CONCLUSIONS of a Meeting of the Cabinet held in the Prime Minister's Room,
House of Commons, S.W. 1, on Friday, 1st August, 1947, at 2.30 p.m.

Present:

The Right Hon. C. R. ATTLEE, M.P., Prime Minister (in the Chair).
The Right Hon. HERBERT MORRISON, M.P., Lord President of the Council.
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 Commonwealth Relations.
The Right Hon. A. CREECH JONES, M.P., Secretary of State for the Colonies.
The Right Hon. G. A. ISAACS, M.P., Minister of Labour and National Service.
The Right Hon. ANEURIN BEVAN, M.P., Minister of Health.

The Right Hon. GEORGE TOMLINSON, M.P., Minister of Education.

The following were also present:
The Right Hon. JOHN WILMOT, M.P., Minister of Supply.
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 68 (47)

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The Cabinet resumed their consideration of the memorandum by the Chancellor of the Exchequer on the balance of payments (C.P. (47) 221), and also had before them a memorandum by the Minister of Labour (C.P. (47) 220) covering a scheme for securing an increase of production through lengthening the hours of work in certain industries.

The Minister of Transport pointed out that, if the railways were to play a full part in the drive for increased production, it would be necessary to give priority to all their demands for materials and equipment.

It was pointed out that absolute priority could not be given, and that the Central Economic Planning Staff, in consultation with the Departments concerned, were already considering what steps would have to be taken to enable the railways to meet the demands which would be made on them during the coming winter.

The Chancellor of the Exchequer said that it would be necessary to curtail the use of steel for commercial building and that some slowing down of the housing programme would be inevitable.

The Minister of Health said that, while he recognised that there must be some reduction in housing, he hoped that any cuts would be selective.

There was general agreement that the application of the principle that capital investment should be curtailed should be worked out by the Central Economic Planning Staff in consultation with the Departments concerned.

The Lord President said that, with the Minister of Labour, he had arranged to meet representatives of the Trades Union Congress later in the day and that, if the Cabinet agreed, he would put forward suggestions for the working of longer hours on the lines indicated in the Annex to C.P. (47) 220. He would also make it clear that it would be against the national interest for the workers to make excessive claims for higher rates of remuneration for any overtime worked.

There was general approval of the Lord President’s suggestion and it was agreed that the appeal for longer working hours should be based rather on the country’s needs than on monetary incentives.

The Minister of Transport said that the adoption of the five-day week in many industries had imposed a heavy strain on transport, and he hoped that so far as possible any extra hours of work would be secured by reverting to a six-day week.

The Chancellor of the Exchequer said that he was considering whether any modifications could be made in the P.A.Y.E. scheme in order to give workers a greater incentive to work for longer hours. He believed, however, that the discouraging effects of P.A.Y.E. were greatly exaggerated.

The Minister of Labour pointed out that the building workers had now accepted a scheme of payment by results, and it was agreed that some reference should be made to the desirability of extending the system of payment by results.

The Lord President said that he also proposed to suggest to the representatives of the Trades Union Congress that in present circumstances some measure of negative or positive direction of labour was desirable.

The Minister of Labour agreed that this should be done. He also thought it would be desirable to take up with the Trades Union Congress the question of facilitating the employment of Poles and other European volunteer workers in under-manned industries.

In discussion there was general agreement that the Control of Engagement Order should be re-enacted and that all employers should be required to engage workers through the employment exchanges. Some doubts were expressed about the wisdom of attempting to use powers of positive direction under peace-time conditions, and it was suggested that the Minister of Labour might...
explore further, in consultation with the Minister of Food, whether it would be possible to devise means, short of the war-time direction of labour, to ensure that all the country’s man-power was usefully employed. In particular, the possibility of reducing from four to two days the period for which persons might stay in hotels without surrendering ration cards should be considered.

**Production Committees.**

The Minister of Labour said that some reference should be made to the desirability of encouraging the establishment of production committees. There was general support for this suggestion, on the understanding that steps would be taken to ensure that such committees devoted themselves solely to matters connected with raising the level of output.

**Efficiency of Management.**

The President of the Board of Trade said that cases would arise in which it would be necessary in the interests of production to replace inefficient managers. The Foreign Secretary suggested that in any public statement of the Government’s intentions there should be recognition of the fact that the majority of managements were efficient and willing to co-operate with the Government.

**Emergency Powers Bill.**

The Cabinet then discussed the proposal in paragraph 39 of C.P. (47) 221 that an Emergency Powers Bill should be introduced.

The Chancellor of the Exchequer said that Parliamentary Counsel had advised that a Bill would be necessary in order to enable new regulations to be made, since the Supplies and Services (Transitional Powers) Act, 1945, and the Emergency Laws (Transitional Provisions) Act, 1946, merely continued in force regulations which had been made under the war-time emergency powers legislation. This Bill would be a short measure and could, in his view, be passed before Parliament adjourned for the Recess.

The Prime Minister said that a Bill on the lines suggested by the Chancellor of the Exchequer seemed desirable. The Cabinet might consider a draft of the Bill at their meeting on 5th August and the Opposition should be consulted before the Bill was introduced in order to ascertain whether they would facilitate its passage.

The Lord President suggested that consideration might be given to the possibility of providing in the Bill for the continuation after 31st December, 1947, of the regulations covered by the Emergency Laws (Transitional Provisions) Act, 1946.

The Lord Chancellor said that the co-operation of the Opposition would be more readily obtained if the duration of the new measure were limited to a year, with power to extend it for further periods by resolution of both Houses of Parliament.

The Cabinet then discussed the effect on the United Kingdom dollar resources of the obligations with regard to convertibility of sterling which had been entered into by His Majesty’s Government.

The Chancellor of the Exchequer said that there was no evidence of a marked increase in the drain on our dollar resources since 16th July, when the obligation had come into force under the Loan Agreement to make freely convertible sterling receipts from current transactions of all sterling area countries. It should be borne in mind, however, that before 16th July we had been obliged to agree that some of the sterling receipts of individual sterling area countries should be convertible. In particular, the possibility of converting into dollars their sterling receipts for supplies sent to us, and this tendency had been aggravated by the increasing world shortage of dollars. In July 1947 there had been an exceptionally high withdrawal, amounting to 700 million dollars, from the United States credit, but he hoped it would not be necessary to draw more than about 300 million dollars in August. He recognised that we should now have to seek relief from our convertibility obligations under the
Loan Agreement, but he was convinced that it had been worth while to accept these obligations in view of the advantages which the United States credit had given us in the period of reconversion. He had arranged for a special check to be kept on sterling transactions and though, so long as sterling was an international currency, it was impossible to obtain an absolutely precise balance sheet at any given time, he was confident that the information available to the Treasury enabled them to keep a close watch on movements of sterling.

The Minister of Health said that he hoped the Chancellor of the Exchequer would circulate a memorandum to the Cabinet analysing the effect on our dollar resources of our convertibility obligations both under the Loan Agreement and under agreements with particular countries, such as the Argentine. The drain on our dollar resources resulting from our convertibility obligations seemed to be greater by far than any savings which would be achieved by the reductions in expenditure proposed in C.F. (47) 221. Further, the policy of allowing countries in the sterling area to convert sterling into dollars was directly contrary to the interests of our export trade.

The President of the Board of Trade said that the object of the convertibility provisions in the Loan Agreement had been to stimulate the revival of world trade and the drain on our dollar resources had arisen, not because of convertibility as such, but because we had been unable to supply foreign countries with the goods they wanted and had therefore been obliged to allow them to use their sterling balances to buy goods from the United States. He had discussed our difficulties with regard to convertibility with the United States Under-Secretary of State on the previous day, and had also pointed out to him that in our present situation we could not contemplate being debarred by the non-discrimination provisions of the Loan Agreement from buying food in soft currency areas.

The Lord President said that it would be useful if the Chancellor of the Exchequer would give the Cabinet information about the extent to which our dollar resources had been drawn on for the release of the sterling balances held by countries such as Egypt. The Cabinet should also have an opportunity of considering the proposed settlement with regard to the Indian sterling balances.

The Foreign Secretary said that he had considered further the suggestion made at the previous meeting (C.M. (47) 67th Conclusions, Minute 2) that an approach should be made to the United States Government with a view to initiating discussions on the possibility of reducing the drain on our dollar resources resulting from our obligations in regard to non-discrimination and convertibility and our financial responsibilities under the Agreement relating to the Anglo-American Zone in Germany. He felt that it would be undesirable to give formal notice under Article 12 of the Loan Agreement without some preliminary exchange of views with the United States Government, and he hoped that the Cabinet would authorise him to take the matter up with the United States Secretary of State informally in the first instance.

In further discussion it was pointed out that some statement would have to be made in the debate in Parliament on the subject of convertibility and non-discrimination. Any such statement would have to be very carefully worded.

The Cabinet—

(1) Agreed that the necessary resources should be made available to enable the transport industry to meet the additional strain which would be imposed by increased production.

(2) Approved in principle the proposal that there should be a curtailment of capital investment projects other than those contributing to export or to import saving.
(3) Agreed that detailed proposals for giving effect to the decisions in (1) and (2) above should be worked out by the Central Economic Planning Staff in consultation with the Departments concerned.

(4) Approved the proposal that the Lord President and the Minister of Labour should discuss with the Trades Union Congress a scheme for increasing production by working longer hours on the lines set out in the Annex to C.P. (47) 220.

(5) Authorised the Lord President and the Minister of Labour to discuss with the Trades Union Congress the possibility of reinstating a positive or negative direction of labour.

(6) Agreed that the Control of Engagement Order should be re-enacted and that the Minister of Labour, in consultation with the Minister of Food, should consider whether it would be possible to institute some more positive form of direction of labour.

(7) Took note that the Lord President and the Minister of Labour, in the light of their discussion with the Trades Union Congress, would furnish the Prime Minister with a statement which he might make in the Parliamentary debate dealing with the extension of hours of work, the redeployment of labour and the establishment of production committees.

(8) Approved the proposal that the appropriate Departments should have power to take action where production was being impeded by inefficient management.

(9) Invited the Chancellor of the Exchequer, in the light of the points made in discussion, to arrange for the preparation of an Emergency Powers Bill and to circulate a draft of the Bill for consideration by the Cabinet at their meeting on 5th August.

(10) Took note that the Chancellor of the Exchequer would circulate a memorandum analysing the effect on United Kingdom dollar resources of His Majesty's Government's convertibility obligations (i) under the Loan Agreement, (ii) under any agreements made with individual countries outside the sterling area, and (iii) under any agreements for the reduction of accumulated sterling balances.

(11) Invited the Chancellor of the Exchequer to circulate a memorandum on the settlement which he proposed to make with regard to the sterling balances held in India.

(12) Invited the Foreign Secretary, the Chancellor of the Exchequer and the President of the Board of Trade to consider what would be the best approach to the United States Government with a view to the initiation of discussions on the possibility of reducing the dollar expenditure which His Majesty's Government were incurring as a result of their non-discrimination and convertibility obligations and their financial responsibilities under the Agreement relating to the Anglo-American Zone in Germany.

(13) Invited the Chancellor of the Exchequer, in consultation with the Foreign Secretary and the President of the Board of Trade, to prepare a statement which might be made in the Parliamentary debate on the subject of His Majesty's Government's non-discrimination and convertibility obligations and their financial responsibilities under the Agreement relating to the Anglo-American Zone in Germany.

Cabinet Office, S.W. 1,
1st August, 1947