of thought has been given by members of the various committees, and in the office, to these problems, and it has become clear that not only is there a need to co-ordinate, and possibly integrate, some of the work of these committees, but that there is a much wider issue meriting discussion which can be briefly described in terms of the question whether social objectives are as clearly defined as political and economic objectives in Colonial affairs.

3. *Social development.* It may perhaps be convenient to discuss this broad issue at the outset. So far as Government is concerned, there are a number of instruments of social progress—the departmentalised social services (education, health, public relations, social welfare, etc.) on the one hand, and, on the other, Community Development, which is not a departmentalised service, but rather a movement intended to permeate all the activities of Government. In addition to the Public Services there is also the large and important field of voluntary service. The work of the Christian Churches, voluntary social and charitable organisations all contribute to the moral and social pattern of Colonial Society. If these are, in reality, instruments of progress, their effort in aggregate should amount to something approximating to social development, but the facts of the situation do not necessarily confirm this. In many cases the effect of "progress" in the "social" as well as the purely economic fields has resulted in dislocation, even disruption, of the social structure. The principal question at issue then is not so much whether sufficient attention is being paid to the strengthening and expansion of the so-called social services, but whether, in all their programmes, whether national in scale or local, whether basically "economic" or "social", the planners and the executors are taking sufficient account of the impact of the changes being brought about on the communities affected. How can those responsible be sure that "development" takes place with the minimum breakdown of the community? What is necessary to ensure that, in the drive for raising living standards, advances on the economic front are matched by a strengthening, not a disintegration, of the community? Even if it is possible to identify the concept of social development as something larger than the aggregation of the social services, is it possible to *plan* it in advance, or is the concept altogether too nebulous to permit of this kind of approach? Certainly there is a philosophy and a machinery for dealing with social problems once they are identified; there are ways and means of dealing with some of the manifestations of social upset—broken families, crime, wandering and destitute children, over-crowding etc.—but what kind of effort is needed to forestall these problems? Is it merely a question of intensifying and co-ordinating the work of the existing services primarily concerned with human problems, and community building, or is some new approach to the philosophy of social administration required?

4. *Community development.* If the concept referred to above seems to be real and valid members may wish to consider next how Community Developments fits into the general picture of social advance. An extract from an article in the 'Community Development Bulletin' is attached for the assistance of those members who may not be familiar with the term used in its special sense. Capital letters are deliberately used because it is the sort of expression which is obviously capable of being applied both in the very broad sense and in the very narrow sense. This arises from the literal meaning of the two words. Members will realise that the manifestations of Community Development are all sorts of things—roads, knitting classes, folk dancing, contour ridging—but, as the extract indicates, the distinguishing feature of

the movement is the special emphasis on methods of communication to be used to stimulate ideas of progress in the people and win their co-operation in programmes of betterment. Viewed in this light, Community Development is clearly only a method, though perhaps the most important one, in achieving real social development.

5. *The relationship of social welfare to community development.* There are a number of activities or services which could come under no other umbrella than that of Social Welfare—child care, certain aspects of the treatment of offenders, marriage guidance, protection of women and girls, relief of destitution, individual and family case work, care of the handicapped, etc. This is largely the remedial or curative side. In the nature of things, the preventive side is less susceptible of hard and fast classification—the various forms of community work, youth work, certain educational activity of an informal kind, evening classes, women's clubs, young farmers' clubs, recreational work. All this can go on in town or countryside. Here Social Welfare and Community Development meet in terms of "content" for these activities are not only manifestations of Social Welfare, they are clearly instruments in the Community Development movement, in as much as they become means of communication or focal points for getting across and stimulating ideas of better living. But they are only part of the Community Development picture, because there are other agents in the movement—co-operative societies, trades unions, extension work in the various departments, public relations, the Administration itself, local authorities, extra-mural departments. It may be useful to discuss this suggested relationship and consider to what extent the answers to the questions posed in paragraph 3 above depend on some integration at the policy level of preventive social welfare with the Community Development movement. In this connection members will doubtless wish to take into account the place and function of the Adult Education movement at the various levels, the roles of the Universities and University Colleges, and the Institutes of Social and Economic Research.

6. *Advisory committees.* In the light of views expressed upon the above issues, members may wish to give some thought to the need for more closely co-ordinating the work of the Secretary of State's unofficial advisers in this field. In this connection, members will doubtless agree that, while, as already stated, there is common ground between the committees, each has its own specialised line which is only of indirect interest to the others. The Adult Education sub-committee was conceived as filling a gap between the University level of education and the mass education level, though it might be "squeezed out" in the long run by the expansion of mass education from below, and of University extra-mural work from above. The Community Development Committee, for its part, is more directly interested in the techniques of winning the co-operation of individual communities, and of getting technical and administrative departments of Government to work together as a team, and the Social Welfare Committee has a large field of specialised social welfare work, such as that described at the beginning of paragraph 5 above. Nevertheless it might be possible so to arrange things that the committees are better informed of each others' activities, and the Office would be glad to have the views of the conference on this point.

482 CO 859/338, no 43 July 1952

[Conference on social development]: CO record (conclusions) of the proceedings of the conference held on 15 July 1952 [Extract]

. . .

Summary of main conclusions

1. That in view of the social changes and problems arising from the impact of economic and political development in Colonial territories, it was necessary to formulate a co-ordinated policy of social development with particular emphasis on planning in advance so as to avoid or minimise the onset of major social problems.

2. That to this end consideration might be given to setting up a Social Development Council representative of all aspects of social development including education, social welfare, and Research, Community Development, Adult Education, labour, housing, agriculture, co-operatives and health.

3. That the various Advisory Committees should be kept in touch with each others [sic] work in matters of common interest through a greater interchange of appropriate committe papers.

4. That in order to extend our knowledge of the situation and to obtain a balanced judgment of the effects of development, the possibility of sending teams to the Colonial territories to study and report on problems of social development should be considered.

5. That information on the organisation within the Colonial Office dealing with social development in its various aspects should be made available for the guidance of Colonial Service Officers on leave.

6. That the Colonial Office should consider collating and passing on to the Colonies information on methods of social administration with particular reference to the relationship between government organs and the people.

483 CO 859/338 27 Feb–2 Mar 1953

[Role of advisory committees on social development]: minutes by Sir J Martin and Sir C Jeffries

Sir C. Jeffries

It is high time that we reached some conclusion on the question of committee organisation raised by the discussions at the Conference on Social Development last July (minutes at (43)). You will remember that at the last meeting of A.C.E.C. Mr. Barnes referred to the matter and we told him that a good deal of thought had been given to it in the Office since the Conference and that it was still being investigated. It would be well to clarify our ideas before the next meeting of A.C.E.C., on the 12th March. There is, I am afraid, little on paper to show for all the consideration which has been given to the subject in SSD.

The conclusions which emerged from the discussion in July (summarised at the end of the record of proceedings in (43))[1] stemmed from the feeling that in a period of rapid economic and social change it is necessary to try to give some consideration

[1] See 482.

to the broad trends of development, both because an understanding of their nature is necessary for intelligent consideration of particular social problems and also in the hope that we may be able to guide and direct these trends, so as to avoid disadvantages such as those which flowed from the largely uncontrolled and unguided development of the industrial revolution in our own country. Some of the members of our individual advisory committees feel also that they cannot give satisfactory advice on the particular problems falling under their terms of reference without more knowledge of what is being done in the parallel fields within the responsibility of other committees.

To meet these views there seem to be broadly two alternatives meriting serious consideration:—

(1) The institution of a new committee or council with very wide terms of reference and some such title as "Social Development Council" embracing the existing advisory committees (which would continue to function as subsidiary bodies in their own particular fields), with some reinforcement of members selected for first-hand knowledge of colonial conditions;
(2) The holding of regular (perhaps annual) conferences on the lines of that held last July, to which the members of all the advisory committees concerned would be invited as well as other suitably qualified individuals.

The trend of the discussion in July seemed to point towards the first alternative. My own preference, however, is for the second. I doubt if the suggested elaborate new structure of a council with subsidiary bodies would be found satisfactory in practice. An assembly of specialists in the particular fields is not necessarily well qualified to advise on broader questions of policy, and I fear that the advice of the council would be found rather woolly and general and of no great practical value. There are obviously severe limitations to the extent on which broad lines of policy can be laid down (even in the form of advice to Colonial Governments) by the Secretary of State. . . .

J.M.M.
27.2.53.

I agree with Sir J Martin so far as this particular coterie of Committees is concerned. But it may be that we ought to consider this against a wider background and do some thinking about the function of Advisory Committees in present-day conditions. To a large extent these Committees are an inheritance from a phase in which a Colonial policy was being worked out here. The Colonial govts, and their staffs relied upon the C.O. for advice and guidance, and it was of the greatest value that we were able to assemble bodies of experts who were willing to examine and discuss the reports and plans received from the Colonies and give us, and the Col. Govts. through us, the benefit of their knowledge and experience.

The position has changed, now that the Colonies themselves have better qualified staffs, and local and regional organisations have been set up for research etc. Moreover, air travel has made it possible for the S. of S.'s own Advisers to visit the Colonies far more than in the past; and it becomes increasingly clear that the advice tendered on the spot is more acceptable to the Colonial Govts. of to-day than sermons from Church House. There has in fact been a steady decrease, at any rate on my side of the Office, in the number of things which can usefully be brought before

an Advisory Committee for general discussion and the tendering of collective advice. The Committees are turning into panels of experts who can be called in, as required, to give advice and help in their own specialised fields.

At the same time, there is some need for giving the Committees, or some of them, a bare minimum of corporate life. The difficulty is to find a reasonable way of doing this without encouraging them to persist in having the impression that they are running the show. The Conference technique may provide one answer, and it has the value of enabling workers from the Colonies to be brought in, which is good education both for them and for the home-based starry-eyed.[2]

C.J.J.
2.3.53

[2] The CO decided against establishing a 'Social Development Council' in the form proposed, but shortly afterwards formulated a plan of its own for merging the three advisory committees that had met at the July 1952 conference; see 485.

484 CO 859/372, no 4 20 May 1953

[Social welfare in territories with advanced constitutions]: Colonial Social Welfare Advisory Committee minutes (CSWAC 13(53)48) [Extract]

. . .

7. *Sir William Fitzgerald*[1] raised the question whether in territories such as Nigeria where responsibility for most Government services had been transferred to Elected Members, the development of social welfare was receiving due attention in relation to other services. Another point to be carefully watched was the tendency as nationalism developed to revert to primary religion—Mohammedanism in the case of Northern Nigeria. Since Moslem authorities would be averse to delegating their customary welfare functions, it was all the more important to ensure that Ministers were made fully responsible so that customary authorities could be properly supervised.

8. As to Nigeria, *Mr. Chinn* said that the situation was obscure at the moment. Although in each Region a Minister had been appointed with responsibility including Social Welfare, there was so far little organisation to stimulate and form the nucleus of the needed development. The Governor's further views on this question were awaited. In the Gold Coast, Mr. Botsio, the Minister for Social Welfare, showed a keen interest in the subject; in Jamaica, where a responsible Minister was due to be appointed shortly, much was hoped from the impending appointment as Permanent Secretary to the Ministry of the Director of Education, Mr. Houghton, who in his present post acted as Children's Authority and had a wide interest in social welfare. The Committee *agreed* with *Mr. Bowman*[2] in hoping that as far as was practicable efforts would be made to ensure that elected Ministers assumed responsibility for social welfare policy previously laid down: the paper on community centres noted the tendency of sophisticated Africans to interest themselves in the welfare of their class rather than of the community as a whole. . . .

[1] Sir W Fitzgerald, chief justice of Palestine 1944–1948; president, Lands Tribunal, 1950–1965.
[2] Rev E D Bowman.

485 CO 859/355, no 26 6 June 1953

'Committee on Mass Education (Community Development': note by J A T Howard-Drake[1] reviewing the committee's work (CME(CD)(53)3)

It was agreed at the 32nd meeting of the Committee to devote most of the 33rd meeting to a review of the Committee's work and to a discussion of plans for the future. The joint conference of the Social Welfare Advisory Committee, the Adult Education Sub-Committee of A.C.E.C. and the Community Development Committee, held in July 1952, recommended that such reviews should take place. The A.C.E.C. reviewed its work at its 200th meeting in December 1952 and C.S.W.A.C. will shortly be undergoing the same process.

2. During the last two years the Community Development Committee has been concerned with the preparation of a circular despatch and memorandum on training and the consideration of the replies from Colonial Governments. The position so far reached is that plans are being made for a regional conference rather than a training course in East Africa and for a pilot demonstration project in the West Indies. In West Africa there is no desire for a regional course in the immediate future although the Gold Coast at one time appeared to be contemplating a high level course in community development. The Federation of Malaya is planning a regional conference in September of this year. The replies to the circular despatch also included a great deal of information on the progress of community development in Colonial territories and members have had discussions with a number of Community Development Officers on leave.

3. The information which has been made available to the Committee in these various ways during the last 12 months shows that the doctrine of community development is generally accepted by Colonial Governments, although its application may vary from territory to territory. The Committee may therefore feel that it has fulfilled the task which was imposed upon it as a result of the 1948 Cambridge Conference[2] namely to develop and spread the concept of community development and to ensure its adoption in Colonial territories.

4. One of the major problems which Colonial Governments now have to resolve is the placing of community development within the general administrative framework i.e. the relationship of commuity development staff to the political administration, to local government authorities, to the education and social welfare departments and to other departments of Government. While this is a problem which can only be resolved locally, it is one on which the Secretary of State's advisory committees may be able to give valuable guidance since they are in a position to compare the working methods adopted in different territories.

5. It is however no longer sufficient for the question to be considered specifically as a community development problem; it must be viewed in relation to the achievements and limitations of formal education and the scope given in different territories to Social Welfare or Social Development Departments. It has been agreed

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[1] J T A Howard-Drake (principal, CO, 1949–1962) served as the committee's secretary.

[2] The opening address to the 1948 Cambridge conference by the S of S (Mr Creech Jones) is reproduced in BDEEP series A, R Hyam, ed, *The Labour government and the end of empire 1945–1951*, part I, 51.

within the Colonial Office that the experiment of convening joint meetings of committees concerned with social development should be repeated from time to time as occasion demands. Such meetings will provide a useful opportunity for reviewing achievements in the field of community development and the relationship of community development work to the various departments of government. It has also been decided to hold, in the summer or autumn of 1954, a residential conference in Great Britain at which Social Welfare and Community Development Officers from the Colonies together with senior administrative officers will be able to discuss their work, compare their policies and techniques and study the place of community development work in the general administrative framework. It is now suggested that the time has come for community development in the Colonies to be considered in an advisory committee with somewhat wider terms of reference than the present Committee on Community Development.

6. The Social Welfare Advisory Committee has, of late, turned its attention more and more to constructive methods of social development such as the encouragement of youth clubs, community centres and voluntary work. This is a natural development from an initial concentration on urgent and specific social problems which demanded immediate remedial action to a consideration of the causes of those problems and the need for constructive services. This side of the Social Welfare Advisory Committee's work inevitably includes services and techniques which are common to community development and it has been suggested that the Committee should be given new terms of reference with appropriate additions to its membership which would emphasise these functions.

7. The Committee is therefore invited to consider whether a revised Social Welfare Advisory Committee on these lines, possibly under a broader name such as Advisory Committee on Social Development, would not be the most appropriate body to keep under review in the future the application in the field of the concept of community development. Care would be taken to make it clear that this reorganisation of advisory committees in no way implied a dilution of H.M.G.'s policy that comunity development should remain a major factor in Colonial policy and the revised terms of reference of S.W.A.C. would make specific mention of community development. Opportunity would still be given for community development officers from the field to meet the new Committee, or appropriate members of it, so that they could continue to profit from the stimulus of personal contact of this kind.

8. The Advisory Committee on Education in the Colonies, which produced the 1944 Mass Education Report, has of course a continuing and active interest in community development particularly in mass literacy. The recent study of African education undertaken in conjunction with the Nuffield Foundation calls for a quite novel concentration on the tasks of informal education and the Committee's Adult Education Sub-Committee will no doubt be giving some consideration to this question. There has however already been an occasion in recent years when the A.C.E.C. was concerned that its own work was limited so largely to the more formal aspects of education but it has expressed itself as being satisfied, on investigation, that other aspects were in fact being adequately covered by the Social Welfare Advisory Committee.[3]

[3] The committee met to consider this paper on 12 June. Lay members expressed doubt as to whether the committee had indeed completed its task, as suggested in para 3, and felt that a merger with other

committees 'would lead inevitably to the wrong emphasis [i.e. welfarist rather than educational] being given to community development.' In the end, however, the committee reluctantly yielded to the CO pressure for a merger with the Colonial Social Welfare Advisory Committee (CO 859/355, no 27, CME(CD)(53)33, 12 June 1953). The new Advisory Committee on Social Development was formed in July and had its first meeting in October. It was not a success (see 488).

486 CO 859/362 16 Nov–23 Dec 1953

[Relationship between economic development and social services]: minutes by Sir H Poynton, J T A Howard-Drake, J K Thompson, Sir J Martin and E Melville[1]

[Mr Lyttelton's circular despatch of 1 July 1953 on CD(&)W (see 413) had indicated that high priority should be given in the new CD(&)W period to economic projects promising a monetary return; social expenditure should have a lower priority.]

. . . We are engaged in leading these territories forward to the day when they can enjoy complete self-government, and possibly independence. It may be a long way off in Nyasaland but when that day comes the country will have to defray the cost of its social services from its own revenues without assistance from the United Kingdom; and therefore the level of social services including education which it can then afford will depend upon its economic strength at the time. I have always felt that, though it is permissible to allow the level of recurrent expenditure on social services to run ahead of the actual economic capacity of a territory during its Colonial status, we shall be laying up grave troubles for our successors if we allow the level of such recurrent expenditure to get ahead of the economic potential which the territory will be able to develop by the time the need arises. There seems to be a feeling in some quarters (and I find traces of it in Mr. Harvey's[2] minute of the 10th November) that those who advocate concentrating upon economic development are in some way taking a rather narrow materialistic view. But it has for long been a cardinal feature of our policy that we promote the economic development of these territories for the benefit of the territories themselves, not for that of the United Kingdom. It is precisely this economic development which, with the help of the productive enterprises which are made possible by it, generates the wealth from which a higher level of social service can be permanently financed without United Kingdom assistance. To some extent, of course, expenditure on education or public health is itself a contribution to economic development, but even so, the economic development is not an end in itself, it is a means to the end of improving the living standards of the people in the territories. I do feel, therefore, that during the continuing years of Colonial status, the monies provided by the United Kingdom should in the main be devoted to productive development, and I do not agree that this really represents a conflict between those who are concerned with economic affairs and those who are concerned with social services. . . .

A.H.P. 16.11.53

[1] At the time these CO minutes were written, Martin was as an assistant under-secretary of state whose departmental responsibilities included Social Services; Thompson was an assistant secretary and head of the Social Services Dept; Howard-Drake was a principal in the same dept; Melville was an assistant under-secretary of state whose departmental responsibilities included Economic General and Finance.
[2] R J Harvey, principal, CO, secretary, Advisory Committee on Education in the Colonies.

Mr. Thompson

The various minutes and despatches recently written about the need to give priority to economic development in Colonial territories seem to imply that social services are something which are given to people as a sort of bonus from accumulated resources. This may be true of many things which in more advanced countries are regarded as essential social services, for example, free and compulsory education, national health services, pensions schemes and so on. It would be unrealistic to imagine that expensive social services of this nature could be introduced into undeveloped Colonial territories, but there is a danger that all social services may come to be regarded in this way as the benefits of economic development and that insufficient attention will be paid to the fact that certain basic social development is an essential prerequisite of successful economic and political development.

Mr. Harvey's paper on education and economic development[3] states the case for ensuring an adequate place for education as an essential part of economic and political development. I should like to add a few remarks on the place of social development generally.

It seems to be assumed that an increase in material prosperity, expressed largely in terms of higher wages, automatically leads to a higher standard of living. I do not think this necessarily follows. The Sudan Gezira Scheme[4] brought a very great increase in material wealth to the tenant farmers and put into their hands money which they had no idea how to use. In the early days, the concession companies made some attempt to grapple with what Mr. Beer calls "the stresses and strains arising in a population affected at every point in their lives by a highly regulated mode of agriculture" but, he adds, significantly, "the companies were primarily responsible to their shareholders and it was impossible for them with the staff and resources available to provide the required range of social development services for which there was an obvious need. Their prime duty was to grow cotton for profit, which they, the Government and the tenants shared. They had no obligation to provide solutions for the problems arising in a developing society". Now the Gezira Board has set up a special department to promote social development activities. Admittedly they now have the money to do so, but their problems would have been less if they had developed their social services *pari passu* with economic progress.

A more striking example of the need to keep social and economic development in step can be seen in Northern Rhodesia. Here economic development has been highly successful, a rich industry has been established—and the social problems of the Copper Belt are probably more serious than anywhere else in Africa. Social development has been seen almost entirely in terms of wages and housing, but material well-being has not been accompanied by the development of a happy, healthy society.

In the Sudan, Northern Rhodesia and South Africa, economic development has been imposed upon the people. We are proposing to do the same in Uganda and the Gold Coast. Have the lessons of earlier experience been learned? Will the social implications of Jinja and of Volta be given proper consideration in the planning stage? There are signs of some thought being given to this—Mr. Nkrumah has

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[3] See 492.

[4] On which see BDEEP series A, R Hyam, ed, *The Labour government and the end of empire 1945–1951*, part I, 59 (Appendix VI, para 4c), and part II, 108 and 109 (para 10).

appointed a sociologist to work with the Planning Commission in the Gold Coast—but as far as I know, no social work is being done in connection with Tema, where prostitution and juvenile delinquency are growing apace.

These are all big schemes run by European skill and money but the economic development of Africa cannot be brought about by a few large scale projects. It will depend on the development of a higher standard of agriculture and of stable secondary industries. These can only be achieved by the people themselves working to develop their countries not only because they have acquired the necessary skills but because they understand why. Any economic or political structure built upon an ignorant, unskilled and unsettled population must of necessity be unstable or dictatorial.

We are, I think, too apt to forget the lessons of our own Industrial Revolution, from the social effects of which we are only now beginning to recover. The impact of Western thought and technology on Africa is many times more severe than that of the steam engine on our own cottage industries. To ignore this is to court trouble whereas we must anticipate it by educating the people of Colonial territories to adapt themselves to new ways of life and by making adequate provision to rehabilitate the inevitable casualties before their number grows to a size that will imperil the stability of their communities.

None of this means any radical change in our present policy of devoting the bulk of our resources to developing the economic potential of Colonial territories to the full. Nor does it mean the investment of money in expensive capital works. It means the acceptance of the fact that in order to develop the economic potential successfully, a certain amount of available resources must be put to uses which are not immediately productive. Very largely, this money must be spent on the thorough investigation of the situations being created by economic development. There is already much experience to be applied but equally many of the problems are new and solutions must be worked out on the ground. Particularly pressing among these problems is that of the creation of new towns, inhabited by de-tribalised and uprooted Africans, lost in a new world with none of the sanctions of the old world to guide them. This problem is growing rapidly as urbanisation increases and the drift to the new towns goes on. More money than at present must also be spent on salaries of officers for education, community development, social welfare, probation and similar work. Otherwise all our economic and political progress will be on unstable foundations.

We are not, in SSD, crying for the moon or harbouring any illusions that territories can spend all their money on social services. What we do want is full consideration to be given to the social implications of the policy of economic development on which we are launched, and for the realisation that economic development without adequate provision for social development *at the same time* will create more problems than it solves.

It is all a question of priorities and to ensure the proper balance there must be closer liaison between the Social Service Departments and the Economic Departments of the Office (was the attached circular 601/53 referred to SSD, and did the Secretary of State's Advisers on Education and Social Welfare have the opportunity of commenting on paragraph 4?).

I have written this inadequate minute in a great hurry on a subject to which much thought is being given. It is significant that many writers, including some well known economists, are beginning to question the assumption that technological

advance and economic progress must inevitably lead to the creation of healthy, stable and prosperous communities if human personality is ignored by those who plan their development.

Should the Colonial Office as a whole not give fresh throught to this problem? Have we paid too little attention to the effects of economic and political changes on the human beings on which they depend and in whose interests they should be operating? We must not open the throttle on the engine until we are sure that the carriages will stay on line.

J.T.A.H–D.
11.12.53.

Sir J. Martin

In October, I drew your attention to the fact that Sir C Cox[5] had expressed some anxiety because the despatch at (1) on this file, suggesting a basis on which Governors might consider their needs for financial assistance during a forthcoming quinquennium, had been prepared and sent without any consultation with the Education or Social Welfare Advisers or this Department. Moreover, it contained in paragraph 4 a passage which at least suggested that the emphasis of the new C.D.&W. Act would be on projects promising monetary returns rather than on more longterm investments in human resources. You arranged a meeting on the 3rd November at which Mr. Melville explained to us that Governors' replies would not be coming in until March, and that in the meantime ample opportunity would be provided for consultation in the Office, between Departments and with Advisers.

2. During October, both the A.C.E.C. and the S.D.C. expressed strong views on the inadequacy of social services in Nyasaland and asked that their opinions might be conveyed to the Governor. A not altogether appropriate opportunity presented itself almost at once in the drafting of a letter which Mr. Gorell Barnes was proposing to send to the Governor on the desirability of making a constructive policy pronouncement to take advantage of the greatly improved atmosphere in Nyasaland. This exercise led to series of minutes of which the essence has been extracted onto this file at (2). In his minute of 18th November, Sir H Poynton refers to the despatch at (1) as inviting the Governors to submit estimates of their *development* finance only, and not of their total financial needs. This made us wonder whether Governments will subsequently be asked to estimate separately for the 'W' in the new C.D. & W. Bill, whether formal education falls under the 'D' or the 'W', and, indeed, what the fate of the 'W' will be in the new Act.

3. With these unanswered questions in our minds, we have received, Department and Advisers alike, the minute from Mr. Melville at (3) inviting us to give consideration to schemes for assistance under the new Act explicitly for central services on the Development side only. We have considered this minute, individually and collectively, but are unable to make any satisfactory start with our plans for a reply until we are given further guidance. Some of the premises on which we would expect to base our proposals are set out in memoranda by Mr. Harvey and Mr. Howard-Drake at (4) and (5) opposite.[6] It will be very helpful if the views expressed in these papers, which have been written after considerable departmental consultation

[5] Sir C Cox, educational adviser, CO, 1940–1961.
[6] Respectively, 492 and the preceding minute in this sequence.

with Advisers, can receive consideration before we attempt any reply to Mr. Melville's minute.

4. I personally hope that we shall be reassured, and that there is not in fact any intention to reduce the relative importance of social services in the draft of the new Bill. While fully appreciating the force and importance of Sir H Poynton's point, in his minute of 16th November at (2), about recurrent costs of social services not outstripping the potential economic capacity of a territory, I suggest that the old concept of 'pump priming' is particularly valid in the development of human resources, where a little money spent on the enlightenment of an individual or a group can pay great dividends to the community in terms of self-help and co-operative effort. As a Department we suffer a good deal from the stringers-together of social science jargon, but underneath it all there is a very clear truth which is entirely relevant to Colonial Development. I honestly believe, for example, that in the success of the concept of Community Development in many of our territories we find the key to the ultimate success of a policy of political and economic development, and consequently of a policy of self-government. Similarly, I believe that we shall be doing untold harm if we force the pace of economic development[7] under the provisions of the new Act without giving adequate consideration as we go along to the human problems involved; particularly the problems of detribalisation, urbanization, race relations and the intelligent participation of the people themselves in the programmes we seek to devise for their betterment.

5. 'Welfare' is an unfortunate term, suggesting restitution for past wrongs or the dependence of the passive individual on State aid. Yet the omission of an adequate 'W' provision from the new Bill would certainly cause a storm in Parliament and apprehension in the Colonies. What is required is a more virile and challenging term to express the positive development of human resources. I might summarise the views expressed in these papers by saying that the sort of thing we would like to see is the reincarnation of C.D. & W. next year under a title such as C.E.S.D.A.—the Colonial Economic and Social Development Act—which would more adequately express what we are trying to do, and at the same time would have a better chance of catching the imagination of people in this country and in the Colonies.

J.K.T.
15.12.53.

Mr. Melville

I need not say that I strongly support the thesis that social services such as those in respect of education and health make a direct and indeed essential contribution to economic development; and that economic development pushed ahead without regard to social consequences and without the social measures necessary to meet the strains to which it gives rise will be bought at too high a price; but I hope that we all support that thesis and that the Social Service Department can be assured that such considerations will not be left out of account in considering plans for the next C.D. & W. period. At the same time I am sure that the Social Service Department equally agree with the view expressed in the circular despatch about the danger of saddling

[7] Poynton added the marginal comment 'But who wants to?'

Colonial Governments permanently with recurrent costs out of proportion to their own economic resources.

It will, I hope, be a reassurance to Mr. Thompson and the Advisers concerned that the Assistant Under Secretary with special responsibility for the Social Service Department in this period will be Mr. Bourdillon, who has been so closely concerned with the higher thinking on the subject. I think that Sir H Poynton should see these minutes, as he also will have a double interest.

Meanwhile the immediate practical point is for the Social Service Department and Advisers to prepare the material for which you asked in the circular minute at (3). I think that Mr. Thompson is himself infected by the very error he attacks when he regards D (e.g. in your minute) as opposed to W. I feel sure that you intended D for this purpose to include W, the distinction being only between "development" and "research". Perhaps you would be good enough to give the Department guidance on this point.

J.M.M.
16.12.53.

I am sorry to have delayed this a bit (I have been busy on a conference which took most of my time).

Yes, there is confusion here for which, as a draftsman of the despatch and of my minute of 16/11, I may be responsible. "Development schemes" have always included social service purposes and the distinction intended in my min. of 16/11 was, as Sir J Martin says, between "*development* schemes" (thus defined) and "*research* schemes".

Let me repeat here what I have already said in discussion with the Educational Adviser and Mr Thompson. The purpose of this exercise is to establish, to our satisfaction, what the Colonies need in the new period in the way of financial resources in order to be able to proceed with their Economic and social development at the optimum rate. There is, naturally, a limit to the speed at which social development (narrowly defined) can go ahead; that limit is set in part by the speed of economic advance—or more properly by the speed with which productivity and national income rise. A simple test is whether recurrent costs on social schemes can be met out of the annual additions to the national income. That test is referred to in the despatch and I do not think that anybody seriously challenges it. Not Colonial Govmts., certainly, who have to take responsibility, in the last resort.

Plans are wanted, therefore, to cover expenditure for 1955/60 on both Economic and social development. I agree with Mr Thompson that the present nomenclature of the Act is misleading. We are already considering a new title. His suggestion strikes me, at first sight, as being a distinct possibility.

E.M.
23.12.53

487 CO 859/627 15 May 1954

[Relationship between economic development and social services]: minute by J K Thompson

The passage in the Eastern Regional[1] development plan to which Mr. Howard-Drake refers at X/- in his preceding minute is as follows:—

> ". . . . every effort has been made to confine expenditure under the plan to projects for industrial or economic advancement and to limit expenditure on social services as severely as possible. It has not, however, been possible to cut out this latter expenditure altogether. The needs of the Region for improved medical and educational services are still very great, particularly in matters of technique, and it is considered that the Secretary of State's despatch in no way disbans (sic) applications for assistance to these needs, which, it will be noted, call for very small recurrent expenditure."

Occurring as it does in the context of the terms of the Secretary of State's despatch at (1) on SSD 120/383/02, this revives the doubts expressed in paragraph (1) of my minute of the 15th December, 1953,[2] which gave birth to this file. We do not want to go over the same ground again, but I must say that the dozen or so development plans which we have so far examined suggest that Governments have, on the whole, read the Secretary of State's despatch at (1) in the same sense as we did; i.e. that he was giving a strong lead to prepare plans for economic and industrial development only, leaving social services to be paid for in due course out of enhanced revenues.

2. Our plea on this file, both in our minutes and in our C.D.W. (?CESDA) submission, is simply that the more money is spent on industrial and economic advance in the Colonies, the greater the strain will be on the rapidly changing social structure; therefore we ought to invest considerable sums in fostering a healthier social climate at the same time. We also stress that Governments themselves should pay for bricks and mortar, and that the U.K. contribution should be in knowledge, experience and training. The necessary social services will be partly of the orthodox kind of which the principal ones will be formal education and health measures. But there is also need for what the 1952 Cambridge Conference called "a quite novel concentration of energy and resources upon the tasks of informal education"—which term we interpret as covering a wide range of activities to help the people to adapt themselves to their changing environment; to harness the forces of change and not to be broken by them i.e Community Development. As Mr. Howard-Drake says, little or no emphasis is placed on this aspect in the development plans so far received, despite the terms of the 1948 despatch which makes Community Development "one of the central features" of H.M.G.'s policy. To a very small extent, this deficiency is made good by the proposals for assistance from a central allocation. The more Government plans omit social services generally, the more important it becomes that sums should be kept back in a central allocation to restore a reasonable balance.

3. We shall, of course, have these questions very much in our minds at the Ashridge Conference,[3] which turns out to be very well timed in relation to the new

[1] ie, the Eastern Region of Nigeria. [2] See 486.

[3] The Ashridge Conference on Social Development was held in Aug 1954 (the conference report is at CO 885/126, confidential print).

C.D.W. Act. Governments are for the most part sending their first elevens—heads of Education, Social Welfare and Community Development Departments, with a useful leavening of senior Administrative Officers and a few doctors. After we have heard what they have to say—and the Conference is designed essentially to give them a chance to speak their minds, and not to force any preconceived notions on them—we shall know much more clearly what the territories need in the way of social development outside the orthodox departmental requirements of Education, Health etc. (with which Ashridge is not concerned.) We can then not only review the territorial plans with more wisdom, but also revise our proposals for the central allocation with a better understanding of what the U.K. can do to help. At that stage we shall also be able to put in hand the most necessary task of overhauling the membership and functions of the Social Development Advisory Committee, which is at present an inchoate and unsatisfactory body.

4. I am passing this file through Sir C Cox, who did not, I think, see the earlier minutes.

488 CO 859/610, no 37 22 Sept 1955

[Problems of the Advisory Committee on Social Development]: memorandum by W H Chinn

The Advisory Committee on Social Development was set up to undertake the advisory functions formerly the responsibility of the Advisory Committee on Social Welfare and the Community Development Committee respectively. For the first year, i.e. until October 1954, membership of the two committees was merged but in November 1954 the Committee was re-constituted and some members of the former committee, together with a few new members, were appointed for a period of one year. It was then thought that after one year's experience we should be in a position to advise on the future of the Committee both as regards membership and status.

For a number of reasons the newly constituted Committee has not yet met. Before examining the reasons for the lack of meetings it might help to place the Committee in its historical setting. I think the development of the Committee has a distinct bearing the present stagnation. It will be remembered that the first Advisory Committee on a Social subject—as distinct from the traditional Social Services—was set up to deal with a particular social problem, namely the treatment of offenders against the law with particular reference to children and young persons. The original Committee was known as the Colonial Penal Administration Comittee 1937 and its members were appointed chiefly for their professional knowledge of and interest in the treatment of offenders. The two outstanding members were Miss Margery Fry and Sir A. Paterson, both of whom, while expert in and international authorities on their subject, took a broad view of delinquency as a social problem and very soon were pressing the Office to extend the terms of reference of the Committee to enable it to advise on constructive and preventive measures. This advice was accepted and resulted in the setting up of the Advisory Committee on Social Welfare. This body at first consisted of all the members of the former Penal Affairs Committee together with new members, some of whom had specialist social work experience, while others were representative of the important voluntary organisations in the U.K. The treatment of offenders was dealt with by a sub-committee of the main Committee

and until it became an independent body 3 years ago, it reported to the SWAC.

There were at least two important differences between SWAC and other Office Advisory Committees.

(1) No Adviser was available until late 1947.
(2) There was little or no government machinery for Social Welfare in Colonial territories.

The Committee was, therefore, confined to dealing with somewhat disconnected aspects of specific social problems and was not supported by a knowledge of developments and progress in social work overseas.

The Community Development Committee, on the other hand, was set up as a direct result of the recommendation of the 1948 Cambridge Conference on African Administration. Unfortunately there were no representatives from the Social Welfare side of Social Services Department 'A' at Cambridge, so the link between the work of the Social Welfare Committee and the new concept of Community Development, which became very apparent later, was not recognised.

With the establishment of TOC as an independent committee and the merging of the Community Development Committee with SWAC, the latter was left with an inflated membership representing diverse and even disparate interests which the change of title to Social Development Committee has done nothing to remedy. TOC has developed usefully because it is a small expert body dealing with a concrete subject and, most important, it has had continuity both of Chairman and members.

SWAC (now Social Development Committee) languished for a variety of reasons, not the least of which has been the difficulty of adequate servicing. There have been five Secretaries in the last eight years working to a succession of four Heads of Social Service Department 'A'. The single Adviser, who has had to deal with treatment of offenders as well, is on tour for some months each year and is unable to give the attention required to advising on policy and feeding the Committees.

At the same time there has been a considerable development in all aspects of social and community work in Colonial territories and a pattern of social development is now emerging. Advice from the centre is now needed on a much broader basis than was formerly the case. Governments are becoming more concerned with the social implications of overall development and tend to look for help on broad questions of social administration rather than on details of social mal-adjustment.

I would suggest therefore that what is now needed is a small group of people with a knowledge of social administration, not necessarily social workers, who would be able to advise on the social aspects of development. I would retain the title "Social Development Committee" as it describes better than any other term the functions of such a body. The Committee should consist of not more than ten members and it would be a great advantage if they were enabled to visit Colonial territories on occasion. The Committee should essentially be concerned with broad issues of social administration and practice, and detailed studies of specific aspects of social development or social problems should be dealt with by ad hoc working parties. Meetings of the main Committee need not exceed three per annum.

The question of adequate servicing of the proposed Advisory Committee still presents a problem. This is, however, an administrative matter and the need for strengthening advisory and departmental staff, though very relevant to the proper working of an advisory body, is not dependent on the existence of such a body.

489 CO 859/610, no E/47 11 Apr 1956

'The future of the Advisory Committee on Social Development': memorandum by M McMullen.[1] *Minute* by J K Thompson

The future of the Advisory Committee on Social Development has intermittently been the subject of consideration on this file since Mr. Howard-Drake's minute of 12.5.55 (other relevant pps. are at E.36 and 37 on SSA 69/02). I had hoped to see the full Committee in action before venturing to add my own somewhat shakily-informed opinion to those already expressed. But four months have elapsed since the last plenary meeting and there is little Mr. Chinn or I can suggest which could usefully be put before the full Committee as an Agenda—nor can we foresee anything of consequence during the next few months. I do not, therefore, feel justified in delaying further consideration of the Committee's future on that account, and the fact that the following observations are based upon the study of the record rather than first-hand experience will have to be taken into account.

2. The balance sheet seems to me this:—

(a) *Reports Sub-Committee.* I have attended two meetings of this and am of the opinion that these were sheer waste of the members' and Office staff's time and of the tax-payers' money. No contribution of the slightest value was made by anyone attending other than the visiting overseas officials and members of the Office.

(b) *Training Sub-Committee.* The record of this body on paper seems quite lamentable. It has displayed from time to time an unedifying spectacle of institutional rivalries and personal jealousies, and generally a negative approach to the subject. Such progress as has been made seems due almost entirely to heroic efforts by lay-members of the Office to draft professional reports which the Committee has then proceeded to tear apart without substituting anything particularly constructive. I have seen the sub-committee in action once; on this occasion it was not being asked to draw up a report and indeed in the course of some three hours produced an idea which might justify its existence until the training report is finalised.

(c) *Womens' Sub-Committee.* I understand that this is a lively and useful body. It might therefore well continue to exist, if necessarily independently of the main Committee.

(d) *Working Party on Medical Social Work.* Position here is that members of the working party have submitted very rough notes under four of the seven chapter headings. A Ministry of Health working party is now studying the question of the field of work, recruitment and training of social workers at all levels of the local authority health and welfare services. It will receive written evidence up to 1st October and will doubtless issue a report some time after that date. Mr. Chinn does not think that we ought to try to press on with this work until this report is available.

3. I have made a few tentative enquiries about others of the Secretary of State's Advisory Committees and have gained the impression that the tendency on the whole is for them to be less active than formerly; for full committee meetings to take place

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[1] M McMullen, principal, CO, 1956–1962.

more infrequently; for standing committees to be wound up; and for ad hoc working parties to be formed for specific purposes. I should with some diffidence hazard a guess that this process is likely to continue. Many of the committees were set up at a time when Her Majesty's Government's Colonial policy was undergoing a radical change. They provided expert professional guidance to the Secretary of State in the formative stages of the new policy, and authoritative backing for his task of persuading governments into translating these (for them) often novel conceptions into action. That period is over. Policies have been formulated and are now the responsibility of governments. It seems, therefore, that the committees will now tend to wither away unless kept alive by artificial respiration. If the Advisory Committee on Social Development is any guide, they will tend more and more to see themselves as "watch committees" with a mission to stimulate governments by criticism and exhortation into expediting action on aspects of the policy they have helped to formulate. This again will tend, in proportion at [sic] the relations between the Secretary of State under [sic] the territories are modified with the approach of the latter towards self-government, to be less and less acceptable to governments and so less and less effective.

4. To return to the field of social development the greatest present need, I submit, is rather for research and drafting on specific professional problems:— medical social work; population problems in relation to social development; a community development training manual are current tasks which come to mind. Eminent individuals in this field, though willing to serve on a Secretary of State's Committee which requires little homework and carries a certain cachet, are rarely able under pressure of modern conditions to give their time gratis to research and drafting of anonymous papers for the benefit of the oversea territories. The present expedient whereby administrative officers attempt a first draft of papers on professional subjects for submission to a committee of experts with conflicting views on doctrine and academic or professional axes to grind, is both invidious and inefficient. I am aware that this is common civil service practice but would submit that what might be appropriate in a Department dealing with a limited field in which the administrative officer will spend the whole of his working life is not feasible in a Department such as the Colonial Office which covers virtually the whole field of government and where administrative officers are unlikely to spend more than two or three years dealing with any particular aspect of it. If the money now spent on fares, subsistence allowances and servicing the Committee were put to commissioning suitably qualified professionals to undertake specific tasks of this nature I am quite sure that the nett benefit to Her Majesty's Government and the Colonial territories would be considerable.

5. I am of the opinion that Mr. Howard-Drake's suggestion for turning the Committee in effect into an advisory panel is a sound one. On the other hand there is force in Mr. Chinn's argument that such a step ought not to be taken with one of the Advisory Committees in isolation. A compromise and interim solution might be on the following lines:—

(a) the Committee to keep its name; annual meetings, more in the nature of social functions, being held at which papers might be read and to which guest speakers might be invited;
(b) the Reports Sub-committee to be wound up;

(c) the Training Sub-committee to meet once more when we have settled the question of a general-purpose course with Oxford, London and Swansea Universities and then also to be disbanded;
(d) the Womens' Sub-committee to remain in being while it continues to serve a useful purpose;
(e) Instead of sub-committees, working parties or ad hoc groups to be set up for dealing with specific questions as and when they arise and to be disbanded when their job is done.

Minute on 489

Mr. McMullen
I have carefully considered your memorandum at (E/47) opposite and have discussed it with Mr. Chinn.

2. Throughout this consideration, I have been conscious of the need to avoid any major upheaval in the affairs of the Committee which was subjected to a major operation as recently as 1953 and which is not failing to do what we require of it: the trouble is that we cannot find enough for it to do, as a Committee of the whole. The decision which I have now taken does not involve such a change that submission to higher authority is necessary. We should conduct the affairs of the Committee on the basis set out in this minute until the annual review of Committee membership takes place in October and November. As all members of the Social Development Committee have been appointed until the 31st December 1956 only, that will be the time to decide if we wish to keep the Committee in being in its present form in future.

3. Taking the Sub-Committees in the order in which you have dealt with them in your memorandum, my decision is as follows:—

(a) *Reports Sub-Committee.* Annual reports from territorial governments should continue to be sent to members, but the Sub-Committee should not be convened to discuss points arising from them unless and until there is something of sufficient importance to justify a round-table discussion with representatives of e.g. the missions and the Red Cross. This will rarely happen. But the Reports Sub-Committee should be called together when we know from the Rev. Bowman and Father Traynor that they are ready for the proposed discussion on the attitude of the Christian missions to social development work generally. This is a matter on which we should aim to get a memorandum prepared by the end of the year.

As soon as Mr. Tate has settled into the department, it should be his responsibility to minute briefly on every annual report from the territories dealing with social development questions for circulation as necessary within the department and to the social welfare adviser, finishing up with me so that I can be kept informed of any major developments in this field. (I must confess that the existence of the Reports Sub-Committee has hitherto been a useful means of making sure that we in the Office read the reports and contacted the Geographical Department about them. This is, of course, a quite unjustifiable use of an advisory sub-committee and we must now substitute the use of files.)

(b) *Training Sub-Committee.* We have not solved the problem posed for us in

paragraph 48 of the Ashridge Report and, until this is done, we must either keep the Training Sub-Committee in being or at least maintain our contact with the universities etc. through similar means. Dispersal of the Sub-Committee at this stage would undoubtedly be interpreted as abandonment of the task. Unlike the Reports Sub-Committee, the Training Sub-Committee has a competent and respected chairman, and the very difficult going since Ashridge may be inherent in the problem and not a defect in the working of the Sub-Committee. We should be patient, and continue to convene the Training Sub-Committee when there is something for them to consider.

(c) *Womens' Sub-Committee.* This seems to serve a useful purpose and, although it acts with considerable autonomy, its work is relevant to that of the main Committee. Its intermittent bursts of enthusiasm seem to coincide with the presence in this country of Miss Gwilliam. There is no harm in that. Miss Lockwood will of course continue as Secretary in addition to her UNESCO duties.

(d) *Working Party on Medical Social Work.* We have hit on something here that is of great interest not only in our territories but elsewhere also. I agree that work should be suspended until the U.K. inter-departmental Cttee reports, but thereafter we should make a great effort to bring together the views of that Committee and of the members of our own Working Party and to issue some guidance to Colonial governments. This will not be easy and may take a long time, but it is worth doing.

4. I have been tempted to decide now that the foregoing Sub-Committees should be turned into panels of consultants and that we should no longer pretend that they are a constituent part of an Advisory Committee on Social Development. It may be that we shall want to do this after the end of the year. To let members of the Committee know now that it is being disbanded would, I think, lead to much misunderstanding and would do more harm than to keep the Committee in being on paper and never convene it. I should feel happier if we could see any possibility of a major meeting of the Committee before the summer vacation, but in the absence of any report from any Sub-Committee and of any other business which might engage its attention it must not be convened. Most, if not all (?), of its members receive papers by virtue of their membership of Sub-Committees and will be convened when Sub-Committees are convened. This should be enough to maintain their interest. If there is business for the main Committee at the end of the year, we may at that time be able to explain to them any change we may have decided upon in the structure of our advisory system in this field.

5. I too have looked into the question of other Advisory Committees and find that both Medical and Labour are meeting far less frequently than used to be the case. When the time comes to make our final decision about the future of the Committee, we should consult with other departments to see whether we can carry them with us. I shall not expect a decision to discontinue the Advisory Committee on Social Development to be taken without a whole review of the functioning of Office Advisory Committees.

J.K.T.
5.5.56

490 CO 859/338, no 49 9 Dec 1952

[Changing roles of the Advisory Committee on Education in the Colonies]: letter from R W Stopford[1] to R J Harvey[2]

['The functions of the ACEC' were scheduled to be discussed as item 5 on the agenda for the Committee's 200th meeting.]

Here, for what they are worth, are my comments on Item 5 of the Agenda for the A.C.E.C. on 11th December. During my seven years' membership of the Committee I have seen a change taking place in the work both of the main Committee and of Sub-Committee A—a change to which reference is made in paper ACEC(52)29. Up to 1949 we spent a great deal of time considering Development Plans and Annual Reports, and with a decreasing sense of the value of what we were doing. More and more I have become convinced that only the people in the field, African leaders as well as European administrators, can really deal with the details of educational policy. The fact that the Committees have become increasingly hesitant in making criticisms and offering suggestions is itself a recognition of this. I would agree that there is a value in circulating Annual Reports for the education of members of the A.C.E.C., but little or no value in discussing them in detail.

What then can the A.C.E.C. usefully do? I suggest that it can still be valuable in the following ways:—

(a) It can help to keep educationists in the Colonies in touch with recent thought and practice in this country, both through the personal contacts of its members and through the stimulation of such meetings as Roehampton and Cambridge.
(b) It can keep under review the general development of educational policy in the various territories and call attention to lack of proportion and balance. For instance, it will probably be necessary for some time to come for some *professional* body to emphasise the education of women and girls, or the importance of adult education.
(c) It can concentrate upon some of the fundamental questions which underlie educational work everywhere and state them in terms of overseas conditions, without necessarily suggesting how they should be solved. There is, I think, much that needs doing of this kind in the fields of teacher-training, selection, post-primary curricula, etc. Reports of the A.C.E.C., not quite so formal as "Training in Citizenship", etc., issued from time to time could help to clarify educational thinking in the territories.

The nature of the work to be done will have some effect upon the composition of the A.C.E.C. itself. I will only say on this point that I believe that in the future the notice which will be taken of its pronouncements in the territories will depend more and more upon its *professional* reputation, and not upon its being advisory to the Secretary of State.[3]

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[1] Canon R W Stopford, principal, Achimota College, Gold Coast, 1941–1945; moderator of the Church Training Colleges, 1947–1955. Stopford served also as chair of the Committee on Mass Education (Community Development).

[2] See 486, note 2.

[3] At its meeting on 11 Dec the committee generally accepted these views on its future.

491 DO 35/4591, no 12 15 Sept 1953

[Establishment of a university in the Central African Federation]: letter from Lord Swinton to Lord Halifax[1]

My dear Edward

You know the importance which the early establishment of a multi-racial university for the Rhodesias has assumed. In the Lords the Archbishop fastened particularly on it as the sort of thing that would be evidence that Federation was right, in other words the "proof of the pudding".

Later this month a delegation is coming from the Rhodesias to discuss with University authorities here the shape of the proposed university and its relations with United Kingdom universities. I most sincerely hope that, despite the difficulties still to be ironed out, they will reach agreement and that the Inter-University Council here will give its blessing.

A point that will arise, if they can all agree on general principles, is the relationship between the new university and universities here. In its infancy the Rhodesian University will have to lean fairly heavily on some other institution particularly over examining staff and standards, degrees etc. It is on this point that I would welcome your assistance, if the need should arise. Unfortunately I leave for Australia on the 24th of this month before they are likely to have got round to this question. I am therefore writing now to ask that, if in my absence John Foster or anyone else on my behalf should approach you, you will weigh in.

Ordinarily, I understand, an oversea university would enter in its early years into a special relationship with London. Many of the Colonial universities have done so and London has set up the facilities with which to help them. The help London gives is considerable and there is much to be said for the Rhodesian University entering into a special relationship with it, at any rate for a time. But this may not prove possible. The Rhodesians may not want it or London may not be prepared to assume the additional responsibilities involved. My fear is that unless we have some alternative ready to offer, the Rhodesians may (as the only recourse left) turn to the Union and tie themselves up with the University of South Africa. This would be very bad politically and is something we must avoid.

An alternative to a special relationship with London would be for Oxford to sponsor the new university. I realise that Oxford does not have external degrees and could probably not give anything like the amount of practical assistance that London is used to render. But I believe that they have sponsored the North Staffordshire College and are helping it over examinations and degree standards. Surely the Oxford people would have the imagination to see what is at stake and to take the new university of Rhodes, to whom they owe so much, under their wing?

Until the delegation from the Rhodesias arrives and begin to discuss things with people here, we do not really know how much assistance they will want in their early stages. It may be that they would themselves prefer to stand largely on their own feet from the outset and welcome some more tenous [sic] arrangement such as that existing between Oxford and North Staffordshire, rather than lean as heavily on London as most colonial universities seem to do. If so, then the Oxford proposal

[1] Earl of Halifax, S of S for foreign affairs 1938–1940, chancellor of Oxford University, 1933–1959.

would become even more important since it would be the only one in the field, the alternative being the South African. But meantime we must walk warily, since it may prove that so much initial support is needed that London is the only answer; in which case it might be necessary to make a strong appeal to London, on high grounds, which would be prejudiced if we seemed to have been hawking the matter around.

This is the picture as far as I can give it and what I seek of you is your support of any appeal that may be made, when the time comes, to Oxford to step in. I know I can count on you and that you will take the political angles to it all. These last may not be so apparent to the academic side, who may be obsessed with the practical difficulties and the burden which sponsorship would involve.

At all costs we must keep the Rhodesian University within the United Kingdom family, with all the liberalising influences that would flow from such association.

I know I can count on your wise help. We must make a success of Federation: the future of Africa, far outside the border of Rhodesia, hangs on it: and the University lies at the very heart of the problem. You know it all so well, the University aspects and the people, and the far horizon.[2]

Yours ever
Philip

[2] Halifax agreed to mobilise Oxford if necessary (letter from Halifax to Swinton, DO 35/4591, no 27, 18 Sept 1953). But Swinton replied that the new university would probably be sponsored after all by London, which was the 'most satisfactory solution' (letter from Swinton to Halifax, DO 35/4591, no 35, 23 Sept 1953). This was indeed the outcome.

492 CO 859/362, no 4 — 14 Dec 1953

'Education and economic development': note by R J Harvey [Extract]

The periodic argument which arises on this subject is akin to the great "chicken-and-egg" controversy, but often contains misconceptions, which need clearing up. On the one hand, it is stated that the progress of education and other social services must be conditioned by probable economic development and consequent capacity to pay. Against this, it is argued that economic development on a scale adequate to modern conditions can only take place if a significant proportion of the population is educated, that plans for education should be made *pari passu* with those for economic development, and in the long view it is even possible that they may require some measure of precedence. It is the purpose of this note to underline the interdependence of educational and economic progress and to suggest the need for particular emphasis on educational development in Colonial territories before they attain any considerable measure of self-government.

There has been so much inefficient and rather pointless education in the past that it has been difficult not to agree with those who consider it an expensive luxury, irrelevant to the more important problems of economic advancement. This has particularly been the case in the West Indies where much of the English system was copied without any adaptation to local conditions or capacity to pay for it. Yet there has always been a certain amount of good education which has provided the main stimulus to the better living conditions which are the objectives of both social and economic planning. Over a number of years, there has been an increasing realisation

on the part of those concerned with education in our Colonial territories that all has not been well and that there was and still is much room for improvement. For example, the content and aims of African education was one of the chief subjects of examination in the Study of Educational Policy and Practice in British Tropical Africa, and some quotations from the publication "African Education"[1] may serve to show the direction in which present-day Colonial education is moving.

The primary course is essentially preparatory and primary schools can have only an indirect bearing on the present question, yet they have an important influence on the quality and the kind of education which follows. The following objectives of the primary course mentioned in "African Education" if adequately carried out can begin to prepare children for the eventual part they should play in society:—

"(1) The development of sound standards of conduct and behaviour.
(2) an understanding of the community and of what is of value for its development, and of the contribution which the individual can make to the community;
(3) the development of a lively curiosity leading to a desire for knowledge about the immediate environment and the world outside;
(4) permanent literacy;
(5) the acquisition of some skill of hand and the recognition of the value of manual work."

From the same section of the Report comes the following:—

"secondary education must carry on at a more mature level the pursuit of the same objectives as those of the primary course, but it has a further and specific purpose. From the secondary schools must come men and women who will be leaders, equipped with the skills the country needs and themselves persons of balanced judgement, aware of their environment and conscious of their responsibilities."

The emphasis in both these quotations is on production of balanced men and women with a sense of responsibility and the appropriate skills necessary to further the development of their country.

The following passage comes soon afterwards and is more specific in its recommendations:—

"In the conditions of African territories with their urgent need for development it appears to us to be essential that the curricula (of secondary schools) should reflect the dominant requirements of the country as they exist from time to time and from place to place. With rapidly increasing populations, food production must receive the attention of many of the pupils from all types of schools. At the same time as natural resources, sources of power and communications develop, there will be a growing need for technical education and this must be foreseen and provided in advance."

The need for the widespread development of technical education appropriate to local conditions requires no emphasis, and this type of education has made the greatest advance during the last few years, yet it cannot be considered in isolation and must be rooted in an adequate period of general education of the right type; in fact, it is

[1] *African education: a study of educational policy and practice in British tropical Africa* (Nuffield Foundation and CO, Oxford, 1953).

even more important in backward areas than elsewhere to ensure that those with technical qualifications are also whole and well-balanced individuals who will be good citizens.

In general there is a strong trend towards a more practical curriculum in all types of school. The most obvious example of this is in the middle school which is being particularly developed in Kenya and Tanganyika, but, under different names, has special importance elsewhere because it is both the precursor to full secondary education and also provides a stage at which many pupils leave school and enter specialised forms of training, or else end their formal education and go out to seek their living. The following extract from another part of "African Education" describes this section of the school system:—

> "The basis of the curriculum in the middle schools should be a carefully integrated scheme of practical and theoretical work, so devised that theoretical work arises always from practical and concrete beginnings. . . . Academic standards are not lowered because topics of study have a realistic basis. . . . Middle schools should provide one or more of the four basic integrated courses. These are:—(1) agriculture and animal husbandry, associated with its theoretical work in biology; (2) building and machine construction, associated with its theoretical work in mathematics; (3) commercial studies, associated with both language and mathematics; and (4) household arts for girls."

These quotations are drawn either from one of the Group Records of the Conference on African Education, 1952, or from one of the reports used as a basis for that Conference and generally accepted by it. They can therefore be quoted as authoritative statements of educational policy and have application in territories outside Africa.

From a different standpoint and another area the following quotation from the report of the International Bank mission to Jamaica emphasises the interdependence of social services and economic progress:

> "In the program for developing more fully the economic potentialities of Jamaica, better education, better health and better housing play a double role. They are among the tools that will boost the productivity of the people and they are at the same time part of the dividend resulting from that improvement."

The key to all this theory and practice is the teacher on whom depend all schemes for educational improvement. It is for this reason that training, in the widest sense of the word, is the first priority in all sound educational planning.

As to informal education, the general objectives of community development, with their emphasis on self-help and the improvement of social and economic conditions at village level, provide a natural forerunner of wider economic development the value of which is generally accepted. Less obviously, other forms of adult education can be used to produce a thinking population and to create the climate for change. In this field, the work of the extra-mural departments has been of particular significance in providing intellectual development for those who have had few opportunities of formal education. Their classes can provide a means of educating public opinion to be a greater appreciation of the real needs of their country. In the political sphere, the work done by the Extra-Mural Departments of the University Colleges of the Gold Coast and of Nigeria at the time of the first elections and subsequently the

classes held for Members of Houses of Representatives on constitutional law and procedure were of immense value.

In general, however, the political implications of education, particularly as a plank in the election programmes of all parties, are well enough known. Wherever ministerial government is accorded, there is usually a rapid increase of educational facilities with the consequent danger of a breakdown of standards. Whether or not such a breakdown takes place will depend to a very large extent on the adequacy of the educational system built up under the earlier administration. If a strong and well-balanced system has already been established which can stand the strain of sudden increase and has already produced adequate numbers of well-balanced and educated men and women, the dangers of transition will be greatly lessened. This is of equal importance in plural communities, where Africans are being brought into partnership with other races. Experience indicates that ignorance and intolerance are natural bedfellows and that real inter-racial fellowship can only begin where there is a common factor of high intellectual development among the leaders.

There is one other factor which may well prove the most important of all. The formulation of development plans, however sound and well-intentioned, by the Colonial Office or by European officers in the Colonial territories is rapidly becoming a thing of the past. The repeated cry of "give us the opportunity of making our own mistakes" is of deep psychological significance. Where plans must in large measure still be introduced from above, they will nowadays be accepted only if the leaders of the people are able to understand them. The unknown and the partly known are equally objects of distrust. Most important of all, however, is that there should be a body of adequately educated and trained men and women to prepare their own development plans. . . .

493 CO 859/627 3 Sept 1954

[Universities' role in maintaining British influence]: minute by R J Harvey [Extract]

[In Aug–Sept 1954 the Social Service Depts of the CO considered the report of the CD(&)W Working Party on future development finance (see 419). One of their concerns was with the level of support for colonial higher education.]

. . . 4. I suggest too that there is another aspect of it which is also the background of our own wish for a more definite assurance that there will be funds available from central allocation for other levels of education. If the new act is to be really effective it must in a large measure be selective. It must in some measure at least be applied to projects which will strengthen U.K. ties with colonial territories and particularly those which are advancing constitutionally. Advisers and we ourselves feel that it is at the professional rather than the official level that future ties will be maintained and strengthened. I suggest that one of the most important of these professional connections is that of the I.U.C. and the universities which can maintain U.K. influence on the intelligentsia of the colonial territories in a way which the Colonial Office never can. Similarly we would consider that our own proposals for the training

of colonial teachers in this country and for the attachment of British teachers to colonial schools and also for libraries would maintain and strengthen professional and cultural affiliations.

5. I am sorry that Sir C Cox is away but I have no doubt that he would agree generally to what I have said.

494 CO 859/582 1–7 Feb 1955

[Changing roles of the Advisory Committee on Education in the Colonies]: minutes by Sir H Poynton and R J Harvey

Mr. J.K. Thompson

The Minister of State asked me to speak to him about this Agenda. He felt that this and the Agenda of a number of earlier meetings was open to criticism in that there was really little, if any, business on which the Advisory Committee were advising the Secretary of State. As Mr. Hopkinson himself put it, the Committee seem to meet merely to hear lectures. I have indeed myself recorded a similar opinion on earlier occasions, and very nearly made the point again on this occasion.

The Minister of State agreed that this meeting should take place with the present Agenda, as it would be rather difficult to alter the plans at this stage. But he would like to have a talk with Mr. Ward[1] (in Sir C Cox's absence), Mr. Harvey and ourselves fairly soon after the meeting to see whether we cannot to use his own words, "get the Committee back on the rails again." His preliminary view was that we must either stimulate the Departments in the Office to put more propositions to the Committee for them to advise the Secretary of State upon, or that we should consider whether the time had not come to adopt, in respect of the Education Committee, the same policy which I believe has developed in regard to the Medical Advisory Committee, which has more or less ceased to function, I understand, its place being largely taken over by the Panel of Consultants. In this latter connection, I seem to remember having a meeting with you and others in my room last summer, when we were working up the material for the new C.D. & W. Bill, at which Mr. Harvey put forward proposals for the formation of a panel of Educational Consultants.

I don't want to go into these matters any further at this point, but I should be grateful if you, Mr. Ward and Mr. Harvey would be thinking the matter over in anticipation of a meeting with the Minister of State later in this month.

A.H.P.
1.2.55

At its 200th meeting just over two years ago, in December 1952, the Committee devoted itself to a discussion of its functions. This was based on two Office Notes. A record of this discussion, a letter from Canon Stopford,[2] who was unable to be present, and the relevant notes, are at (1) on this file.

2. The main point which emerged from these discussions, both in the Office and in Committee, was the necessity for the work of the Committee to reflect changes which were taking place overseas. The most important of these changes remains the

[1] W E F Ward, deputy educational adviser, CO, 1945–1956.

[2] See 490.

fact that to an increasing extent, education, in common with other Social Services, is the sole responsibility of Colonial Governments. In consequence of this there is a steadily growing tendency for educational development plans and other major policy changes to be prepared and put into effect in the territories themselves without prior reference to the Secretary of State. Examples have been the Gold Coast Accelerated Development Plan and the introduction of near universal primary education in Western Nigeria, of which Mr. Butler will be speaking at the next meeting. At the same time, an apparently opposite trend is also noticeable. Whereas official approval of plans is not sought, professional advice on their execution and to some extent on their preparation is increasingly asked for. The number of visits by people prominent in United Kingdom education to Colonial territories is steadily increasing and evidence suggests that the attainment of a considerable measure of constitutional independence is likely to be accompanied by requests for professional advice where official sanction is not wanted. It is possible to look forward to a time, probably not far off, when advice from the Colonial Office, except possibly through visits from Advisers, themselves professionals, will not be sought and, indeed, may be unwelcome. In its place, however, professional (as against official) connexions may be expected to maintain British influence.

3. The work of the Committee has therefore been designed with a view to three main functions:—

(a) Its use as a panel of experts who are kept informed and interested in recent developments. This is done largely through visits to the Committee of Directors of Education, who can freely discuss their problems with the Committee as a professional body. Directors appreciate this very much and find value in the discussions which follow their talks and make very useful personal contacts with members.

(b) A second, very important, function of the Committee is to form a link between overseas and British education. This link is much wider than the interest of individual members. The most obvious example of its working is in the sphere of recruitment and secondment of teachers from the United Kingdom for work overseas. A very close link has now been established between the Office and the Association of Education Officers and it is significant that those who have brought about this link have been past or present members of the ACEC, in particular Sir Arthur Binns, Mr. Missen and Mr. Norman Fisher.[3] The talks to the Committee by the Directors of Education are undoubtedly one of the main means of bringing about this close liaison.

(c) The Committee still has a considerable function in advising the Secretary of State and the summary of business over the last two years will show that, leaving aside the work of the Sub-Committees, the Committee has directly advised on the following:—

(i) The consideration of the Report of the Committee on African Education in Uganda and the proposals for implementation by that Government.

(ii) 'Overseas Education'.

(iii) Teacher Training.

(iv) The Form of Annual Education Reports.

[3] Sir A Binns, chief education officer, Lancashire, 1945–1957; L R Missen, educational adviser, CO, 1952–1955; N Fisher, chief education officer, Manchester, 1949–1955.

(The *ad hoc* Sub-Committee is expected to report next month).

In prospect are:—

(v) The discussion on U.N.E.S.C.O. to be introduced at this meeting, if it arouses interest, may very probably provide useful advice to the Secretary of State.
(vi) Two reports are awaiting comment by Colonial Governments, one is the Trinidad Working Party on Education, and the other is the Fulton Report on Sierra Leone. Probably the former and certainly the latter will involve C.D. & W. assistance so they will have to be considered here.
(vii) There may be a number of educational plans qualifying for assistance under the new C.D. & W. Act and these will normally be put before the Committee.

4. To a considerable extent Sub-Committees advise directly, without going first to the ACEC, and this has been done in connection with Northern Rhodesia, Nyasaland and Sierra Leone, and in commenting on a small number of Annual Education Reports of other territories. Two *ad hoc* Sub-Committees are still at work:—

(a) Training for Education Services. This has already recommended special courses to be held for teachers going out to East and Central Africa and to West Africa respectively. When the details of these have been worked out a report will go to the ACEC.
(b) The Sub-Committee on the Form of Annual Education Reports (already mentioned) is likely to recommend one major change, namely, that, subject to the views of Colonial Governments, a full review of educational work should be made every three years and not annually, and that the Annual Education Report should consist only of a summary of main events, together with statistics. If this is accepted by the Secretary of State and Colonial Governments, it will result in less frequent full Reports which are able to show trends of policy and developments in a greater perspective than can be done from year to year. Such Reports should provide the ACEC and its Sub-Committees with valuable documents.

5. Opinion among the more responsible members of the Committee, in particular those who have been on it for a considerable time, is, I think, strongly in favour of receiving as much firsthand information as possible by meeting Directors. This is always up-to-date, whereas Annual Education Reports are seldom less than a year, and often as much as two years old. In this connection, it should perhaps be mentioned that discussion with Directors and with Advisers on return from tour have, from the very early beginnings of the Committee, formed one of its main items.

6. Finally, as Sir C Cox will be returning in a few weeks, I suggest that both this matter and the question of Commonwealth representation (SSA 68/01 attached) be deferred until after his return. I should, however, add that I have arranged for Mr. Carman, Director of Education, Gold Coast, to attend the March meeting, but his talk is likely to be preceded by a discussion of the proposals of the Annual Reports Sub-Committee.

R.J.H.
7.2.55

495 CO 859/582, no 3 30 June 1955

[Future of the Advisory Committee on Education in the Colonies]: note by Sir C Cox

I have thought a lot about the role of the Committee since my return and also two years ago when its past, present and future was under review both by us in the Office and by the Committee itself at its 200th Meeting. I have also done my best to imagine the position as it would be if the Committee had been dissolved and replaced by a panel of individual consultants.

My own view is that this would be a serious mistake and that the Committee should continue in being, even though the number of its plenary and sub-committee meetings may diminish and even if the greater part of its agenda, as may prove to be inevitable, has to consist of discussions with visiting Directors or occasionally with Advisers on return from tour. I know that this is also the definite view of my educational advisory colleagues and I am pretty sure it would be shared by the more responsible members of the Committee itself.

I agree generally with the points made by Mr. Harvey in his long minute of 2nd [7th] February,[1] and with those made in the Committee discussion two years ago. There are other factors also that weigh with me. I don't want to add to the amount of paper by going over all the ground, and confine myself therefore to the following points, which are those most often in my mind:—

(1) The role of the Secretary of State in shaping educational policy in the territories by despatch from London, and therefore of the A.C.E.C. in providing him with the advice on which such despatches should be based, has inevitably diminished and must diminish further.

(2) At the same time the need for U.K. professional help of one sort of another has grown very much and the importance of building up in this country a well informed, interested and influential body of opinion, and a sense of responsibility into the bargain, among leaders of the profession in various fields has probably never been so great. This has its bearing e.g. on recruitment of U.K. staff (still at its high water mark), on training for educational service overseas, on the greatly increased number of courses and planned visits undertaken by Colonial teachers and educators of various types over here, on the supply of experts for special overseas missioned [sic]. It is obviously most important on general grounds that the professional links between this country and the Colonial territories as they grow into self-government should be strengthened and multiplied. The Committee has done and is doing a lot towards this, and I have a good deal of evidence for saying that what it learns in meetings with Directors has been a main factor in bringing this about.

(3) I am all for using individual members of the Committee as consultants, and Advisers are in fact doing this all the time. The value of the consultants' advice is much enhanced by their having participated in Committee meetings and not least in the meetings which they have with Directors. The first-hand accounts of the actual conditions and problems in the territories and the accompanying discussions not only stimulate but educate our consultants. One knows of case after case

[1] See 494.

in which this has happened. To take one example among many, Sir Ronald Gould's[2] whole conception of the colonial educational task and of the nature and limits of our responsibilities has I know been changed by what he learned on the Committee, and I have no doubt our admirable relations with the National Union of Teachers have been largely due to this. We should lose a lot in the quality as well as in the quantities of our contacts with the U.K. field if the Committee did not exist. Our main point of entry into various U.K. educational bodies is through the Committee's members, the more valuable among whom Advisers and Mr. Harvey have always made a point of meeting regularly before or after their visits for Committee or Sub-Committee sessions. These take the lead in promoting our affairs in their own spheres or professional associations (e.g. in Scottish education, in the Association of Education Officers, the Headmistresses Association or comparable bodies in teacher training or technical education). We have made far more progress in for example the Association of Education Officers through the help of converts like Sir Arthur Binns, Mr. Fisher or Mr. Missen working from the inside than can be made simply by going down ourselves as outside visitors to make speeches.

(4) From the angle of the territories, most Directors value very much the opportunity they get from time to time to present some of their problems to a representative gathering of leaders of the profession, and to have the opportunity of discussion with them, whether in Committee or in Sub-Committee. This is a stimulus and a valuable opportunity both for putting their own problems in focus and for obtaining counsel or comment, and it is not at all the same thing as the talks which they have as a matter of course alone with Advisers or S.S.D. or, on special occasions, with head of Geographical Department. Moreover, so far as the territories approaching self-government are concerned, it may now be the only method, as has been put forward earlier, of infiltrating U.K. views.

(5) A further point that weighs with me a good deal is that, so far as I myself am concerned at any rate the visits of Advisers to territories, even those which are nearly self-governing, are bound one hopes to have a certain amount of influence, and one is always conscious of being regarded as a vehicle not only of [the] Colonial Office but of U.K. professional opinion, which has become part of one's make-up largely through the medium of the Committee and, even more, its Sub-Committees, and the close professional contacts usually originating in this way.

(6) There is also the political importance of the existence of the Committee, which is long established and well known. I think it still gives confidence to the interested public that a representative committee of this kind exists and meets, even if the days of its memorable published reports are over (though it is only three years since the biggest and best selling publication of *African Education*,[3] which, if not a Committee work, embodied a project closely connected with the Committee and with several of its members individually from the start).

The above are more in the nature of reasons why I believe the Committee should continue to exist and to meet, rather than comments upon its agenda. I have however been assuming that the number of issues on which the Secretary of State

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[2] Sir R Gould, secretary, National Union of Teachers, 1947–1970.

[3] See 492, note 1.

will require formal advice to guide him in his dealings with Colonial territories will not increase but will probably diminish and that the greater part of the Committee's time will very likely be spent in meetings with Directors and that even if that is so these continue to justify the time and cost. If further matters can be referred to the Committee for advice, so much the better. There will still be occasional development plans or special reports, (one from Fiji, which it was not necessary to refer to the main Committee was carefully dealt with by Sub-Committee B the other day), and there will certainly sometimes be other matters on which we need the Committee's advice. I have several points in my mind on this which I need not mention here. Moreover it would not be difficult, though this would mean more work for S.S.D. and probably for Advisers also, to multiply occasions for the submission of memoranda to the Committee, e.g. on private schools, on educational and L.E.As., on teachers in politics, etc.; such general points are often raised in discussions with Directors. We might discuss whether for an experimental period we could try to make increased use of the Committee in this way. But my view on the value of continuing to have the Committee would stand even if the decision were to let present trends continue without any great effort to get back towards the agenda-scope of an earlier period.

496 CO 859/671, no 1 23 Oct 1956

[Future relationships between the University of London, the Inter-University Council for Higher Education Overseas and colonial university colleges]: letter from S J Worsley[1] to J K Thompson

At the last meeting of the Senate Committee there was a good deal of talk about what would happen when Gold Coast becomes Ghana. The talk centred mainly round the Colonial Development and Welfare provision for Special Relationship.

This all suggested to me that I also will have a problem—that of dealing with the position of Inter-University Council representatives on the Governing Body of the College. Presumably we shall not be able to finance these visits.

Yet it would seem academically and even politically desirable that the contacts made and maintained by Inter-University Council representatives on Governing Bodies should continue.

Perhaps you would give me your views on this.[2]

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[1] Worsley was secretary of the IUC and a member of the Senate Comittee of the University of London concerned with London's 'special relationship' with colonial university colleges.

[2] One of the key issues here was that the University of London insisted on being able to send adequate numbers of examiners to the university colleges as a condition of allowing them to take London degrees. So far this procedure had been financed out of CD(&)W. But as Worsley later wrote: 'This is only partly a financial matter . . . I need not enlarge upon this, but certainly with regard to the colleges it would be fatal if they had to break away from I.U.C. influence, and indeed from that of the University of London' (letter from S J Worsley to B A Astley, CO 859/671, no 2, 13 Nov 1956). In the CO, Astley (deputy director of education, Kenya, 1951–1954; temporary principal, CO, 1956–1962) likewise felt that the real issue was not whether or not the Gold Coast (say) should be required to take on the cost of the special relationship; the issue was standards: '. . . if they feel strongly that they wish to break away from the guidance of London University and the I.U.C., they may seize on the question of finance as a pretext. It is natural, I think, that there will be pressure brought on the University Council to lower their standards for two reasons: first, to increase the number of graduates and secondly, to make it easier for the sons and daughters of important people to graduate' (note by Astley to Sir C Cox, CO 859/671, no 5, 20 Nov 1956).

497 CO 859/671, no 7 17 Dec 1956

'The financing of the cost of IUC and special relationship with London University for colleges in territories becoming independent': CO note of a meeting between Sir A Carr-Saunders[1] and Sir J Macpherson[2]

Sir Alexander Carr-Saunders said that he had come on behalf of the Inter-University Council and London University, not to appeal for more money, but for the continuation of the use of C.D.W. funds after Independence, to meet the costs of I.U.C. and Special Relationship. During the quinquennium, ending in 1960, two institutions would be concerned, the University College of the Gold Coast and the University of Malaya. London University was in Special Relationship with the Gold Coast only and naturally that would cease when the University College become a University. The main cost of Special Relationships was on account of the travelling of visitors and examiners. The expense for the University College of the Gold Coast was not as high as for other Colleges which had Medical Schools. *Sir Alexander* went on to explain that in the case of the University College of Khartoum, which, in August last, became a University, the cost of examiners' travel had not arisen, because it had always been possible for examiners going to other parts of Africa to break their journey at Khartoum. The expenses of visitors had been met by the University College.

2. *Sir John Macpherson* said that the constitution of the I.U.C. enabled it to advise institutions such as the University of the Federation of Rhodesia and Nyasaland, or the University of Khartoum, or the University College of Ghana without causing the governing Councils to feel that they were still under the care of Whitehall. On the question of costs he said that C.D.W. funds would not be available when Ghana became independent. He wondered if there would be any difficulty about Ghana itself meeting its share of the costs of the I.U.C. and of Special Relationship. A block grant for a period of years would overcome the difficulty of having to ask for money for individual visits.

Sir Alexander Carr-Saunders said that if the block grant were to be sufficiently elastic, there would have to be some over-estimating.

Mr. Dodd explained that special provision had been inserted into the Ghana Independence Bill to provide for the payment from C.D.W. funds of the capital grant already allocated to Kumasi College,[3] but that it was not possible to make a similar arrangement on account of recurrent expenditure.

3. *Mr. Bourdillon* suggested that before consulting the C.R.O., it would be as well to seek the advice of the Governor of the Gold Coast on the possible reactions of the Gold Coast Government to a proposal that it should meet its share of the cost and, in particular, whether such a request might precipitate a decision on the change from University College to University. *Sir Alexander Carr-Saunders* said that he would prefer H.M.G. to meet the bill. On the other hand, he could see no insuperable difficulty to Ghana's meeting their share of the cost. The question of the expenses of London University examiners would first arise after the grant of independence in

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[1] Sir A Carr-Saunders, chairman, IUC, 1951–1966; director, London School of Economics, 1937–1956.
[2] The meeting was attended also by Sir C Cox, H T Bourdillon, P H F Dodd and B A Astley.
[3] See 447.

June 1957 when Honours examinations would be held for the first time. Whatever arrangements were made for the Gold Coast would have to be repeated in the case of Malaya. The question of the higher expense for Medical Schools was unlikely to arise during the quinquennium either for the University College of the Gold Coast or the University of Malaya.

4. *Sir Alexander Carr-Saunders* said that although he did not think the University College would be ready to become a self-governing University for a few years, he did not consider that any irrevocable damage would be done if it altered its status immediately after Independence Day. He thought the College Council itself would prefer to retain its present status for some years.

5. *Sir Christopher Cox* said that he thought there might be a desire on the part of some members of the Council when the College became a University to substitute the Association of Universities of the British Commonwealth for the I.U.C.: the latter had far more to offer a young University than had the much larger Association.

6. Finally it was agreed that a personal and private letter be sent to the Gold Coast to sound opinion there; when a reply had been received the Office would communicate with Sir Alexander Carr-Saunders.

498 CO 859/364, no 36 [May 1952]

'Relations with the International Labour Office in regard to activities in Africa': CO memorandum on relations between the ILO and the CCTA

[In the early 1950s the International Labour Office became increasingly interested in labour matters and associated political problems in colonial territories. The CO accordingly felt it necessary to work out a policy towards the ILO. One of the points to be resolved was the question of the relationship between the ILO and the African Labour Institute (later named Inter-African Labour Institute, or ILI). The Institute was a creation of the Commission for Technical Co-operation in Africa South of the Sahara (CCTA), to which the European colonial powers belonged along with South Africa and (after 1953) the Central African Federation. Britain's general position was that ILO interest in colonies was inevitable and that colonial powers should be, within certain limits, accommodating. But this attitude placed Britai somewhat at odds with other CCTA countries, especially France, Portugal and South Africa, which would have preferred to exclude the ILO from African labour affairs to the greatest extent possible. This memo was prepared as a brief for N D Watson (assistant secretary, CO, 1950–1962), the chief UK delegate to an ILO conference in Geneva in June 1952.]

It is to be expected that the I.L.O., like other international agencies, will in future be paying increasing attention to the "non-metropolitan" territories, particularly in Africa. This international interest, which is not in itself open to objection though the problems and difficulties which it may create for administering powers are obvious, cannot possibly be stifled: it can only be handled diplomatically and diverted so far as may be possible into proper, helpful and acceptable channels from the point of view of the work which the administering powers are seeking to do for the social and economic development of the peoples under their care.

2. It would be misleading to imagine that the pressure for the development of I.L.O. activities in Africa springs only from within the International Labour Office itself. The officials of the I.L.O. must obviously operate within the general

atmosphere of the political influences that are at work inside the Organisation, with its tripartite structure:[1] and in initiating or developing ideas the Office naturally tends to reflect current trends. It must also be borne in mind that the Organisation as a whole is subject to external political pressures, e.g. from the United Nations, which it must appear to satisfy if it is to maintain its standing within its defined sphere of international responsibility.

3. In considering, therefore, any ideas that may be put forward for the development of I.L.O. activities in Africa, the problem is on the one hand to find means of satisfying these political pressures, which cannot be ignored or denied, and on the other hand to devise arrangements which safeguard the proper interests and responsibilities of the Governments concerned. To the extent that a synthesis of these two objectives can be achieved by the Governments concerned, the problem that the present situation poses for the International Labour Office itself will be eased and it will become less difficult to secure that within the Office and the Organisation as a whole the interests and responsibilities of the Governments concerned are duly balanced against the political pressures described above. It may well be that, in the early stages at least, some stress will have to be laid by the Governments concerned in their dealings with the Office on their right to expect a co-operative attitude towards their interests: but such co-operation will be the more readily forthcoming if the Governments for their part show a readiness to understand and meet the other considerations which the Office must take into account.

4. It accordingly remains the view of the United Kingdom Government that the right course in dealing with proposals for I.L.O. activities in Africa is to consider each on its merits as it arises in the light of the circumstances and needs at the time, with the general aim of achieving the dual objective described in the previous paragraph. It would, of course, continue to be a corollary of this approach to ensure that any suggestions put forward by the I.L.O. were pursued only in the closest consultation with the Governments concerned: and in the course of such consultations it would presumably be the purpose of the Governments concerned to see that only those proposals were pursued which were designed to meet a real and practical need, were based upon reasonable and sensible arrangements and were likely to be acceptable to all concerned not only in the metropolitan country but in the African territories themselves. The position of Governments in maintaining this attitude is now strengthened by the activities in the labour field that are taking place under C.C.T.A. auspices, and particularly by the establishment of the African Labour Institute.

5. If this general approach is agreeable to the Governments with responsibilities in Africa, there will remain a question of strategy from the point of view of the C.C.T.A. The United Kingdom has always held the view that there should be the closest consultation between the Governments concerned with a view to reaching the greatest possible measure of agreement on the attitude to be adopted towards any I.L.O. proposals affecting Africa: and it considers that the C.C.T.A. provides a useful forum for such exchanges of view as may be necessary from time to time. The suggestion has, however, been made[2] that a more formal relationship than exists at present should be established between the I.L.O. and the C.C.T.A. which would have

[1] The 'tripartite structure' of the ILO's governing body was representative of labour, employers and governments, including the British government.

[2] By South Africa.

the effect of making it obligatory for consultation on proposals affecting Africa to take place between the I.L.O. and the C.C.T.A. as such rather than its constituent members. In the opinion of the United Kingdom Government, such an arrangement would not be in the best interests of the Governments concerned nor conducive to achieving the objectives set out earlier in this paper. It seems certain that such a proposal, if put forward by the C.C.T.A., would arouse suspicion and antagonism within the International Labour Organisation and stimulate precisely those political forces which it is the aim to minimise and control. Nor on general grounds would it appear to be desirable for the established relationships between the I.L.O. and States Members of the Organisation to be modified to the extent that would be involved in such a proposal. It seems better to rest on the present position, whereby the existence of the C.C.T.A. and its various African bureaux is officially recognised by the I.L.O., but without affecting the existing relationship or the channels of communication between the I.L.O. and its member Governments. The Governments with responsibilities in Africa are thus left free to use the C.C.T.A. quietly and discreetly as the means of consultation on matters of common interest which it was intended to be, without arousing the suspicion of creating a "caucus of Colonial powers" which would inevitably arise were the Commission to be brought out into the foreground.

6. There are a number of proposals for I.L.O. activities in Africa in the air at the moment, mainly arising from the recent meeting of the I.L.O. Committee of Experts on Social Policy in Non-Metropolitan Territories. The United Kingdom Government has been concerned to secure that all these proposals were made the subject of consultation with the Governments concerned and at the meeting of the Governing Body in March at which the recommendations of this Committee were considered this purpose was achieved. There has since been the opportunity of informal discussion of the various suggestions with Mr. Gavin (Head of the Non-Metropolitan Territories Division of the I.L.O.). The following notes indicate the present position, and an exchange of views on these points between C.C.T.A. members would be valuable.

7. *I.L.O. African Field Office*

The Committee of Experts recommended that consideration should be given to the setting up at some place in Africa [of] a "Field Office on the lines of existing Field Offices of the I.L.O. to enable a more direct approach to be made to problems on the spot and to provide a more direct link between the I.L.O. and the peoples of the African territories." The Governing Body decided to defer fuller consideration of this question until the Director-General had consulted the Governments principally concerned.

It has been pointed out to Mr. Gavin that while the Committee's recommendation referred to "existing Field Offices of the I.L.O." (all of which are concerned with a limited sphere of activity, usually in the manpower field), it was obvious that members of the Committee had wider functions than that in mind. Their ideas were however extremely vague; and the proposal in fact appeared to have a purely political motive and had not been thought out in relation to any practical need that such an Office might be designed to meet. If a proposal of this kind were to be pursued, it seemed to be the first esssential to determine precisely what functions such an Office could and should fulfil in relation to practical requirements in Africa. In these circumstances, it seemed fair to suggest that the International Labour Office should

give more detailed thought to this idea before the Director-General consulted Governments about it. Mr. Gavin appeared to agree that the proposal was probably premature and must be approached with caution. He stressed however that the political forces behind this suggestion must be taken into account.

8. *Appointment of director of African Labour Institute as I.L.O. correspondent*
Mr. Gavin suggested that it might be helpful, as an immediate move, if Miss Ogilvie[3] could be appointed by the I.L.O. as their "correspondent" in Africa. It was explained to Mr. Gavin that the constitution of the Labour Institute provided for the establishment of a regular link between the Director and the I.L.O. for the exchange of technical information. The possibility of the I.L.O. on their side stressing this link by formally nominating the Director as their Correspondent was certainly a suggestion which we would be prepared to consider in consultation with the other C.C.T.A. Members.

It appears to the United Kingdom Government that this suggestion is one that might with advantage be accepted. On the one hand, it would enable the I.L.O. to meet the political pressures within the Organisation by pointing to the establishment of a formal link with Africa: while on the other it would be of benefit to the C.C.T.A. to have the Director of their own Institute selected for nomination by the I.L.O. in this capacity. While it appears that in certain cases I.L.O. correspondents may be actually employed and remunerated by the I.L.O. as their agents, in a great number of instances (e.g. in Australia and Denmark) the correspondent is an official of the Government of the country concerned. In such circumstances, he clearly cannot be regarded as in any sense a servant of the I.L.O. or subject to its instructions, but only as a point of contact. On the understanding that Miss Ogilvie would be in such a position if nominated as I.L.O. correspondent (and that she would in effect transmit to the I.L.O. merely such information as would in any event be transmitted in accordance with her existing directives), it is recommended that the I.L.O. be told informally that this suggestion would be welcomed.[4]

9. *Proposed I.L.O. mission to British and French West Africa*
Mr. Gavin sought preliminary views on a suggestion that, if the I.L.O. were invited to send observers to the next C.C.T.A. Labour Conference at Bamako, they might later make a tour of British and French territories in West Africa with a view to the preparation of a general survey by the I.L. Office of labour problems and labour administration in that region. This survey would form part of the work of the Office in connection with the future programme of the Committee of Experts.

The United Kingdom Government (subject to consultation with the Colonial Governments concerned) is inclined to the view that this proposal might be accepted, in accordance with the general line of approach suggested at the beginning of this paper.[5]

10. *Future work of the Office and the committee of experts*
In regard to the detailed list of studies and surveys which the Committee had suggested, the point was made to Mr. Gavin that, so far as Africa was concerned, it could be assumed that the Labour Institute would in the course of its defined

[3] Director of the African Labour Institute of the CCTA.
[4] In the event other CCTA governments rejected this proposal, even though the ILO agreed to it in principle at the June conference.
[5] France was initially inclined to reject this proposal, but later succumbed to British persuasion (minute by N D Watson, CO 859/364, 7 July 1952).

activities be collating material on many of the items which the Committee had proposed for further study. Mr. Gavin said that it was the intention of the Office to collaborate closely with the Institute and the need for avoiding duplication of effort was fully appreciated.

The point was also made to Mr. Gavin that such studies as the Office undertook should be carried out in consultation with Governments: and that where information additional to that already provided by Governments or the Institute was needed, it should be sought from Governments through the normal channels of communication. It was also suggested that Governments might profitably be consulted about the relative priority to be given to the various items of work suggested, so that the practical needs of the territories could be properly taken into account. Some items did not appear to be vitally necessary or urgent: others (e.g. studies in connection with technical training or wage structures in relation to productivity) might well be of practical benefit.

11. *Penal sanctions and migrant labour*

The Committee of Experts has proposed that these two subjects should be placed on the Agenda of the International Labour Conference in 1954 with a view to the adoption of Recommendations in the light of the views expressed by the Committee at their meeting. This proposal will come before the Governing Body at its meeting at the end of May, and there appears to be no reason why it should not be adopted. The United Kingdom Government is prepared to agree to this proposal, but proposes to put the view forward in the Governing Body that these two questions should not be treated as questions affecting non-metropolitan territories only: the two subjects and the relevant Conventions are of wider concern. At the recent meeting of the Working Party on the Agenda for the next C.C.T.A. Labour Conference, the United Kingdom Government delegate suggested that these subjects might be studied at the Conference, in the light of the proposal that they should be placed before the International Labour Conference in 1954. Other members, however, thought that the Bamako Conference would not be an appropriate forum for such discussion. It would appear, however, to be desirable for C.C.T.A. members to consult together on these subjects before 1954.

12. *Technical assistance*

The Committee of Experts in its Report made a number of references to the desirability of the I.L.O. affording the fullest possible cooperation in response to requests for assistance on behalf of non-metropolitan territories. No detailed proposals have been made by the I.L.O. in this connection, and indeed in connection with technical assistance it is the normal and proper course that the initiative should come from the Governments concerned. It appears, however, to the United Kingdom Government that the use of technical assistance from the I.L.O. might well afford an appropriate means whereby the dual objectives mentioned in paragraph 3 above could be achieved. A request for technical assistance (e.g. for an expert to assist in a local vocational training project) is initiated by the Government concerned; and in effect the position is that the I.L.O. is invited in by the Government to do a specific practical job, within the prescribed limits of a project drawn up by the Government of the territory to meet a positive practical need in the territory and within the terms of a special agreement accepted by both parties. All negotiations with the I.L.O. are of course conducted through the metropolitan Government. It therefore seems that I.L.O. technical assistance projects might afford a convenient way whereby the

Governments concerned could go some way towards meeting the I.L.O.'s desire to interest itself in Africa while completely safeguarding their own interests. It is suggested that this possibility might be considered by the member Governments and possibly further discussed between them. It appears possible, for example, that following on the survey of vocational training to be undertaken at the Bamako Conference, territorial schemes (or even inter-territorial schemes) might emerge in which I.L.O. expert assistance might usefully be sought.

499 CO 859/425, no 8 15 July 1952

[Anti-colonial attitude of the ICFTU]: letter from C F Heron[1] (Brussels) to A Greenhough[2] [Extract]

[The International Confederation of Free Trade Unions (ICFTU) was sponsored by the major Western trade union centres including the British Trades Union Congress (TUC). Its cold war counterpart was the World Federation of Trade Unions (WFTU) sponsored by the Soviet Union.]

The enclosure[3] summarizes the main factual matters which arose at the ICFTU General Council meeting at Berlin. The meeting was unspectacular, but on the whole business-like and creditable. It was an encouraging contrast to the Milan Congress, which left an impression of anti-Communism unrelieved by any attempt at constructive policy-making. There was no lack of allusion at Berlin to the main East-West political issue, but it appeared to be generally accepted by delegates that the ICFTU's position on this issue had been made clear enough to require no further labouring, and the major part of the Council's time was devoted to discussing matters of direct concern to large sections of the ICFTU's membership.

2. The discussion on "Prices, Wages, and Productivity", was by no means free of parochialism—the Germans kept plugging co-determination and the Italians emigration—but on the whole it may be considered a laudible [sic] attempt to bring trade union thinking, particularly on the question of productivity, up to date.

3. The discussion on the emanicipation of non-self-governing territories—also a matter of interest to a large section of the ICFTU's membership—and the statement which was its outcome, were to a large extent controversial ground. The ICFTU's reasons for taking such a radical line on dependent territories are understandable. For purely tactical reasons it could not allow the WFTU, especially in Asia, the monopoly of propaganda in support of the rising nationalist movements. Moreover in many cases, it would have been difficult, if not impossible, to draw a clear line between trade unions and nationlist [sic] movements, and disputes over trade union freedom have arisen as part and parcel of the struggle for national emancipation in a number of territories, e.g. Tunisia. It might be added that it is perhaps illogical, and certainly unrealistic to expect that the ICFTU, which has received every encouragement to take a firm stand against Communism, should remain apolitical on all other political issues. The ICFTU's interest in the progress of dependent territories towards self-government may cause us some embarrassment. The ICFTU has already attacked

[1] C F Heron, labour attaché, British embassy, Brussels.
[2] A Greenhough, Ministry of Labour and National Service.
[3] Not printed.

us over Cyprus and Central African Federation. Colonial powers which feel some reluctance to accept UN interest in the administration of their territories are bound to regard the programme of action to which the ICFTU has committed itself as presumptious, [sic] and may no doubt be tempted to adopt a "keep off our grass" attitude. I suggest that such an attitude would increase the chances of the ICFTU forming unrealistic and irresponsible views and taking up their defence in public. Consolation for any embarrassment which the ICFTU may cause us by its policy on non-self-governing territories may be drawn from the fact that it will establish beyond any doubt the ICFTU's independence of Western governments. . . .[4]

[4] Watson minuted: 'we shall just have to deal with this situation as best we can, using our contacts with the TUC to the utmost possible advantage. . . . I think we can say that the TUC will certainly exercise a moderating influence' (minute by N D Watson, CO 859/425, 6 Aug 1952).

500 CO 859/365, no 57 20 Feb 1953

[Relations with ILO and CCTA]: letter from N D Watson to M D Tennant[1]

I promised to let you have, before you left for Geneva, any suggestions that might be helpful to you in handling at the forthcoming [ILO] Governing Body meeting the question of the suggested African Field Office, about which I last wrote to you on the 9th February.

As regards the development of relations between the C.C.T.A. and the I.L.O., I can only confirm what I have already told you, i.e. that there appears to be no possibility of reaching agreement within the C.C.T.A. before the Governing Body meets on the proposal to appoint the Director of the Inter-African Labour Institute as I.L.O. correspondent. This matter must, therefore, rest as we understand it will appear in the Director-General's paper; that is, that discussions on the matter are continuing. I hope, however, following a conversation with the Secretary-General of the C.C.T.A. yesterday, that it may be possible before the Governing Body begins for the Secretary-General to have sent a letter to the I.L.O. officially notifying the Director-General of the establishment of the Inter-African Labour Institute and of the instructions given by the C.C.T.A. to the Director of the Institute to establish liaison with the I.L.O. for the purposes of exchanging information. As time is so short, I cannot be sure that this move will be completed before the Governing Body meets; but you will no doubt hear in Geneva if the letter has arrived in the Office by the time the subject is discussed.

The next point is the way in which we might deal with possible criticism in the Governing Body regarding the failure to develop I.L.O. technical assistance activities in Africa (the lack of which will be put forward in the Director-General's paper as indicating that there is not yet any practical need for an African Field Office).

As I suggested in conversation, I think the first line of defence against such criticism is to point out that the responsibilities of the administering powers towards their territories in Africa do involve the provision of technical assistance and that in fact such assistance has been provided over a long period, and long before the United

[1] M D Tennant, assistant secretary, Ministry of Labour and National Service, 1945–1957.

Nations entered into this field. As regards material for developing this argument, I do not think I can do better than attach a copy of the first draft[2] which I prepared at Geneva last June for inclusion in the Minister's speech on this particular subject. You may find it convenient to refer to that speech but the enclosed draft gives a few facts and figures which you might use in discussion.

Going beyond that, the United Kingdom attitude towards technical assistance in Africa remains, I think, as set out in paragraph 12 of the brief[3] which I sent to you with my letter of the 22nd May, 1952, i.e. that I.L.O. technical assistance projects might not only be of practical help in themselves but also might afford a convenient way whereby the Governments with responsibilities in Africa could go some way towards meeting the I.L.O. desire to interest itself in Africa while completely safeguarding their own interests. I think, however, that it would be too hopeful to suggest that we have carried the other C.C.T.A. Governments completely with us in this approach, and you will no doubt keep the hesitation and suspicion that still remains in the minds of some of the other C.C.T.A. Governments towards I.L.O. activities at the back of your mind in whatever you feel obliged to say to the Governing Body. I see no reason at all, however, why you should not indicate generally (as is contained in the attached draft) that Her Majesty's Government is always ready to welcome what the technical assistance programme can offer to supplement what we are already doing in our own territories.

If you feel it necessary to go further than this, you might pick up from the Director-General's paper the piece about the C.C.T.A. providing machinery for joint study of and collaboration on projects suitable for technical assistance which may be of interest to more than one territory or Government in Africa. As an example of this working in practice, you might refer briefly to the Recommendations on productivity made by the recent African Labour Conference at Bamako (bearing in mind, of course, that these Recommendations have not yet been studied by the Governments concerned). The Conference gave careful consideration to methods of initiating the study of productivity in African conditions, and recommended that the Inter-African Labour Institute should as a first step undertake a preliminary enquiry into the problem with a view to collating available information in this field. The Conference also referred to the possible need for expert assistance to help the Institute in the preparation of this enquiry and the evaluation of the material.

I hope that the above will be of help to you. I would only say again that the atmosphere in the C.C.T.A. at the moment makes it desirable for us to avoid as far as possible giving the impression that we are deliberately working to get the I.L.O. involved in activities such as the productivity enquiries which I have just mentioned; and I would ask you to keep this in mind in any use you may make of the above points, although I realise that it is rather difficult to combine that precaution with the impression you may want to give at the Governing Body of readiness to collaborate with the I.L.O. where I.L.O. technical assistance can be of use in Africa.

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[2] Not printed.

[3] See 498.

501 CO 859/425, nos 15 & 16 20 June 1953

[The ICFTU and trade unionism in Kenya]: despatch no 871/53 from Governor Sir E Baring to Mr Lyttelton. *Minute* by N D Watson

I have the honour to address you on the subject of the relationship between trade unions in Kenya and bodies such as the International Confederation of Free Trade Unions.

2. It is, I am sure, right that a young trade union movement of the type to be met with in this Colony cannot fail to benefit from a close association with some more comprehensive organisation with greater experience of good trade union practice and with a wider knowledge of the history and present conditions of industrial relationships. I need not, therefore, stress the importance which we attach to the education of the very immature officers of our trade unions by means of contacts with responsible trade union organisations outside Africa. Relationships of the sort I have in mind can be of great value in a number of ways; they should result in a realisation of the complicated social and economic problems related to the field of trade unionism, in a valuable extension of personal contacts and, one hopes, in a general broadening of the mind.

3. The international organisation most interested in the affairs of Colonial trade unions is, according to our experience, the International Confederation of Free Trade Unions and, in the hope that any liaison established between the Confederation and the local trade union movement would develop on the lines to which I have referred, no obstacle has been placed in the way of a close association between the Confederation and the Kenya Federation of Registered Trade Unions; indeed, the latter has been permitted to affiliate itself to the former. This association of the two bodies has, I am compelled to say, been looked upon with certain misgivings; but trusting that the relationship would eventually redound to the benefit of the Kenya Federation, no attempt has been made to discourage it, and in November, 1951, a delegation from the International Confederation was received in Nairobi and given every possible help to enable its members to inform themselves on all matters relating to the Kenya trade union movement.

4. The manner in which this delegation conducted itself is known to you; it is set out in detail in the Labour Commissioner's report which formed the enclosure to Mr. O'Hagan's demi-official letter to Mr. Rogers of of 9th January, 1952. I do not propose to comment of the attitude adopted by its members except to say that they evinced a far greater sympathy for Jomo Kenyatta and his dangerously subversive movement than for our young and developing trade unions.

5. As a result of the "Statement on Non-self-governing Territories Adopted by the First General meeting of the I.C.F.T.U", a record of which appeared in the April number of the publication "Commonwealth Challenge", our doubts as to the desirability of the Confederation adopting the role of guide and mentor to the Kenya Federation have turned to active mistrust. To emphasise the point I need not do more than quote the following passages from the Confederation's Statement:—

(a) "The free trade union movement is essentially opposed to all forms of oppression; it condemns colonialism and proclaims the right to self-determination".

(b) "The role of the I.C.F.T.U. will be to propose effective measures leading rapidly to self-government".
(c) ". . . the I.C.F.T.U. fully recognises the right of an indigenous population, wherever it is in majority, to govern as it thinks fit . . .".
(d) "It sometimes happens that the free trade unions of a non-self-governing country are linked with a national movement, and that the demands of the two organisations are identical, since the free trade union movement constitutes in most cases the progressive section of the national movement. . . . Support will be given to the national movement which is bound to result in strengthening its labour sector, constituted by the free trade unions".
(e) ". . . the I.C.F.T.U. . . . will give close attention to the development of the situation in non-self-governing territories and will work continuously for the political, economic and social emancipation of the peoples of these territories".

6. It has always been our policy that the trade union movement in Kenya should be discouraged from entering the political arena, particularly in so far as local constitutional issues are concerned, and up till now the efforts of the Labour Department in this direction have been reasonably successful. For a number of reasons—not the least of which is the freedom from labour troubles which we have enjoyed during the present Emergency—I am convinced that our policy in regard to the divorce of politics from the trade unions is the correct one, and I regard it as a matter of the greatest importance that the advance we have made should not be jeopardised by acquiescence in a liaison with an outside organisation whose aims run contrary to our accepted policy. From the extracts which I have quoted in the preceding paragraph it is apparent that the I.C.F.T.U. has every intention of embarking on activities in the Colonies which will not only prove an embarrassment to the Government, but which will be likely to prevent the development of our young trade union movement on any lines other than those acceptable to the Confederation. I propose therefore to take such steps as I properly can to discourage any kind of association between the Kenya Trade Union movement and the I.C.F.T.U.

7. I appreciate that a break in what is almost the only contact which the Kenya Federation of Registered Trade Unions has been able to make with the main stream of trade union development would result in an awkward hiatus, a hiatus which I am convinced must be filled. To attempt to insulate the Federation from the outer world would be as wrong in principle as it would be impracticable in fact, and we have therefore given our urgent attention to some alternative means whereby the principles I have set out in the second paragraph of this despatch may be fulfilled.

8. The solution to our problem is, I have no doubt, that a closer association should be established between the trade union movement in this Colony and the Trades Union Congress, and that greater advantage should be taken by us of the study courses and the specially organised instructional tours which, I understand, are arranged by the Congress. To this end the Government of the Colony would be prepared to send local Trade Union officials to the United Kingdom for the necessary period and to provide for their maintenance while attending such courses or tours.

9. I should be grateful if this proposal might be examined and if the views of the Trades Union Congress could be ascertained. In addition, we should very much welcome an early indication of the type of help the Congress might be prepared to offer.

For reasons of which you will be aware, the matter is now one of some urgency; the local Trade Union leaders are likely to be resentful of what they will undoubtedly regard as undue interference, and we are anxious to prove to them that our attitude towards their relationship with the I.C.F.T.U. is based on a solicitude for the future of the trade union movement, and not on a prejudice against association with outside bodies generally.

10. Copies of this despatch have been sent to the Governors of Uganda and the Tanganyika Territory, and to the East Africa High Commission.

Minute on 502

Mr. Phillips[1]

. . . This is a most important despatch which touches on the whole issue of the problem of relationships with the I.C.F.T.U. in the Colonial field. To my mind, this is developing very quickly into one of the most difficult and delicate problems that face us at the moment. Our dilemma is to steer a course between offering welcome and encouragement to the I.C.F.T.U. in our territories as the international body opposed to W.F.T.U. machinations, and on the other hand countering the embarrassments and difficulties to which the I.C.F.T.U. interest in Colonial political affairs will undoubtedly give rise.

In treading this tight-rope, it is going to be much more difficult for us if without consulting us Colonial Governments are going to adopt a deliberately hostile or discouraging attitude towards the I.C.F.T.U. It seems to me that the time has come when we should send out a circular despatch to all Governments explaining the problem with which the I.C.F.T.U. faces us and the delicate balance which we must seek to maintain and inviting them to consult the Secretary of State before they take any positive action which might affect our relationships with the I.C.F.T.U.

I should, therefore, be glad if you would have a copy of [15] and of this minute transferred to our main file dealing with the I.C.F.T.U. and would then discuss with me the lines of the draft circular despatch which I have in mind. In the meantime, I find the Governor's statement in paragraph 6 of [15] that he proposes to take steps to discourage any kind of association between the Kenya trade union movement and the I.C.F.T.U. rather alarming. If he makes a false move it may land us in a great deal of trouble. While, therefore, our circular despatch is under consideration I think we should send an interim reply to Kenya referring briefly to the difficulties of the situation, saying that the Secretary of State proposes to address all Governments on this subject in the near future, and meantime asking him not to take any overt action along the lines he suggests without consultation with us. We could, I think, add that, quite apart from the I.C.F.T.U. aspect, we welcome his suggestion that the possibility of developing a closer association between the T.U.C. and the Kenya trade union movement should be explored, and that this possibility will be examined. You might discuss the wording of this with me at the same time as we talk about the general despatch.

N.D.W.
2.7.53

[1] M Phillips, principal, Social Services Division, CO, Dept B, Labour Relations.

502 CO 859/425, no 36 18 Aug 1953

'International Confederation of Free Trade Unions': circular despatch no 787/53 from Mr Lyttelton to governors

I have the honour to address you on the subject of relations with the International Confederation of Free Trade Unions (I.C.F.T.U.). The Confederation's increasing interest in non-self-governing and under-developed territories was evident at the recent World Congress held in Stockholm from the 4th to the 11th July and it is opportune to take stock of the attitude to be adopted towards it.

2. Since its formation in 1949 the Confederation has been active in developing international trade union contacts and in helping trade unionists in the industrial field in many countries. Trade unions in a good number of British overseas territories have become affiliated to the I.C.F.T.U.: they have played a useful part in its activities and have benefited from them, though I have been disappointed to see that a few have maintained their links with the communist-controlled World Federation of Trade Unions (W.F.T.U.). The Confederation as a whole has not been content to be just an agency for anti-communist propaganda, but has also tried to make a positive contribution to the mitigation of the social and economic conditions under which communism may thrive.

3. Some members of the Confederation have, however, become increasingly preoccupied with wider political issues and there has in particular been a good deal of criticism directed against the Colonial Powers. The latest instance of this trend occurred at the Stockholm Congress when a resolution was passed (see enclosure 'A') on "the struggle against Colonial oppression". This resolution had as its predecessor a "statement on non-self-governing territories" adopted by the I.C.F.T.U's General Council in July 1952 (enclosure 'B'). I also attach (enclosure 'C') a resolution adopted on Cyprus.[1]

4. The development of this side of the Confederation's activities has however undoubtedly been moderated to some extent by the influence exerted by representatives of the British T.U.C. The T.U.C. has always been concerned that, while allegations should be investigated and wrongs be put right, baseline charges against our territories should not go unanswered and that the I.C.F.T.U's general policies in the Colonial field should spring from a realistic approach rather than from prejudice and ignorance. There is close contact, both informal and official, between the T.U.C. and the Colonial Office, and the T.U.C. has always been ready both to seek and to receive information available to me that may be of use to it in this task. Within the organisation of the I.C.F.T.U. the T.U.C. is, I understand, seeking to maintain the principle that matters arising in regard to individual British Colonial territories are proper for investigation and action by the T.U.C. itself in the first instance on behalf of the Confederation. This attitude has no doubt to be held against pressure from the anti-Colonial section for more 'direct' intervention, but generally the procedure which it implies has so far been secured. The statements and resolutions attached were in fact toned down in discussion as a result of T.U.C. influence.

5. It was, I think inevitable that from its formation the I.C.F.T.U. should concern itself with the problems of backward and dependent territories, not only in building

[1] Enclosures not printed.

up trade unions but also in social and economic matters. Its intrusions into Colonial policy, based, as they often are, on ignorance of the fine record of British Colonial administration and of the difficulties which lie across the road to self-government, may sometimes appear exasperating to us. But I consider that it is important to balance these embarrassments against the contribution of the I.C.F.T.U. to the defence of the free world as a whole. In a number of territories the practical aid which it can give in the purely trade union field has already been welcomed and altogether it is of great potential value in rallying the support of trades unionists in face of the intensified efforts of the W.F.T.U. The anti-Colonial sentiment among some members of the Confederation is clearly likely to make the problem of working with the I.C.F.T.U. difficult, but our aim should be to overcome the difficulties as they arise in the interests of the general value of the alliance.

6. I am aware that in a few territories difficulties have already occurred as a result of the activities of I.C.F.T.U. representatives. There is perhaps the greatest possibility of embarrassment in the Caribbean area, where the I.C.F.T.U. operates through a well-developed regional organisation (O.R.I.T.), in which anti-Colonial sentiment is strongly represented; but in Africa also the increasing interest of the I.C.F.T.U. will need careful watching. I am anxious that no incidents should occur that might encourage the spread of anti-Colonial feeling within the Confederation or make it more difficult for the T.U.C. to exercise a restraining influence. I should therefore be grateful if you would consult with me before taking any action which might affect our general relationship with this Organisation.

7. I am already in correspondence with the Governor of Kenya on this matter and I should be grateful if the Governors and High Commissioners of other territories could let me have in due course any observations they may wish to make on this despatch.

8. This circular has been addressed to all Colonies and Protectorates etc., and to the Regional Organisations. It has been sent to the High Commissioner, Federation of Malaya, under cover of a separate despatch.

503 CO 859/748 9 Nov 1953

'Communism in the colonial territories and the trade unions': memorandum by N D Watson

We have been for some time, and continue to be, increasingly concerned over the efforts that are being made to use Colonial trade unions as the seed bed for spreading communism.

2. The W.F.T.U. is the chosen instrument for communist infiltration into our territories. In the West Indies and West Africa, there is plenty of evidence of continuous contacts between local leaders and the W.F.T.U. and of something approaching a deliberate and concerted plan of action. Other areas are not being neglected. Trade unionists in many territories were invited to attend the recent W.F.T.U. Congress in Vienna, and free air tickets were placed at their disposal on a lavish scale from London. The indications from that Congress are that the importuning of workers' organisations is to be intensified. British Guiana is an

example of the rapidity with which the threat can materialise, and Mr. Gomes[1] is now in London to discuss ways and means of tackling the potentially dangerous situation in Trinidad. In the Gold Coast, there is a political struggle between Mr. Nkrumah and the Communists for control of the trade union movement, with the straightforward independent trade unionists as pawns in the game;[2] and the Communists are already smelling around the African Mineworkers Union in N. Rhodesia.

3. The problem is undoubtedly serious. It has led us to consider the possibility of total proscription of W.F.T.U. in all territories and the banning of all contacts with it. We are only at the beginning of this exercise, which as a major political declaration against communism clearly raises a number of knotty problems, both domestic and international.

4. Quite apart however from any repressive or deterrent action in the administrative, legal or propaganda fields that H.M.G. or Colonial Governments may be able to take, the fact will always remain that resistance to communist infiltration must come from within the trade union movement itself. The task is to bolster up the moderate and responsible elements and encourage the production of more leaders opposed to W.F.T.U. interference. It is no use trying to break Communist leaders if there is nobody to step into their places.

5. The task is one to which we are already committed anyway i.e. to build up a sound trade union movement and, because trade unions cannot exist in vacuo, to do so within the framework of standing machinery for consultation and negotiation between employers and workers on which good labour relations depend. The new communist threat does not alter the nature of the job: it merely gives it urgency and a much higher place in the priorities of action.

6. Colonial Labour Departments are essentially directed to this task and in many instances have achieved considerable success. They will always be the front-line units in the battle. But with the communist threat superimposed and the change of pace that results, it is inevitable that their limitations should become more apparent. All of them are cluttered with the multifarious day-to-day tasks of labour administration, which makes concentration on this main effort difficult. Many of them suffer, particularly in the West Indies, from the disabilities inevitable in small and poor governments, i.e. lack of numbers, skill and experience. Finally, there is the natural difficulty for those hemmed in by local problems to see the wider scene and the tendency to be parochial in outlook and action. The present threat demands both co-ordination and concentration of effort.

7. In any circumstances, while Labour Departments have a major part to play in promoting good labour relations and providing the framework within which sound trade unionism can flourish, the influence they can exercise in the trade union movement itself is limited and at the best indirect. Even the trade union Labour Officer naturally carries the Government "taint" in the eyes of trade unionists.

8. We have therefore to consider the allies on whom we can call in this task, particularly from the point of view of action within the trade union movement. The I.C.F.T.U. is the international body openly opposed to the W.F.T.U. and we have welcomed its interests and activities in our territories. Quite apart however from the internal rifts within the I.C.F.T.U. and the strong "anti-colonial" tendencies which

[1] A Gomes, minister for labour, industry and commerce, Trinidad.
[2] See BDEEP series B, R Rathbone, ed, *Ghana*, part II, 145–149.

are likely to cause us difficulty and embarrassment, its general rawness and lack of experience of the conditions and problems in Colonial territories mean that we cannot rely on it as a source of effective and speedy action. We should continue to support it as a rallying point and encourage colonial trade unions to come under its umbrella, but for the present at least it cannot be expected to make any considerable contribution to practical effort on the ground.

9. On this conclusion, we have for some time been trying to influence the British T.U.C. towards undertaking a much more direct and positive interest in Colonial trade unionism, which need not be incompatible with the T.U.C's membership of the I.C.F.T.U. There is no doubt that by this time the T.U.C. is thoroughly seized of the Colonial problem and under no illusions about its seriousness. Difficulties of manpower and money have however so far prevented this concern from being translated into practical action. There can be no doubt that there is a very [?big] potential part for the T.U.C. to play, if only it can [?actively] introduce itself into the Colonial scene.[3]

10. The slowness of T.U.C. response has however led us recently to consider whether anything more effective could be done on the Government side. We have very recently begun to turn over the possibility of establishing a central post in each Colonial region, the holder of which in conjunction with Governments and their Labour Commissioners would be responsible for central concentration on the labour relations field and for coordination of effort against communist infiltration in the trade unions in so far as action by Government is practicable. He would work closely with propaganda organisations, both overt and clandestine. This conception however involves a good many difficulties, not least from the point of view of the executive relationship of such an officer with Governments in various stages of constitutional independence.

11. Preliminary consideration of such possibilities has however led us back to the conclusion that, whatever Governmental action is feasible, the help of the T.U.C. is indispensable. The object of this memorandum therefore is to suggest that the right approach is to bring the T.U.C. into full consultation with us from the outset: and to propose, if this suggestion is accepted by Ministers, that the first step might be for the Secretary of State to see Sir V Tewson[4] and to ask him whether the T.U.C. would be prepared to undertake with us a joint examination of the whole problem, with a view to pooling ideas and if possible resources for effective action in the field. If the T.U.C. responded favourably (and I believe the time is very opportune for such an approach), the next step might be a meeting under Ministerial chairmanship between the Office and appropriate representatives of the T.U.C's General Council and International Committee, at which the facts of the situation and the needs could be generally surveyed. Thereafter, the possibilities of action could be studied in detail at meetings between the T.U.C. and members of the Department.

12. If the proposal is approved, I hope action might be taken on the first step before the 28th November when I understand Sir V Tewson will be leaving for Brussels for an I.C.F.T.U. meeting.[5]

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[3] The words in square brackets in the final sentence of this para are editorial reconstructions; they are illegible in the original because the page is torn.

[4] Sir V Tewson, general secretary, TUC, 1946–1960.

[5] After further reflection the CO decided to convene joint meetings of the TUC and the Overseas Employers Federation (OEF); see 504.

504 CO 859/748, no 24 19 July 1954

[Colonial industrial relations]: draft CO record of a discussion between Mr Lyttelton and representatives of the TUC and the Overseas Employers Federation on 12 July[1]

The Secretary of State opened the meeting by referring to the separate talks which the T.U.C. and the O.E.F. had each had with the Colonial Office and saying how glad he was they had felt able to agree to this tripartite meeting. As the Minister of State had said in the earlier meetings, the development of sound industrial relations and improved working conditions in the Colonies was a constant aim of policy which was in no way altered, though made more difficult and more urgent, by the threat of Communist propaganda, particularly from the W.F.T.U.

The United Kingdom had something to give the Colonies in the sphere of industrial relations, just as much as in the political sphere. This country had a system of industrial relations which worked very well and was widely admired. In discussions on political matters he had found that English methods carried great prestige and it was often enough to say that a particular system or method was used in the United Kingdom to persuade a group of Colonial representatives to adopt it. It was not necessary that the system of industrial relations in each territory should follow the United Kingdom model exactly. What mattered were the underlying principles and the method of applying them could be adapted to suit local circumstances. These principles must apply to the local employers as well as to European employers. The development of efficient organisations on both sides of industry linked by standing consultative machinery was essential to a stable system of industrial relations.

He was sure that the T.U.C. and the O.E.F. could do a great deal to help this development, and he knew that the Colonial Office and Colonial Governments had already received a great deal of help from the T.U.C. and its representatives who had gone to the Colonies and from representative employers in this country. The task would have to be tackled by trade unions, employers and governments in the particular territories as it was essential that industrial negotiations should take place on the spot; the question was how best to exert influence from London on those directly involved. Neither the Colonial Office nor the O.E.F. or T.U.C. could issue orders to their opposite numbers in the colonies but on the other hand all had considerable influence, and it was by influence and persuasion that the work would have to be done.

He hoped that it would be possible for the three parties to agree on the approach to this problem and to make sure that they were working together. To this end, it might be desirable to establish a working party, including representatives of the three parties concerned, whose task would be, first, to agree on general objectives, both in approach (e.g. the attitude to adolescent trade unions and indigenous employers) and in types of machinery and then, to consider methods of securing the objectives in the Colonies themselves. It might be desirable to agree on a short general

[1] Lyttelton was supported by Hopkinson, Bourdillon, Watson, and three other officials. The TUC delegation was led by Sir V Tewson and the OEF delegation by Sir F Seaford (director, Booker Bros McConnell & Co Ltd, 1949–1968).

statement of principles which would be used purely as a guide to action to ensure that each of the parties in using its influence would be working as far as possible to agreed objectives. At the next stage, the working party might find it desirable to examine the most important areas of stress in the Colonies at present, to decide the priorities for action and consider what each party could do in its own sphere in particular cases. Visits of representatives of the T.U.C. or O.E.F. might be thought useful in some cases, or there might be a case for a visit by a joint team.

The Secretary of State was, of course, willing to do all he could to help in this work. It had to be admitted that not all Colonial governments were always model employers, particularly in the matter of establishing negotiating machinery for their own employees, and, while they could not be ordered to take certain action, there were means of putting pressure which could be used. It would also be possible to find money under the new Colonial Development and Welfare Act to finance particular projects worthy of support.

Finally, the Secretary of State reiterated his own conviction of the immense importance of the problem before the meeting. Constitutional development in the Colonies was certain. It was going ahead very rapidly in some territories and there was no question of stopping it. Unless the ancillary parts of the democratic machine could be made to progress more or less in step with the constitutional machinery, stresses would appear in the whole system which might prove disastrous. He therefore invited those present to agree that the three parties represented were in the field together and should move together, and that a working party should meet to work out objectives and to translate them into proposals for practical action.

Mr. Yates[2] agreed that all parties present had a joint responsibility and they must do something about it. He could say that the T.U.C. would be happy to take part in further discussions as suggested by the Secretary of State.

Sir Vincent Tewson referred to the many contacts which the T.U.C. had had with Colonial governments and with the Colonial Office and said that they appreciated the assistance that they had received. The T.U.C. had a traditional relationship with trade union movements in the Colonies. A few years ago they had been ready to open a fund to extend their work in the Colonies but at that moment the newly-formed International Confederation of Free Trade Unions also embarked on work in under-developed territories, including British colonies, and the T.U.C. had thought it only right to support the new international body which they had taken a large part in forming. Instead of forming their own fund they had contributed largely to the fund established by the I.C.F.T.U. for work in under-developed areas. This fund was controlled by a committee on which the T.U.C. was represented and it was very carefully administered to finance specific projects and by no means handed out as charity. He felt obliged to admit that the T.U.C. had had difficulty with people in the trade union field who could see no good at all in the colonial system and they were not only people sympathetic to W.F.T.U. but others who ought to know better.

The T.U.C. had also found that however professedly anti-European and anti-British Colonial leaders might sometimes be, there was a strong tendency to look to the T.U.C. and the British trade union movement for leadership and help in trade union matters. The Council of the T.U.C. had recently decided to take a bigger part in the work of helping Colonial trade unions in the British territories. The primary task in

[2] T Yates, general secretary, National Union of Seamen, 1947–1960.

developing good industrial relations was from the T.U.C's angle to assist in the organisation of trade unions. If you had a healthy trade union movement, that was the school in which people could be trained in democratic practice. Problems arose because of the tendency of Colonial trade unions to get mixed up in politics but this tendency was inevitable, and it was no use worrying too much about it.

It must be realised that trade unions by themselves were no use without the bargaining machinery which would enable them to work. However perfect their leadership, they could do nothing unless they were recognised, and if they were not recognised the potential members would drift into political organisations. This was where a sympathetic attitude on the part of employers was essential.

The T.U.C.'s main problem in its work in the Colonies was not money—that was a difficulty but not an insuperable one—but manpower. Eight or ten people with real experience of the trade union movement and with the ability to feel a problem and evolve the right answers to new problems in new circumstances could no more for the development of trade unionism in the Colonies than the expenditure of large sums of money, but enough men could not be found for this work.

He did not like the suggestion of joint trade union/employer missions. He thought the two sides could work more effectively in their own fields, whereas a joint mission would arouse suspicion. Even the trade union advisers and labour advisers in the Colonies, most of whom were doing a very good job, suffered from the suspicion which they aroused because they were civil servants and white. He much preferred the suggestion that each side should work separately against a common background. The recent developments in the rubber industry in Malaya were an example of what could be done by the use of influence from trade unions and employers who had agreed in London on the main problems. The situation in Malaya had been extremely dangerous a little time ago but the talks which had taken place with Mr. Narayanon and Mr. Ascoli were largely responsible for the happy outcome, although, of course, the rise in the price of rubber had been a very great help.

He agreed that a working party or committee would have to consider the main areas of the Colonies separately. There were 27 Colonies with which the T.U.C. had connections and there were no two in which the problems were exactly the same. Even so, it was possible to consider them in main geographical groups—the West Indies where trade unions were well-established; Asia, which was in the forefront of the ideological battle and Africa, which had to be divided into East and West. In West Africa on the whole the trade unions were well-established and he thought that it was the unions which had saved political democracy in the Gold Coast. East Africa, on the other hand, was very backward and here in particular employers would have to realise that if we were to try to develop the machinery of industrial relations in East Africa they would have to face some headaches.

Sir Vincent suggested that the committee should review the three main areas, examining the problems and deciding what could be done. He thought that the committee might split for this purpose and call in experts on these particular areas—he would not rule out asking political experts to help. He did not think that it was necessary to work out a long statement of objectives—they all knew what they were aiming at.

Mr. Woodcock[3] stressed that from his experience of the colonies a strong trade

[3] G Woodcock, assistant general secretary, TUC, 1947–1960.

union movement would be a much more effective check on the excesses of democracy than second chambers or other constitutional devices.

Sir Frederick Seaford expressed the willingness of the O.E.F. to join a working party or committee. He was convinced of the importance of the problem with which they were faced but like Sir Vincent he did not support the idea of joint missions.

It was agreed that the exact nature of the collaboration between the three parties should be kept confidential. Any statement of aims and objectives which might be agreed was purely for internal use and not for publication, because of the danger of unnecessarily and unwarrantedly arousing the suspicions of people in the Colonies.

Mr. Mellor[4] asked what place the fight against Communism was to take in these discussions. He had had the impression to begin with that the main problem before the meeting was Communism. In his view the field of industrial relations was so enormous that a small group such as was proposed could not hope to deal effectively or promote any rapid action if it tried to cope with everything at once. Should it not, therefore, limit itself to fields where there was a specific Communist danger?

The Secretary of State said that while it was Communism which made the job so urgent, the problems would exist without it, and Communism itself could only be met by developing sound industrial relations.

It was generally agreed in discussion that, though it was the threat of Communism which had brought the parties together at this moment, this should remain implicit. The group would be seeking a remedy for the danger but would be doing so in a positive manner by promoting the development of sound industrial relations and improved wages and conditions of living.

The meeting disliked the term 'working party' and thought it preferable not to set up a fixed body or organisation but simply to agree that the O.E.F. and T.U.C. would keep in touch and meet informally to study the problems on the lines already referred to. It would be a joint body between the two sides of industry, with the Colonial Office acting as advisers and observers. *It was agreed* that the parties should meet as soon as could be arranged for a general discussion, after which they would probably split into groups to deal with the main areas of the Colonies. At the request of the other parties the Colonial Office undertook to act as convener and provide a secretary.

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[4] A R I Mellor, director, United Africa Company.

505 CO 859/748, no 41 29 Apr 1955

[Trade union policy in territories approaching self-government]: CO record of a discussion with the Overseas Employers Federation and the TUC [Extract]

. . . After some discussion the meeting reaffirmed the policy of keeping these regular talks strictly confidential, though without precluding either the T.U.C. or the O.E.F. from informing [their] associates in the various areas of action that was being taken by organisations here on particular problems. All parties present declared that records of the meetings were kept strictly to themselves and never sent even in confidence to persons not concerned in the talks.

There was some discussion on the means of bringing Colonial Office or T.U.C.

influence to bear on Governments and Trade Unions in the West Indies, in face of the growing independence of the territories and their strong desire to manage their own affairs and appoint local people to all offices.

Mr. Watson assured the meeting that the Colonial Office policy of appointing to Labour Departments people with practical Trade Union experience had in no way changed. It was however becoming increasingly difficult to resist the appointment of local people to any office if they had reasonable qualifications for it, and the Colonial Office could certainly not press the appointment of a United Kingdom officer on a Colonial Government in such circumstances. It was also the nature of a "trade union labour officer's" job that he should be working himself out of it, by raising the trade unions to a level where his guidance and help were no longer needed. There was always the danger that the trade union adviser in a Labour Department might reach the stage where his influence with the unions had already become limited, but the unions were not yet fully able to stand on their feet. This gap, in his opinion, was best filled by a trade union adviser independent of government.

A suggestion was made that it might be possible to have a roving Commissioner, who would be a British Trade Unionist, and who might be acceptable as a travelling adviser to both the West Indian Trade Unions and Labour Departments. It was pointed out that the consitutional advancement of individual territories created difficulty in the way of establishing any regional post of this kind. . . .

506 CO 859/814, no 53 3 Apr 1956

[Relations between CCTA and ILO]: CO note of an inter-departmental meeting with the Ministry of Labour on 22 March [Extract]

[The question of relationships between the CCTA and the ILO with regard to African labour matters continued to concern the CO. There were worries that the CCTA's Inter-African Labour Institute (ILI) would be rendered ineffectual by the ILO's growing involvement in its field of interest. On the other hand the ILI's director, T Haighton, had been accepted by the ILO as an ILO correspondent (see 500), indicating the possibility of a cooperative relationship. British policy had to be worked out on two fronts: *vis-à-vis* the ILO and *vis-à-vis* the other CCTA countries, especially the hardliners, South Africa and Portugal, which were a good deal more alarmed than was Britain at the ILO's encroachment.]

. . . The meeting then considered what attitude should be adopted at the [CCTA] Working Party in April to consider the future of the Inter-African Labour Institute (I.L.I.). As background to this question *Mr. Lloyd Davies*[1] said he had formed the general impression in informal discussion with Sir Alfred Roberts[2] and others that the I.L.O. was moving inexorably towards a purely African Tripartite Labour Advisory Committee on the lines of the Asian Committee. In the long-term the future of the I.L.I. must take account of this trend. He thought that the Ministry of Labour were perhaps less disturbed about prospects of I.L.O. entry into Africa that [sic] the Colonial Office.[3]

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[1] J R Lloyd Davies, assistant secretary, Ministry of Labour, 1947–1956.

[2] Sir A Roberts, vice-chairman of governing body, ILO, 1954–1960.

[3] Lloyd Davies also felt that if the ILO were blocked, it would be easier for the Soviet Union to spread its influence in Africa (minute by A McM Webster, principal, CO, 1949–1966, to J Bourn, UK liaison officer to CCTA, 1955–1957, CO 859//814, 11 Jan 1956).

In general discussion of the possibilities of I.L.I. expansion the following points emerged:—

(i) The Colonial Office position on the I.L.O. in Africa was still open: its cautious approach should not be construed as antipathy. It was influenced by the desire to move as far as possible, and as long as possible, in step with the other C.C.T.A. powers.
(ii) The Director of the I.L.I. was already accredited as a Correspondent of the I.L.O. Unless the I.L.I. was clearly accepted as an I.L.O. agent and its functions in this capacity explicitly defined, the I.L.O.'s entry in Africa might eventually so overlap I.L.I. functions as to render the latter ineffective and useless.
(iii) The mention of the I.L.I. as a source of information for the projected I.L.O. social and economic survey of Africa gave a useful opening for the Director of the I.L.I. (who had already made a good impression at Dakar)[4] to make direct contact with the Director-General and other members of the I.L.O. Staff and to explore ways in which the I.L.I. could establish sound working relations with the I.L.O.
(iv) The promised French paper might suggest a tripartite structure[5] for the I.L.I. Advisory Committee, but there was the difficulty that the C.C.T.A. was purely governmental in inspiration and direction, and "Tripartite-ism" would be out of place in the Advisory Committee. Portuguese opposition to the French proposals was certain.
(v) The emergence of an independent Gold Coast and Nigeria and their impact on C.C.T.A. was a factor to be borne in mind. Although initially they might be expected to support I.L.O. it was by no means certain that they would not come to prefer an organisation which consisted solely of African countries.

The meeting felt unable at this stage to formulate any very clear-cut proposals. Provisional conclusions were:—

(a) that we should play for time on the I.L.O. front by continuing to hold out against a Committee of Experts confining itself to Africa only, and by seeking a limitation on membership.
(b) That we should be prepared to consider in the Working Party some expansion of I.L.I. to enable it to carry out more efficiently the job it is already supposed to be doing. At the least, a more effective I.L.I. could be reckoned as a means of keeping I.L.O. advance into Africa under control.
(c) that in the long view we were far from certain that it was practicable or desirable to keep the I.L.O. out of Africa.

It was agreed that the Colonial Office would consult the Government of the Central African Federation informally on its attitude.[6]

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[4] 'Report by director Inter-African Labour Institute on the fourth session of the ILO Committee of Experts on Social Policy in Non-Metropolitan Territories Dakar 5–16 Dec 1955', report by T Haighton (CO 859/814). Haighton reported however that the ILO Committee of Experts had blocked his attempts to have the ILI's work formally recognised at this meeting, and that the meeting marked 'a definite stage' in the ILO policy of moving into Africa.
[5] ie, representing government, employers and employees on the model of the ILO.
[6] On this issue the Federation's attitude was close to Britain's.

507 CO 859/752 7 Aug 1956

[The TUC and colonial trade unionism]: minute by C G Gibbs[1]

I attach for consideration a draft circular despatch covering the Report of the Oxford Conference.[2]

The despatch and report should, I suggest, be tabled at the next meeting of the Colonial Labour Advisory Committee, when members might be asked, in particular, to look at recommendations affecting legislation. Paragraph 4 of the circular accordingly promises separate comment on legislative aspects after consideration by the Labour Advisory Committee.

Paragraph 7 contains some reflections on the future, prompted by the recommendation of Ministers that this type of conference should be held at two-yearly intervals. My suggestion here is that Governments might be asked to make a more positive contribution in the preparation of conference papers.

The outstanding recommendation of the Conference is, I think, that urging greater TUC activity among Colonial trade unions. This is briefly commented on in paragraph 5 with the promise of separate consideration after the Secretary of State has consulted Sir Vincent Tewson. To give some balance to the comment, it seems to me appropriate to refer also to the need to educate employers, a point to which Ministers gave emphasis.

This is not the place to comment at length on the TUC issue, but it might help if I put down a few thoughts. It is now two and a half years since joint talks with the TUC and the Overseas Employers Federation (OEF) were initiated by the late Secretary of State with the object of promoting sound trade unionism and checking the influence of the World Federation of Trade Unions. Since then we have met regularly with the TUC and OEF, reviewed the current situation in most territories, and agreed from time to time on a joint approach to the problems of a particular territory. That review is now almost complete, and any fresh major initiative on the part of the TUC could very well open up a new phase in those talks.

We should also remember that General Templer in his Report on Security in the Colonies of about a year ago recommended a greater effort by the TUC. In this context United Kingdom Ministers were advised of the purpose and progress of the TUC/OEF talks. Our report to Ministers concluded: ". . . there is a good prospect of more active intervention by the TUC in the Colonial trade unions but this intervention will need something more than an expanded programme of training courses by visiting trade unionists; a sustained effort on the ground is highly desirable."

The issue we must now face is whether the scale of expanded assistance outlined by Sir Vincent Tewson at the Oxford Conference—see minutes of the 6th plenary session (briefly two aditional itinerant assistants in the Colonial Section of the TUC)—is sufficient. The Conference felt that it was not, and I do not think that we can have any hesitation in agreeing. On the other hand, a "foreign service" of the TUC with say six officers at least permanently in the field is clearly beyond the financial resources of the British trade union movement alone. We are told that the

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[1] C G Gibbs, principal, CO, 1953–1966.

[2] Not printed. The Labour Administration Conference was held at St Edmund Hall, Oxford, 9–21 July 1956, and attended by representatives of twenty-one colonial administrations together with CO officials.

recruitment of personnel is a serious problem and this we do not doubt, but in the final analysis the question is bound to be one of money.

The TUC are not prepared in any circumstances to accept a direct subvention from Government, and one cannot question that on principle they are obviously right. My own suggestion is that we might as a first step explore the possibility of creating a new organisation or "foundation", associated with, but separate from, the TUC and wholly independent of Government but nevertheless prepared to accept a measure of Government help in the provision of funds. It has already been agreed in principle by the Office that if help is ever sought by the TUC in financing their oversea training programme, CDW funds might properly be used for this purpose. It would be for consideration whether a CDW grant might be used in the alternative manner I have suggested.

There are many formidable difficulties on the TUC side, not least their relations with International Confederation of Free Trade Unions, but this question of tutoring young and immature trade unions and helping to produce responsible leadership is one of such vital importance in communities moving forward to self-government that I think we are bound to explore every possible method of getting the TUC to grips with a job that only the TUC or its accredited agent can do.

508 CO 859/752 20 Sept 1956

[The TUC and colonial trade unionism]: minute by E Parry[1]

We have been trying to warm up the T.U.C. for a long time and it is of course very gratifying to see that they are at last committed to a policy of action in the colonies. From what I can gather from Transport House this policy has not been defined very clearly yet and I think that we on this side should be thinking how far we can exert influence over the T.U.C. in forming it. Before we do this there are one or two questions which in my view we are bound to ask ourselves.

First I think we should set out what we want the T.U.C. to do. I wrote a note on this question three years ago and looking at it again I do not see any strong reason for changing the views I expressed then (SSD 170/02 minute of 22.10.53 refers). I felt at that time, and still do, that the activities of the T.U.C. should be auxiliary to our own. Colonial Governments and this Office should, as they have done in the past, shape the pattern of industrial relations and persuade the unions to work to this. With few exceptions the machinery of industrial relations where it exists to any great extent, has been created by Labour Departments, and I believe that this responsibility must remain with them for some time.

The second question that presents itself is a more difficult one. Given that the T.U.C. will co-operate with local Labour Departments in establishing proper machinery, what impact do we expect them to make on the situation? Judging by the discussions at the Oxford Conference most people are looking for good results. It seemed to me that a picture was drawn of misguided trade unions who would now be kept on the right lines by the T.U.C. I must confess that I am more than a little sceptical about this view of the work they will do. I know that the T.U.C. has a very high reputation in the colonies just now, but I think this is largely due to the fact

[1] E Parry, deputy labour adviser, CO, 1954–1962.

that they have done very little in the field. They have not become seriously involved, and in such circumstances it is not difficult to keep a good reputation. If however they do send out men to work with the local unions we must expect them to teach them to go about their business in much the same way as British unions do; that is to say, they will not only show them how to keep their books in good order; they will also teach them how to raise the standard of living of their members by making wage-claims. Obviously there is nothing in this policy that we can object to, but I am afraid that many of those who are anxious to see the T.U.C. operating in the colonies—particularly the employers—seem to think that all they are required to do is to concern themselves with the organisational faults of the trade unions. I feel that this mistaken view arises from an unrealistic conception of the nature and activities of British trade unions. There is no doubt at all that they are well organised. But the members don't admire them much on this account. What they are most concerned about is that they lose no opportunity of getting them more money and better conditions, and they are supported to the extent that they can do this. If colonial unions are to be modelled on the British ones then they must devote a lot of their energies to the same objects that keep the members contented here.

A further point that I think we should remember is that the T.U.C. officers who will be going into the colonies will be inexperienced, and with all due respect to Mr. Hood,[2] they will be instructed by one whose own experience is not extensive. I know that this cannot be avoided, but it can at least be taken into account. Personally, I am not expecting more from these new men than we have had from the I.C.F.T.U. representatives. . . .

[2] W Hood, staff member of TUC in colonial section.

509 CO 859/839, no 29 11 Oct 1956

[US influence on colonial trade unions]: Colonial Labour Advisory Committee minutes (CLAC(56)64) on the report of the Oxford Labour Administration Conference [Extract]

. . . *Mr. Dalgleish*,[1] referring to paragraph 3 of the Conference Report, said that although it was generally agreed that further trade union education was necessary, he thought it essential that the United Kingdom Government should play a full part in the financing of trade union training schemes, if only for reasons of prestige. He instanced the recent trade union seminar in British Guiana, financed largely from the United States. In supporting Mr. Dalgleish, *Mr. Hyde-Clarke*[2] reiterated the concern which he and Sir Frederick Seaford had expressed at the last meeting of Committee concerning the growing influence of United States trade unions in the Caribbean area. *Mr. Gibbs* said that there were special circumstances in the case of the British Guiana seminar because it was associated with the United States' scheme for technical assistance to the territory. The Colonial Office had sought to ensure that the British view point [was] adequately represented and had secured the services

[1] A L Dalgleish represented the Transport and General Workers' Union; he served on the Watson Commission of Inquiry into the Gold Coast riots in 1948.

[2] E M Hyde-Clarke, secretary, OEF; formerly labour commissioner, Kenya.

of Mr. Denis Bell of the Industrial Relations Department of the National Coal Board to preside over the seminar as Dean of Studies. Mr. Dalgleish had been one of the lecturers. *Mr. Dalgleish* stated that the American lecturers at the seminar had said nothing that the British trade union movement could take exception to, and *Mr. Flanders*[3] thought that although it was unfortunate if the bulk of funds for education came from United States sources, the variety of ideas put before trade unionists in the Caribbean should provide stimulating thought. Mr. Bell had, in fact, made this point to him in the light of his experience at the seminar.

Mr. Yates said that I.C.F.T.U. representation in overseas territories had not always reflected T.U.C. policy. For this reason the T.U.C. was expanding its Colonial Section, training newly-appointed officers who could be sent out to oversea territories as required. *The Chairman*[4] expressed the satisfaction of the Committee at this information and the Committee agreed that direct contact by the T.U.C. in this way was preferable to an indirect approach through the agency of the I.C.F.T.U. . . .

[3] A Flanders, academic specialist in industrial relations.

[4] Sir H Poynton.

510 CO 859/752, no 8 Dec 1956

[The TUC and colonial trade unionism]: draft CO note of a meeting with representatives of the TUC on 10 Dec

The meeting was called to consider a recommendation of the Oxford Labour Administration Conference concerning a service of British trade unionists to work in the overseas territories. The Conference had been told by Sir Vincent Tewson of the TUC'S plans for the expansion of the Colonial Section and for short-term (3–4 month) visits, but had nevertheless pressed for long-term missions.

2. It emerged in discussion that the TUC regarded long-term missions as both impracticable and undesirable. Staffing problems would present very grave difficulties and it was preferable to deploy the limited staff available on regular short-term visits in the areas considered to be most in need of help: by this means overseas unions could best learn to stand on their own feet and take their own decisions; moreover an attitude of detached interest on the part of the TUC rather than a close involvement in all the day-to-day problems of union administration should pay a better dividend in terms of prestige and long-term influence.

3. The approach must remain flexible to meet the widely varying needs of different industries and territories, and as far as possible visiting officials, having established contacts, would cultivate their own particular regions. Labour Departments could help by neglecting no opportunity to foster the creation of standing joint industrial machinery. There were overriding objections in principle to the acceptance of financial assistance from government sources; in fact funds presented no obstacle to the expansion of work overseas.

4. In planning for the immediate future, priority would be given to East and Central Africa, but contacts already established in West Africa, the Caribbean and South East Asia would not be neglected. The TUC was not unmindful of the need to counterbalance the effects of North American influence in certain regions, e.g. the Caribbean.

5. While the TUC would continue to do what it could to meet requests for help in preparing and presenting cases to courts of inquiry or arbitration tribunals—a service which had been greatly appreciated in the past—it would not normally wish to intervene in industrial disputes since union leaders must learn to stand alone and cope with the consequences of their decisions. Help and guidance should be a continuous process, and the value of correspondence with the TUC in the absence of personal contact needed to be emphasised. Too often the TUC was left in ignorance of the state of labour relations. Given a regular flow of information on which the TUC could assess each local situation, it could then frame its programme of assistance accordingly. It was appreciated that the exact position might not always be discovered without a special visit by a senior official.

The Colonial Office noted Sir Vincent Tewson's view that for the time being at least it would be fruitless to pursue the idea of a permanent overseas service of British trade unionists. It was ready to help in any way which might be thought useful, e.g. over travel arrangements. It was also suggested that the TUC Officers and others who might be selected for visits to overseas territories might specialise on particular regions, in order to gain and keep up an intimate knowledge of the local situation.

511 CO 537/7787, no 6 26 Feb 1952

[Race relations in colonies]: minutes of a CO departmental meeting

Mr. Gorell Barnes said that the meeting had been called, with the agreement of Sir Charles Jeffries, to consider a memorandum by Mr. Harold Ingrams[1] dealing with the influence of social contact between the races in combating communism, and in particular to discuss the proposal contained in the memorandum that courses might be arranged in the United Kingdom on the general subject of "Living in Africa" with the object of influencing the outlook of men proceeding overseas, and thus of improving race relations.

Mr. Gorell Barnes said that the first thought which occurred to him was whether a course of this kind would achieve its object and whether a more promising approach might not be to produce a "bible" of guidance on the way to behave in Africa.

In discussion it was pointed out that the lower paid European and his wife, whether in government service, in the C.D.C. or in commerce, were the people it was specially important to reach, and that while the practical difficulties in securing their attendance at a course before leaving the U.K. were considerable and had been pointed out in the minutes on the file, a very large number of those who needed influencing in East and Central Africa, were in any case, recruited locally or in South Africa etc. and did not proceed from the U.K.

The same difficulty did not arise over a book of guidance, which could, incidentally, be prepared in such a way as to gain the sympathy of Africans as well as of Europeans and thus have a two-way effect.

Further discussion centred upon the problem in East and Central African territories with special reference to Northern Rhodesia, which Mr. Ingrams felt provided some of the worst examples of bad racial behaviour by Europeans.

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[1] W H Ingrams, adviser on overseas information, CO, 1950–1954 (see part I of this volume, 7).

Mr. Lambert[2] thought that the Northern Rhodesia government had given a lead on racial discrimination in such matters as abolishing separate entrances to post offices; race relations were generally satisfactory in the areas outside the Copper Belt. He agreed that the conditions within the Copper Belt were unsatisfactory and it was questioned whether a sufficiently courageous lead had been given by government in so far as this area was concerned.

In further discussion it was pointed out that not only did regions of Africa differ, but each territory had its own special difficulties in creating satisfactory race relations. A course in the United Kingdom could not be expected to deal with these difficulties, and furthermore there was a great difference between mixing socially with Africans in the U.K. and mixing socially in their home territory.

The general conclusion of the meeting was that while race relations were better in some territories than in others, the Colonial Office had in the past taken too little effective interest in the subject, and that while the kind of course suggested by Mr. Ingrams was not at present worth pursuing, further action should be taken and might usefully be along the following lines:

(i) A personal letter from the Secretary of State to each African Governor, asking for a reconsideration of measures already taken to improve race relations, with the special object of seeing whether

(a) an adequate public lead was being given from the top in this matter.[3]
(b) general instructions to senior government officers should be given. (Such instructions could not of course be too far ahead of public opinion. Sir Philip Mitchell's circular to officials was a useful precedent).
(c) a booklet giving guidance on behaviour in Africa would be useful.
(d) local courses drawing Africans and other races together for discussion of common problems could be usefully arranged.
(e) inter-racial clubs, such as the United Kenya Club could be started.

In so far as Northern Rhodesia was concerned the terms of any letter would have to be carefully related to the discussions on, and any definition of, partnership.

(ii) The possibility of devoting a future Cambridge African Summer Conference to the subject of "Living in Africa" with special attention to race relations might be considered.

(iii) Those responsible for the recruitment of men to serve in African territories in lower paid posts whether in government, C.D.C. or commerce, might devote even more attention than at present to weeding out those who appeared unlikely to achieve reasonable race relations.

It was further agreed that action on matters of race relations should be focused in the Social Services Dept. A, in view of the close relation of the subject with the subjects dealt with by that department. Because of the local nature of many of the aspects of the problem in each territory, action should always be concerted with the geographical department of the territory concerned.

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[2] C E Lambert, assistant secretary, CO, 1947–1961.

[3] Sir T Lloyd later poured cold water on the idea of a letter to African governors, on the grounds that several of them 'would certainly take amiss any suggestion that they had been failing in that respect' (minute by Lloyd, 18 Mar 1952, CO 537/7787).

512 CO 859/249, no 15 [18 Apr 1952)
'Declaration of human rights bill': CO brief for Mr Lyttelton

[Shortly after the 1951 election Mr A F Brockway (Labour MP for Eton and Slough, 1950–1964) introduced a private member's bill with the main object of outlawing racial discrimination in colonies.]

The object of this Bill is stated to be the establishment throughout the United Kingdom and those territories of the Commonwealth which have not yet achieved independent status (in this Note referred to for convenience as "Colonial territories") of a standard of human rights and freedoms application to all Her Majesty's subjects without distinction of race, colour, sex, language, birth or other status; presumably the intention is to give legislative effect to the U.N. Declaration of Human Rights.

A statement on the international commitments of H.M.G. regarding human rights will be found at Annex A[1] to this Note.

Objections to the bill

(a) *Constitutional*

(i) Notwithstanding the stated objects of this Bill—the great majority of its provisions in fact equate aliens with British subjects. In particular—clause 19 would throw open the Home Civil Service and the Colonial Service to aliens!
(ii) Colonial territories have long been accustomed to regard the matters covered in the Bill as matters within the field of their own legislatures, to be dealt with by their own legislation. At this stage in the evolution of those territories towards self-government to enact at Westminster legislation of this type applying to them would be a retrogressive step raising constitutional issues of great magnitude, and might well provoke a series of crises between H.M.G. and those territories. It would cut directly across all H.M.G.'s frequently reiterated statements of policy concerning an increased measure of responsibility for Colonial peoples in the management of their own affairs.

(b) *Legal*

(i) There are the strongest legal objections to vaguely worded "omnibus" legislation of this kind which attempts to cover in one enactment a heterogeneous mass of subjects. It would be impossible to calculate its effects and repercussions on colonial laws. Clause 25, if it stood as drawn, would in theory require a detailed survey of innumerable laws in the United Kingdom and the Colonial territories: in fact, such a survey would, practically speaking, be impossible.
(ii) A further objection to such legislation in respect of at least some of its provisions, e.g. Clauses 8 (transport facilities), 9 (premises licensed for public entertainment, etc.), 17 (in so far as this clause covers participation in skilled or craft occupations), 18 (rates of pay by private firms), is the difficulty of making them effective. It is unrealistic to attempt to achieve in this way objects which depend so much on the development of a social conscience in the affairs of every day life.

[1] Not printed.

(c) *Policy*
The Bill fails to take any account of the varying standards of political, social and economic development of so many of the Colonial territories likely to be affected by it, and of the special problems of plural communities in which a number of races at very different levels of development are working out in their own way and at their own pace the best methods of living harmoniously and profitably side by side in the same territory.

Departmental responsibility for the bill and general tactics
The Colonial Office and Commonwealth Relations Office are bound to have considerable interest in this Bill, since, although it is ostensibly intended to set up a standard of human rights in the United Kingdom as well as in the Colonial territories, the main emphasis of the Bill is in fact on racial discrimination in those territories. The U.K aspect may therefore take a subsidiary place in debate (unless interested members seize on Clauses 18 and 19 to raise the question of equal pay for women), but other Ministers are presumably considering its implications for this country.

The Bill seems unlikely to command much support in the House; its chief importance lies in the opportunity it will present for a lively (and probably mischievous) debate on racial discrimination in Colonial territories. Government support of the Bill is out of the question and would in any case be liable to affront susceptibilities in those territories which are nearing independent status (such as the Gold Coast) or are protected states (Malaya and Tonga). On the other hand, Government oposition to the Bill, however carefully expressed, might be construed in certain quarters as support for racial discrimination. In view of recent developments in South Africa and Bechuanaland, it is doubly important that any such construction should be avoided.

It is therefore suggested that:—

(a) the Bill should be taken by some other Department (such as the Attorney-General's), with assistance as required from other interested Departments;
(b) the debate should be left as far as possible to Members, an adequate attendance (either through the Whips' Office or by other means) being ensured to provide that the Bill is talked out, or voted down if it comes to a vote, and that those Members who wish to raise allegations of racial discrimination do not have things all their own way;
(c) intervention by Ministers should be restricted to a statement of the Government's objections to the Bill by, for example, the Attorney General, outlining the constitutional and legal implications. This might be coupled perhaps with a statement on the generally sympathetic attitude of Her Majesty's Government to the spirit inspiring the Bill (avoiding comment on the detailed clauses), but with general deprecation of this method of attempting to achieve objects which are best solved (in the light of local needs and problems) by enlightened administration and by the increasing responsibility of the peoples most concerned for the management of their own affairs.[2]

[2] The bill was debated on 23 May 1952. Ministerial intervention was not required, as after one hour the debate lapsed for lack of a quorum.

513 CO 537/7787, no 8 9 Feb 1953

[Race relations in colonies]: letter from Sir C Jeffries to the Archbishop of Canterbury[1]

[Commenting on the various proposals for improving race relations made at the meeting of Feb 1952 (see 511), D Bishop (principal, Social Service Division, CO, Dept 'B') suggested that the Church of England be asked to help. 'My own view is that harmonious relations between all sorts and conditions of men of whatever colour will only result when those concerned become fully converted Christians.' Asking the Church to help would also 'have merit in the eyes of the Treasury as it would not cost the Government anything' (minute by Bishop, CO 537/7787, 11 Dec 1952).]

As you can well imagine, we have constantly in the forefront of our minds the problem of promoting racial harmony in the overseas territories for which the Secretary of State for the Colonies is answerable. While this may be said to be an underlying aim of all Colonial policy inherent in every aspect of our work in the territories, it can perhaps be approached at least in one sense as a problem in itself, in that at root it is really a problem of individual human relations.

We have recently been considering again what steps might usefully be taken to remove some of the frictions arising from racial antipathies and, amongst other things, it has been suggested that much closer attention should be given to preparing beforehand a man (and his wife) for the kind of life he will lead and the problems of individual behaviour he will face on assuming an appointment overseas. The State is certainly not competent to take on such a job unaided, and can really only attempt to do so, within its capabilities, for its own recruits who must continue to be a small number in proportion to those sent overseas by private firms and other organisations. The job we feel is one in which the help of the Church might be most effective.

I know that you are deeply perturbed by recent events in Kenya and elsewhere in Africa,[2] and so I venture to ask whether you would be willing to discuss with me some very tentative ideas on this subject which have been put forward here. If so, perhaps you would kindly ask your secretary to get in touch with mine (Miss Ralph: Abbey 1266, Ext. 35) and fix a convenient time for me to call on you. I should like, if I may, to bring with me another member of the department.

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[1] The Most Reverend Geoffrey Fisher, Archbishop of Canterbury, 1945–1961.

[2] An expression of Fisher's concerned occurred when the Kabaka of Buganda was deported in Nov 1953. He wrote to Lyttelton: 'On the one side West Africa and the Sudan, on the other Kenya, Central Africa and South Africa have all contributed to create a deep fear and suspicion along with passionate ambitions in the minds of Africans everywhere. The Africans . . . are alarmed lest Europeans (increased in numbers by economic development) and Asians get so entrenched that by the time Africans can take over full government they will be saddled with *partners*, European and Asian, whom they do not want' (CO 822/892, no 5, Fisher to Lyttelton, 6 Jan 1954).

514 CO 859/248 26 Nov 1953

[Establishment of 'Oversea Service']: minute by D Bishop[1]

1. Earlier this year the office approached His Grace the Archbishop of Canterbury to seek the assistance of The Church in the preparation of the numerous people who leave the United Kingdom each year to take up appointments in Overseas Territories—more especially in the Colonies. This initiative was independently repeated by the British Council of Churches in conjunction with the Conference of British Missionary Societies, and the Cadbury Trust has made a grant of £1,000 so that a preliminary enquiry might be undertaken. As a result, Dr. H.B.T. Holland, a medical missionary of some considerable experience in the North-West Frontier Province of India, was appointed as an Organising Secretary. His terms reference are at (13) opposite.

2. Since his appointment a few months ago, Dr. Holland has been active in contacting not only commercial firms who send employees abroad but also many people and organisations who are interested in this problem and who would probably be able to assist him in his endeavours. The response has been encouraging.

3. On the 20th of November, 1953, Sir Charles Jeffries and I went to see the Archbishop of Canterbury and discussed with him and Dr. Holland the development of this project. During the discussion the following points emerged:—

(i) The idea of a week's Course for both the appointee and his wife was regarded as the minimum necessary to make any sort of impact. It would be preferable for the Course to be residential though non-residential Courses organised at the Imperial Institute, the Director of which is interested and anxious to co-operate, should not be ruled out.

(ii) Most employers, though interested, were diffident about lending their full support until they had seen something concrete. They were decidedly against a Course aimed at solely the conversion of individuals to the Christian Faith and curiously enough so was the Archbishop. They would be much more amenable to a secular approach with the teaching of *practical Christianity* in the background. (Those who know something more than a parody of Christianity know that it is the most practical of religions). The Archbishop thought that the less said about religion in the publicity and literature the better; but stressed that the religious bias must be allowed to appear in the discussions on the Course if it is to be effective.

(iii) Dr. Holland said that he had arranged for three Courses to take place early in 1954 to show employers precisely what he had in mind. The dates of these are given in (1) on SSD.55/81/01 below. He also outlined briefly the proposed content of the Courses, full details of which may be seen in the enclosure to (2) on SSD.55/81/01 below. Both the Archbishop and Sir Charles Jeffries thought that on the whole Dr. Holland's approach was a sound one.

(iv) Dr. Holland said that in the earlier stages, while experience was being gained, he would need at least two Assistant Training Officers, one of whom should be a woman and an Information and Publicity Relations Officer who would digest the mass [of] information about territories overseas and make it available in simple terms for those who attend the Courses and who would also deal with the publicity

[1] See 513, note.

side of the Courses. Later on, Dr. Holland envisaged the running of as many as twenty-four Courses at different Centres in the United Kingdom throughout the year for which a much larger staff would be required. What was required at the moment was a pilot scheme which would induce commercial firms not only to send their employees and their wives on such courses and pay for them; but also to make some financial contribution to the maintenance of the Staff required to run them. At the moment Dr. Holland had himself agreed to devote himself to this work for two years.

(v) The Archbishop was averse to "Overseas Service" being under the patronage of individuals. He thought it much more important that it should be under the patronage of Institutions. If private firms like the I.C.I. and the Banks were to give it their blessing, so also must the T.U.C. and the Government Departments involved, especially the C.R.O. and F.O. as well as the Colonial Office. In this way it would be possible to avoid the difficulty raised by the traditional non-co-operation of those of the Roman Obedience. Dr. Holland said that he had already been in touch with Mr. Victor Feather[2] of the T.U.C. and thought that there was a good chance that such patronage would be forthcoming.

4. Quite obviously, having taken the initiative, we ought to give this venture our full backing, provided, of course, the lines on which it is proposed to run it continue to be acceptable. Since those concerned have been at pains to consult us at every stage I do not think that we can rule out support on that score at this stage. Our immediate task is to get persons selected for appointments overseas by this Office who are not catered for by any of the existing Training Courses, and those selected for appointment by the Crown Agents on to one of the three "Overseas Service" Training Courses which have already been arranged. If these people seemed unlikely to attend these Courses on a voluntary basis, it could be made known to them that they would "get a good mark" if they agreed to do so. They would need to have their expenses paid and this problem has now to be faced. There seems to me to be two ways of meeting this difficulty:—

(a) We might send out details of these Courses to Colonial Territories with our commendation and ask Colonial Governments to meet the cost of their appointees and their wives attending them as part of the normal recruitment expenses. This approach might fail because we have not yet got any experience to put before them. We could make this approach more authoritatively after the three pilot courses have been held and my own view is that Colonial Governments would be more willing to co-operate if asked at this stage.

(b) In this event consideration might be given to meeting the expenses of those attending the course from a grant from C.D. & W. Funds.

5. There are, of course, more expenses than simply those incurred by people attending the Courses and it would encourage those who are sponsoring this venture and give them weight in their negotiations with private industry if the Colonial Office were at this stage to make a grant. Sir Charles Jeffries suggested to me that we might reasonably ask the Treasury for £2,000 from the C.D. and W. Vote (if there are funds left) for this Scheme to be paid out in instalments at the discretion of the Colonial Office over the next two years. . . .

[2] V Feather, assistant secretary, TUC, 1947–1960.

515 CO 859/889 15 June 1954
[Significance of 'Oversea Service']: minute by D Bishop [Extract]

[In June 1954 E Fitzgerald, of the CO's Finance Dept, minuted: 'Frankly I do not favour putting more C D & W money into this project. . . . What we would then be doing in effect is taking on another C.D. & W. "pensioner"—a thing that was not envisaged previously & which the Treasury will certainly not welcome' (minute by Fitzgerald, CO 859/889, 4 June 1954).]

. . . 5. Briefly, the following are my reasons for urging continued financial support for "Oversea Service":—

(i) It has been urged in many responsible quarters for a very long time that men and women should be given some kind of preparation before they go overseas for the first time. Apart from courses offered to Government servants no attempt has been made so far to provide such preparation on a wide scale.

(ii) The opinion of three persons who have observed one or other of the courses offered by "Oversea Service" (see enclosures to (32) and (40)), the opinion of those who have attended one of these courses (see (35)), and the opinion of Dr. Holland and those who have given their time to lecture and lead discussion at these courses, all agree that this effort is immensely worthwhile. I think that we must be guided by this opinion rather than by Mr. Fitzgerald's intuition that it is all a waste of money.

(iii) This is as far as I know, the first concrete step we have taken to promote racial harmony in our territories and which is clearly within the power and the competence of the Office to sponsor and I would have thought that the political value of such a step at this time could not be overrated.

(iv) The estimates set out in (36) opposite have been cut to the very bone. They represent the bare minimum necessary to keep this venture alive. They do not include any element for example to pay Mrs. Holland who so admirably acts as hostess to those who attend the courses and who makes all those domestic arrangements which keep the students happy and make for the smooth-running of the course. The sum required, namely £2,000 per annum is in my view ridiculously small when compared with the prospect of the benefits that may be expected to flow from this organisation when it has been built up. The aim must I think be to make "Oversea Service" self-supporting but we shall of course have to regard "Oversea Service" as a pensioner for a little time. . . .[1]

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[1] In Apr 1955 the cause of 'Oversea Service' was boosted when General Sir G Templer gave it strong support in para 383 of his report on colonial security (see part I of this volume, 18, note 3): 'More should be done to develop this instrument, which clearly has tremendous potentialities for good' (CO 859/890, no 126). In the CO, N D Watson urged that 'In the further attack on the Treasury, we should make what use we can of General Templer's support & the Cabinet interest in his recommendations' (minute by Watson, CO 859/518, 30 Aug 1955). 'Oversea Service' carried on. In its first three years it provided general briefing courses to some 400 people, mostly CO and Crown Agents appointees.

516 PREM 11/824 5 Dec 1952

['Coloured population' in the United Kingdom]: minute by P G Oates[1] to Mr Churchill[2]

Attached below is a note you asked for on the coloured population in the United Kingdom. The main points are:—

(a) They number 40,000 to 50,000, mostly centred in London and the ports.
(b) There have been about 3,000 immigrants a year since 1945, mostly from Jamaica.
(c) Unemployment is about 1,500.
(d) An Inter-Departmental Committee (Ministries of Labour, Transport, Housing and the National Assistance Board) watch over the coloured population, besides voluntary organisations and local government authorities.
(e) Colonial Governments are pressed to discourage migration.
(f) The Colonial Office have been asked at times to restrict the entry of coloured people. The late Government discussed the question at Cabinet level and decided against it on grounds of political expediency.[3]
(g) There are about 6,000 coloured students in the United Kingdom this year. The distribution among the different subjects studied is shown at Flag 'A'.

[1] P G Oates, private secretary to Mr Churchill.
[2] This minute summarises a note 'The coloured population in the United Kingdom' sent by B G Smallman (Lyttelton's assistant private secretary) to A A D Montague-Brown (Churchill's private secretary) in response to a letter of 23 Nov 1952.
[3] See BDEEP series A, R Hyam, ed, *The Labour government and the end of empire 1945–1951*, part IV, 355.

517 CAB 129/65, C(54)34 30 Jan 1954

'Employment of coloured people': Cabinet memorandum by Sir D Maxwell Fyfe[1]

At their meeting on 18th December, 1952, the Cabinet invited me to arrange for officials of the Department concerned to examine the possibilities of preventing any further increases in the number of coloured people seeking employment in this country (C.C(52) 106th Conclusions, Minute 7). I have recently received the report of an inter-departmental Committee which I set up to enquire into this matter and which has reviewed the general position arising from the continued immigration into Great Britain of coloured people from the colonies.

2. It would obviously be impossible to discriminate openly against coloured people as such in administration or legislation in the field of employment. After a thorough examination of the possibilities the Committee have come to the conclusion that it is not practicable to take steps to prevent coloured people obtaining employment once they are in this country. Any action to that end would have to be directed to preventing them or discouraging them from entering the

[1] Home secretary, 1951–1954.

United Kingdom in search of employment. There is, of course, no power in law to prevent any British subject entering and remaining in the United Kingdom.

3. In accordance with Ministerial directions, such administrative action as is possible to discourage immigration of coloured people into this country from the colonies has been taken over the last few years. For instance, special action has been taken in colonial territories to make stowing away on ships more difficult by tightening dock control. The governments of West African territories have taken special steps to hinder the issue of passports and travel documents to men not known to follow regular employment and whose financial position is not sound. In those colonial territories from which most of the coloured immigrants come publicity has been given to the fact that accommodation over here is hard to find and unskilled workers often have difficulty in getting employment. In this country immigration officers have been given instructions to require strict proof of British nationality and to refuse leave to land to stowaways and others who cannot produce written evidence that they are British subjects.

4. The general effect of these measures has been to reduce by more than half the number of coloured stowaways who succeeded in entering the United Kingdom, but stowaways represent only a small part of the problem. It is possible that the measures have had a slight effect on the numbers leaving colonial territories as fare-paying passengers to settle in this country but it would appear that they have reached the limit of their effectiveness in this field. The great majority of coloured migrants now settling in this country are fare-paying passengers from the West Indies. The governments of the West Indian territories have been unwilling to put restrictions on the issue of passport to British subjects who appear to be entitled to them and it would seem that in any case such action would require legislation which is not politically practicable. It is not to be expected that administrative measures alone will do much to prevent an influx to the United Kingdom, with its better employment prospects and social services, of coloured people from colonial territories with employment problems.

5. The conclusion is, therefore, that there is no effective means of stopping this influx without legislation which would give power to control immigration of British subjects to this country by giving immigration officers authority to refuse leave to land, as in the case of aliens, and would confer a power to deport to their place of origin British subjects from overseas who failed to abide by the conditions attached to the grant of leave to land. There could be no question of seeking such power to deal only with coloured people: it would have to be a power which could be exercised in relation to any British subject from overseas. Not only would such legislation be a complete break with the traditional principle that any British subject has a right to enter freely and remain in the United Kingdom but the administration of the control would put a greatly increased burden on the immigration service, and also on the Ministry of Labour if, as would probably be thought desirable, some system of regulation of the employment of British subjects from overseas was adopted as part of the arrangements. The need to grant leave to land to British subjects arriving at ports in this country would lead to much greater delay in clearing travellers through the controls and would undoubtedly give rise to much resentment.

6. There are no statistics showing the number of coloured people in this country but an estimate made by the police in April, 1953, which is believed to be somewhat conservative, was that there were then about 40,000 coloured people in Great

Britain compared with about 7,000 before the war. The immigration service have kept records of coloured people coming from the colonies to this country to seek employment in the last few years and these, taken with other statistics of the number of Indian and Pakistani seamen who desert their ships, show that coloured migrants have recently been entering this country at the rate of over 3,000 a year. There is no reason to expect any reduction in this figure and there is no power to prevent these people entering no matter how much the number may increase. Nevertheless, these figures do not seem to me to justify any departure from the view which has hitherto been taken that so far no such evil consequences of this immigration have appeared as would amount to a case for legislation directed against the immigration of British subjects, with all the political and administrative difficulties to which it would give rise.

7. There is, however, one aspect of the matter to which I would call special attention. There have recently been several references in the Press to cases in which coloured men have been convicted of living on the immoral earnings of white women in London and suggestions have been made that there are many such cases. Figures which I have obtained from the Metropolitan Police do show that the number of coloured men convicted for this offence is out of all proportion to the total number of coloured men in London and the police say that the Practice [sic] is much more widespread than the number of convictions would appear to indicate since the police have not the manpower needed to carry out the necessarily detailed investigations in every suspected case. It has been suggested that there should be legislation to give power to deport from this country British subjects from overseas convicted of serious criminal offences, of which this would be one, and it is true that many of the objections to taking a general power to control the immigration of British subjects would not apply to such a measure. My own view is, howver, that a case has not been made out for taking even a limited power of this nature. Without it there is always the risk that the details of some particularly sordid case will become public and that we shall be criticised for permitting such a state of affairs to continue when the existence of a power of deportation might have prevented it. While, therefore, I am not myself in favour of taking such a power I have thought it well to raise the point for the consideration of my colleagues.[2]

[2] In a companion memo the chancellor of the Exchequer argued that 'there is little danger of the eligibility of coloured persons for employment in the Civil Service presenting anything but a minor practical problem so far as the Civil Service is concerned. On the other hand, any discrimination against them would either have to be, or become, overt and would involve difficulties of principle out of all proportion to any practical advantage which the Civil Service might derive from it' ('Recruitment of coloured persons to the Civil Service', Cabinet memo by Butler, CAB 129/65, C(54)37, 2 Feb 1954).

518 CAB 128/27/1, CC 7(54)4 — 3 Feb 1954

'Coloured workers': Cabinet conclusions

The Cabinet had before them memorandum by the Home Secretary (C. (54) 34) and the Chancellor of the Exchequer (C. (54) 37)[1] on the possibility of restricting the

[1] See 517 & 517, note 2.

number of coloured people seeking employment in this country and on the particular question of their employment in the public service.

The Home Secretary said that this problem should be considered in its true perspective. The total number of coloured people at present in this country was about 40,000, compared with 7,000 before the last war, and about 3,000 were entering the country each year. In June 1953 the number of coloured people registered as unemployed was 3,366 and 1,870 were in receipt of national assistance. Of 62 persons convicted in the Metropolitan Police District in the twelve months ending 31st August, 1953, of living on women's immoral earnings 24 had been coloured men. No further action to prevent the immigration of coloured people could be taken without legislation, which might take one of two forms. One possible course was to extend immigration control to all British subjects from overseas. Such an extension could not be confined to coloured people only. It would involve additions to the staff of the Home Office and the Ministry of Labour. The alternative course would be to take power to deport British subjects from overseas who were convicted of a serious criminal offence or found to be a charge on public funds. He recognised that a case could be made for measures to exclude or remove from this country the riffraff amongst British subjects from overseas, and the fact must be faced that at any time the occurrence of some shocking crime involving a coloured person might give rise to strong public feeling on the matter. There was already evidence of some racial feeling in those districts, for example in London, Liverpool and Manchester, where there were concentrations of coloured people. On balance, however, he did not believe that the problem had yet assumed sufficient proportions to justify legislation which would involve a reversal of our traditional practice and would antagonise liberal opinion. It had to be recognised that any action which the Government might take could be easily misrepresented as introducing a "colour bar."

The Commonwealth Secretary said that in all other Commonwealth countries except India and Pakistan there were legislative restrictions upon the immigration of British subjects. Power to deport undesirable British subjects was available in all those countries. He thought it unlikely that opinion in other parts of the Commonwealth would be disturbed if powers were taken to deport from this country British subjects from overseas.

The Minister of State for Colonial Affairs said that in all the Colonies there was power to restrict entry, and to deport, British subjects from other parts of the Commonwealth. While the Colonial Office would be bound to raise strong objection to the imposition in this country of any restrictions based upon colour grounds alone, the assumption by the United Kingdom Government of power to deport on clearly defined grounds might well be found to be practicable.

The Prime Minister said that the rapid improvement of communications was likely to lead to a continuing increase in the number of coloured people coming to this country, and their presence here would sooner or later come to be resented by large sections of the British people. It might well be true, however, that the problem had not yet assumed sufficient proportions to enable the Government to take adequate counter-measures.

Some support was expressed for the view that the traditional practice in this matter might need modification in the light of changing conditions. Apart from the improvement of means of travel, the raising of standards in the Colonies made their

inhabitants better adapted to European conditions and they were attracted to this country by the high level of its Social services. There were, moreover, sound arguments for the view that it was no longer incumbent on the United Kingdom to follow a policy more liberal than that in force in other Commonwealth countries and there might, therefore, be a case for assuming a power to deport from this country British subjects from overseas.

The Cabinet:—

Invited the Commonwealth Secretary and the Colonial Secretary to submit a memorandum summarising the present powers of other Commonwealth and Colonial Governments to deport British subjects.

519 DO 35/5216, no 27 15 Mar 1954

[Immigration]: letter from Lord Swinton to Lord Salisbury

My dear Bobbety,

I have discussed with a number of my people here your proposal that we should have some sort of Commonwealth meeting on immigration. I tried not to give a lead because I wanted their independent reactions. I found they were all very nervous of such a meeting whether on ministerial or official level. They reminded me that it had always been the policy of this Office to keep emigration and immigration out of Commonwealth conferences. If the question were raised in a Commonwealth meeting, we could not confine the discussion to our limited problem: India, Pakistan, Ceylon and Malaya (if the colonies were in, as they must be) would air their grievances against the prohibition of coloured entry into Australia and New Zealand and South Africa. I find this convincing.

My people also take what seems to me a common sense view that there is no basis for a meeting, or at any rate it is no good going into a meeting, until we know what we want to do; and United Kingdom Ministers must decide this. If we do know what we want to do, we can probably deal with the High Commissioners, individually or collectively, without getting into a more formal conference. That is the way the Commonwealth countries deal with us about their own legislation.

If we legislate on immigration, though we can draft it in non-discriminatory terms, we cannot conceal the obvious fact that the object is to keep out coloured people. Unless there is really a strong case for this, it would surely be an unwise moment to raise the issue when we are preaching, and trying to practise, partnership, and the abolition of the colour bar.

I come back definitely to my suggestion that we should limit our legislation to deportation of criminals and indigents. I would add to this, stowaways and deserters from ships. I think we could do this without raising any serious difficulties with the Dominions or Colonies. And I believe it would be a strong deterrent to people coming here from the West Indies, unless they have a firm job to come to.

Yours ever
SWINTON

520 DO 35/5216, no 31 20 Mar 1954
[Immigration]: letter from Lord Salisbury to Lord Swinton

My dear Philip,
Thank you so much for sending me a copy of the letter which you have written to David Maxwell Fyfe on the question of possible legislation for the deportation of coloured people who are guilty of criminal offences. This raises the whole issue which we discussed in the Cabinet the other day and about which you wrote to me a few days ago.[1] I owe you a thousand apologies for not writing before in answer to that letter; but I haven't had a moment since I got the letter, and therefore have not had the opportunity of giving you my views.

Personally, though I may be quite wrong about this, I should not be satisfied with legislation of the type which you suggest. I feel that it would only be tinkering with what is really becoming a fundamental problem for us all, though it is only just beginning to push up its ugly head above the surface of politics. The figures which we have been given make it clear that we are faced with a problem which, though at present it may be only a cloud the size of a man's hand, may easily come to fill the whole political horizon. Before the War the number of coloured poeple coming into England was a mere trickle—nothing to worry about at all—but now, with each year that passes, and with the general improvement of methods of transportation, the flow increases. Indeed, if something is not done to check it now, I should not be at all surprised if the problem became quite unmanageable in 20 or 30 years time. We might well be faced with very much the same type of appalling issue that is now causing such great difficulties for the United States. The main cause of this sudden increase of the inflow of Blacks is of course the Welfare State. So long as the antiquated rule obtains that any British subject can come into this Country without any limitation at all, these people will pour in to take advantage of our social services and other amenities, and we shall have no protection at all. It is true that under your proposed Bill we can get rid of the worst characters. But it is for me not merely a question of whether criminal negroes should be allowed in or not; it is a question whether great quantities of negroes, criminal or not, should be allowed to come. The suggestion which I made was, as you know, for an official Conference of Commonwealth countries to try and obtain some uniformity of legislation with regard to immigration. That I hoped would enable us to approximate our legislation to that already in operation in Canada, Australia and New Zealand. I gather that you, and possibly Oliver,[2] feel that this is likely to cause friction with the Indians and might prejudice the position of our business people in that country. Personally, I cannot believe that, for we should should in any case only be putting ourselves in the same position as the United States and most of the other countries, whose business men visit India. But however that may be, I do not feel that we should allow ourselves to be deterred by comparatively limited questions of that kind. I feel that we should recognise that this coloured problem is potentially of a fundamental nature for the future of our Country. For that reason, I am afraid that I could not personally regard a Bill of the kind which you propose to David Maxwell Fyfe as a substitute for more far reaching action.

Yours ever, Bobbety

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[1] See 519.

[2] Mr Lyttelton.

521 CAB 129/72, C(54)379 6 Dec 1954

'Colonial immigrants': Cabinet memorandum by Mr Lennox-Boyd

It is virtually certain that this Government or its successor will be driven by events and by the pressure of public opinion to enact legislation controlling the immigration into this country of British subjects from overseas. Our problem is how to balance against each other on the one hand and the need to take action as soon as possible, before the problem of coloured immigration into this country has gone much further and leads to social and industrial problems damaging to this country and to our relations with coloured peoples overseas, and on the other the need to carry responsible Parliamentary and public opinion with us to the greatest possible extent both in what we do and in the way we do it.

2. My initial feeling was that the appointment of a Departmental Committee, as proposed by the Home Secretary in C. (54) 354 was simply postponing the issue, and that we had already, in the shape of various official reports, quite enough material to enable us to take a decision now. However, bearing in mind the fact that it would probably be impossible to find Parliamentary time for legislation on this subject during the forthcoming Session, an announcement of the Government's intention to legislate might simply serve as an invitation to potential immigrants to rush to this country while the going was good, and provide far too long an interval for public debate and exacerbation. Moreover, although there are many signs that responsible public opinion is moving in the direction of favouring immigration control, there is still to my mind a good deal to be done before it is solidly in favour of it. I believe therefore that the appointment of a Committee as proposed by the Home Secretary would have the double advantage of enabling us to postpone an announcement of our policy until nearer the time when the necessary legislation could be put in hand, and of enabling public opinion to develop further and be crystallised.

3. On the assumption therefore that a Committee will be set up, I do not think it necessary here and now to enter into arguments on the point whether control legislation should apply to all overseas British subjects or to overseas citizens of the United Kingdom and the Colonies (i.e. predominantly coloured persons only) although I may say here and now that for reasons which I would develop at the appropriate time I would have the gravest misgivings about the latter proposition. For present purposes, however, I am quite clear that, without prejudice to whatever decision may later be reached at the appropriate time, we should strenuously avoid doing or saying anything now which could be interpreted as favouring racially discriminatory action. That means to my mind that the terms of reference of the proposed Committee should avoid language which could be interpreted as an invitation to consider discriminatory proposals. I fear that the use of the words "any class of" before "British subjects" in the third and fourth lines of the terms of reference proposed in paragraph 7 of C. (54) 354 would certainly be interpreted in that way both here and in the Colonies, whatever other explanation we sought to put upon them. Indeed I do not know what other explanation could plausibly be put forward.

4. I incline also to the view that we should deal with deportation and immigration control together, that is to say remit the whole subject to the proposed Departmental Committee and not now announce that we propose to go ahead with deportation legislation, if only because of the lapse of time between an announcement of this

kind now and the time when it could be translated into legislation. I do not think an announcement of this kind would have any noticeably deterrent effect on immigration, since I do not imagine that many of the immigrants who cause us concern actually set out with the intention or expectation of behaving in such a way as might conceivably render them liable to deportation. Indeed my opinion is that in the long term our troubles really arise when the immigrant workers make good to the extent that there is some question of putting them in positions of responsibility over United Kingdom citizens. That I understand is a problem which has arisen in connection with immigrant workers irrespective of colour.[1]

[1] Cabinet decided against setting up a committee: 'It was bound to include some members who would be opposed in principle to any action which might appear to be discriminatory in character. At the best, therefore, the Government would be likely to find itself obliged to act in disregard of a minority report, while at the worst the Committee's recommendations might make it impracticable for the Government to take any action in the matter.' Instead, Cabinet invited Maxwell Fyfe and Lyttelton to draft restrictive legislation for consideration by Cabinet (CAB 128/27/2, CC 82(54)7, 6 Dec 1954).

522 CAB 128/28, CC 3(55)6 13 Jan 1955

'Colonial immigrants': Cabinet conclusions

[As requested, the Home Office and the CO began preparing draft legislation. The main provision was that immigration officers would have discretion to prevent the immigration of 'certain classes of British subjects', namely all except those born in the UK or in possession of a valid UK passport ('Colonial immigrants', Cabinet memo by Mr G Lloyd-George (home secretary, 1954–1957), CAB 129/73, C(55)5, 11 Jan 1955).]

The Cabinet had before them a memorandum by the Home Secretary (C. (55) 5) indicating the general lines of the legislation which he was preparing for the purpose of restricting the admission of British subjects from overseas to the United Kingdom.

In a preliminary discussion the following points were made:—

(a) There was general support for the view that the social consequences of the increasing flow of West Indian immigrants into this country were sufficiently serious to compel the Government to take such action as was open to them, or at least to make their attitude on the matter clear to the public.

(b) On the other hand, it was represented that the Government were most unlikely to be able to carry through the House of Commons a Bill on the lines suggested in C. (55) 5. The Opposition Parties would not publicly support it, and some of the Government's supporters would not favour it. The Trade Union Congress would also be unlikely to give it public support. The introduction of such a Bill would seriously dislocate the Parliamentary programme for the current session.

(c) As regards the form of the proposed legislation, *The Commonwealth Secretary* urged that its provisions should be kept as general as possible in order that means might be found in practice to allow the movement of British subjects between the United Kingdom and independent Commonwealth countries to continue without hindrance.

(d) Public opinion might be influenced in favour of the introduction of legislation on the lines proposed if more publicity were given to the restrictions already applicable to the entry of British subjects into all the other independent Commonwealth countries and into most Colonial territories.

The Cabinet:—
(1) Invited the Commonwealth Secretary and Colonial Secretary to prepare and submit to the Cabinet the draft of a White Paper describing the existing restrictions on the entry of British subjects into other Commonwealth countries.
(2) Agreed to resume their discussion at a later meeting.

523 PREM 11/824 14 Jan 1955

'West Indian immigration': note by Mr Macmillan to Sir A Eden

Here is a note about the problem of West Indian immigration:—

1. The problem ought to be "ventilated". There is dangerous propaganda going on. It is suggested that they are leaving Jamaica because the country there is so poor. But as it costs them a million pounds[1] to get here, this does not seem true. The real reason for their coming here is that this country under our beneficent administration is so rich and prosperous.
2. A discussion in the Commons is difficult to arrange. A Private Member's Motion on a Friday is only attended by cranks.
3. Could there, therefore, be a discussion in the Lords? The Lord Chancellor[2] told me that Lord Listowel[3] would be prepared to raise the subject in a friendly way. I am surprised at this. I should have thought he would have been in favour of mixing up blacks and whites. But if his opinions are sound, it might be good to get him to start. He is normally the wettest thing I know. So if he is all right, this is a good sign.
4. At the same time, or following the discussion in the Lords, a question might be asked in the Commons for information about what other Commonwealth countries do. The Colonial Secretary could publish in response a White Paper setting it all out.
5. In the light of the parliamentary and press attitude to the problem, we could decide whether to appoint a Committee. If we appointed a Committee, this might, or might not, lead to legislation.
6. In any case, it seems clear that legislation is hopeless unless it were agreed between all parties.
7. On the other hand, we might introduce a Bill and let it fall. This would at least show willing.

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[1] This was the Jamaican government's estimate of the total spent on sea and air passages to the UK in 1954.
[2] Viscount Kilmuir (formally Sir D Maxwell Fyfe), lord chancellor, 1954–1962.
[3] Earl of Listowel, minister of state for colonial affairs, 1948–1950.

524 CAB 128/29, CM 14(55)4 14 June 1955

'Colonial immigrants': Cabinet conclusions on a committee of inquiry into colonial immigrants

[The problem of legislation was held over during the election campaign of May 1955. In June Mr Lloyd-George reopened the issue, arguing that legislation was the only way of 'controlling this influx', that the existing draft bill 'would be highly controversial', and that 'controversy would be reduced if it were possible to base the legislation on the recommendations of an impartial Committee' ('Colonial immigrants', Cabinet memo by Lloyd-George, CAB 129/75, CP(55)32, 11 June 1955). Briefing the prime minister, Sir N Brook pointed out that the purpose of the proposed committee of inquiry 'would be, not to find a solution (for it is evident what form control must take), but to enlist a sufficient body of public support for the legislation that would be needed' ('Colonial immigrants', brief by Brook for Eden, PREM 11/824, 14 June 1955).]

The Cabinet had before them—(i) a memorandum by the Home Secretary (C.P. (55) 32) proposing that an independent Committee should be appointed to enquire into the problem of restricting immigration of British subjects from overseas into the United Kingdom; and (ii) a memorandum by the Commonwealth Secretary and Colonial Secretary (C.P. (55) 31) covering the revised draft of a White Paper summarising the restrictions applicable to the admission of British subjects to other Commonwealth countries and to the Irish Republic.

The Cabinet's discussion turned mainly on the proposal for the appointment of an independent committee of enquiry. Doubts were expressed about the terms of reference and the composition proposed for this in C.P. (55) 32. The first purpose of an enquiry should be to ensure that the public throughout the country were made aware of the nature and extent of the problem: until this was more widely appreciated the need for restrictive legislation would not be recognised. The terms of reference proposed in the memorandum might give the impression that the need for restrictive legislation was taken for granted. As regards the composition of the proposed Committee, the point was made that a body of people selected as representing various types of experience might well prove to be all of one mind on the question of racial discrimination. The view was expressed that, if recourse was to be had to a committee of enquiry, it might be preferable to appoint a smaller body, less representative in character, with broader terms of reference.

Further discussion showed, however, that there was still some scepticism in the Cabinet about the value of an enquiry into this subject by an independent Committee. The appointment of a Committee would be criticised in some quarters as a device for delaying Government action. And it could not be certain that the Committee's report would be such as to rally public opinion in support of restrictive legislation. An authoritative statement of the increasing volume of immigration, and of the social and economic problems to which it was likely to give rise, might prove a better basis for action. A statement of this kind could be quickly prepared by officials of the Departments concerned. A report on these lines had been prepared some time ago by an Interdepartmental Committee of officials: there should be no difficulty in bringing it up to date and putting it into a form suitable for publication.

The Cabinet:—

(1) Invited the Home Secretary to arrange for an Interdepartmental Committee of officials of the Departments directly concerned to prepare, in a form suitable for publication, a report on the growing influx into the United Kingdom of coloured

workers from other Commonwealth countries and of the social and economic problems to which this was giving rise.
(2) Agreed to resume their discussion of this problem in the light of the report to be prepared in pursuance of Conclusion (1) above.
(3) Deferred for the time being a decision on the question whether a White Paper should be presented to Parliament in the terms of the draft annexed to C.P. (55) 31.[1]

[1] An officials' report was prepared as requested. Once again, however, Cabinet felt unable to take action. It was decided that publication of the report 'would not serve any useful purpose at the present time'. At the urging of Lord Salisbury, Cabinet decided instead to give further consideration to Lloyd-George's existing draft bill (CAB 128/29, CM 31(55)4, 15 Sept 1955).

525 CAB 128/29, CM 39(55)7 3 Nov 1955

'Colonial immigrants': Cabinet conclusions on a draft bill to restrict colonial immigration

The Cabinet had before them a memorandum by the Home Secretary (C.P.(55) 166) covering a draft of a Bill to control the entry into the United Kingdom of British subjects from overseas and discussing the issues which would have to be settled before such legislation could be introduced. They also had before them a memorandum by the Colonial Secretary (C.P.(55) 167) recommending that, if such legislation were introduced, it should extend to British subjects from all Commonwealth countries and should not be confined to those from Colonial territories.

The Home Secretary said that, if it were decided to take power to control this immigration, the main questions were whether the legislation should apply to all British subjects from overseas or only to those from the Colonies, and whether it should extend to citizens of the Irish Republic. Although the need for such powers arose mainly from the rapid increase in immigration from the West Indies, legislation limited to Colonial immigrants would be regarded as racial discrimination and would be particularly objectionable to the West Indies. Moreover, legislation limited in this way would become less effective as Colonial territories achieved independence.[1] Though 20,000 immigrants had come to this country in 1955 from the West Indies, immigration from India and Pakistan was running at the rate of six or seven thousand a year. There would be great practical difficulty in applying the control to citizens of the Irish Republic, but immigration from that quarter was considerable. It was estimated that 750,000 Irish had immigrated into the United Kingdom since the end of the war; and nearly 60,000 had registered for National Insurance in twelve months up to the middle of 1955.

The Home Secretary said that under the draft legislation which he had circulated the main criteria for admission were employment and housing: immigrants could be refused entry unless they could satisfy the Immigration Officer that authorised employment was awaiting them and that satisfactory housing accommodation was available for them and their dependants.

The Colonial Secretary said that legislation limited to Colonial immigrants would

[1] This, Lennox-Boyd pointed out in his memo, would also 'add to the difficulties of our relations with near-independent, or would-be independent, territories' ('Colonial immigrants', Cabinet memo by Lennox-Boyd, CAB 129/78, CP(55)167, 1 Nov 1955).

certainly be criticised as racial discrimination. It would have a particularly unfortunate effect on our relations with the West Indies, and might well prejudice the future association of the proposed West Indian Federation with the Commonwealth. In any case, it was very doubtful whether legislation in the form proposed would be effective. Though the immigrant would be required to prove on entry that employment and accommodation were awaiting him, there would be no means of ensuring thereafter that he remained in the same area or in the same job. His own view was that it would be inexpedient to impose this sort of control at the present time, and that the preferable course was for the Government to try by other means to disperse the Colonial immigrants more evenly over the United Kingdom.

In discussion the following points were made:—

(a) The problem of Colonial immigrants had not yet aroused general public anxiety, although there was some concern, mainly due to housing difficulties, in a few localities where most of the recent immigrants were concentrated. On the other hand, if immigration from the Colonies and, for that matter, from India and Pakistan, were allowed to continue unchecked, there was a real danger that over the years there would be a significant change in the racial character of the English people.

(b) All the Colonies had power to control the immigration of British subjects into their territories. It was suggested they should not regard it as unreasonable if the United Kingdom took power to apply similar restrictions.

As against this it was argued that such a step would be inconsistent with the traditional policy that British subjects should have the right of free entry into the Mother country of the Commonwealth, and would be widely regarded as an illiberal development.

(c) On economic grounds immigration, including Colonial immigration, was a welcome means of augmenting our labour resources. It was the condition of full employment here that was attracting these immigrants. The Trades Union Congress were, in general, averse to the imposition of restrictions on Colonial immigration, although individual Unions might well take a different line.

(d) If powers were to be taken to control the entry of British subjects from overseas, it seemed desirable that similar restrictions should be applied to citizens of the Irish Republic. But, apart from the fact that we needed Irish labour, it would be impracticable to control immigration from the Irish Republic without applying restrictions to travel between Great Britain and Northern Ireland.

(e) Consideration might be given to the possibility of admitting Colonial immigrants for temporary employment for a period not exceeding five years. This might meet the present need for labour with less prejudice to long-term social conditions.

The Prime Minister, summing up the discussion, said that it was evident that further thought must be given to this problem before the Cabinet could decide whether legislation should be introduced on the lines indicated in C.P. (55) 166.

The Cabinet:—

Took note that the Prime Minister would consider how the problem of colonial immigration should be further examined.[2]

[2] Eden's decision was to appoint a ministerial committee (Kilmuir (chair), Salisbury, Lloyd-George, Home, Lennox-Boyd and the attorney-general, Manningham-Buller) to undertake 'further examination ... of the problems which would have to be solved if we decided to introduced legislation' ('Colonial immigrants', note by Eden, CAB 129/78, CP(55)180, 23 Nov 1955).

526 CAB 128/30/2, CM 48(56)10 11 July 1956

'Colonial immigrants': Cabinet conclusions on the question of legislating to restrict colonial immigration

The Cabinet had before them a report (C.P. (56) 145) of the Committee of Ministers which, under the Chairmanship of the Lord Chancellor, had examined the need for early legislation to control the immigration into the United Kingdom of coloured people from Commonwealth territories.

The Lord Chancellor[1] said that, in spite of the strong arguments in favour of assuming power to control the flow of coloured immigrants into this country, the majority of the Committee had reached the conclusion that the balance of advantage lay against immediate legislation. Such legislation, however it might be framed, would be regarded as discrimination on grounds of race and colour and would come as a shock for which public opinion was still not prepared. Moreover, it could be expected to add to the economic problems of the West Indies at a time when the newly formed Caribbean Federation would be struggling to get on its feet. In view of these considerations, the majority of the Committee thought that the problem was not sufficiently urgent to justify action at a time when the Parliamentary time-table was already congested and the Government were faced with other important preoccupations, and that it would be enough if the problem were reviewed again in about a year's time.

The Lord President said that he did not share this view. The report disclosed a growing and ominous potential danger from the uncontrolled immigration of coloured people. The force of the arguments in favour of control would not diminish within a year and, although he recognised that there was no public pressure at present for legislation, there was a serious risk that, by deferring action from year to year, the Government might find that the problem had come to assume dimensions which would defeat any attempt to control it. Moreover, he considered that, in addition to the requirements regarding housing which were discussed in the report, consideration should be given to controlling immigration by means of labour permits valid for a limited period.

In discussion the following points were made:—

(a) Some 14,000 coloured immigrants from Colonial territories had arrived in this country in the first six months of this year and immigration might be running at a higher rate this year than last year. It appeared also that over 1,000 Indians were arriving each week with the intention of settling here.

(b) Coloured workers, in a time of full employment were prepared to take jobs which had little appeal for our own workers. Some of the public services were aware of this and had been anxious to obtain coloured workers.

(c) Nevertheless the employment situation was changing. Unemployment among coloured people had doubled within the last year. Although only some 5,000 coloured workers were in fact unemployed, this was over four times the national average. If unemployment further increased this in itself should serve to check the number of arrivals. *The Colonial Secretary* undertook to discuss with the Chief Ministers of Jamaica and Barbados, during their next visit to this country, the

[1] Lord Kilmuir.

prospects for coloured immigrants in relation to the trend in the employment situation here with a view to inducing them to discourage emigration from the West Indies.

(d) *The Commonwealth Secretary* said that he had no doubt that any legislation we might enact must apply in form to the Commonwealth as a whole. He did not fear that this would give rise to any serious consequences in our relations with Commonwealth countries, many of whom under their own laws practised discrimination against immigrants from other parts of the Commonwealth.

It was pointed out, however, that it would be to our disadvantage if anything were done which might cause the Indian Government to reconsider their practice of allowing United Kingdom citizens to enter India freely.

(e) Although it would be difficult to apply any control to immigrants from Eire without subjecting immigrants from Northern Ireland to a similar control, further consideration should nevertheless be given to the justification for making an exception, as proposed in C.P. (56) 145, for citizens of the Irish Republic. The justification for extending the franchise to Irish Citizens who were resident here should also be examined.[2]

It was the general view of the Cabinet that it would not be wise to defer the further consideration of this problem for as long as a year. The matter should be reviewed again in the autumn unless, in view of the changing trend in the employment situation or for any other reason, it should become necessary to return to it earlier.

The Cabinet:—

(1) Took note of C.P. (56) 145.

(2) Agreed that the question of taking powers to impose control over the immigration of coloured people should be reviewed in the autumn, or earlier if necessary.

(3) Invited the Colonial Secretary to discuss the question of coloured immmigrants from the West Indies with the Chief Ministers of Jamaica and Barbados.[3]

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[2] Resident Irish had been given the franchise under the Ireland Act of 1949, see BDEEP series A, R Hyam, ed, *The Labour government and the end of empire 1945–1951*, part IV, 402.

[3] Resuming discussion in the autumn, Cabinet was still unable to resolve on any action other than to keep the matter under review (CAB 128/30/2, CM 85(56)8, 20 Nov 1956). Not until 1962—by which time immigration was running at over 100,000 a year—was restrictive legislation enacted. The method adopted was a blend of annual quotas and a system of vouchers, which were issued to immigrants with specified skills or guarantees of employment.

Biographical Notes: parts I–III

Arden-Clarke, Charles Noble, 1898–1962
Kt 1946; CAS from 1920; administrative officer, Northern Nigeria, 1920–1933; acting principal assistant secretary, Nigerian secretariat, 1934–1936; assistant resident commissioner and government secretary, Bechuanaland Protectorate, 1936, and resident commissioner, 1937–1942; resident commissioner, Basutoland, 1942–1946; gov and C-in-C, Sarawak, 1946–1949, Gold Coast, 1949–1957; first gov-gen and C-in-C, Ghana, Mar–July 1957; member of Monckton Commission on Central Africa, 1960

Baring, Sir Evelyn (1st Baron Howick of Glendale cr 1960) 1903–1973
KCMG 1942; ICS 1926–1934; gov of Southern Rhodesia, 1942–1944; UK high commissioner in Union of South Africa and high commissioner for Basutoland, Bechuanaland Protectorate and Swaziland, 1944–1951; gov and C-in-C, Kenya, also chairman of East Africa High Commission, 1952–1959

Bourdillon, Henry Townsend, b 1913
Rugby and Corpus Christi, Oxford; assistant principal, CO, 1937–1939; assistant private secretary to S of S Dominions, 1939–1940; acting principal, CO 1940–1942; French Dept, FO, 1942–1943; Cabinet Office, 1943–1944; Ministry of Production, 1944; principal, CO, 1944–1947; assistant secretary, 1947–1954; assistant under-secretary of state, 1954–1959 and 1961–1962; deputy commissioner, Singapore, 1959–1961; under-secretary, Ministry of Education, 1962–1964; assistant under-secretary of state, Department of Education and Science, 1964–1973

Brook, Sir Norman Craven (1st Baron Normanbrook cr 1963) 1902–1967
KCB 1946; 1st Baron Normanbrook 1963; Wolverhampton school and Wadham, Oxford; Home Office 1925–1940; personal assistant to lord president of Council, 1940–1942; deputy secretary (civil) to War Cabinet, 1942; permanent secretary, Ministry of Reconstruction, 1943–1945; additional secretary to Cabinet, 1945–1946; secretary to Cabinet, 1947–1962; joint secretary of the Treasury and head of the Home Civil Service, 1956–1962

Butler, Richard Austen (Lord Butler, life baron, cr 1965) 1902–1982
KG 1971; fellow, Corpus Christi, Cambridge, 1925–1929, MP (Con) 1929–1965; under-secretary of state, India Office, 1932–1937; parliamentary secretary, Ministry of Labour, 1937–1938; under-secretary of state, FO, 1938–1941; president of Board of Education, 1941–1944; minister of education, 1944–1945; minister of labour, 1945; chancellor of Exchequer, 1951–1955; leader of House of Commons, 1955–1961, lord privy seal, 1955–1959; home secretary, 1957–1962, first S of S, deputy prime minister and minister in charge of Central African Office, 1962–1963; S of S foreign affairs, 1963–1964; master, Trinity College, Cambridge, 1965–1978

Churchill, Winston Leonard Spencer, 1874–1965
KG 1953; MP (Con) 1900–1904, (Lib) 1904–1918, (Coalition Lib) 1918–1922, (Consitutionalist) 1924–1929, (Con) 1929–1964; under-secretary of state, CO, 1906–1908; president of Board of Trade, 1908–1910; home secretary, 1910–1911; first lord of Admiralty, 1911–1915; chancellor of Duchy of Lancaster, 1915; minister of munitions, 1917–1919; S of S war and air, 1919–1921; S of S air and colonies, 1921; S of S colonies, 1921–1922; chancellor of Exchequer, 1924–1929; first

lord of Admiralty, 1939–1940; prime minister and minister of defence, 1940–1945; prime minister, 1951–1955 and minister of defence, 1951–1952

Cohen, Andrew Benjamin, 1909–1968
KCMG 1952; Malvern and Trinity, Cambridge; CO from 1933 (from Inland Revenue); served in Malta, 1940–1943; CO assistant secretary (East and Central African Dept) from 1943; assistant under-secretary of state (Africa Dept), 1947; Gov of Uganda, 1952–1957; permanent UK representative, UN Trusteeship Council, 1957–1961

Eden, (Robert) Anthony (1st Earl of Avon cr 1961) 1897–1977
KG 1954; MP (Con) 1923–1957; parliamentary private secretary to S of S foreign affairs, 1926–1929; parliamentary under-secretary of state, FO, 1931–1933; lord privy seal, 1934–1935; minister without portfolio for League of Nations affairs, 1935; S of S foreign affairs, 1935–1938; S of S dominions, 1939–1940; S of S war, 1940; S of S foreign affairs, 1940–1945; leader of House of Commons, 1942–1945; S of S foreign affairs and deputy prime minister, 1951–1955; prime minister, 1955–1957

Gorell Barnes, William Lethbridge, 1909–1987
KCMG 1961; Marlborough and Pembroke, Cambridge; served in HM diplomatic service, 1932–1939 and offices of War Cabinet, 1939–1945; personal assistant to lord president of council, 1942–1945; assistant secretary, Treasury, 1945–1946; personal assistant to prime minister, 1946–1948; assistant under-secretary of state, CO, 1948–1956; joint deputy under-secretary of state, 1959–1963

Home, Alexander Frederick Douglas-(Baron Home of the Hirsel, life peer, cr 1974) b 1903
14th Earl of Home 1951–1963; Sir Alec Douglas Home 1963–1974; MP (Unionist) 1931–1945, (Con) 1950–1951, (Unionist) 1963–1974; parliamentary private secretary to prime minister, 1937–1940; joint parliamentary under-secretary of state, FO, 1945; minister of state, Scottish Office, 1951–1955; S of S for Commonwealth relations, 1955–1960; leader of House of Lords, 1957–1960; S of S for foreign affairs, 1960–1963; prime minister, 1963–1964; S of S for foreign and Commonwealth affairs, 1970–1974

Jeffries, Charles Joseph, 1896–1972
KCMG 1943; Malvern and Magdalen, Oxford; 2nd class clerk, CO, 1917–1920; principal, 1920–1930; assistant secretary and establishment officer, 1930–1939; assistant under-of state, 1939–1947; joint deputy under-secretary of state, 1947–1956

Laithwaite, (John) Gilbert, 1894–1986
KCIE 1941; Clongowes and Trinity, Oxford; served in India Office, 1919–1936; private secretary to Viceroy of India (Marquess of Linlithgow), 1936–1943; under-secretary (civil) to War Cabinet, 1944–1945; deputy under-secretary of state for Burma, 1945–1947, for India, 1947, for Commonwealth relations, 1948–1949; HM representative/ambassador, Ireland, 1949–1951; high commissioner, Pakistan, 1951–1954; permanent under-secretary of state, CRO, 1955–1959

Lennox-Boyd, Alan Tindal (1st Viscount Boyd of Merton cr 1960) 1904–1983
MP (Con) 1931–1960; parliamentary secretary, Ministry of Labour, 1938–1939, Ministry of Home Security, 1939, Ministry of Aircraft Production, 1943–1945; minister of state, CO, 1951–1952; minister of transport and civil aviation, 1952–1954, S of S for colonies, 1954–1959

Liesching, Percivale, 1895–1973
KCMG 1944; Bedford and Brasenose, Oxford; entered CO, 1925; transferred to DO, 1925; seconded to Board of Trade (1942) and Ministry of Food (1946); permanent under-secretary of state, CRO, 1949–1955; high commissioner, South Africa, and high commissioner for Basutoland, Bechuanaland and Swaziland, 1955–1958

Lloyd, John Selwyn Brooke (Lord Selwyn Lloyd, life baron cr 1976) 1904–1978
Barrister 1930; MP (Con) 1945–1970; minister of state, FO, 1951–1954; minis-

ter of supply, 1954–1955; minister of defence, 1955; S of S foreign affairs, 1955–1960; chancellor of Exchequer, 1960–1962; lord privy seal and leader of House of Commons, 1963–1964; MP and speaker, House of Commons, 1971–1976

Lloyd, Thomas Ingram Kynaston, 1896–1968
KCMG 1947; Rossall and Gonville and Caius, Cambridge; assistant principal, Ministry of Health, 1920–1921; assistant principal, CO, 1921–1929; principal 1929–1939; secretary, Palestine commission, 1929–1930; secretary, West Indies Royal Commission, 1938–1939; assistant secretary, CO, 1939–1943; assistant under-secretary of state 1943–1947; permanent under-secretary of state, 1947–1956

Lyttelton, Oliver (1st Viscount Chandos cr 1954) 1893–1972
KG 1954; company director; MP (Unionist) 1940–1954; president of Board of Trade, 1940–1941; minister of state in War Cabinet, 1941–1942; minister of production, 1942–1945; president of Board of Trade and minister of production, 1945; chairman, Associated Electrical Industries Ltd, 1945–1951; S of S for colonies, 1951–1954; chairman, AEI Ltd, 1954–1963

Macmillan, (Maurice) Harold (1st Earl of Stockton cr 1984) 1894–1986
MP (Unionist) 1924–1929, 1931–1945, (Con) 1945–1964; parliamentary secretary, Ministry of Supply, 1940–1942; parliamentary under-secretary of state, CO, 1942; minister resident at Allied HQ in North-West Africa, 1942–1945; secretary for air, 1945; minister of housing and local government, 1951–1954; minister of defence, 1954–1955; S of S foreign affairs, 1955; chancellor of Exchequer, 1955–1957; prime minister, 1957–1963

Macpherson, John Stuart, 1898–1971
KCMG 1945; Malayan Civil Service, 1921–1937; seconded to CO, 1933–1935; served in Nigeria, 1937–1939; chief secretary, Palestine, 1939–1943; member, Anglo-American Caribbean Commission, 1943–1945; comptroller for development and welfare in West Indies and British co-chairman, Caribbean Commission, 1945–1948; gov of Nigeria, 1948–1954; gov-gen, Federation of Nigeria, 1954–1955; permanent under-secretary of state, CO, 1956–1959

Martin, John Miller, b 1904
KCMG 1952; Edinburgh Academy and Corpus Christi, Oxford; assistant principal, DO, 1927–1931; seconded to Malayan Civil Service, 1931–1934; private secretary to parliamentary under-secretary of state, DO, 1934–1935; principal, CO, 1935–1940; secretary, Palestine Royal Commission, 1936–1937; private secretary to prime minister, 1940–1941; principal private secretary, to prime minister, 1941–1945; assistant under-secretary of state, CO, 1945–1956; joint deputy under-secretary of state, 1956–1965; high commissioner, Malta, 1965–1967

Poynton, (Arthur) Hilton, b 1905
KCMG 1949; Marlborough and Brasenose, Oxford; assistant principal, Department of Scientific and Industrial Research, 1927–1929; assistant principal, CO, 1929–1935; private secretary to parliamentary under-secretary of state, CO, 1932–1933; seconded to Sierra Leone administration, 1933–1934; principal, DO, 1935; principal, CO, 1935–1943; on loan as private secretary to minister supply, 1941–1942, and minister of production, 1942–1943; assistant secretary, CO, 1943–1946; assistant under-secretary of state, 1946–1948; joint deputy under-secretary of state, 1948–1959; permanent under-secretary of state, 1959–1966

Salisbury, 5th Marq[illegible]
Arthur James Gascoyne Cecil 1947 (Robert Viscount Cranborne 1942; 1893–1972
1929–1941; parliamentary [illegible]ionist) secretary of state, FO, 1935–[illegible]-paymaster general, 1940; S of S fo[illegible] dominion affairs, 1940–1942 and 1943–1945; S of S for colonies, 1942; lord privy seal, 1942–1943; leader of House of Lords, 1942–1945 and 1951–1957; S of S for Commonwealth relations, 1952; lord president of the Council, 1952–1957; resigned over colonial affairs

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Confidential Print, Miscellaneous: CO 885/53, 123–126, 133, 139
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ter of supply, 1954–1955; minister of defence, 1955; S of S foreign affairs, 1955–1960; chancellor of Exchequer, 1960–1962; lord privy seal and leader of House of Commons, 1963–1964; MP and speaker, House of Commons, 1971–1976

Lloyd, Thomas Ingram Kynaston, 1896–1968
KCMG 1947; Rossall and Gonville and Caius, Cambridge; assistant principal, Ministry of Health, 1920–1921; assistant principal, CO, 1921–1929; principal 1929–1939; secretary, Palestine commission, 1929–1930; secretary, West Indies Royal Commission, 1938–1939; assistant secretary, CO, 1939–1943; assistant under-secretary of state 1943–1947; permanent under-secretary of state, 1947–1956

Lyttelton, Oliver (1st Viscount Chandos cr 1954) 1893–1972
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Poynton, (Arthur) Hilton, b 1905
KCMG 1949; Marlborough and Brasenose, Oxford; assistant principal, Department of Scientific and Industrial Research, 1927–1929; assistant principal, CO, 1929–1935; private secretary to parliamentary under-secretary of state, CO, 1932–1933; seconded to Sierra Leone administration, 1933–1934; principal, DO, 1935; principal, CO, 1935–1943; on loan as private secretary to minister supply, 1941–1942, and minister of production, 1942–1943; assistant secretary, CO, 1943–1946; assistant under-secretary of state, 1946–1948; joint deputy under-secretary of state, 1948–1959; permanent under-secretary of state, 1959–1966

Salisbury, 5th Marquess of 1947 (Robert Arthur James Gascoyne Cecil) 1893–1972
Viscount Cranborne 1942; MP (Unionist) 1929–1941; parliamentary under-secretary of state, FO, 1935–1938; paymaster general, 1940; S of S for dominion affairs, 1940–1942 and 1943–1945; S of S for colonies, 1942; lord privy seal, 1942–1943; leader of House of Lords, 1942–1945 and 1951–1957; S of S for Commonwealth relations, 1952; lord president of the Council, 1952–1957; resigned over colonial affairs

Swinton, 1st Earl of cr 1955 (Philip Cunliffe-Lister) 1884–1972

Philip Lloyd Greame 1884–1924; KBE 1920; Sir Philip Cunliffe-Lister 1924–1935; 1st Viscount Swinton 1935–1955; MP (Unionist) 1918–1935; president of Board of Trade, 1922–1923 and 1924–1929; S of S for colonies, 1931–1935; S of S for air, 1935–1938, Cabinet minister-resident in West Africa, 1942–1944; minister for civil aviation, 1944–1945; chancellor of Duchy of Lancaster and minister of materials, 1951–1952; deputy leader of House of Lords, 1951–1955; S of S for Commonwealth relations, 1952–1955

Twining, Edward Francis (Baron Twining of Tanganyika and Godalming, life peer, cr 1958) 1899–1967

KCMG 1949; military service, 1919–1928; served in 4th King's African rifles, 1923–1928; joined CAS, Uganda, 1929; deputy director of labour, Mauritius, 1939; director, 1939–1943; administrator, St Lucia, Windward Islands, 1944–1946 (acting gov and C-in-C, 1946); gov and C-in-C, North Borneo, 1946–1949; gov and C-in-C, Tanganyika, 1949–1958

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Commonwealth and International Conferences Committee: CAB 133/97–101, 104, 113–119, 123–126, 129–134, 137–140, 143–150
General series from 1945:
New Colonial Office Building Committee: CAB 134/782 (1955)
Commonwealth Membership Committee: CAB 134/786 (1953–1954)
Cyprus Committee: CAB 134/801 (1954)
Economic Policy Committee: CAB 134/841–855
Far East (Official) Committee: CAB 134/897
Future of the Imperial Committee: CAB 134/924 (1954)
Colonial Policy Committee: CAB 134/1201 (minutes, 1955–1956), 1202 (memoranda, 1956) 1203 (minutes and memoranda, Official Committee, 1956)
Colonial Immigrants Committee: CAB 134/1210 (1955–1956)
Policy Review Committee: CAB 134/1315 (1956)
Economic Steering Committee: Sub-Committee on Closer Economic Association with Europe: Working Party on the Colonies: CAB 134/1878 (1956)

(ii) *Cabinet Office*
Cabinet conclusions (minutes): CAB 128/23–30 part II
Cabinet memoranda: CAB 129/48–84

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Minutes of meetings: DEFE 4/48–87
Papers: registered files, general series: DEFE 7/177 (1951–1953), 415

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Secretariat's registered files: DEFE 11/65 (1951–1952), 112 (1955)

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(i) *CO original correspondence, 1951–1957: geographical classes*
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Far East: CO 1030/163
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Confidential Print, Africa: CO 879/157
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