CABINET 40 (47)

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Monday, 28th April, 1947, at 11:30 a.m.

Present:

The Right Hon. C. R. Attlee, M.P., Prime Minister (in the Chair).
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. 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 (Item 1).
The Right Hon. Lord Inman, Lord Privy Seal.

The following were also present:
The Right Hon. John Wilmot, M.P., Minister of Supply.
The Right Hon. Alfred Barnes, M.P., Minister of Transport.
The Right Hon. John Strachey, M.P., Minister of Food.

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1. The Minister of Health said that at their meeting on 21st April the Fuel Committee had considered what allocations of coal could be made to industry during the period 1st June to 31st October, 1947, and had decided that industries should receive during that period, for both consumption and stocking, the amounts which they had consumed in the same period of 1946. The Committee had been informed that on this basis industry as a whole would receive 86.8 per cent. of their present requirements for current consumption and stock-building. Since then he had been considering, with the Minister of Works, the effect of these proposed allocations on the building materials industries. During the summer of 1946 the capacity of these industries had been substantially expanded; and if they were now to receive allocations based on that period, they would obtain this summer far less than 86.8 per cent. of their requirements of coal. The effect on the building programmes would be disastrous. He had already planned to reduce the number of new houses to be started in 1947; but, if the coal requirements of the building materials industries were to be cut to the extent now proposed, it would also become necessary to stop the building of houses already under construction. Serious dislocation must also be expected in the building materials industries themselves. They would be unable to maintain output at the level to which it had been raised; and the efforts which had been made to bring additional labour into the industries would be frustrated. If these developments were allowed to occur at a time when Government spokesmen were stressing the urgency of providing houses for miners and farm workers, and the importance of increasing the labour force in undermanned industries, it would be difficult to meet the criticism that there was a lack of consistency in the Government's economic planning.

In these circumstances the Minister asked that the President of the Board of Trade should defer the announcement, which he was proposing to make in the House of Commons that afternoon, about the allocation of coal to industry during the coming summer or, alternatively, that he should make an announcement in terms which would permit reconsideration of the allocations to be made to the building materials industries.

In discussion, reference was also made to the pressure from building operatives' unions for the closing of the Government training centres for builders. If there was any substantial curtailment of building programmes, it would be more difficult to resist this pressure. Some Ministers suggested that the Government should adopt a more selective policy in the allocation of coal to industry. Inland consumption of coal was now higher than it had been before the war; and it was clear that, economically, the country was attempting more than it could achieve. A uniform percentage reduction in coal supplies to all industries might produce widespread dislocation. Would it not be preferable, by a deliberate act of policy, to shut down some industries altogether and reduce the coal consumption of some others, so that the essential industries might be assured of their fuel requirements?

The President of the Board of Trade said that he had been satisfied that it would not be possible, in the time available, to work out the intricate details of a selective scheme designed to ensure that the available coal was used to the best advantage in the national interest. It was, however, essential that supplies should be reduced in such a way as to avoid disrupting the relation of one industry with another. He had therefore taken as a basis the coal consumption of industry in the summer of 1946, when the inter-relation between industries was fairly satisfactory; and he believed that, if industries received this summer the same amounts of coal as they had used last summer, it might be possible to avoid the serious dislocation which would in his view be caused by a selective policy which had not been worked out in sufficient detail. The building materials industries were not by any means the only industries which had been expanded during 1946; and they would not suffer on this account more than many other industries.
After further discussion The Prime Minister said that, as the Cabinet evidently desired to review the decision taken by the Fuel Committee on 21st April, it would be preferable that they should postpone further consideration of this question until memoranda could be circulated by the Ministers concerned.

The Cabinet—
(1) Asked the President of the Board of Trade to defer for the time being the announcement which he had proposed to make about the allocation of coal to industry during the summer months;
(2) Instructed the Secretary of the Cabinet to circulate to them the memorandum on this question which had been submitted to the Fuel Committee by the President of the Board of Trade;
(3) Invited the Ministers of Health and Works to submit a memorandum setting out the effect of the proposed allocations on the Government building programme;
(4) Agreed to resume further discussion of this question when these memoranda were available.

2. The Cabinet resumed consideration of the memorandum by the Minister of Supply (C.P. (47) 123) outlining his scheme for bringing certain sections of the iron and steel industry under public ownership. They also had before them a further memorandum by the Minister of Supply (C.P. (47) 132) on the three questions on which their previous discussion had mainly turned.

The Cabinet agreed that, for the reasons given in paragraphs 8 and 9 of C.P. (47) 132, it would be expedient to acquire the whole of the shares of the companies concerned.

The Cabinet then considered on what basis the shares should be bought.

In favour of purchase on the basis of Stock Exchange prices, it was pointed out that this method had been adopted in the Transport and Electricity Bills, and had been defended as a fair and objective system of valuation. The Socialisation of Industries Committee had already decided that it would be unprofitable to attempt to make any allowance for past State action in furthering the development of the industry; and it seemed clear that the only practicable alternative to acquisition at Stock Exchange prices would be valuation by an independent tribunal with terms of reference so drawn as to cover all relevant considerations, including the condition of the physical assets to be transferred. It would be difficult to obtain the services of the necessary valuers and accountants for this purpose and great delay and expense would be involved in carrying out the valuation. All the available evidence suggested that the values of the quoted shares had been discounted to take account of obsolescent and obsolete plant; and the tribunal set up to value the unquoted shares would naturally take into account, not only past yields, but also prospective yields, for which purpose they would have regard to the degree of obsolescence of the plant. This was, in fact, the procedure in valuing such shares for the purpose of death duties. It was also pointed out that, though much of the existing plant would eventually become obsolete, the process of re-equiping the iron and steel industry could hardly be completed in less than ten years and the great bulk of the existing plant would have to continue in use during that period.

In these circumstances the Cabinet approved the proposal of the Minister of Supply that purchase should be on the basis of Stock Exchange prices.

The Cabinet then discussed whether the form of organisation of the industry after nationalisation should, at least in the initial stages, be based on the retention of the existing company structure. Against this proposal, it was argued that, if the Government acquired the whole of the shares of the companies concerned, it was...
difficult to see what incentive the companies would have to initiative and enterprise. Moreover, though there would be a plausible case for bringing under public ownership a thoroughly efficient firm on the ground that it was only by this means that it could be integrated with other firms, would the Government not find it difficult to justify the acquisition of such a firm if it were to remain an independent unit? And was it not likely that, in such a case, the more enterprising directors and staff would transfer to some sector of the industry which was not to be nationalised?

On the other hand, it was pointed out that these companies were engaged on a great variety of processes and depended largely on the sale of products made to individual specifications for particular buyers both in the United Kingdom and in the highly competitive markets overseas. There would, therefore, be great advantage in maintaining the identity at least of the majority of the firms, and the experience of large combines under private enterprise showed that this was not incompatible with a spirit of emulation in efficiency between the directors and staffs of different companies within a combine. Moreover, at the finishing end of the industry there would be competition between companies brought under public ownership and private companies.

The Cabinet approved the proposal of the Minister of Supply to retain the existing company structure, though it was recognised that the case for so doing would have to be carefully presented when the Government's intentions were made public.

The Lord Chancellor said that, in his view, it would be unwise to proceed with this scheme at the present time, and that the better course would be to acquire not more than 51 per cent. of the shares of the existing companies; to empower a statutory Central Board to give directions to these companies; and to make the Board responsible for all new developments. He believed that a scheme on those lines would promote efficiency and save an enormous expenditure of public money. He recognised, however, that the predominant view in the Cabinet was clearly in favour of proceeding with a scheme on the lines proposed by the Minister of Supply.

The following additional points were made in discussion:

(a) Where an engineering firm had an ancillary steel-producing plant the whole of whose produce was consumed by the firm, the general intention was to allow the firm to continue to operate that plant under licence.

(b) The proposed Bill would be supplemented by a White Paper setting out more fully the intentions of the Government and the arguments for bringing the iron and steel industry under public ownership.

(c) The Minister of Supply had already given the trade unions concerned a general indication of the lines on which he was working and was satisfied that his proposals would meet with their approval. He suggested, and it was agreed, that any consultation with the Iron and Steel Federation and other representatives of employers in the industry should be deferred until a later stage.

The Cabinet—

(1) Approved the scheme outlined in Appendix 11 to C.P. (47) 123 for bringing under public ownership certain sections of the iron and steel industry, and authorised the Minister of Supply to arrange for the drafting of a Bill on the lines set out in Appendix 1 to C.P. (47) 123 with a view to its being ready for introduction early in the 1947-48 Session;

(2) Invited the Minister of Supply in due course to circulate for their consideration a draft of the explanatory White Paper which he proposed to publish simultaneously with the Bill.

Cabinet Office, S.W. 1,
28th April, 1947