9th December, 1947.

SECRET

C.P.(47) 325

CABINET

WHITE FISH INDUSTRY

Memorandum by the Minister of Food

When the Lord President's Committee accepted, on 12th August (L.P.(47) 25th Meeting, Minute 3), the majority recommendations of a sub-committee on the future of the White Fish Industry (L.P.(47) 129), from which I dissented, it was left open to me to bring the matter before the Cabinet. I do so now because I feel that the Cabinet should review the matter before a decision is taken to introduce a Bill for the re-organisation of the white fish industry on the lines proposed by the Fisheries Ministers.

2. My objections to these proposals, which I have expressed in a number of papers to the Lord President's Committee, are of two kinds.

3. First, I have a general objection to this type of proposal for the "re-organisation" of an industry while leaving the ownership of that industry in private hands. I believe that if we attempt to "re-organise" all industries by a system of detailed regulation and control, we shall get into serious trouble. Instead we should steadily pursue our policy of nationalising one by one the basic industries of the country, while leaving at least the detailed operation of the still privately owned industry open to the forces of competition and the price mechanism. As I submit below the real effect of any policy of general control by "Producer Boards" will be, not an advance towards socialism, but on the contrary the creation of a system of privately owned monopolies with a strong bias towards restrictive practices, operating under the protection of our own statutes. I am convinced that such a policy is a recipe for making commodities scarce and dear to the ultimate consumer. When one of these commodities is a foodstuff - in this case fish, the sole remaining major unrationed foodstuff - this prospect naturally fills me with alarm.

4. Again, it seems to me most doubtful whether, from an administrative point of view, we are wise to choose this moment to add a large new field to our administrative responsibilities. The proposals as they have finally emerged from the sub-committee of the Lord President's Committee, are for the setting up of not one, but two large new boards, one on the producers' and the other on the distributive side of the industry. Is this the moment to make this major increase in our national administrative overhead? Is this the moment for our already hard pressed Government machine to assume these large new tasks? Their assumption is, in my view totally
unnecessary. For here at any rate is one industry which is prosperous, which is running on the whole pretty successfully on its own, where supply is somewhere near demand at current prices, and where large returns are being realised by both the employers and the employees — they are in many cases the same persons working on a co-operative basis. Ought we not to be thankful that in this case we can leave comparatively well alone for a few years at any rate?

5. My second objection to the Fisheries Ministers' proposals is that this particular scheme for the re-organisation of an industry will inevitably have restrictionist consequences.

6. I endorse the view of the Minister of Health that any Production Board, however good its intentions, would be in a hopeless position unless it submitted to the wishes of the producers; and it is the tendency of producers to restrict supplies to the amount which can be handled and sold with the least inconvenience. Without competition, this is normally the smallest quantity that will maintain existing returns at maximum prices.

7. Under the proposed scheme, the Production Board would have control not only of home-caught fish but also of imports. So no competition from this source could be brought to the help of the consumer, and fish supply policy would be entirely in the hands of the Production Board. In these circumstances it is difficult to see what useful function the Ministry of Food and the Distribution Board could perform. Any reduction in distributive costs would be negligible compared with the level of first hand prices based on restricted supplies. Distribution costs are at present about 100%. The housewife pays, that is to say, about double the price realised by the fisherman on first sale. Considering the highly perishable, seasonal, diverse and generally difficult character of fish as an object for distribution, this compares very favourably with the distribution costs of many far easier commodities, such as wireless sets or motor cars. It is, I am afraid, a complete illusion to think that there is any large saving to be quickly made in this distributive field. I do not consider, therefore, that a Distribution Board is necessary or could bring any important advantages.

8. The ultimate solution is, in my opinion, the nationalisation of the wholesaling function; we cannot, I take it, do this in the present Parliament. But this does not mean that nothing can be done. In L.R. (U7) 133, I have suggested certain immediate measures, amounting to the setting up of a "Fish Executive" analogous to the "Vegetable Executive" which has just been created.

9. If the proposed Distribution Board would be of little value, the proposed Production Board would inevitably be actively harmful. However admirable were its plans it would be sure to become restrictionist in practice. The only experience which we have in regard to the activities of Boards appointed by the Fisheries Departments in this field is that of the Herring Industry Board. This experience is not encouraging to the view that such Boards will abstain from restrictionist practices. The Herring Industry Board imposed restrictions on fishing on every day in June this year but two, and for about half the month only half the fleet was allowed to fish. As a result, except in the first ten days or so of the season, which began on 10th May, and except for a small quantity
on 10th July, no herrings were purchased for oil and meal at the Moray Firth ports in spite of the offer to buy the whole surplus subject to the capacity of the factories. This degree of restriction has arisen from the fact that the Board entered into an understanding with the Moray Firth herring fishermen that the Board would restrict their fishing to what it estimated would produce catches just sufficient to satisfy the fresh, kippering and export markets without producing any herrings for the, to my mind, vital purpose of producing oil for margarine and meal for animal feedingstuffs. This understanding and the highly restrictionist policy which has resulted from it, has, in fact, meant that only very small quantities of herrings have been available for reduction for margarine oil and feedingstuffs.

10. In the latter part of this year, owing to strong representations by my Department, the Herring Industry Board's policy has become somewhat less restrictionist.

11. I need not emphasise to the Cabinet the consequences which would ensue if we do allow the white fishing industry as well as the herring industry to be put in the hands of a Board, the inevitable bias of which will be to restrict its activities and so to maintain the price of its produce at the highest possible level. The result will inevitably be, as I suggested in L.P. (46) 284, "a small, cozy, highly protected, enormously profitable fishing industry which has excluded competitive new entrants. By so doing, it would prevent us ever achieving an ample supply of cheap fish to the working class of this country - which should surely be the object of the whole business".

12. Confirmation that the bias would be restrictionist, can be found in the Fisheries Ministers' original proposals contained in L.P. (46) 283. I point out this restrictionist bias in the note appended to my L.P. (46) 284. It will be seen that the Fisheries Ministers' first proposal is that the Fish Production Board should "drastically reduce the number of trawler owners", with the obvious intention of reducing competitive pressure in the actual catching of fish. A statutory monopoly of the right to fish is thus to be given to certain selected trawler owners, thus excluding newcomers and small men from the industry. (See also paragraph 3 of my note, pointing out the bias against the modern efficient Hull trawler owners because their activities tended to reduce the price of fish; also paragraph 4 as to the, in my view, totally unnecessary charge of £11 million which is to fall on the Treasury as an assistance for re-equipping the fishing fleet).

13. I believe that the Fisheries Ministers are still influenced by the experience of the inter-war years when demand for fish constantly fell below supply with, admittedly, most painful consequences to the industry. They have failed to take into account fundamental changes in the situation. In the first place, other foods are much less plentiful and cheap, and will, unfortunately, certainly remain so for many years to come. This in itself will greatly increase the demand for fish. But still more important than this factor is the re-distribution of income which we have brought about. This means that the total money demand for foodstuffs in general and fish in particular possessed by the population is now for larger than ever before. This demand will provide a market of such a size that the fishing industry can work for it without fear of glut.
This year's experience is particularly interesting in this connection. On 14th March of this year the Fisheries Ministries (see L.P.(47) 51, Appendix, page 4, column 6), said "we feel that the Ministry of Food is too optimistic in anticipating a shortage of fish relative to demand". This phrase reveals clearly the general attitude of the Ministries, in which they consider that a shortage of fish relative to demand is something to be hoped for. It fully confirms, I submit, my view that their bias is and will inevitably remain restrictionist. But, in addition, it reveals what has proved in the event to be a mistaken forecast of the supply and demand situation through 1947. In spite of leaving the white fish (as opposed to the herring) industry free of restrictionist pressure, there has been no glut whatever of fish. On the contrary, prices have been at or about the maximum throughout the season and we have actually had to raise some fish prices this autumn. I am confident that the fear of a new and ruinous glut of fish which is the real reason behind the present proposals, is based on an equally fallacious forecast of the situation in 1948 and subsequent years.

RECOMMENDATIONS

I therefore recommend:

(1) that we do not proceed with plans to introduce legislation for the re-organisation of the white fish industry;

(2) that instead we set up a Fish Executive on the lines of the recently created inter-departmental Vegetable Executive for the purpose of carrying out the immediate proposals sketched in my L.P.(47) 133;

(3) that as a possible part of our programme put before the Electorate in the next Election, and to be carried out in the next Parliament, we should prepare detailed plans for the nationalisation of the fish wholesaling function. For I would agree that it is possible, though by no means certain, that many years hence the conditions of over supply relative to demand might re-appear in this industry, and that there would then be a great advantage in controlling the situation by a public monopol of wholesale distribution.

J.S.

Ministry of Food, S.W.1.

9th December, 1947.