PRESENT:

The Prime Minister (in the Chair).

The Right Hon. A. Bonar Law, K.P., Lord Privy Seal.

The Right Hon. A. Chamberlain, M.P., Chancellor of the Exchequer.

The Earl Curzon of Kedleston, K.G., G.C.G.I., Secretary of State for Foreign Affairs.


The Right Hon. the Viscount Milner, G.C.K.E., G.C.G.I., Secretary of State for the Colonies.

The Right Hon. W. Churchill, M.P., Secretary of State for War and Air.

The Right Hon. R. Munro, K.C., M.P., Secretary for Scotland.

The Right Hon. T. J. Macnamara, LL.D., M.P., Minister of Labour.

The Right Hon. H. A.L. Fisher, M.P., President of the Board of Education.


The Right Hon. Sir Robert Horne, K.C., M.P., President of the Board of Trade.

The Right Hon. the Lord Lee of Fareham, G.B., K.C.O., Minister of Agriculture and Fisheries.

The following were also present:

Sir Montague Barlow, K.B.E., M.P., Parliamentary Secretary, Ministry of Labour (for Conclusion 1).  

Sir Leslie Wilson, C.S.I., D.S.O., M.P., Parliamentary Secretary, Ministry of Shipping (for Conclusion 2).  

Mr. H. F. Wilson, C.B.E., Principal Assistant Secretary, Ministry of Labour (for Conclusion 2).  

Lieut.-Colonel Sir M. E. Hankey, G.C.B., Secretary.

Mr Thomas Jones, Principal Assistant Secretary.
With reference to Cabinet Z1 (20), Conclusion 5, the Cabinet resumed their discussion on the subject of a levy on war wealth.

As an indication of the anxiety felt in banking circles in regard to the proposal, it was mentioned that the Governor of the Bank of England, though less anxious than the majority of the bankers, had gone so far as to suggest as an alternative the adoption of a forced loan which should produce £750,000,000 in return for a security to individuals the present value of which would be £251,300,000, — a proposal which the Cabinet were not advised to consider, particularly on the ground of the dangerous precedent which would thereby be created.

The greater part of the discussion which ensued was devoted to the case against the tax, the arguments in favour of which had been fully stated at the previous meeting.

While there was no desire to dispute that persons who had even maintained, much less increased, their income during the war were very fortunate and ought to pay, and while the attraction was generally admitted of any scheme for making profiteers disgorge, a number of practical reasons were given against the proposal for a levy on war wealth:— its justice was doubtful in the only form in which it could be applied; it would fail to discriminate between the skilful and unskilful entrepreneur, between those who had economised during the war and those who had been extravagant; by depriving business men of such rewards of industry as were deliberately given to them when the Excess Profits Duty was decided on; the incentive to enterprise would be greatly discouraged; in such fluctuating times as the present there would be great difficulty in discovering an accurate basis for the valuation of post-war wealth, and during the years over which the tax was being collected the basis would in very many instances change; the sense of security would be very injuriously affected, and would weigh heavily on business.
organisations which, in the vast majority of cases, traded on a working capital—much of which was obtained as required by advances from the banks: if this tax were imposed, the credit of most firms with the banks would be depreciated, and, owing to the general uncertainty as to the value of the borrower's securities, the banks would certainly restrict the facilities which they normally extend to their creditors. Instances were given of the extraordinary hardship which would be inflicted on firms which had expanded to large dimensions in order to take up, at the request of the Government, special forms of war work for patriotic reasons, many of whom were now losing the profits they had made during the War. Further, there would be no certainty that this was the one and only levy to be imposed. It was recalled that the original proposal of the Board of Inland Revenue had been for a tax of £1,000,000,000. No assurance given by the Chancellor of the Exchequer would convince the business world that this was not a mere beginning, and those who supported the tax would insist on regarding it as an instalment and would be continually pressing for its repetition. Thus the sense of insecurity, which was creating so deplorable an effect on trade at the present moment, would be perpetuated.

As regards the probable results to be obtained from the levy, it was pointed out that the amounts received would be reduced by the general depression of business which it would induce: in fact, it would cause a gigantic dislocation of business without producing financial advantages in any way commensurate with the disturbance. And this would happen just when trade was beginning to sag and when it was most necessary for us to open up new markets abroad.

On the political aspects of the question it was pointed out that, although it was not one on which opinion was divided on strictly Party lines, nevertheless, broadly speaking, the Government, if it adopted the tax, would
immense odium—more particularly among their principal supporters and those on whom the permanent-commercial prosperity of this country largely depended, without giving satisfaction to their opponents. Such outcry as would be raised by the rejection of the tax could be met by giving widespread publicity to the immense levies which had been made on the richer classes by the operation of the Excess Profits Tax and other taxes; the taxation of wealth in this country far exceeded that imposed in any other country in the world, and was on a scale never before attempted. The boldness and success of this policy ought to receive the widest publicity.

The choice before the Cabinet was admitted to be an alternative of evils. If the levy on war wealth was open to great objection, the only alternative yet suggested was the continuance of the Excess Profits Duty at a high rate. This tax was also open to very grave objections, owing to the way in which it encouraged waste and idleness and reduced the incentive to work. All the evidence before the Cabinet showed the opinion of the business world throughout Great Britain to be unanimous against the tax, and it was stated that this view was shared by the land-owning classes.

The Cabinet agreed that the objection felt in the business world to the tax, while it had to be given its due weight, could not be regarded as a final and conclusive argument against its imposition. Such protests were always made when a new tax was threatened, and prophecies of complete disaster had been falsified. The decision turned mainly upon whether the levy would produce financial and psychological advantages commensurate with the objections. It was not clear that the tax would in fact yield even the £500,000,000 contemplated after it had passed through the House of Commons nor that the Government, by adopting it, would be enabled to reduce the Income Tax appreciably or at all. With a
product of £1,000,000,000—some concessions could be held out to the taxpayers, but the Select Committee had not agreed to recommend a levy of £500,000,000, let alone £1,000,000,000.

With regard to the psychological argument, it was doubtless true that the working and professional classes ex-Service men and their families were eager to see the profiteers drastically dealt with, but it was very doubtful whether this feeling would be substantially allayed when it was realised that the £500,000,000 would have to be reduced by exceptions and concessions, and its payment spread over several years and accompanied by a reduction of 20 per cent. in the Excess Profits Duty. The Government would be charged with camouflaging the issue, and new demands for much more drastic treatment would arise. The proper remedy for this discontent was, as already suggested, a much fuller exposition of what the Government had in fact done. The only justification, it was urged, for the existence of the present form of Government was that it attempted to hold the balance evenly and fairly between all classes of the community. The Government must show that they were not in the hands of the working classes, nor tied to the protection of the capitalists. Just as in its Russian policy the Government had fearlessly, and on an independent review of the question on its merits, adopted a policy which was generally acceptable to the working classes, so, in the question now under discussion, they should not hesitate to adopt the policy favoured by the commercial interests.

On a review of the above considerations, the Cabinet agreed—

Not to adopt the proposal for a levy on war wealth.

(The Secretary of State for War asked that his dissent from this decision should be recorded.)
Position of Agriculture.

(2) With reference to Cabinet 11 (20), Appendix II (1), and Cabinet 13 (20) Appendix I (4), the Cabinet had before them the draft of a Bill to regulate the number of hours of employment, together with a covering Memorandum by the Minister of Labour (Paper C.P.-1316).

The Cabinet were reminded that the question of including agricultural labour within the provisions of the Bill had been left for decision to the Minister of Labour, the Minister of Agriculture, and the Secretary for Scotland, but as no agreement had been reached owing to the strong opposition of the Minister of Agriculture it was now referred back to the Cabinet. It was stated that the majority of Members of Parliament for agricultural constituencies were in favour of the Bill, but that there was some difference in the attitude of the agricultural labourers in different parts of the country. In Scotland opinion was generally in favour of the inclusion of agriculture, and, in fact, the arrangements proposed in the Bill were, in many parts of Scotland, already in operation. The real question at issue between the farmers and the labourers was the payment for over-time for the two hours between the 50 working hours that had been agreed upon by the Agricultural Wages Board, and the 48 hours which it was proposed to make statutory.

After further discussion, the Cabinet agreed --

That the Clause making special provisions for Agriculture should stand part of the Bill.

With regard to the relation of railwaymen to the Bill, it was explained that there were already in force agreements with the railwaymen, reached as the result of negotiations in which the Government took part, which were inconsistent with those of the Washington Convention in certain particulars. The representatives of the two Railwaymen's Unions ask that railways shall be excluded from the Bill, the Railway Managers also desire exclusion.
and the Ministry of Transport concur in those views.

On the other hand, if this were done the ratification of the Washington Convention by the British Government would have to be accompanied by a reservation as regards Railway servants.

The Cabinet agreed —

That provisions dealing with railwaymen should not be included in the Bill.

With reference to Cabinet 23 (20), Conclusion 5, the Cabinet took note that Sir Montague Berlow and Mr. C. Hipwood had been requested to represent His Majesty's Government at the forthcoming International Conference at Genoa, and the Cabinet had before them a Joint Memorandum as to the instructions to be given to the Government delegates, submitted on behalf of the Ministry of Labour and the Board of Trade (Paper C.R. 1379)

The Cabinet agreed —

(a) That the provisions dealing with seamen should not be included in the Bill;

(b) That the draft instructions for the Genoa Conference should be referred for consideration and decision to —

The Minister of Labour (Convener)
The President of the Board of Trade,
The Shipping Controller.

Whitehall Gardens, S.W.1.

June 4, 1920.