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C.P. (48) 145

10th June, 1948

CABINET

IRON AND STEEL BILL

MEMORANDUM BY THE MINISTER OF SUPPLY

AT the meeting of the Cabinet on 7th June (C.M. (48) 36th Conclusions, Minute 4) I was invited to submit a further paper setting out the arguments for nationalising the iron and steel industry. My colleagues will appreciate that in my previous paper (C.P. (48) 123) I was mainly concerned with explaining the principal features of the Bill which the Cabinet had authorised me to prepare. It did not appear to me that I was called upon to state the arguments in favour of the Cabinet's decision, of October last year, to nationalise the industry. I did, however, feel it desirable, in order to prevent our propaganda starting off on the wrong foot, to mention that our case primarily rests on the need for taking this important basic industry out of the realm of private profit-making into public ownership rather than on grounds of any present inefficiency in the industry's management. There is, on the other hand, no doubt that if the industry in pre-war years had been willing and able to pursue a progressive policy of expansion and modernisation, it would to-day be in a better position to deal with the production problems that beset it and to lower the costs of manufacture.

2. It seems to me that broadly the grounds on which we can justify our decision to nationalise this industry now (apart from the many firm pledges which have been given) are these:—

- (a) Iron and steel are basic commodities on which the whole prosperity of our country depends. The industry has developed into a great power agglomeration whose leaders wield an immense influence over the welfare of the nation. They are governed—as they are bound to be—more by the profit motive than by the public interest. During the whole of the pre-war period they indulged in the usual big business devices of cartel arrangements, restrictive practices and similar measures designed to safeguard their capital. It would be wholly wrong to leave the future of this industry in the same private hands as controlled it before the war.
- (b) The profits earned by the industry during the war and post-war years have, it is true, enabled it to accumulate funds and credit which may be sufficient for the immediate post-war expansion programme; and, largely in order to give the Government no ground for nationalisation, it has been ready to submit itself to a wide measure of Government control on such matters as the increased output drive, location of new plants, limitation of dividends, and the operation of the allocation schemes. But we are, in fact, dependent in all these matters on the good will of Steel House. Any sudden change of fortune in the industry would put the country's interests entirely at its mercy.

- (c) Although the industry may be able to finance its present expansion scheme, it is doubtful whether it will be willing, or able, to finance the further expansion schemes which will be necessary to provide for ourselves and the Colonies the steel required in the next ten or twenty years. The steel owners are bound in the interests of their shareholders to refrain from taking risks and it is therefore unlikely that they will want to expand capacity beyond the point where they can be certain of selling their products profitably, particularly as new plant for this industry is exceedingly costly. Even if the industry were prepared to finance further expansions, it could only do so on condition that it remained a monopoly, protected by the State against competition at home or from abroad—a condition which we could not accept. Moreover the application of such a large proportion of our national resources to a single industry cannot properly be left to private initiative. The responsibility must rest on the State.
- (d) Under single public ownership there will be infinitely better prospects of effecting rationalisation, elimination of wasteful competition and proper industrial planning than under the present diversified private ownership. It is obvious that as long as plants remain private property rationalisation must be at the mercy of the whims and prejudices of the individual owners and it is impossible to force on them a greater measure of social planning than they choose to accept.
- (e) During the war, when the survival of the country was at stake, the iron and steel industry was necessarily subjected to a comprehensive control. We are now entering a long period of equally strenuous struggle for survival in which it is just as necessary that this industry should be wholly responsive to the national interests.

It has been urged that, for this purpose, a control system would be as effective as ownership. But permanent control would involve continuous conflicts between the State and the private owners. It would subject the control machinery to constant stresses and strains which, at best, could only result in compromises and a serious impairment of the whole structure. Moreover, the controllers would have to depend on the advice of directors and managements whose first loyalty would be to private shareholders and not the country. Further, no control system can force private interests to spend money it does not want to spend. There were many examples of this during the war when it was found that statutory controllers were unable to secure the necessary production and the State was finally forced to buy out the private interests.

- (f) Once the need for nationalisation is accepted, it is plainly desirable, from every point of view, that the change-over should take place as quickly as possible. Although the fear of nationalisation may temporarily make an industry amenable to Government influence, it is, nevertheless, unhealthy that its personnel should remain for long in a state of uncertainty. Moreover, it is easier and will create less disturbance to effect the change-over at a time when the industry is prosperous than at a time when it is involved in economic difficulties.

3. Attractive as it appears at first sight to state our case in a White Paper issued before the Second Reading, I hold the view that it would be a tactical mistake to do so. Our arguments are, of necessity, highly controversial, particularly those concerning the pre-war history of the industry where we are at a special disadvantage. While we know our case is sound, the leaders of the industry alone possess the full evidence and could no doubt put up a plausible reply to our indictment. The time gap between the issue of the White Paper and the Second Reading would be devoted to an attack by the Opposition on the White Paper, and, when we came to debate the Bill in the House, we would find ourselves on the defensive.

Moreover, it seems to me that the purpose of a White Paper is to lay facts or broad statements of Government policy before Parliament and the public. In this case we would be setting out arguments. This would not only be tactically unwise, but would create a dangerous precedent. I propose to make a full summary of the contents of the Bill in the Explanatory and Financial Memorandum attached to it, and to take all steps available, such as discussion at the Party Meeting and a conference with the Lobby correspondents on the day the Bill

is issued, to ensure as far as possible that our case, in broad terms, is fully stated to our supporters and the public.

4. In conclusion I would remind the Cabinet of the summary of points on the Bill to which I sought their authority in paragraph 39 of C.P. (48) 123. These are—

- (a) Scheme C—85 companies.
- (b) Firms outside the schedule not to have an option to be acquired.
- (c) Wide powers for the Corporation.
- (d) Representative bodies to be informed of the outline as embodying fixed Government policy.

G. R. S.

*Ministry of Supply, W.C. 2,
10th June, 1948.*

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