

4 FO 371/135624, no 9

3 Feb 1958

[Overseas interests of the UK]: FO brief for a permanent under-secretaries' meeting to discuss future policy¹. *Annex: CRO and CO memoranda*

[In the summer of 1956, apparently on the initiative of Macmillan (chancellor of the Exchequer) and Sir W Monckton (minister of defence), a high-level ministerial 'Policy Review' committee was set up, with prime minister Eden's support, to make a reappraisal of defence policy and British overseas commitments. Officials under Sir N Brook produced a report, 'The future of the UK in world affairs' (see D Goldsworthy, ed, *The Conservative government and the end of empire, 1951–1957*, BDEEP, 1994, part I, document numbers 20 & 21). The work of the committee was incomplete owing to the Suez Crisis and the change of government. In Nov 1957 Brook—prompted by Sir F Hoyer Millar of the FO (CO 1032/166, letter to Brook, 9 Oct 1957)—suggested to Macmillan that a fresh review might be appropriate, in the light of changed circumstances: 'Our position in the Middle East has undergone a radical change. A new phase of Anglo-American co-operation is opening. We are being compelled to review our earlier conception of the capabilities of the Soviet Union as a technological rival. We are facing renewed economic difficulties. And we are drastically modifying our defence programme'. The FO was keen to have a comprehensive assessment of essential overseas interests and the deployment of resources. The permanent under-secretaries of the FO, CO, CRO, the Treasury and Defence could undertake it. Macmillan agreed, provided it did not lead to too many or too lengthy papers or to overburdening of officials (PREM 11/2321, minutes 25 & 28 Nov 1957). Despite this, when the report arrived in June 1958 (see document no 5), Macmillan appears to have been dissatisfied with it; at all events, in June 1959 he called for a more comprehensive review of overseas policy as something needed for consideration by a new administration after the autumn election (document no 8). Although Sir N Brook was put in overall charge of this large investigation, the main input was from a Working Group chaired by Sir P Dean of the FO. It started by collecting such papers as the previous report on the position of the UK in world affairs, the Africa Committee's report on 'Africa in the next ten years' (document no 20), and despatches from Malcolm MacDonald in India (documents nos 7, and 529 in Part II). The planning exercise was given the title of 'Study of Future Policy, 1960–1970'; the intention was to produce something akin to a blueprint, or at least a 'crystal-ball', for future overseas policy in all its aspects (FO 371/143702, ZP 25/2, 3, 10 & 12).]

... *The papers*

3. (a) *The Foreign Office contribution*. This consists of a covering paper (pages 1–13a) discussing our aims, our principal political and military commitments and the use of our resources, and a series of detailed annexes (pages 14–75). The Annexes can probably be ignored for the purposes of this meeting. The most important passages in the covering paper, which it is hoped the Permanent Under-Secretary will have time to read in full, are paragraphs 5–8 and 41–42. Mr. Ormsby-Gore's comments on the first draft of the paper were included.

4. (b) *The Colonial Office and Commonwealth Relations Office contributions*. These are interesting papers, on which a number of comments could be made, but they do not bear directly upon the principal issue which confronts the Foreign Office (see paragraph 6 below). A look through the attached summaries will probably suffice. An important question, not discussed in the C.R.O. paper, is whether India, in her struggle to maintain her First-Year Plan, will be such a drain on the Sterling system as to frustrate our hopes of building up our reserves.

5. (c) *The Treasury contribution*. This is a very good and important paper and should be read in full, as any summary might be misleading.

¹ This brief was by P E Ramsbotham. The meeting was chaired by Sir R Makins (T) on 4 Feb.

The main issue

6. The main issue is whether the economic situation and the financial policy which has been designed to meet it can be reconciled with the expenditure overseas which will be necessary to maintain the United Kingdom's position in the world. Our object should be to ensure that the Foreign Office and the Treasury stand together in agreeing that neither foreign nor financial policies can be weakened if our ultimate objectives are to be attained.

7. We should therefore express full agreement with the Treasury paper, subject to certain clarifications (para. 8 below) since the paper does not set out a point of view incompatible with our own. Their line of thought seems to be that, if Sterling weakens, the United Kingdom will not be able to maintain its present commitments either at home or overseas, and that economies must be found if this is to be prevented. We should agree, but the question is *where* are the economies to be found? In our view, the exercise should reach agreement on the essential nature of both financial and foreign policies, recognise that both may need intensifying in certain directions and conclude by presenting to Ministers the choice of cuts in unproductive home expenditure or severe damage to our interdependent foreign and financial positions.

8. In general, the Treasury paper does not seem inconsistent with this line. It concentrates naturally upon our economic aims, and some correction of this emphasis is needed to bring it into overall perspective. Thus the paper rightly emphasises the basic importance to our economic aims of foreign confidence in our belief in the Sterling Area (paragraph 14). Equally important to the same aims, in our view, is foreign confidence in our political future as a power with world-wide influence and interests. Similarly, in paragraph 17, the Treasury state that additional external investment would secure us greater dividends than additional expenditure on anything else. Our acceptance of this thesis depends upon how widely investment is defined. If it is defined widely so as to include action to support our political position abroad which in turn supports our commercial position, we can accept it. If not, i.e. if it is to be confined strictly to putting money into Government or private enterprises in the financial sense, we could not do so.²

The Foreign Office paper

9. In introducing the Foreign Office paper, therefore, the Permanent Under-Secretary may wish to emphasise and seek to secure agreement on our basic and subsidiary aims (para. 5–7 of the paper) and go on to make the following points:

- (a) The needs of foreign policy cannot be totally subordinated to the need to build up our financial resources. Both foreign and financial policies depend on each other's success. Merely holding on to our present international position is bound to become increasingly expensive because
 - (i) costs are rising;

² Sir P Dean minuted that he agreed with paras 6–8: the FO and Treasury views were 'already pretty close', but 'we cannot go so far as they would wish in saying that *everything* must be sacrificed to reinforce sterling during the next few years and that this means that there can be no increase in our expenditure overseas'; some (comparatively small) increase might be necessary 'if we are not to lose a great deal in other fields while the financial situation is being restored' (3 Feb 1958).

(ii) in a sharply competitive world we have to do more in order to maintain our relative position; like the Red Queen, we must run very fast in order to stay in the same place (para. 8 of Foreign Office paper). There are cases where failure to spend now may mean total loss later.

(b) Given the position, population and organisation of the United Kingdom, the cost of maintaining our position abroad is astonishingly small (the Foreign Office vote and Grants and Services Vote in 1957/8 were estimated at £30.5 million out of a total of £80–100 million on all civil expenditure overseas). Compared with Defence (£1,629 million) it is a cheap way of maintaining our security; compared with consumption (£13,409 million) it is tiny. Moreover, we are at present in a position to spend money profitably if we can find it. All over the world friendly Governments, especially in the Middle East and Asia, are clamouring for help in development, defence, etc. We cannot, and indeed should not, do more than a very small fraction of what they want, but there are both big dividends to be won at little cost by modest but rightly directed response, and risks of eclipse if we fail to respond at all.

(c) The policy of Anglo–American interdependence is likely to involve us in some extra expenditure if it is to remain Anglo–American. There is the policy of “containment”, towards Syria, to which we have not yet made any significant contribution, and the Economic Measures Working Group in Washington may soon be recommending action in individual cases involving expenditure. The United Kingdom will have to prime the American pump; we cannot expect United States co-operation in these important fields of policy unless we can contribute something, however small, to meeting the costs (paras. 17–18 of Foreign Office paper).

(d) There is a pressing need for a contingency fund (paras. 41–42 of Foreign Office paper). Unforeseen and unforeseeable requests for new commitments are constantly arising, and our success or failure in meeting them can make all the difference to the achievement of our aims. The problem of aircraft for Iraq is a current example. If we had been able to help the Iraqis and forestall United States intervention, we should not have risked losing a valuable commercial connexion, and perhaps also political influence in a quarter in which specifically *British* influence is valuable to the West. Other recent cases have been Polish credits, our inability to provide Nepal with rope-ways, and our insistence on being repaid £2,000 by the Libyans for a locust-control operation. In the last case we presented this absurd bill a year after the event and lost a good deal of face. There are two points here:

(i) *occasionally* we need to be able to help on a big scale, and stand to suffer a really important setback if we cannot; this has to be dealt with *ad hoc*.

(ii) periodically we are confronted with smaller but urgent demands: if we can meet them it helps enormously to cement good relations, while if we cannot, it loosens them. It is for this that a contingency fund is needed. There is already the A. 10 subhead for counter-subversion contingencies, but its use is narrowly defined and it is small (£20,000 annual limit).

(e) The Foreign Office votes are lower this year than last and will be lower again next year. We are doing all we can to achieve economy. Despite increased salaries and rising costs, the estimates for the Foreign Office vote for 1958/9 will be below the net expenditure of the previous year. The Grants and Services votes for 1957/8

were only £15 million (compared with £25 million the previous year), and the estimates for 1958/9 will be down to £12 million, though there will have to be supplementary votes of £3 or £4 million in July (Libya etc.). We are, in fact, one of the few Government Departments to have carried out the economies required. But we are doing so at a risk. The downward trend cannot continue without damage to our prospects of achieving our aims, including those in the economic and financial field.

The handling of the exercise

10. It is important that the exercise should not drag on. The Prime Minister agreed that it should be held provided that it did not take up too much time and paper, and there is already a tendency on the part of the Treasury to insist that proposals for new expenditure should await its outcome. We should therefore press on with it as quickly as possible.

11. The best method of handling it might be for the Cabinet Office (perhaps Mr. Trend) to collate the various papers with the object of arriving at

- (a) agreed aims
- (b) an agreed list of essential commitments
- (c) an agreed minimum figure which must be set aside for overseas expenditure if our aims are to be fulfilled.

It may be desirable, if this proves necessary, to provide officials from the Foreign Office, Treasury, Colonial Office and Commonwealth Relations Office to assist in this work.

12. It would *not* be desirable to turn the work over to existing official Committees such as the Africa Committee and the M.E.O.C.:—

- (a) there are no such committees for Asia and it would take too long to set them up;
- (b) The Africa and M.E.O. Committees are not suitably constituted. They have on them representatives from departments which are not concerned with this exercise;
- (c) the basic papers having now been produced, it should be possible to reconcile and collate them without referring the work to further committees.

P.E.R.
3.2.58

Annex to 4

A. Summary of memorandum by the C.R.O.

1. *Objective: maintenance of cohesion and United Kingdom leadership of Commonwealth.* If Commonwealth disintegrated, United Kingdom would lose status superior to that of a continental European power. Association with Commonwealth greatly enhances our influence with our other allies and with our emerging colonial territories, with whom we could not continue to be linked if the Commonwealth framework was not in existence.

2. Different values attach to different links with individual territories. Politically, some members are actively anti-Communist, others “uncommitted”, but at least the existence of the Commonwealth keeps them “uncommitted”. *Economically*, all are important. Any defection from it would greatly weaken its value. To keep all members

within the Commonwealth will require us to stress different elements of policy to different members, but overall policy must be to maintain its cohesion.

3. *Cohesion depends on continued United Kingdom leadership.* Responsibilities of leadership are entailed by its advantages for us. No Commonwealth association: no world power status. No world power status: no Commonwealth. No Commonwealth: no strong pound. No strong pound: no Commonwealth.

4. *United Kingdom leadership depends on:*

(a) *Political.* Retention of influence with U.S.A. and other allies and in playing leading role in handling relations between Soviet and Western blocs. Hence we must have an independent voice in world affairs, but this depends on our remaining a nuclear power.

(b) *Strategic.* (For certain members) on maintaining reasonable defence forces in certain areas. But our defence policy already takes account of these requirements.

(c) *Economic.* Maintenance and expansion of trade within Commonwealth. This depends on:

(i) a strong pound. If we do not exert the effort others will not either. "The conditions for this, and the reasons required are well known".

(ii) maintenance of long-term investment in the Commonwealth. Given the world economic situation, we should encourage members to seek capital from non-United Kingdom sources even, possibly, from Russia. But the United Kingdom must make major contribution. Level of investment in Commonwealth (now c. £200 million a year [it is not clear if this means United Kingdom investment only]) must be maintained, even raised. We must be able to respond to special appeals for help and on occasions pre-empt Russian offers where likely to do serious harm (though generally economic and cold war considerations should be divorced). We must make scientific and technical know-how available to less developed members.

(d) *Sentimental.* We must foster exchanges and visits, cultural, parliamentary, scientific. Small sums spent on British Council, teaching of English, information work etc. will reap heavy dividends.

B. *Summary of memorandum by Colonial Office*

1. *Description of United Kingdom colonial policy.* Objective is to promote achievement of independence (within Commonwealth) or of maximum degree of internal self-government for Colonial territories too small to be reasonably self-sufficient, in conditions of political stability, rising standards of living and freedom for individual. Hence to assist territories to stand more and more on their own feet, politically, economically and socially.

2. *This policy is a moral obligation* but

3. *It is also in our interests to adhere to it* for

(a) *Economic reasons.* Although high current account surpluses for colonial territories are unlikely to occur again in the foreseeable future and there will be some drawing on colonial sterling balances, our remaining colonial territories are likely to be in many, if not most years, net contributors to our gold and dollar reserves. Premature withdrawal would lead to collapse of markets and sources of supply for the United Kingdom. Withdrawal too long delayed might have this result also, and would in addition encourage newly independent territories to leave

the Sterling Area. In some cases this could be very serious. Timely grants of independence would not endanger economic links with the United Kingdom.

The United Kingdom must make sacrifices to maximise long-term investment in colonies. Total capital investment in recent years on private and public account from all sources has averaged £200 million p.a., of which £40 million each from United Kingdom Government and dollar sources. Needs for external loans will exceed £25 million over next few years. Non-United Kingdom sources are being encouraged to help (e.g. Canada for the West Indies) but United Kingdom must assume large part of the burden if economic development is not to be seriously hampered.

(b) *Strategic reasons*. Specific strategic needs may change, but the United Kingdom has an overall strategic interest in maintaining stability and goodwill without which strategic requirements cannot be assured, before or after independence.

(c) *Political reasons*. It might be argued that the United Kingdom should relinquish colonial responsibilities as soon as possible, in view of post-war attacks on us for being a colonial power. But the constructive nature of our colonial policy is being increasingly recognised and to abandon it would mean a great loss of prestige, play into the hands of the communists and extreme nationalists and jeopardise “evolving Commonwealth” policy which offers best hope of reconciling emergent nationalism with our interests.

4. There are some colonial territories where it might seem to be in United Kingdom interest to abandon our obligations. But to do this anywhere, would undermine confidence and imperil our policy everywhere. Policy must be maintained as a whole, even if detailed application to particular territories must be considered in relation to those territories.

5. Increasing importance must be attached to this policy in its own right and as part of wider Commonwealth policy “which provides for the world, hope of continuing stability and, for the United Kingdom, the *only* alternative to progressive political and economic deterioration”.

5 CAB 130/153, GEN 624/10

9 June 1958

‘The position of the UK in world affairs’: report by officials

Introduction

The purpose of this study is to assess the role which Britain can play in world affairs to-day and to examine how our resources can best be used in support of that role.

2. We can no longer operate from the position of overwhelming strength—military, political and economic—which we enjoyed in the heyday of our Imperial power. But, although we no longer have superiority in material strength, we can still exercise a substantial influence in world affairs—partly in our own right and because of our position in Europe, and partly as the leader of the independent Commonwealth. We must now bring that influence to bear, in support of the superior material strength of the United States, in the world struggle between the forces of freedom and those of tyranny.

We could not hope to exercise that influence—or to put to their best use the

advantages of our special position, either as a link between Europe, the Commonwealth and the United States, or as the guardian and trustee of dependent peoples—if we took refuge in the neutrality and comparative isolation of the purely commercial Powers such as Sweden or Switzerland. Nor could we do so if we failed to maintain our position as a world trading nation and the centre of an international trading currency.

But, if we are to exercise our influence to the full, we need to have a larger measure of flexibility and greater freedom of manoeuvre in our overseas policy. In the nineteenth century we had the power to impose our will. By contrast, we now have to work largely through alliances and coalitions. We must therefore be more ready to improvise, to adapt our tactics to changing situations and be quick to take advantage of fleeting opportunities to strengthen or improve our position almost anywhere in the world. We shall not maintain our influence if we appear to be clinging obstinately to the shadow of our old Imperial power after its substance has gone.

3. The basic aims of our overseas policy may be briefly defined as follows:—

(a) We must, in concert with our friends and allies:—

- (i) prevent global war and defeat the efforts of Russia and China to dominate the world;
- (ii) maintain the stability of the free world, especially Western Europe.

(b) We must ourselves:—

- (i) preserve and strengthen the cohesion of the Commonwealth;
- (ii) further our trading interests throughout the world;
- (iii) maintain the sterling area and the strength of sterling.

These political and economic aims are inter-dependent. To achieve them maximum Anglo-American co-operation is indispensable. But the Commonwealth association is equally vital to the position of influence which we seek to maintain. Commonwealth cohesion and Anglo-American solidarity are therefore major aims in themselves.

4. At present our pursuit of these aims is suffering from lack of resources, and some further expenditure is immediately necessary in support of our overseas policy. But we cannot achieve a fully effective external policy without stronger economic backing; we cannot provide this without improving our external monetary position; and this in turn depends upon our internal policies.

5. It is not possible to draw up any absolute order of priorities for the use of our resources in support of these general aims. For:—

(a) We are not starting from scratch; we have a highly complex structure of existing commitments.

(b) Many of our commitments are so different in kind that they are incommensurable, *e.g.*, the cost of the Colombo Plan and the cost of troops in Europe.

(c) There are many fields of activity in which a certain minimum of expenditure is clearly necessary if there is to be a return. But there is no method of assessing exactly how much this expenditure must be or at what point the return is likely to fall off.

But, while there can be no graduated list of priorities, some broad conclusions emerge from the following list of our main political and economic commitments.

Our principal existing political commitments

6.—(a) *The Commonwealth*.—The Commonwealth system provides an important link both between the interests of Afro-Asian countries and the West, and between the United Kingdom and the Colonies. Its cohesion is necessary to ensure our position as a world Power and its disruption would have a major effect on the status of sterling. It is of special importance that the Commonwealth should continue to provide a framework within which countries following the neutralist line can be accommodated.

(b) *The colonies*.—We have an economic interest in the continued stability and development of the Colonies; a political interest in their continuing evolution within the Commonwealth, and a strategic interest in the maintenance of necessary bases and staging rights. Africa is of special importance.

(c) *United States*.—Anglo-American “inter-dependence” should in the long-term save us resources through the sharing of burdens which we could not carry alone. If, however, we are to retain our influence in the Alliance, we shall have to make our contribution towards the execution of agreed policies.

(d) *International*.—We are a Founder Member of the United Nations and pledged to its support. It is of special importance in our relations with the United States and certain Commonwealth countries. On balance its activities help rather than hinder the achievement of our aims. The extent of our participation in the work of international agencies should be determined by a realistic appraisal of the extent to which this will serve our general political and economic interests.

(e) *Europe*.—We aim to strengthen our ties with Europe, and are seeking to negotiate a European Free Trade Area. We support the North Atlantic Alliance as the bulwark against Soviet encroachment in Europe. NATO involves the United States in Europe and upholds the confidence of European nations which might otherwise go neutral or lapse into Communism.

(f) *Middle East*.—The Bagdad Pact is our principal instrument for resisting the spread of Communism in the Middle East and the subversion of existing régimes in the name of nationalism. Either of these developments would threaten our oil supplies. The “containment” policy towards the United Arab Republic, and our treaty obligations towards Libya (in return for which we enjoy essential air staging rights) have the same object. In the Persian Gulf and in the Colony and Protectorate of Aden we have a special need to maintain our position in order to protect our oil supplies and to safeguard our strategic interests in East Africa and the Indian Ocean.

(g) *South-East Asia*.—The South-East Asia Treaty Organisation has a political as well as a military value in deterring Communist aggression and securing United States involvement in South-East Asia. It is important also to Australia and New Zealand, with whom we are associated in ANZAM and who contribute together with ourselves to the Commonwealth Strategic Reserve in Malaya and Singapore. By the Malaya Defence Agreement we are committed to assist in the external defence of Malaya and to contribute to the expansion of her armed forces. We also assist in the suppression of terrorism by direct military support and financial help.

Economic commitments

7. The main facts which face us on the external side are:—

(a) We have now entered a long period of repayment of the dollar loans we have contracted in the last twelve years. The details are described in paragraph 10 below.

(b) We have the \$1,000 millions still available, but undrawn from the International Monetary Fund and from the Export-Import Bank. These lines of credit are available for drawing until the end of the year, and any extension would need to be negotiated. A drawing of the larger element, namely the \$760 millions from the I.M.F., could cause loss of confidence. We cannot count on any further significant dollar borrowing.

8. Given the low level of our reserves, the need for a continued high level of external investment, and the probable calls on our resources by the running down of sterling balances as Commonwealth development gets into its stride, the meeting of these obligations will be a major task. Yet it is essential that we should meet them if we are to maintain our own standing and that of our currency in the world.

9. On the other side there are however two important factors of strength:—

(a) Our industrial base has been greatly strengthened by the high level of domestic investment in recent years.

(b) In the last twelve years we have had to carry out first the major task of post-war reconstruction and in the more recent years very large defence and housing programmes, which have consumed much of the normal increase in our national wealth. With reconstruction mainly past, and the defence and housing programmes stabilised, we should be able to devote a greater proportion of our resources to strengthening our currency.

10. The details of the above commitments, which of course are additional to the expenditure involved in support of the political commitments set out in paragraph 6, are as follows:—

(a) *Debt repayment.* Our major debts are:—

(i) The North American Loans: these will cost over £60 millions in dollars to service annually until 2002—we can defer six annual payments but not more;

(ii) the International Monetary Fund drawing of £200 millions in dollars: this was all drawn in December 1956 and must be repaid within three to five years from then;

(iii) the Export-Import Bank loan of £90 millions, drawn in October 1957 and to be repaid by 1965. The service of this loan rises from about £4 to £20 millions in dollars annually.

(b) *Long-term overseas investment.* We have hitherto been working on the basis of a figure of rather over £200 millions a year. In 1957 the figure rose to about £260 millions, and at least the same figure is forecast for 1958. We are re-examining two of the main elements in this, namely oil investment (£160 millions) and deals in sterling securities through the free markets (£65 millions). It is however clear that we must allow for long-term overseas investment a figure nearer £300 millions than £200 millions.

(c) *Withdrawal of sterling holdings.* We must be able to finance these whether they are made by the rest of sterling area or by non-sterling countries. It is a commitment difficult to predict as it depends on the balance of payments position of the creditor countries and on the general climate of confidence. In the immediate future it is likely to constitute a very large claim indeed owing to the effects of the present world recession in Commonwealth countries of the sterling area. They may reduce their holdings by £300 millions in 1958. This follows a

reduction of £220 millions in the second half of 1957. Such withdrawals do however reduce our liabilities.

(d) *The gold and dollar reserves.* These are demonstrably too low in relation to our liabilities and we must remedy this weakness in our external monetary position. Ideally we want to increase the absolute level of the reserves themselves; but in present world conditions we may have to content ourselves with taking a large proportion of the improvement by way of a reduction of our liabilities.

The distribution of resources available to the United Kingdom

11. In round terms defence in 1957 cost £1,550 millions and the current balance of payments surplus was £250 millions. These items formed part of a gross national expenditure (at factor cost) which, in 1957, was distributed broadly as follows:—

	£ millions	Per cent.
Consumers' expenditure	11,900	62
Gross internal investment	3,550	18½
Defence	1,550	8
Other public current expenditure	2,000	10
Current balance of payments surplus	250	1½
	<u>19,250</u>	<u>100</u>

The last item (1½ per cent.) has to meet our external investment and provide for improving our monetary position. Included mainly under other public current expenditure is a total of about £90 millions for the Foreign, Colonial and Commonwealth Relations Office and related Votes: as a proportion of total national product this is less than 0.5 per cent, but the bulk of it falls on our external balance and in total it is equal to half of our overseas current surplus in the last five years. (The table in Annex I¹ gives an analysis of our overseas expenditure by regions.)

The adjustments needed

12. An adequate current balance of payments surplus is the key to meeting our economic objectives. How much we should aim at in any particular year depends on the general economic conditions expected at home and abroad. The £250 millions earned in 1957 was for example plainly insufficient in the conditions of last year. In addition to the drawing down of the overseas sterling holdings, we had to meet a heavy capital flight from sterling, and as a result sustained a crisis which we were able to overcome only by means of long-term borrowing, of one sort or another, of £200 millions. Broadly, we believe that in the years just ahead we require an average annual current surplus of £350–400 millions if we are to put sterling on a sound basis—and even more in good years. A high level of exports will be vital.

13. If we cannot achieve a larger surplus in our overseas earnings, we cannot meet all our external economic objectives, and we shall fall short of our political objectives overseas. But at the same time, unless we can intensify our effort in the foreign policy field during the period when we are building up our reserves (and making military reductions which must involve us in some loss of prestige), we run the risk of weakening our position in world affairs, with a significant loss of

¹ Not Printed.

confidence which will make it harder to increase the strength of sterling. Moreover, with costs rising all over the world, we have to spend more money to achieve the same effect on the ground.

14. Our policies must in particular be designed to counter, in selected places, the growing economic and technical potential and the political power of Soviet Russia. Thus:—

(a) We need to be able to meet contingencies of a political or economic nature and to give our overseas policy the tactical flexibility required to secure essential United Kingdom interests, especially against Communist threats—*e.g.*, by small-scale but expeditious aid in time of crisis to countries which are of strategic or political importance to the United Kingdom.

(b) Some expansion of our expenditure on development and technical assistance to those countries (including the Colonies, for which we have special responsibilities, as to which see paragraph 16 below) whose internal political stability depends on economic progress and is an important interest to the United Kingdom in the cold war. We have in mind particularly South and South-East Asia (Colombo Plan) and Africa and, with the addition of some degree of military aid, the Middle East (Bagdad Pact Countries, the Persian Gulf and South-West Arabia, including the Aden Protectorate).

(c) Where it is politically possible, assistance by means of military training is far less expensive than direct military support, and helps to avoid calls for it. It brings political benefits and sometimes commercial orders. Even where the Americans supply the equipment it may promote off-shore purchases from the United Kingdom.

(d) Further co-operation in security and counter-subversion with Middle East and South-East Asian countries should pay good dividends in increasing the stability of friendly countries.

(e) Further expansion of information and cultural activities, particularly in the Middle East and South and South-East Asia. Investment in the teaching of English could be particularly fruitful.

15. For these purposes we have in mind additional expenditure of some £5–6 millions a year, divided between the Foreign Office and the Commonwealth Relations Office roughly in the proportion of 3:1, though the first year's expenditure would not necessarily reach this total. Of this sum £2–3 millions would be for the purposes mentioned in paragraph 14(a) above. It is difficult to provide for contingent expenditure by ordinary budgetary means, and there would be constitutional and administrative difficulties in establishing anything in the nature of a reserve fund for this purpose. The need could, however, be met by a general Ministerial directive that sympathetic consideration should be given to applications for Treasury approval of projects for furthering our overseas policy in the directions indicated in paragraph 14. The cost of so intensifying our effort is relatively small and the advantages to be gained are very great. The Policy Review of 1956 acknowledged the need for a switch of emphasis from military to civil in expenditure in support of our overseas policy.²

² D Goldsworthy, ed, *The Conservative government and the end of empire, 1951–1957* (BDEEP, 1994), part I, document no 21.

16. So far as the Colonies are concerned, the main need is for more loan finance for development. We estimate their needs for external loan finance at not less than £20 millions per annum over the next few years. There seems little prospect that the market will provide these amounts, and special measures of one kind or another will be needed if development is not to be very seriously curtailed. Apart from this there will be a continuing need for assistance in the form of grants-in-aid of administration and for emergency expenditure of various kinds. By their very nature the amounts required for these purposes cannot be foreseen with accuracy. But there is no doubt that we are not providing enough for several of our poorer territories.

Possible redeployment of resources

17. No very serious difficulties should be involved in making available the limited additional sum envisaged in paragraph 15 to meet the plain and immediate needs. In the longer term, however, real flexibility in our overseas policy can only be achieved through a general strengthening of our external financial position on the lines indicated in paragraph 12. For this purpose we have already noted that we cannot count on further significant dollar borrowing (paragraph 7 (b)). To free resources of our own on the scale required we must either take appropriate measures internally to increase our external earnings, or we must reshape our external political policy with a view to disengaging from one or more of our major existing overseas commitments.

18. Heavy force reductions have already been decided upon in Germany, Libya, Malaya, and Hong Kong. No further substantial savings can be looked for short of major policy decisions concerning withdrawal from Germany or abandonment of the nuclear deterrent, or unless a comprehensive disarmament agreement is achieved. Our comments on particular possibilities are as follows:—

(a) *Withdrawal from Germany.*—Total withdrawal of British forces, or their reduction to the level of a purely token force, would in present circumstances threaten the basis of the Atlantic Alliance and damage our political and economic association with Europe. In the absence of full support cost payments Germany will become a net addition to our overseas commitments. The terms of a possible settlement for the next three years have been agreed between the United Kingdom and Germany. These provide for a substantial Deutschmark payment by the Germans in the current year and, in the second and third years, a reduction in the strength of the British forces and a German contribution of about one-third of their local costs. Strong opposition to the reduction is, however, expected from NATO and W.E.U., but there is a possibility that the Americans may agree to pay the extra foreign exchange costs, in the second year, of maintaining the forces at their present level. The additional burden on the United Kingdom budget and balance of payments will be about £35 millions in the current year and £25 millions in the second and third years.

(b) *Abandonment of the nuclear deterrent.*—This would free resources (*e.g.*, scientific man-power) which could be used, among other things, to increase our exports. On the other hand, it is by no means to be assumed that a defence policy which relied solely on conventional forces would cost less than our present defence effort. The maintenance of our nuclear capacity is moreover a key element in our relations with the United States and may become so in relation to Europe,

where the French and the Germans together are likely to develop some nuclear capacity in due course. The deterrent itself at present accounts for less than 10 per cent. (£145 millions) of our defence expenditure; its protection (by Fighter Command) involves about the same amount.

(c) *Defence research and development*.—Total expenditure on this is £240 millions. It is now being reviewed. Substantial savings are not likely. We should however get better value for our money in the nuclear field by the pooling of information with the Americans if the McMahon Act is suitably amended.³

(d) *Colonial*.—Some small savings may accrue as territories become independent. In certain territories, such as Cyprus and Hong Kong, we have military commitments which are a considerable drain on our resources; the same applies to Singapore, though this commitment is not primarily a Colonial one. Other Colonies (*e.g.*, British Honduras) may have no economic or strategic value to us. But premature withdrawal would have consequences for our imperial and foreign policy which would be felt far beyond these territories themselves.

(e) *Commonwealth*.—Australia and New Zealand are at present making a very small contribution to defence and information work in South-East Asia and the Far East. An increase would be welcome, but there would be considerable local political difficulties in these two countries if a much increased contribution were sought at the present time. We should encourage Canadian participation in the economic development of the British West Indies.

(f) *Foreign*.—It may be possible to redeploy some of the resources used oversea (*e.g.*, in broadcasts to Western Europe) to meet more urgent requirements elsewhere, but the scope for this is limited.

19. The above review shows that additional resources of a continuing kind on a scale sufficient to achieve our long-term aim of strengthening our external financial position cannot be found from further reductions in oversea commitments. We have considerably reduced them since 1945 (*e.g.*, in Austria, Trieste, the Canal Zone, Jordan and now Libya). We could not do much more without significantly undermining our international position.

Conclusion

20. It is sometimes suggested that we should do better to rely on our trading position, withdraw from the nuclear club and from our oversea commitments and reduce our status to that of a European Power with a standing similar to that of the Netherlands or Sweden. But comparison with other Powers differently situated from ourselves is dangerous. Our trading position is inextricably bound up with, and sustained by, our roles in Europe and in the Commonwealth and as the centre of the sterling area, none of which can be abandoned or modified in isolation. The question is however one of degree. We are already running down our oversea commitments as fast as circumstances allow us to do so with safety. But to do this wholesale would undermine the position of sterling and could break up the sterling area. We could not recommend such a policy as a fair risk.

³ The McMahon Act (1946) made the export of atomic information illegal, but this was in apparent disregard of wartime commitments made to Britain.

21. We are therefore driven back to the question of priorities. In our view it would be wrong to give our overseas, Commonwealth and Colonial commitments a lesser degree of priority than they have: indeed, their priority should be increased. Defence is the residual activity on which the axe is apt to fall when economies in other fields cannot be found. We consider that on the present defence policy, especially with the additional problem of paying for British forces on the Continent, no major reductions below those already contemplated over the next two or three years are likely to be achieved.

22. There remains civil expenditure at home. We recognise that earlier efforts to reduce expenditure on the social services and education have achieved little, and there are great difficulties in reducing other forms of domestic expenditure. Nevertheless, there are areas (*e.g.*, agriculture, and prices in the nationalised industries) in which subsidies are being paid by the Exchequer on a very large scale. These, and the movements in earnings on the home front, involve sums compared with which those required to sustain our present external policies are quite small. Nor have we touched on the question of taxation. We suggest that it is in these wider fields that an answer to the problem of our world position is to be found rather than in abruptly seeking to reduce our overseas and defence expenditure below their present level.

Summary

23. From the foregoing considerations four points emerge:—

- (a) The need for limited further expenditure in support of our overseas policy and for a Ministerial directive on this subject (paragraphs 13–16).
- (b) The need to strengthen our external monetary position (paragraph 12).
- (c) Further economies may become possible in our overseas expenditure over the next few years, but they appear to offer little or no scope for savings on the scale required to strengthen our external financial position (paragraphs 17–19).
- (d) In seeking economies for this purpose from our total national resources attention should be directed first to civil expenditure at home before further reductions are sought in defence and overseas expenditure (paragraphs 20–22).

6 CAB 130/153, GEN 659/1st

7 July 1958

‘The position of the UK in world affairs’: minutes of a Cabinet committee meeting

The Meeting had before them a report by officials which sought to assess the present role of the United Kingdom in world affairs and the best use of our resources in support of it.¹

The report drew attention to the need for some immediate but limited further expenditure in support of overseas policy to give greater tactical flexibility and to allow for some expansion of expenditure on development and technical assistance to countries whose political stability was of importance to us and on information and cultural activities, including the teaching of English. It also emphasised the need to

¹ See previous document.

strengthen our external monetary position in the years ahead. But it pointed out that the further economies likely to become possible in our overseas expenditure over the next few years seemed to offer insufficient scope for savings on the scale required for that purpose. It therefore recommended that, in any re-distribution of our total national resources, attention should be directed to the possibility of securing economies in civil expenditure at home before further reductions were sought in defence and overseas expenditure.

In discussion there was general support for the view that some limited further expenditure, for example, in support of the Bagdad Pact or in the Horn of Africa would be justified by the importance of safeguarding the very large financial interests which we had at stake, especially in the Middle East. Particular emphasis was laid on the following points:—

(a) A sustained attempt should be made to secure and maintain a stronger information effort in the Middle East. The radio facilities there available to ourselves and our allies still did not match those available to Egypt.

(b) The possibility should be studied of an expanded programme for the teaching of English overseas both in Commonwealth and foreign countries, with special reference to the needs of Africa, India and South-East Asia. There were few directions in which better value could be obtained for expenditure. It should be our aim to secure that, as dependent territories passed from our administrative control, they retained the English tongue as their official language. This would serve both as a political link for the Commonwealth and as a means of furthering our trading interests. The provision of teaching staff was no doubt a problem, but there had in recent years been great advances in teaching techniques and it might be possible to concentrate more on the provision of suitable courses in this country.

(c) Some further expenditure would be necessary on political intelligence and counter-subversion.

(d) Assistance in military training was both a cheap and effective means of aiding friendly countries. Attention was now being given to the need for more realistic accounting arrangements between the Departments for this purpose.

*The Chancellor of the Exchequer*² said that he was in sympathy with these needs and would be ready to examine in due perspective proposals for limited further expenditure to such ends. It was however necessary to bear in mind the steady increase in the size of our financial commitments as a whole. It had already been necessary this year to accept additional expenditures of the order of £4–5 millions for aid to dependent or allied States, and the latest forecasts for Government expenditure in 1959–60, which he would shortly be bringing before his colleagues, showed a significant increase over the current year. It was of great importance to ensure a decline in total Government expenditure as a proportion of the gross national product if reductions in taxation were to be possible, and it seemed manifest that we were at present trying to do too much in too many directions. Experience on the occasion of the last Estimates review had shown how difficult it was to secure any major economies in the civil field. We might therefore be driven further to examine some of our defence expenditure.

² D Heathcoat Amory. Also present: Mr Butler, Mr Lennox-Boyd, Mr Selwyn Lloyd, Lord Home, Mr Sandys, together with Sir N Brook and Sir F Hoyer Millar (FO).

In further discussion the following points were made:—

(e) There had been a very large increase in the numbers and cost of our representatives abroad during and since the war. A thorough review should now be made of the specialised and ancillary posts (Attachés etc.,) attached to British Embassies abroad. There was scope here for a reduction in overseas expenditure.

(f) It was for consideration whether the oil companies could not make some further financial contribution towards our overseas policies, e.g. by expenditure on non-military measures in support of the Bagdad Pact in furtherance of our political effort in the Middle East.

(g) *The Colonial Secretary* drew attention to the conclusions reached in last year's review of future constitutional development in the Colonies regarding the undesirability of premature withdrawal from our dependent territories (C.P.C. (57) 27 and 39 (Revise)).³ He would be examining separately with the Chancellor of the Exchequer the Colonies' need for special sources of loan finance, which had recently been emphasised by the difficulties experienced in floating a Jamaican loan on the London market.

(h) It would be hard to prevent an increase in defence expenditure in the coming financial year without major alterations in policy, for example in the nuclear programme.

(i) It was possible that in the long term reductions might be achieved in civil expenditure by relieving the burden borne by the Exchequer in respect of agricultural subsidies and the nationalised industries. But in the short term it would conflict with the Government's policy of holding down price levels to pass on to the consumers the cost, for example, of subsidising wheat production in this country.

(j) With the present inadequate size of the sterling area reserves periodical crises of confidence would continue unless the credit facilities of the free world could be expanded. The United States Government were aware of this need for increased liquidity, and it was desirable that they should take some fresh initiative in respect of it in time to allow the Commonwealth Economic Conference in September to follow, rather than to attempt to instigate, such a lead. . . .

³ See document nos 2 and 3 above.

7 DO 35/8916, no 69

6 Oct 1958

'Crystal-gazing in Delhi': despatch (no 55) from Mr M MacDonald
(India) to CRO about the future of India

[Extract]

...3. *Parliamentary democracy in India.* None of the Asian peoples are by nature fitted to govern themselves by a system of Parliamentary Democracy on the Western model. ... So the present Parliamentary regimes ruling various of the newly independent Asian nations are likely to be only a passing phase in their histories. They will not necessarily disappear completely, but they will be either suddenly or gradually altered, in at least most countries, to suit Asian conditions.

4. Of all the Asians, the Indians are most likely to continue working most satisfactorily for the longest period a Parliamentary Democracy. ...

5. ... Provided that India remains united, it is therefore likely to continue in the