CABINET 39 (48)

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Monday, 14th June, 1948, at 11 a.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 (Items 5-7).


The Right Hon. HUGH DALTON, M.P., Chancellor of the Duchy of Lancaster.

The Right Hon. VISCOUNT JOWITT, Lord Chancellor.

The Right Hon. A. CREECH JONES, M.P., Secretary of State for the Colonies.

The Right Hon. A. WOODBURN, M.P., Secretary of State for Scotland.

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

The Right Hon. J. H. WILSON, M.P., President of the Board of Trade.

The following were also present:

The Right Hon. ALFRED BARNES, M.P., Minister of Transport (Items 5-6).

The Right Hon. H. T. N. GAITSKELL, M.P., Minister of Fuel and Power (Items 5-6).

The Right Hon. G. R. STRAUSS, M.P., Minister of Supply (Items 5-6).

The Right Hon. WILLIAM WHITELEY, M.P., Parliamentary Secretary, Treasury (Items 5-7).

Secretariat:

Sir NORMAN BROOK.
Mr. W. S. MURRIE.
Mr. S. E. V. LUKE.
## CABINET 39 (48)

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1. The Foreign Secretary said that the Egyptian Government had refrained from offering any comment on the draft Ordinance for constitutional reform in the Sudan. They had been given ample time in which to communicate their views; and he proposed that the Governor-General should now promulgate the Ordinance without Egyptian approval. A statement would be made in the House of Commons later that day explaining the substance of the Ordinance and the efforts which had been made to secure the agreement of the Egyptian Government.

The Cabinet—

Took note of the Foreign Secretary’s statement.

Germany.

(Previous Reference: C.M. (48) 67th Conclusions, Minute 1.)

2. The Foreign Secretary reminded the Cabinet that the French National Assembly would on the following day resume their debate on the report of the London Conference on the future of Germany. Whatever the outcome of this debate, he thought that the British and United States authorities should proceed to carry out the Conference’s proposals in the combined Anglo-American Zone. Every effort had been made at the Conference to meet the French point of view; and he was not prepared to accept the proposal which had been put to him by the French Government that a further attempt should be made to secure the participation of the Soviet Government.

The Cabinet—

Agreed that the recommendations of the London Conference on the future of Germany should be put into effect in the Anglo-American Zone of Germany, even though they were not endorsed by the French National Assembly.

Burma.

(Previous Reference: C.M. (47) 78th Conclusions, Minute 2.)

3. The Foreign Secretary drew attention to the deterioration in the political situation in Burma. Thakin Nu, the Prime Minister, had recently announced his intention to resign on 20th July and to devote himself to the leadership of the Anti-Fascist People’s Freedom League. He had accompanied this announcement by a statement of policy which was Communist in tone and substance and at variance with the moderate line which he had hitherto pursued. His object may have been to save his Coalition administration by timely concessions to extremist Left-wing opinion, but, if this manifesto correctly reflected their policy, the Government of Burma must now be considered to have thrown in their lot with Communism. His Majesty’s Government should therefore review the obligations towards Burma which they undertook under the Treaty and Exchange of Notes of October 1947.

There was general agreement with this suggestion. Ministers also thought it would be advisable for the Foreign Secretary to make it plain to the Burmese Ambassador in London that His Majesty’s Government were greatly concerned at the failure of the Government of Burma to give effect to the undertakings into which they had entered last year. Some doubt was, however, expressed whether Thakin Nu’s statement represented so marked a departure from his earlier attitude as might at first sight appear. Even at the time of the negotiations for the Treaty, the Anti-Fascist People’s Freedom League had been in negotiation with the more moderate of the two Communist parties in Burma, in the hope of using it to defeat the other. It was suggested that U Tin Tut might be able to throw some light on the situation, if he could be persuaded to talk frankly, and the Foreign Secretary undertook to consider this suggestion.
The Cabinet—

(1) Agreed that the Commonwealth Affairs Committee should review, in the light of recent developments in Burma, the commitments undertaken by His Majesty's Government in the Anglo-Burmese Treaty of 1947;

(2) Took note that the Foreign Secretary would inform the Burmese Ambassador in London of the concern felt by His Majesty's Government at the failure of the Government of Burma to carry out their undertakings in that Treaty.

European Economic Co-operation. (Previous Reference: O.M.(48)29th Conclusions, Minute 2.)

4. The Cabinet's attention was drawn to the strain imposed on the Organisation for European Economic Co-operation by the demands of the United States authorities for the supply of statistical information in connection with the European Recovery Programme. These demands were so extensive and exacting that there was a risk that the Organisation would break down under their burden. The position might improve as the result of the new arrangement by which Mr. Harriman would nominate representatives to attend meetings of the technical Committees of the Organisation, but it seemed desirable that the United States authorities should be warned of the consequences which might follow unless they moderated their requirements.

The Cabinet—

Invited the Foreign Secretary to instruct the Head of the United Kingdom Delegation to the Organisation for European Economic Co-operation to discuss with Mr. Harriman the possibility of securing a substantial reduction in the demands made on the Organisation by the United States authorities for statistical information in connection with the European Recovery Programme.

Iron and Steel Bill. (Previous Reference: C.M.(48)36th Conclusions, Minute 4.)

5. The Cabinet resumed their discussion of the Iron and Steel Bill. In addition to the papers considered at their earlier discussion on 7th June, they now had before them a further memorandum by the Minister of Supply (C.P. (48) 145) setting out the arguments for bringing the iron and steel industry under public ownership.

The Cabinet first discussed whether, as proposed by the Minister of Supply, the Bill should provide for the acquisition of all companies producing in 1946 and 1947 upwards of 50,000 tons of iron ore or upwards of 20,000 tons of pig iron, ingot steel or re-rolled products. This would bring under public ownership 85 companies together with 155 subsidiaries. An alternative and more restricted scheme would bring only 32 companies and 100 subsidiaries under public ownership.

Against the wider scheme, it was urged that the Minister of Supply and the Iron and Steel Corporation would find great administrative difficulty in controlling the activities of such a large number of companies. Moreover, the wider scheme would accentuate the difficulties which would arise owing to the combination of iron and steel production with other activities, for the predominant interest of some of the firms which would be taken over was in their other activities. It was also suggested that a desirable element of competition might be provided by leaving some of the medium-sized firms in private ownership. It was accordingly proposed that the Bill should provide for the immediate transfer of only 32 companies with 100 subsidiaries and should confer power to bring additional companies under public ownership as and when this became desirable.

In favour of the wider scheme, it was pointed out that it would bring under public ownership virtually all those companies within the field now controlled by the Iron and Steel Federation. These
formed a coherent and manageable group and their acquisition would
avoid many of the difficulties of reorganisation which were bound
to arise if a number of fairly large firms was left in private owner­
ship. Even the restricted scheme would bring under public
ownership several companies whose predominant interests were in
other activities and, though the amount of hiving off would be
greater under the wider scheme, no new question of principle would
be raised. The alternative of providing for the acquisition of
additional firms at a later stage would create conditions of uncer­
tainty in which private firms would be afraid to embark on new
development. On political grounds the wider scheme was to be
preferred and it was understood that nothing less would satisfy the
trade unions.

Other points in discussion were:

(a) It would be desirable to take powers in the Bill to prevent
companies which were to be brought under public ownership from
hiving off activities in order to evade the objects of the Bill, and a
warning to the industry on this matter might have to be given at
an early date. On the other hand, it would be open to the Minister
to give his approval and encouragement to the hiving off in
anticipation of the Bill of activities which formed no part of what
it was desired to bring under public control.

(b) It was most desirable that the proposed Corporation should
have the services of the staff of Steel House. This could not be
secured by legislation, but there was a reasonable prospect that the
staff would find in the employment of the Corporation the best
scope for the use of their qualifications.

(c) There was general agreement that firms which fell outside
the definition in the Bill should not have an option to demand
inclusion in the scheme of acquisition. This decision could be
 defended on the ground that the grant of an option might lead to
the Corporation's being saddled with a number of obsolescent plants.

The Cabinet—

(1) Agreed that the Bill should provide for the acquisition of
all companies producing in 1946 or 1947 upwards of
50,000 tons of iron ore or upwards of 20,000 tons of pig
iron, ingot steel or re-rolled products;

(2) Invited the Minister of Supply to consider what powers
might be taken to prevent firms from hiving off activities
with a view to evading the objects of the Bill;

(3) Agreed that firms outside the definition in the Bill should
not be given the option to demand inclusion in the
scheme.

In C.P. (48) 123 it was proposed that the Bill should confer on
the Corporation the sum of the existing powers in the memoranda
of association of all the companies which would come under public
ownership, and should leave each company free to exercise the
powers conferred by its own memorandum. Many of the powers
which the Corporation and individual companies would thus be
free to exercise authorised the carrying on of activities far removed
from the production of iron and steel and some of the more
extraneous powers had not, in fact, been exercised hitherto. The
grant of such wide powers to the Corporation might excite
opposition and it was suggested in C.P. (48) 123 that, if necessary,
the Government should offer so to amend the Bill as to restrict the
Corporation to the sum of the activities actually performed at the
date of transfer by the companies, and to limit each company to
activities which it was actually performing subject to a proviso
that the Minister should have power to authorise the Corporation
or an individual company to undertake additional activities.

It was pointed out that the Government might incur
unnecessary criticism by proposing to confer on the Corporation
powers to carry on such extraneous activities as banking, distilling
and printing, and that the experiences of the Transport Bill had
shown the strength of the opposition that might develop. On the other hand, no similar difficulties had arisen in connection with the Coal Industry Nationalisation Bill, the Electricity Bill or the Gas Bill and it was undesirable to limit the powers of the companies too narrowly.

The suggestion was made that criticism might be avoided by confining the functions of the Corporation to that of a holding company. There would then be no need to define its powers and the existing companies could be left with the powers under the memoranda of association.

Attention was also drawn to the importance of conferring on the Minister of Supply adequate powers to control the Corporation.

The Cabinet—

(4) Invited the Minister of Supply, in the light of the discussion, to circulate a further memorandum dealing with the powers to be conferred on the Corporation and, in particular, with the suggestion that the Corporation might be constituted simply as a holding company.

It was pointed out that, if the Bill was to be passed under the amended Parliament Act, there would be no scope for amending it after it had been sent to the House of Lords for the first time. It was therefore desirable to give as much time as possible for consideration of any reasonable suggestions for amendment and the Minister of Supply had proposed that there should be a reasonable interval before Second Reading and between Second Reading and the Committee Stage in order to give opportunity for discussions with interested parties. The suggestion had also been made that the Bill might be introduced at the end of the current Session, in order to give longer time for public comment on its provisions.

In discussion it was pointed out that it would be inexpedient not to follow up the publication of the Bill within a reasonable time with a full exposition of the case for it. If, however, the Bill were introduced at the end of the current Session this would have to be done by a Government statement which, whether it took the form of a White Paper or some other form, would anticipate the Minister’s speech on Second Reading. There was, therefore, much to be said for not publishing the Bill until two or three weeks before the Second Reading debate. This would probably mean publication in October, when the short Session proposed in C.P. (48) 147 would still be in progress, and the possibility might be considered of holding in that Session a Second Reading debate in which the Government’s case could be expounded.

The Cabinet—

(5) Invited the Minister of Supply to discuss with the Lord President and the Chief Whip the arrangements for the introduction of the Iron and Steel Bill.

There was general agreement that the arguments set out by the Ministry of Supply in C.P. (48) 145 justified the Government in proceeding with the scheme outlined in C.P. (48) 123. It was, however, suggested that the Socialisation of Industries Committee should examine these arguments and submit to the Cabinet a revised statement setting them out in greater detail.

Other points in discussion were:

(d) There was good reason to believe that the efficiency of the managing and technical staff in the iron and steel industry would not be impaired by the removal of the profit motive, provided that there was no substantial reduction in the salaries and privileges attached to their posts.

(e) The Corporation would have to encourage individual managements to take a personal responsibility for the success of their undertakings.
In filling vacancies in or in reorganising the boards of directors of existing companies, the policy should be to appoint directors with direct experience of the production side of the industry.

So far as the workers were concerned, the strongest justification for the Government's proposal was that they would remove the fear of a return to the policy of restriction of output which had largely prevailed in the inter-war years.

The Cabinet—

Subject to Conclusion (4) above, approved the scheme set out in C.P. (48) 123 for bringing the iron and steel industry under public ownership;

Invited the Socialisation of Industries Committee to examine the arguments in favour of the scheme outlined in C.P. (48) 145, and to prepare for the Cabinet a revised statement setting out these arguments in greater detail.

6. The Prime Minister drew attention to reports, published in certain newspapers on 12th, 13th and 14th June, purporting to describe the course of the Cabinet's discussions on the Iron and Steel Bill and the views held by individual Ministers.

In discussion grave concern was expressed at the continuing disclosure of confidential discussions between Ministers. For the efficient conduct of Government business it was essential that Ministers should feel able to speak among colleagues with full assurance that the confidential nature of those discussions would be respected. If these disclosures continued the conduct of Cabinet business would be seriously prejudiced.

The Prime Minister impressed on all his colleagues the importance of exercising the greatest discretion in relation to the business discussed at meetings of the Cabinet and its Committees.

7. The Cabinet considered a memorandum by the Lord President (C.P. (48) 147) on the adjustments to be made in the Parliamentary programme in consequence of the decision of the House of Lords to reject the Parliament Bill.

This memorandum recommended that three further sessions should be held before the present Parliament was dissolved. In the first of these, a short session running from 14th September to about 27th October, 1948, the Parliament Bill would be passed by the Commons and sent to the Lords for a second time, but no other legislative business would be transacted. This would be followed by a long session, running from late in October or early in November, 1948, until December, 1949, in which the Parliament Bill would be passed into law and the Iron and Steel Bill would be passed by the Commons for the first time. In the third session, which would open in January, 1950, and would be relatively short, the Iron and Steel Bill could, if it had been rejected by the Lords in the preceding session, be passed into law under the amended provisions of the Parliament Act.

An alternative course would be to hold two normal sessions in 1948/49 and 1949/50. In the first of these the Parliament Bill would be sent to the Lords for the second time and the Iron and Steel Bill for the first time. In the second the Parliament Bill would be sent to the Lords for the third time and the Iron and Steel Bill, if rejected by the Lords in the preceding session, for the second time. This arrangement would, however, have the disadvantage that in the final session of the Parliament both these Bills would be running simultaneously and, if the Lords had not rejected them earlier, both would have to be put forward for Royal Assent at the end of the session immediately before the General Election.
The Iron and Steel Bill could then become law only by virtue of a Parliament Act which had received the Royal Assent on the same day. The Government would thus be leaving in jeopardy, right up to the eve of the Dissolution, their policy of passing the Iron and Steel Bill in the lifetime of the present Parliament; and there was some risk that technical difficulties might at the last moment prevent that Bill from being passed into law before the General Election. The Cabinet agreed that the better course was to hold three further sessions as recommended in C.P. (48) 147. They also agreed that under this timetable it would be preferable that the short session in the autumn of 1948 should be opened by Commission.

The Cabinet—

(1) Approved the proposals, put forward in paragraphs 3 and 7 of C.P. (48) 147, for the arrangement of the remaining sessions of the present Parliament;

(2) Authorised the Lord President and the Lord Privy Seal to consult with the leaders of the Opposition with a view to reaching agreement on this proposed arrangement of the remaining sessions of the present Parliament.

Cabinet Office, S.W. 1,
14th June, 1948.