CONCLUSIONS of a Meeting of the Cabinet held at 10, Downing Street, S.W. 1, on Tuesday, 17th June, 1947, at 11 a.m.

Present:

The Right Hon. C. R. Attlee, M.P., Prime Minister (in the Chair).

The Right Hon. Arthur Greenwood, M.P., Minister without Portfolio.

The Right Hon. Sir Stafford Cripps, K.C., M.P., President of the Board of Trade.

The Right Hon. Viscount Jowitt, Lord Chancellor.

The Right Hon. Viscount Addison, Secretary of State for Dominion Affairs.

The Right Hon. A. Creech Jones, M.P., Secretary of State for the Colonies.


The Right Hon. T. Williams, M.P., Minister of Agriculture and Fisheries.

The Right Hon. Ernest Bevin, M.P., Secretary of State for Foreign Affairs.


The Right Hon. A. V. Alexander, M.P., Minister of Defence.

The Right Hon. J. Chuter Ede, M.P., Secretary of State for the Home Department.

The Right Hon. J. Westwood, M.P., Secretary of State for Scotland.

The Right Hon. George Tomlinson, M.P., Minister of Education.

The Right Hon. Alfred Barnes, M.P., Minister of Transport (Items 1-4).

The Right Hon. John Strachey, M.P., Minister of Food.

Sir Edward Bridges, Permanent Secretary, Treasury.

Secretariat:

Mr. W. S. Murrie.

Mr. S. E. V. Luke.
**CABINET 54 (47)**

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1. The Foreign Secretary said that the Indonesian reply to the latest proposals for a settlement put forward by the Netherlands Government had not, in his view, been unreasonable, but that there was still a divergence of view on certain points, notably the Dutch scheme for joint action in restoring and maintaining order throughout Java and Sumatra. The Netherlands Government took a pessimistic view of the situation and seemed disposed to resort to force. The outbreak of war in Indonesia would provoke political trouble in other parts of the Far East and involve very serious losses of food and raw materials, and he had felt that the Netherlands Government should be left in no doubt about the attitude of His Majesty’s Government. He had therefore told them that, in our view, the extent of the divergence between the Dutch proposals and the Indonesian reply was not so great as to preclude all possibilities of an agreed solution; that a further attempt should be made to find a solution by negotiation; and that resort to force would alienate world opinion. He had also made it clear that, should hostilities break out in the Dutch East Indies, it might be impossible for the British Government to continue the provision of equipment and training facilities for the Dutch Forces. He had at the same time instructed His Majesty’s Ambassador in Washington to ascertain from the United States Secretary of State whether the United States Government would be prepared to take the initiative with His Majesty’s Government in making a joint offer of good-offices privately to the Netherlands Government and the Indonesian Republic in an endeavour to persuade them to seek a peaceful solution by negotiation.

The Secretary of State for the Colonies said that the Governor-General of Malaya had expressed great anxiety about the effect which hostilities in Indonesia would have on the internal situation in Malaya.

The Minister of Food said that, in the event of war, the Republican forces would undoubtedly resort to scorched earth tactics. This would gravely affect Indonesia’s capacity to export food for many years.

The Cabinet—

Endorsed the action taken by the Foreign Secretary to persuade the Netherlands Government to seek a peaceful solution of the Indonesian situation.

2. The Foreign Secretary informed the Cabinet that he intended to go to Paris later in the day for exploratory talks with the French Government about the proposed European reconstruction plan. Meanwhile he had sent a message to the Soviet Government explaining that we were concerned only with economic rehabilitation and not with any political objects, and asking for their views. Since this message had been sent an article had appeared in Pravda criticising the United States offer. He felt, however, that we must press on urgently with the preparation of a plan, whether or not the Soviet Government were willing to co-operate. Joint proposals were already being drawn up by the Governments of Belgium, the Netherlands and Luxembourg, and these Governments should be brought into the discussions at an early date. He had also indicated to the Italian Government that he would be prepared to consider bringing them in as soon as they ratified the Peace Treaty. It would no doubt be necessary in due course to associate the Economic Commission for Europe with the work, but we could not afford to entrust full responsibility for the plan to the Commission, since they were as yet without adequate staff and their activities were liable to be delayed by obstruction on the part of the Soviet Government. The proposals which he had in mind would cover Germany, and he hoped that one result of them would be to reduce the financial burden falling on the United Kingdom Government.
The Cabinet—

Took note with approval of the action which the Foreign Secretary was taking to initiate the preparation of a European reconstruction plan.

3. The Foreign Secretary said that the publicity which the Australian Government had given to the forthcoming Commonwealth Conference at Canberra had created an unfavourable impression in the United States and aroused the suspicion that its object was to ensure that the members of the British Commonwealth should constitute a united bloc at the proposed discussions about the Peace Treaty with Japan. It would not be easy to dispel this suspicion but, on his return from Paris, he proposed to discuss the matter with the United States Ambassador in London. In his view, a meeting of Dominion Prime Ministers in London would not have aroused the same disquiet as the decision to hold a Conference in Canberra, and he thought that, as part of the study of future Commonwealth relations which was being undertaken, there should be an examination of the effect on foreign Governments of the various procedures adopted for consultation between members of the Commonwealth.

The Cabinet—

Took note that the Foreign Secretary would discuss with the United States Ambassador in London the purpose of the proposed Commonwealth Conference at Canberra.

4. The Cabinet considered a memorandum by the Minister of Fuel and Power (C.P. (47) 181) proposing that an additional sum of £5 million should be allocated to local authorities whose electricity undertakings were acquired under the Electricity Bill, as compensation for the additional burden imposed on the rates through the loss of the benefit arising out of income tax set-off.

The Minister of Fuel and Power said that, in accordance with the Cabinet’s decision of 11th March, he had announced during the Committee Stage of the Electricity Bill that a sum of £5 million would be made available as compensation for the reduction of the field over which overhead expenses could be spread by reason of the severance of the electricity undertaking from the remainder of the local authority organisation. This concession had been challenged as inadequate by the associations representing local authorities, who had maintained that the sum offered was not sufficient compensation for the losses due to severance and that it made no provision for other items, such as income tax set-off and debt management charges, in respect of which local authorities would suffer loss. Though it was difficult to obtain precise estimates of the increase in rates which would have to be made if local authorities were no longer able to apply profits from their electricity undertakings in reduction of interest charges on loans for other purposes and so obtain the benefit of income tax set-off, the estimates given in paragraph 4 of C.P. (47) 181 showed that, in certain areas at least, the burden on the ratepayers would be substantially increased. The Association of Municipal Corporations had originally suggested that the sum of £5 million agreed to by the Cabinet should be increased to £15 million, but he had good reason to believe that a total payment of £10 million would be acceptable. This payment would not fall on the Exchequer and it would represent no more than a relatively trifling increase of £125,000 a year in the interest charges payable by the British Electricity Authority.

The Minister of Transport said that, in view of the Cabinet’s decision of 11th March to provide compensation to local authorities in respect of severance, he had drawn up a scheme under which a sum of about £2½ million would be given for losses due to severance
on the transfer of transport undertakings, together with an additional sum of £200,000 in respect of docks and harbours. If the concession now proposed by the Minister of Fuel and Power were made it would be necessary to make a further £1-2 million available under the Transport Bill to compensate local authorities for the loss of relief due to income-tax set-off on the transfer of transport undertakings.

The Lord President recalled that it had been agreed in principle that when undertakings were transferred from one public authority to another the basis of compensation should be repayment of the net debt. The new concession proposed by the Minister of Fuel and Power could not be justified on merits and would tend to favour those local authorities who, in order to relieve the rates, had kept the charges for electricity at a high level. The increases in rates due to the loss of the benefit of income tax set-off would be lost sight of in the general reduction in rates as a result of the new Block Grant proposals. A further objection was that the corresponding concession to local authorities which would have to be made in the Transport Bill would be most embarrassing in view of the pressure from the Opposition for improved compensation terms for railway shareholders.

The Chancellor of the Exchequer said that, though the grant of a further £5 million would not impose a direct burden on the Exchequer, it would militate against his general policy of keeping down the interest charges on new socialised undertakings. He was willing to agree to the transfer of liability for debt management charges, but he felt that any further concession should be resisted.

In further discussion it was argued in favour of the proposed concession that the benefit of income tax set-off had accrued even to those local authorities who had pursued a policy of providing electricity at the lowest economic rate. On the other hand, it was pointed out that it would be impossible to devise a scheme of distribution which would confine the additional compensation suggested to those local authorities who had pursued an enlightened policy.

The Cabinet—

(1) Agreed that no compensation should be paid for the loss of the relief to rates arising from income tax set-off which local authorities would sustain on the transfer of their electricity undertakings to the British Electricity Authority.

(2) Agreed that the British Electricity Authority should take over the liability for debt management charges along with the net debt on electricity undertakings.

5. The Cabinet had before them a memorandum by the President of the Board of Trade (C.P. (47) 174) outlining a proposal for reducing dollar expenditure on films.

The President of the Board of Trade said that in the year to March, 1947, dollar remittances for films had amounted to over £17 million. This was an excessive drain on our dollar resources, and public opinion clearly expected that the Government should take action to reduce it. He had discussed with the Chancellor of the Exchequer possible ways of enforcing a substantial economy in dollar expenditure on films and they had reached the conclusion that there was no alternative to the imposition of an ad valorem duty. It was suggested that the duty should be sufficiently high to halve the remittances, and it would have to apply to films from all sources, though new films and certain other special classes would be exempted. In order to ensure that the duty was not passed on to the public, the Board of Trade would, if necessary, use their price regulation powers to control film rentals. The proposal, which would be extremely unwelcome to the American film interests, was
put forward on the assumption that it would form part of the general scheme for meeting our balance of payment difficulties and he would not wish it to be adopted unless the other parts of that scheme were to be implemented.

The Chancellor of the Exchequer pointed out that, if provision for the imposition of a duty on the lines proposed was to be included in the Finance Bill, it would be necessary to give notice of the necessary resolution at a very early date.

The Foreign Secretary said that it would be embarrassing for the Government to commit themselves to the imposition of a duty on imported films in advance of any statement about the other measures designed to remedy our balance of payment difficulties. He suggested that this difficulty might be met by taking power in the Finance Bill to impose the proposed customs duty on imported films by order.

The Cabinet—

Approved the addition to the Finance Bill of a Clause enabling a customs duty to be imposed on imported films by order.

Cabinet Office, S.W. 1,
17th June, 1947.