CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Thursday, 7th August, 1947, at 10 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 (Items 1-3).

The Right Hon. Viscount Jowitt, Lord Chancellor.

The Right Hon. Viscount Addison, Secretary of State for Commonwealth Relations.

The Right Hon. The Earl of Listowel, Secretary of State for India and Secretary of State for Burma.

The Right Hon. E. Shinwell, M.P., Minister of Fuel and Power.

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

The following were also present:

The Right Hon. Viscount Hall, First Lord of the Admiralty (Items 1-2).


The Right Hon. Alfred Barnes, M.P., Minister of Transport (Item 6).


Mr. Harold Wilson, M.P., Secretary for Overseas Trade (Items 1-5).

Secretariat:

Mr. W. S. Murrie.

Mr. S. E. V. Luke.
## CABINET 70 (47)

### CONTENTS.

<table>
<thead>
<tr>
<th>Minute No.</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Parliament Business in the House of Commons.</td>
<td>213</td>
</tr>
<tr>
<td>2</td>
<td>Balance of Payments</td>
<td>213</td>
</tr>
<tr>
<td>3</td>
<td>Anglo-Soviet Trade Negotiations</td>
<td>214</td>
</tr>
<tr>
<td>4</td>
<td>Trade Negotiations at Geneva</td>
<td>215</td>
</tr>
<tr>
<td>5</td>
<td>Criminal Justice Bill Proposed Abolition of Capital Punishment.</td>
<td>216</td>
</tr>
<tr>
<td>6</td>
<td>Iron and Steel Industry Bill</td>
<td>217</td>
</tr>
<tr>
<td>7</td>
<td>Indian Sterling Balances</td>
<td>220</td>
</tr>
</tbody>
</table>
1. The Cabinet were informed of the business to be taken in the House of Commons before the Adjournment for the Summer Recess.

On 7th August the Prime Minister would propose a Motion of Thanks to the Civil and Military Services of the Crown in India; the debate on the State of the Nation would be continued, and the proceedings on the Consolidated Fund (Appropriation) Bill would be completed. The Procedure Motion on the Supplies and Services (Transitional Powers) Bill would also be taken.

On 8th August the Second Reading of the Supplies and Services (Transitional Powers) Bill would be taken.

On 11th August it was proposed to take the Committee and remaining Stages of the Supplies and Services (Transitional Powers) Bill, and any Lords’ amendments to Bills that might be received.

On 12th August the House would consider what action should be taken on the findings of the Committee of Privileges in regard to the editor and the political correspondent of the Evening News, who had refused to divulge the name of the Member to whom that paper had made a weekly payment in return for political and industrial information. There would also be a debate on Palestine; and any outstanding Lords’ amendments to Bills would be taken.

On 13th August Questions would be taken at 11 a.m.; any outstanding Lords’ amendments to Bills would be considered; and the House would adjourn for the Summer Recess until 20th October.

2. The Chancellor of the Exchequer said that in his speech in the Parliamentary debate later in the day he would have to deal with the question of the size of the Armed Forces. The statement made by the Prime Minister on the previous day that the numbers in the Armed Forces would be reduced to 1,007,000 by 31st March, 1948, had given rise to some dissatisfaction, and he thought it would be desirable to supplement it by indicating that, though releases could not be further accelerated in the period up to 31st March, 1948, it might be possible to reduce the total size of the Forces by some measure of deferment of call-up.

In discussion it was pointed out that the enquiries so far made suggested that any acceptable scheme of deferment was not likely to yield a reduction in the total size of the Armed Forces of much more than 10,000 by 31st March, 1948, whereas those who had criticised the Prime Minister’s announcement were looking for a reduction of the order of 100,000. Moreover, any suggestion that the Government were considering the deferment on an extensive scale of men due for call-up would have a bad effect on men already serving in the Forces and undermine the whole scheme of compulsory national service. For these reasons, it would be better to say nothing about the possibilities of a scheme of deferment; nor should any reference be made to releases under the age and length of service plan. The Chancellor of the Exchequer might, however, give separately the numbers in each of the three Services at 31st March, 1948, in order to dispel the belief that the great majority were in the Army. He should also make it plain that the problem of securing a reduction in the size of the Armed Forces had been faced long before the present critical situation had developed; that the Government’s efforts to secure reductions in the current financial year were by no means ended, and that whatever further economies could be achieved would at once be put into effect. No estimates of the size of the Forces at the end of 1948 should be given, since these were bound to be affected by the current enquiry into the peacetime shape and size of the Armed Forces.

The Cabinet—

(1) Agreed that in the Parliamentary debate later in the day the Chancellor of the Exchequer should deal with the question of the size of the Armed Forces on the lines indicated in discussion.

[34134—3]
The Chancellor of the Exchequer said that it had been suggested by certain Government supporters that an autumn Budget would be desirable. In his view, it was far too early to take a decision on this matter and he would like to have the authority of the Cabinet to say so in the debate.

The Cabinet—

(2) Agreed that in the Parliamentary debate later in the day the Chancellor of the Exchequer should neither promise that there would be an autumn Budget nor rule out the possibility of such a Budget.

3. The President of the Board of Trade recalled that it had been necessary to break off the negotiations for an Anglo-Soviet trade agreement because agreement could not be reached on the revision of the repayment terms of the Civil Supplies Agreement of 1941. It had been made clear to the Soviet Government at that stage that the financial concessions which His Majesty's Government had been prepared to offer were withdrawn, and that the original terms of the 1941 Agreement, including the obligation of the Soviet Government to make regular quarterly repayments of advances made on their behalf, remained in force. In the course of the negotiations, however, it had been suggested by M. Mikoyan that this obligation might cease to be honoured if agreement was not reached on the concessions desired by the Soviet Government, and at the last meeting this statement had been repeated in terms which came very near to a declaration of an intention to default. He had, therefore, on 29th July, handed to the Soviet Ambassador in London an aide-memoire asking for a definite assurance that there was no such intention on the part of the Soviet Government. At the same time he had intimated to M. Zarubin that an agreement on financial concessions, if signed before 1st November, would be made retrospective to a date prior to 1st August. H.M. Ambassador at Moscow had now reported (Moscow Telegram No. 1757 of 3rd August) that he had received a letter from M. Vyshinski saying that, in view of the latter assurance, he for his part hoped that negotiations could be recommenced. Meanwhile, the Soviet Government had made a payment of £1 million on account of the full sum of £24 millions due on 1st August under the 1941 Agreement.

The President of the Board of Trade said that no further progress could be made unless the Soviet Government paid in full the instalment due on 1st August. If, however, that payment was made, he suggested that we should reopen negotiations on the basis that, provided that the Soviet Government would agree to increase substantially their offer of barley and coarse grains for the present crop-year, we should be ready to make further concessions in regard to the repayment terms of the 1941 Agreement. He accordingly proposed that the Soviet Ambassador in London should be informed at once that His Majesty's Government would be prepared to reopen discussions once the instalment due on 1st August under the 1941 Agreement had been paid in full. An early decision was desirable since an offer of 300,000 tons of coarse grains had been received from the Argentine. The price quoted was £25 10s. a ton, which was £2 10s. in excess of the Russian price. Moreover, freight costs for Argentine wheat were £2 a ton higher than for Russian wheat.

The Minister of Food strongly supported the proposal that negotiations should be resumed, provided that the Soviet Government paid in full the outstanding amount due under the 1941 Agreement. The proposed expansion of agricultural production in this country was dependent upon an adequate supply of feeding-stuffs, and the Argentine and Russia were the only countries to which we could at present look for additional supplies. Failure to obtain coarse grains from Russia would gravely jeopardise the building up of our livestock. On the other hand, if the Russian negotiations...
were successful, the result might be to force down the Argentine price and thus to facilitate further purchases from that source also.

The Chancellor of the Exchequer pointed out that we had already made numerous financial concessions under the 1941 Agreement in an effort to secure agreement. He doubted whether further concessions could be justified. It had also to be remembered that purchases in Russia were now, in fact, hard currency transactions. Again, account must be taken of the effect which renewed negotiations might have on the United States Government under present conditions.

The Foreign Secretary urged that a hasty decision should be avoided. There should, in any event, be no question of reopening discussions until the Soviet Government had paid in full the outstanding instalment due under the 1941 Agreement.

In further discussion there was general agreement that there could be no question of resuming negotiations until the Soviet Government had paid in full the instalment due on 1st August under the 1941 Agreement. In view, however, of our need for cereals and coarse grains, it was thought that we should be prepared to resume negotiations, if payment was made, and that some further relaxation of the repayment terms of the 1941 Agreement should not be ruled out if the Soviet Government were for their part prepared to make some corresponding concession.

The Cabinet—

(1) Invited the President of the Board of Trade to inform the Soviet Ambassador in London that His Majesty's Government would be prepared to reopen the negotiations for a trade agreement once the Soviet Government had paid in full the instalment due on 1st August under the Civil Supplies Agreement of 1941.

(2) Invited the President of the Board of Trade, in consultation with the Chancellor of the Exchequer, the Foreign Secretary and the Minister of Food, to consider the terms on which negotiations might be reopened.

4. The Cabinet had before them memoranda by the President of the Board of Trade (O.E.P. (47) 29 and 30) seeking guidance on certain questions which had arisen in the discussions at Geneva on the terms of the draft Charter for the establishment of an International Trade Organisation, and in the parallel negotiations on tariffs and preferences.

In the course of discussion, the following points were raised:

(a) The Secretary for Overseas Trade said that it was proposed in O.E.P. (47) 29 that acceptance by His Majesty’s Government of the draft Charter should be dependent on the adoption of a text which would, so far as the Charter was concerned, give the United Kingdom no less freedom to use discriminatory import restrictions in order to obtain additional imports than would be given to any other country in balance of payments difficulties; and that we should be prepared only in the last resort to modify our view that the use of such restrictions ought not to be subject to the prior approval of the Organisation. He suggested that even if we had to concede this point we should keep our hands completely free for at least two years. In order to meet our difficulties about the non-discrimination provisions of the Charter, the United States Government had proposed that, in the General Agreement on Tariffs and Trade embodying the result of the tariff negotiations and some of the provisions of the draft Charter, it should be laid down that these provisions should not take effect until 1951.

The Foreign Secretary and The Secretary of State for Commonwealth Relations urged that we should not enter into any fresh commitments with regard to non-discrimination, even though the
United States Government were willing that they should not take effect for some time to come; and there was general support for this view.

(b) The Secretary for Overseas Trade said that agreement had now been reached in Geneva on the inclusion in the draft Charter of a new provision safeguarding the position of any country which had complete control of its external trade. He understood that the provision was satisfactory to the New Zealand Minister of Finance.

The Secretary of State for Commonwealth Relations said that it was most important that the New Zealand Government should not be driven to refuse to participate in the Organisation. He would, therefore, wish to see the terms of the new provision and to be assured that it was acceptable to Mr. Nash.

(c) The Minister of Fuel and Power pointed out that it was proposed to agree to some modifications of the Imperial Preference system in return for certain reductions in the United States tariff. In his view there was very little prospect of any substantial increase in the quantity of manufactured goods which we might hope to export to the United States, and it was therefore essential that we should make sure of securing substantial advantages in return for any concessions that we might make.

The Foreign Secretary supported the recommendation made in O.E.P. (47) 29 that preferences which we enjoyed should not be reduced in any case where serious damage to an important export would result. It was also necessary to take special care that the advantages obtained in return for any concessions that we might make were of corresponding value. It was not enough to accept percentage reductions of tariffs which afforded only illusory benefits.

The Secretary of State for Commonwealth Relations said that, where the United States Government asked for some modifications of an existing preference, it was essential that the Dominion Government affected should also receive a compensatory concession of real value.

(d) The Cabinet disagreed with the recommendation made in O.E.P. (47) 29 that His Majesty's Government should concede free entry for fresh apples, provided that the Canadian Government consented. Such a concession would for some time be incompatible with the measures announced in Parliament on the previous day, and it was undesirable to enter into any long-term commitment on this subject at the present time.

(e) The Secretary of State for the Colonies drew attention to the recommendation made in O.E.P. (47) 29 that an attempt should be made to settle the question of boycotts at this stage rather than at the forthcoming World Conference. He suggested that a further attempt might be made to reach agreement by negotiation with the Arab League countries. This was agreed.

The Cabinet—

Subject to the points raised in discussion, endorsed the recommendations made in O.E.P. (47) 29.
The Home Secretary said that he was satisfied that it would not be possible to argue that an amendment to abolish capital punishment would be outside the scope of the Criminal Justice Bill, and accordingly, even if the long title could be drafted in such a way as to exclude the subject of capital punishment, such an amendment would, nevertheless, be in order. He had also reached the conclusion that, for the reasons set out in C.P. (47) 217, any system of grading murders would be undesirable. In these circumstances, he felt that the right course was for the Government to declare, when the Bill was introduced, that they would resist any amendment to provide for the abolition of capital punishment.

The Lord Chancellor said that he agreed with the conclusion reached by the Home Secretary that a scheme for the grading of murders would be unworkable.

The Attorney-General said that he still remained in favour of providing for the abolition of capital punishment in the Bill and he was satisfied that the majority of Government supporters would take this view.

The Cabinet—

(1) Took note that an amendment providing for the abolition of capital punishment could not be ruled out of order on the ground that it did not come within the scope of the Criminal Justice Bill.

(2) Agreed that it would be impossible to grade murders into those for which capital punishment would be retained and those for which it would be abolished.

6. The Cabinet resumed their discussion of the joint memorandum by the Lord President and the Minister of Supply (C.P. (47) 215) on the reorganisation of the iron and steel industry.

The Lord President recalled that at their meeting on 31st July the Cabinet had invited the Minister of Supply and himself to ascertain the views of the trade unions concerned. It had unfortunately been impossible to arrange a meeting with the Iron and Steel Committee of the Trades Union Congress, but at a meeting during the previous week the alternative courses which the Cabinet had considered had been put before a fairly representative group of members of the General Council. He had since received a message stating that the conclusion of the General Council was that they were not yet in a position to say that the policy of the Trades Union Congress on the nationalisation of steel had changed from what had been agreed at the meeting between the Minister and the deputation from the Trades Union Congress at which the scheme outlined in C.P. (47) 123 had been approved. The matter had, moreover, had to be considered by the Council at very short notice, and the Council had indicated that their representatives would be available for a further discussion with the Minister of Supply if necessary. Government supporters in Parliament were now pressing for information about the Government's attitude, and in his view it would be difficult to take the line that the Government were not yet able to state their intentions. He still believed that the right course was to introduce legislation in the 1947-48 Session on the lines proposed in C.P. (47) 212. To attempt to control the industry through the exercise of the powers which were being taken under the Supplies and Services (Transitional Powers) Bill would expose the Government to damaging criticism, and to proceed with the original scheme set out in C.P. (47) 123 would lead to a loss of steel output at a critical time. If, however, it was the general view of the Cabinet that the Government could not commit themselves as to their intentions during the 1947-48 Session in anticipation of The King's Speech, he felt that it would be wrong for them to announce at this stage that they would introduce legislation to implement the scheme in C.P. (47) 123 during the lifetime of the present Parliament.
The Chancellor of the Exchequer said that he remained in favour of the policy of full nationalisation. He felt, however, that it would be most unwise for the Cabinet to attempt to decide at the present time what, if any, legislation on the subject of the iron and steel industry should be included in the 1947-48 Legislative Programmes. The Government should, therefore, inform their supporters that it was very doubtful whether it would be possible to legislate on the subject in the 1947-48 Session. At the same time, it should be made clear that a measure to nationalise the iron and steel industry would remain part of the Government's programme of legislation for the present Parliament; and he believed there was a good chance of the Government's being able to deal with the matter in the 1948-49 Session. Meanwhile, any necessary control over the industry could be exercised under the Supplies and Services (Transitional Powers) Bill.

The Minister of Fuel and Power said that in principle he favoured the complete nationalisation of the iron and steel industry. He recognised, however, that nationalisation would not produce any beneficial result in increased steel output for some considerable time and that the introduction of legislation to carry out the scheme in C.P. (47) 123 would have a disturbing effect. On the other hand, the reply which he had received from the Trades Union Congress made it difficult to abandon any proposal for legislation in the 1947-48 Session, and he accordingly suggested that the right course would be to introduce a Bill to carry out the scheme of control outlined in C.P. (47) 212, at the same time making it clear that this was only a step towards the nationalisation scheme outlined in C.P. (47) 123. Looking to the circumstances in which the Supplies and Services (Transitional Powers) Bill had been introduced, he thought it would be most unwise for the Government to expose themselves to the charge that they were using powers granted by that Bill to carry out a measure of nationalisation.

The Foreign Secretary said that, after further consideration, he remained opposed to the scheme of control outlined in C.P. (47) 212. On the other hand, he did not think that the Government should commit themselves to legislation to nationalise the industry in the 1947-48 Session. He did not see why the Government should be forced to state their intentions at this stage, and he would prefer to leave the position open for at least a few weeks. The Cabinet might then consider the matter afresh, possibly after taking further soundings among their supporters.

The Minister of Health urged that the Government should forthwith state that they intended to introduce legislation to carry out the scheme outlined in C.P. (47) 123 in the 1947-48 Session. In previous discussions it had been rightly assumed that, if the necessary legislation was not introduced in this Session, there would be no hope of carrying out the nationalisation of the industry in the lifetime of the present Parliament. It would be difficult, if not impossible, for the Government to avoid making some statement of their intentions in view of the Conservative amendment to the Supplies and Services (Transitional Powers) Bill providing that no regulation might be made under the Bill for the purpose of bringing the iron and steel industry under public ownership. To announce that legislation would be introduced in a later Session would merely leave the industry in a state of prolonged uncertainty. No satisfactory evidence had been produced to show that, if the Government proceeded with the full scheme of nationalisation, output would be adversely affected.

The Secretary of State for Commonwealth Relations said that to proceed with the scheme in C.P. (47) 123 would lead to reduced output of steel, which would be disastrous in the present critical economic situation. Accordingly, if it was felt to be impossible to proceed with the scheme set out in C.P. (47) 212, the right course seemed to him to be to introduce no legislation on this subject in the 1947-48 Session.
The Minister of Food suggested that the Government should use their powers under the Supplies and Services (Transitional Powers) Bill to gain the effective control over the industry which would have been secured by the legislation proposed in C.P. (47) 212. They should then follow this up by introducing in the 1947-48 Session legislation to carry out the scheme set out in C.P. (47) 123. This course would avoid any risk of loss of output and, at the same time, make it clear that the Government were not to be turned aside from their intention to nationalise the industry.

The Lord Chancellor said that, in view of the advice which the Cabinet had been given by the Minister of Supply that to proceed with the scheme in C.P. (47) 123 would jeopardise steel output during the next year or eighteen months, he was strongly opposed to proceeding with legislation in the 1947-48 Session. He thought that the Government should forthwith decide that there should be no legislation to deal with the iron and steel industry in that Session and that this decision should be announced. Nothing need be said about the Government’s intentions with regard to the introduction of legislation in a later Session.

The Minister of Defence said that, though he was personally committed to a policy of full nationalisation for the iron and steel industry, he believed that nothing would be gained by saying that the measure to nationalise the iron and steel industry would be brought forward in a later Session. He accordingly supported the Lord President’s suggestion that legislation on the lines proposed in C.P. (47) 212 should be introduced in the 1947-48 Session.

The Minister of Education said that the Cabinet should take account of the effect that their decision might have on the workers in the iron and steel industry. He supported a solution on the lines proposed by the Chancellor of the Exchequer.

The Home Secretary said that during the next six months the Government would be faced with tremendous administrative tasks. For this reason he was opposed to the introduction of a Bill to nationalise the industry in the 1947-48 Session.

The Minister without Portfolio said that he feared that the proposals put forward in C.P. (47) 212 would create bitter disappointment. Accordingly, if the Cabinet could be assured that output would not be adversely affected, he would favour the introduction in the 1947-48 Session of legislation to implement the scheme outlined in C.P. (47) 123.

The Minister of Supply said that it was impossible to say categorically that the introduction of legislation to nationalise the industry would inevitably have an adverse effect on output. It would, however, undoubtedly increase the risk that the target of 14 million tons output of steel in 1948 would not be reached. On the whole, he was inclined to suggest that the proposal for full nationalisation should be retained as part of the programme for the present Parliament, but that no decision should be taken as to whether it should be introduced in the 1947-48 Session.

The Minister of Labour said that he had now come to the conclusion that it would be impossible to abandon the idea of introducing legislation to give effect to the scheme in C.P. (47) 123 during the lifetime of the present Parliament. He suggested, however, that a decision on whether such legislation should be introduced in the 1947-48 Session might well be deferred.

The Minister of Agriculture said that in the present critical situation the Government could not afford to proceed with legislation in the 1947-48 Session, if they were advised that by doing so they would affect adversely the output of steel in 1948. A failure to secure the maximum output of steel would do far more harm than the postponement of the proposed Bill until the 1948-49 Session.

The Prime Minister said that the Cabinet were bound to take account of the administrative tasks which they had undertaken in
order to deal with the present economic situation. To proceed with the original scheme might lead to considerable disturbance in the industry and would add substantially to the heavy burdens already imposed on the Ministry of Supply. For these reasons he would rather favour an announcement that the Government did not intend to proceed with the scheme in the 1947–48 Session. He realised, however, that any such announcement would cause disappointment among Government supporters, and he felt that the predominant view in the Cabinet was in favour of stating that, while the scheme still remained in the programme for the present Parliament, it was doubtful whether it would be possible to introduce the necessary legislation in the 1947–48 Session.

The Cabinet—

Agreed that Government supporters should be informed that the Government adhered to their intention to bring appropriate sections of the iron and steel industry under public ownership, that it was doubtful whether it would be possible to introduce the necessary legislation in the 1947–48 Session, and that, before coming to a final decision on this point, the Government required more time to consider it in the light of the present economic situation.

7. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C.P. (47) 213) outlining the terms on which it was proposed to make an interim settlement of the question of the Indian sterling balances.

The Chancellor of the Exchequer explained that, as a result of the recent negotiations, the Indian Delegation had advised their Government to accept an interim settlement covering the period up to the end of 1947, under which all but £35 millions of the outstanding Indian sterling balances, amounting to £1,160 millions, would be blocked. Only about £15 millions of the £35 millions released would be spent in dollars, the rest being used to meet sterling expenditure on Indian imports from Australia and the United Kingdom. No commitment for further releases after the end of 1947 had been or would be made in the present negotiations, nor were His Majesty’s Government committed to recognise the total of £1,160 millions. Moreover, the rate of interest on the balances would not be allowed to increase. In the exceptional political circumstances of India at the present time, he did not regard the proposed settlement as too generous, and he hoped the Cabinet would authorise him to announce it within the next few days.

The Secretary of State for India supported the proposals made in C.P. (47) 213. India badly needed food imports and, if His Majesty’s Government did not agree to the use of a reasonable amount of the accumulated sterling balances for the purchase of food, the prospects of retaining the Indian Dominions within the Commonwealth would be jeopardised.

The Cabinet—

Approved the interim settlement of the question of the Indian sterling balances proposed in C.P. (47) 213 and took note that the Chancellor of the Exchequer would announce the terms of the settlement at an early date.

Cabinet Office, S.W. 1,
7th August, 1947.