CABINET

REORGANISATION OF THE IRON AND STEEL INDUSTRY

JOINT MEMORANDUM BY THE LORD PRESIDENT OF THE COUNCIL AND THE MINISTER OF SUPPLY

IN accordance with the decision of the Cabinet on 26th June, 1947 (C.M. (47) 57th Conclusions, Minute 5), we have had discussions with Mr. Ellis Hunter and Sir Andrew Duncan on behalf of the Iron and Steel Federation.

2. We emphasised to them that the Government was proceeding with the preparation of legislation to give effect to a scheme on the lines which had already been indicated to them, but explained that we had been authorised to ascertain further details of the possible alternative arrangements which they had tentatively suggested in the discussion with the Prime Minister on 21st May last.

3. As a result of these discussions, we are satisfied that the Federation, under threat of complete socialisation, would agree to:

(a) Permanent and far-reaching statutory control of the industry by the Government.

(b) Direct exercise by an Iron and Steel Board, instead of through Steel House, of control over the industry, and the transfer of the necessary expert staff to operate such control.

(c) Statutory powers for the public acquisition of specific undertakings when expedient in the public interest. Such action would be taken on the advice of the Iron and Steel Board, and would be subject to Parliamentary approval in each case.

But the Federation representatives stressed that their understanding would be that the powers of public acquisition of an undertaking would (to use their own words) be exercised not for doctrinal but for practical reasons: and they would not consider as justified a decision to acquire any particular undertaking in the general legislation—i.e., in advance of full examination of the practical reasons.

The position is elaborated in greater detail in the following paragraphs.

4. The Federation would accept the principle of complete control by the Government over the industry, by the translation into permanent statutory form of appropriate existing emergency powers such as those in Defence Regulation 55. Some detailed questions, such as Government sanction of all capital developments within the industry and of all proposals to raise new capital, to amalgamate companies or to dispose of substantial fixed assets, have not been discussed with the Federation representatives. But the principle has been accepted so unreservedly that there would be little difficulty in negotiating satisfactory arrangements.
5. The Federation representatives recognised that, inasmuch as the Government would have responsibility for the direct control of the iron and steel industry, it was logical that it should have the necessary technical and statistical staff as its own servants. In principle, therefore, the Federation is prepared to agree that that part of its organisation which at present carries out executive control (including production arrangements, costing and statistical work) should be transferred to the Government. They are also prepared to agree that in principle there could be no objection to the transfer to the State of the subsidiary companies which at present handle the import of iron ore, scrap and semi-finished steel, and the disposal of surplus steel products. They expressed considerable doubt as to the wisdom on practical grounds of a transfer of some parts of the subsidiary organisation and would wish to discuss these practical considerations further. But the principle was clearly accepted: and the Federation would abide by any decision which the Government might make after hearing any representations on the practical issues involved.

6. If the arrangements summarised in the preceding paragraphs were adopted, the Federation would cease to be an instrument of policy control and direction and would become an ordinary trade association. Sir Andrew Duncan has made it clear that in such an event the Federation would not seek to build up a fresh organisation alongside the Iron and Steel Board, but he has urged that the Board should be prepared to place information about costs and other matters at the disposal of the Federation so as to facilitate its operation as an ordinary trade association.

7. As regards public acquisition, the Federation representatives at first took the line that such a power should be exercisable only where justified by defence considerations or default on the part of private industry. Subsequently, however, they said that they recognised that it would be impossible to define in the legislation the grounds upon which Government would acquire companies without making the provisions so restrictive as to be inoperable, and they were prepared to agree that the Bill should give the power of acquisition in any case where this was reported by the Iron and Steel Board to be expedient in the public interest. The formal procedure would be for the Minister to issue an order providing for acquisition which would be subject to Parliamentary challenge. They stressed, however, that this power should not be exercisable by the Minister except upon the recommendation of the Iron and Steel Board, although they agreed that the Minister might take the initiative in referring cases to the Board for examination. When it was pointed out that Government could not be expected to acquiesce in a state of affairs in which the Minister would be precluded from acquiring an undertaking if the Board’s report were adverse or non-committal, they said that they would consider whether their difficulties would be met if the Government were prepared to include a provision that in all cases the Minister would be obliged to publish the Board’s report. So far we have not had their views on this latter point: but it is pretty clear that they would not insist on their original standpoint, although they would probably press for the provision concerning publication. In any case, it would not be easy to resist a Parliamentary demand for publication.

8. The Federation representatives made it clear that they would regard as quite inadmissible, as far as they were concerned, any proposal that, in token of the ultimate objective of achieving full public ownership of appropriate sections of the industry, specified undertakings—such as (although it was not mentioned) the Steel Company of South Wales—should be acquired compulsorily in the legislation for the reorganisation of the industry, or in an immediate order issued under that legislation. In short, their understanding would be that Government would intend to exercise the powers of acquisition in specified cases only and then “for practical and not doctrinal ends.” It is, no doubt, for this reason that they urged that the Minister should only be empowered to acquire an undertaking if the Iron and Steel Board reported in favour of such a course.

9. The discussions have shown that under the threat of drastic action the Federation is prepared to go a very long way along the line of conceding permanent public control of the iron and steel industry, the dissolution of the powers of control and expertise at present wielded by Steel House, and to accept an unqualified statutory power of compulsory acquisition of iron and steel undertakings. But they are prepared to agree to such a power of acquisition only on
the tacit understanding that Government did not propose to proceed forthwith to use the power of acquisition to bring the industry under public ownership because of its belief in that form of ownership, but only when the Iron and Steel Board reported that it was necessary to acquire a particular undertaking. At the same time they made it clear that they were not anticipating that the Government would make any public abandonment of its principles: they fully recognised that the Government of the day must be free to reconsider the position at a later date—e.g., in the next Parliament.

10. It is clear that a solution on the lines indicated in the earlier paragraphs of this paper would not achieve the objective of public ownership as previously announced, and it would be better, in our judgment, to face that fact squarely from the outset. Given the limitations which would be inherent in any agreement possible with the Federation—e.g., the necessity to consult the Iron and Steel Board in all cases and to publish their report—public acquisition in practice might well be confined to a few unsuccessful enterprises. Therefore, as we see the position, if the Government is to proceed with an immediate and comprehensive measure of public ownership in the iron and steel industry during the lifetime of the present Parliament, the only course will be to go on with the legislation already approved by the Cabinet, to disregard the recent discussions with the Federation, and to face the opposition of the industry.

But in the present very serious economic circumstances the disadvantage of this course is that it would involve many months of turmoil and uncertainty at a time when we could not afford to take the risk of a reduction in steel output and in steel-using exports, or in the completion of the modernisation schemes. Moreover, such action would undoubtedly render general co-operation between the Government and industry more difficult, as well as straining still further our already over-taxed administrative machine.

11. On the other hand, a solution on the lines indicated as possible in the discussion with the Federation representatives would secure next Session, by agreement with the industry, legislation establishing complete and manifest Government control over the industry, the immediate transfer to the Government of all the mechanism of regulation and control which has been the mainspring of the power of the Iron and Steel Federation, and the relegation of that organisation to the status of a normal trade association. These powers of control would be reinforced by the standing power of acquisition by order which the Minister could exercise in cases of default. This would be a very long and useful step along the road to public ownership, and would leave the way clear for the next Labour Government, armed with wide powers and experience, to carry out the complete socialisation of the industry in less strained circumstances.

12. Looking to the extremely critical economic period ahead, our feeling is that we should be well advised to adopt the second of the above courses.

H. M.

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