CONCLUSIONS of a Meeting of the Cabinet held in Mr Bonar Law's Room, House of Commons, S.W.1, on FRIDAY, AUGUST 1920, at 11.30 a.m.

PRESENT:
The Prime Minister (in the Chair).
The Right Hon. A. Bonar Law, M.P., Lord Privy Seal.
The Right Hon. Lord Birkenhead, Lord Chancellor.
The Right Hon. The Earl of Birkenhead, K.G., C.S.I., C.V.O., Secretary of State for Home Affairs.
The Right Hon. R.S. Montagu, M.P., Secretary of State for Foreign Affairs.
The Right Hon. Sir Hamar Greenwood, Bart., K.C.M.G., M.P., Chief Secretary for Ireland.
The Right Hon. T.J. MacNamara, M.P., Minister of Labour.
The Right Hon. Lord Lee of Parnham, M.P., K.C.B., Minister of Agriculture and Fisheries.
The Right Hon. A. Chamberlain, M.P., Chancellor of the Exchequer.
The Right Hon. B. Shortt, K.C., M.P., Secretary of State for Home Affairs.
The Right Hon. J.S. Churchill, M.P., Secretary of State for War and Air.
The Right Hon. R. Munro, K.C., M.P., Secretary of Scotland.
The Right Hon. C. Addison, M.P., Minister of Health.
The Right Hon. Sir L. Worthington Evans, Bart., M.P.

The following were also present:
The Right Hon. Sir A. Mond, Bart., First Commissioner of Works (For Conclusions 1, 2, 3).
The Right Hon. Lord Inverforth, M.P., Minister of Munitions (For Conclusions 4 & 5).

Lieut.-Colonel Sir M.F.A. Hankey, G.C.B., Secretary.
Mr Thomas Jones, Principal Assistant Secretary.
Employment. (2) With reference to Conclusion 2 of a Conference of Ministers held on December 15, 1930, the Prime Minister informed the Cabinet that Lord St. Davids had expressed his willingness to take the Chair at the new Committee on Unemployment.

After a short discussion in regard to the membership of the Committee, it was agreed to add General Lord Byng as a representative of the ex-Service men to the Committee, the full composition of which will be as follows:

- Lord St. Davids (Chairman),
- Mr Frederick Palmer,
- Mr P.J. Pybus,
- Mr J.M. Bell,
- Sir J. Ferguson,
- Sir Thomas Munro,
- Mr R.G. Norman,
- General Lord Byng.

The Chancellor of the Exchequer undertook to make the formal appointments forthwith, and to nominate a Secretary, in order that the Committee might get to work at once.

(3) The Cabinet had a short discussion in regard to the statement to be made by the Minister of Labour in regard to the establishment of the new Committee, a draft of which had been circulated before the meeting (Paper C.P.-6325).

The Cabinet agreed that the Minister of Labour should make the following announcement:

"The Government has decided to appoint a Committee, under the Chairmanship of Lord St. Davids, at whose disposition they will ask Parliament to place a sum of £3,000,000 for the purpose of assisting Local Authorities in carrying out approved schemes of useful work, other than work on Roads and on Housing Schemes, for which special arrangements have been or may be made.

The selection of the schemes to be assisted and the amount of the assistance to be given in any particular case will be decided by the Committee, who will be instructed, in coming to a decision, to observe the following general principles:

(1) The expenditure is not to exceed a total of £3,000,000."
(2) Works will be approved only in areas where the existence of serious unemployment which is not otherwise provided for is certified by the Ministry of Labour.

(3) Preference in employment must be given to unemployed ex-Service men.

(4) The grant must not in any case exceed 30 per cent. of the wages bill of unemployed men taken on for work.

(5) The works must be such as are approved by the appropriate Department of the Government as suitable works of public utility.

Any application for assistance by the Local Authority should be addressed in the first instance to the Secretary of the Committee. The names of the Committee will be published at a later date, together with particulars of the detailed arrangements to be made by Local Authorities.

(3) While the advantages of widespread publicity in the Saturday and Sunday Press which a statement made on a Friday would receive were not lost sight of, it was generally agreed —

That it would be advisable to introduce the above announcement as part of a general statement on Unemployment, an opportunity for which would arise on Tuesday next, December 21st.
The condition in Austria. (4) With reference to Cabinet 66 (20), Appendix I (8), the Cabinet had before them the following documents in regard to the condition of Austria:

A Memorandum by the Chancellor of the Exchequer (Paper C.P.-2139),

Note of Interview between Mr Chamberlain, Sir H. Lovel and Sir W. Good (Paper C.P.-2157),

A Memorandum by the Chancellor of the Exchequer (Paper C.P.-6276),

A Telegram from Mr Lindley to the Secretary of State for Foreign Affairs, No. 431 of December 16, 1920.

The evidence before the Cabinet was to the effect that Austria was on the verge of complete economic collapse, and in the absence of some assistance would probably fall into a state of dissolution. This might lead to either the whole or a part linking itself to Germany, a contingency which the French viewed with the utmost misgivings, but on which no decided views were expressed at the Cabinet.

It was generally felt that if Austria were to be helped the only satisfactory method would be one which would gradually re-establish permanent economic stability in Austria. On this line of thought proposals were made somewhat on the lines suggested in a recent discussion on Unemployment (Cabinet 69 (20), Conclusions 1 & 2) for at one stroke reducing unemployment in this country and enabling Austria and other parts of Central Europe to re-establish economic equilibrium by some scheme of insurance which would enable the bankers to give long credits.

(The Chancellor of the Exchequer handed the Secretary, for circulation, a Memorandum by Sir William Good, bearing on those aspects of the question.)

The Cabinet were informed of certain successful commercial operations which had been launched in Austria in the course of the last twelve months. We had been able to supply Austria with raw materials in return for manufactured goods to be delivered to us over a long period. It should be possible to extend this system of long credits not only by means of raw materials but by means of an insurance scheme by which the bulk of the risk would be taken by the banks and traders.
but some portion of the risk would be borne in co-operation with them by the Government.

It was pointed out that France and Italy were very directly concerned in the future of Austria, and that they might be prepared to modify their rights of reparation in such a way as to assist Austrian credit. It was suggested that the initiative in coming to the aid of Austria ought to be taken by France, and that we might ascertain what measures, if any, she might be prepared to recommend. Failure to deal vigorously with the economic and financial situation might precipitate most serious political disorganisation not only in Austria but in the neighbouring States.

The Cabinet agreed —

(a) That it was not possible to make any further monetary contribution to the Government of Austria:

(b) That the unexpended portion of the Relief Loan (about £1,100,000) already credited to Austria should be used to assist in stimulating trade with Austria, if possible, by means of the insurance scheme which was under consideration by the President of the Board of Trade:

(c) That the Minister of Munitions, in consultation with the Treasury, in disposing of surplus stores to Central Europe should be authorised to grant long credits, provided doing so did not involve a special Vote of Parliament:

(d) That the 800,000 barrels of pickled herring which had been purchased by the Government and were now in the hands of the English and Scottish Fishery Departments, should be declared surplus and transferred to the Disposals Board for export to the countries of Central Europe so far as was found practicable.
With reference to Cabinet 59 (20), Conclusion 2, the Cabinet had before them the following documents in regard to our American Debt:

- A Memorandum by the Chancellor of the Exchequer, covering a Memorandum by Mr. Blaikett (Paper C.P.-1259).
- Memoranda by the Chancellor of the Exchequer (Papers C.P.-2214 & 2214-A).
- A Telegram from Sir Auckland Geddes (Foreign Office telegram No. 835, dated December 15, 1920).

The Chancellor of the Exchequer informed the Cabinet that the United States of America had the right to insist on the conversion of our sight debt into a long debt, since every certificate bore on it a statement to the effect that this would be done on the demand of the United States Treasury. They had made such demands, and up to the present we had not complied. We had, therefore, failed to fulfill our obligations. There was reason to believe that the present administration would, in all probability, make some demand upon us. This was confirmed by a telegram just received from the British Ambassador in Washington, which was read to the meeting. It had at one time been hoped that the new Republican Administration might treat us more favorably, but the above telegram did not support this view. It was not probable that the United States of America would demand the whole debt, which was not a possibility for us to pay. In fact, it was not anticipated that a refusal of such a demand would permanently damage our credit. The United States of America were more likely to demand the funding of the debt and the payment of back interest, amounting at present to about £80,000,000. This, though highly inconvenient and calculated to depress our credit, was not beyond our powers.

The suggestion was made that, in the event of such a demand, we should at once pass on to France our demand, couched in identical terms, for an equivalent payment, or at least for a proportionate payment of their debt to us, which would bring home to the general public in the United States of America that the debt was not solely a question between America and Great Britain.
Strong views were expressed in regard to the unusual character of this demand on us from a nation which had participated in the general advantage of the victory derived by the Allies from the credits given by us, and yet was building a fleet which placed our whole naval position in jeopardy. It was suggested that once we had admitted the principle of our obligation to pay, we would for the future be at their mercy whenever they chose to make a further demand. It would be better to adopt the line that this debt, owing to the peculiar circumstances in which it had been incurred, had no relation to an ordinary commercial debt. Our best course, therefore, would be to refuse to meet the American demand.

One of our difficulties in adopting the course proposed above was pointed out to be that the French certificates for their debt to us did not bear on them the undertaking of conversion which was carried by the certificates of our debt to the United States of America.

Lord Inverforth, who had just returned from the United States of America, expressed the view that it was out of the question for us to think of defaulting on our debt. He advised that the debt should be funded, which, he thought, would have a stabilising effect on the financial situation. His views were strongly supported by Sir Alfred Mond.

The Secretary of State for Foreign Affairs gave the Cabinet evidence which indicated that the attitude of the new Government was likely to be less rather than more favourable to us than that of the present administration. There was, therefore, no reason for delaying coming to terms.

While the general view was that the demand was a selfish act, in so much as the debt had been incurred for reasons from which the United States of America had benefited, and that it would almost inevitably recoil upon themselves and result in a restriction of their trade, the Cabinet felt that it was out of the question
to repudiate our debt, which would be tantamount to filing a petition in bankruptcy.

The Cabinet therefore agreed —

(a) That the Secretary of State for Foreign Affairs, in communication with the Chancellor of the Exchequer, should telegraph to the British Ambassador in Washington to the effect that an expert was being sent out at once to Washington to conclude an arrangement:

(b) That the Chancellor of the Exchequer should invite Lord Chalmers to conduct the negotiations, and should give him his instructions, which should include directions to do his best to obtain as long a respite as possible before the debt was placed on the market.

(6) Arising out of the previous discussion there was considerable discussion as to whether, as a corollary to the decision to meet the American demands, we should ourselves make a similar demand on France.

It was pointed out, among other objections, that such a course would at once depress the Continental Exchanges still further, and render our export trade more difficult than ever.

It was explained, however, that the suggestion had been made rather as a means of putting pressure on the United States of America than as a proposal, right in itself, to be put practically in operation.

The question was recognised to be one of considerable magnitude, and it was adjourned for further consideration if any member of the Cabinet should desire to raise it.
(7) With reference to Cabinet 70 (20), Conclusion 1, the Cabinet approved the two attached telegrams, in regard to future policy in Mesopotamia, from the Secretary of State for India to the High Commissioner, and from the Secretary of State for War to the General Officer Commanding, respectively (Appendices I and II), notifying them that, although no decision had been taken, the general view evinced at the Cabinet had been that the expenditure involved in the continued retention of the area of occupation could not be faced, and that they should prepare plans for a withdrawal to a line covering Basra and the Persian oilfields immediately after the withdrawal of our forces from Northern Persia.

It was generally agreed that the latter force could not be withdrawn before the Spring, even if it were physically possible, without bad faith towards Persia.

The above decision was taken without prejudice to the final decision of the Cabinet in regard to Mesopotamia, which would be taken after the officers mentioned above had had an opportunity, if they thought fit, to present more modest proposals.
With reference to Cabinet 69 (20), Conclusion 4, the Cabinet had before them a draft of a statement which it was proposed to place before the representatives of the Building Trades Operatives on December 20, 1920, regarding the absorption of ex-Service men in house-building operations (Paper C.P.-3212).

The Minister of Labour read to the Cabinet a letter which had been received from the Secretary of the Building Trade Operatives, to the effect that inasmuch as the delegates sent to meet the Minister of Labour at the Conference on December 20th would not have plenary powers, time would be gained if the Government sent their proposals at the earliest possible moment to the Executives of the Unions.

The Cabinet were informed that, as the result of further enquiries, it had become clear that very little co-operation on the part of the Local Authorities or of the building contractors could be counted upon in the event of the negotiations of the Government with the Trade Unions falling through. Friction with the Local Authorities might lead to sympathetic strikes, the contractors were making good profits and had abundant contracts in addition to their work on housing. It was not desirable that the Government should be manoeuvred into a position of fighting the employers' battles for them.

There was some further discussion of the original proposals for a Government guarantee to meet unemployment above that of a standard year. It was held that if these proposals were put forward and rejected by the men, as they were likely to be, the Government would be in a much better fighting position. On the other hand, it was urged that if once the Government conceded the principle of a guarantee there would be a demand for its extension to other trades in which dilution was taking place. Further, if once the offer were made, and if its rejection issued in a strike,
it would be open to the men at the end of the strike to fall back on the Government's offer.

After further discussion the Cabinet agreed——

(a) That the draft circulated by the Minister of Labour should be revised, and that it should contain a definite undertaking on the part of the Government to assist a supplementary scheme in the building trades, provided the masters and men co-operated in bearing the main burden of such schemes.

(b) That the revised draft should be submitted later in the day to the Prime Minister.

REFERENCE

MINISTERS.

(3) The Cabinet took note of the following Conclusions of a Conference of Ministers, held on Friday, December 10, 1920, at 12.30 p.m.:

(1) The Turkish Treaty.

(2) D—control of Bacon.

(3) Report of Sugar and Beet Committee,

(Appendix III),

and in regard to (3) approved the proposal made that the pending negotiations for a purchase of 200,000 tons of sugar by the Sugar Commission was not to be stayed but should be completed in accordance with the authority given by the Chancellor of the Exchequer.

2, Mitchell Mansions, S.W.1.

December 17, 1920.
APPENDIX I.

TELEGRAM FROM SECRETARY OF STATE TO HIGH COMMISSIONER
BAGHDAD. Dated December 17, 1920.

Clear the line.

Private. Your private telegram of 6th December which please show Haldane if you have not done so. The War Office estimates that your proposals will cost about £25,000,000 in the next financial year and that no immediate hope of a speedy financial relief is anticipated. This is apart from any deficit on civil working which I hope will be avoided. In the House of Commons on Wednesday no-one suggested the abandonment of our mandate or complete withdrawal from Mesopotamia.

On the other hand the proposal is made by War Office and is under consideration that we should withdraw to Basra with a frontier Ahwaz, Kurna, Nasiriah, or some such line. The suggestion is that in this position one could be secure with a division and that you could hold this without abandoning the mandate over the whole territory already defined including the Mosul vilayet leaving the Arab Government at Baghdad to administer the territory. If you have any observations to offer on this scheme, I should be glad to have them, or alternatively will you try to devise a scheme which would be no more expensive.
Despatched 1730 17(12)(20).

PERSONAL AND SECRET.

87260 cipher.

Cox's telegram of December 8 on future garrison was considered by Cabinet yesterday. It is evident that the cost of this would be from £20,000,000 to £25,000,000 a year for at least two and probably for three years. The Cabinet reached no final decision, although there was overwhelming feeling that proposals on this scale render absolutely impossible the maintenance of occupation. The question will be considered further within a few days. In the meantime you should begin to prepare immediately a scheme for the withdrawal of the whole Army from Mesopotamia as soon as the Persian force can be got in.

It is estimated by the General Staff that one Division could hold a frontier in the Basra vilayet which would secure us a foothold in the country and would cover the oilfields. On this Basra proposition please communicate your opinion.

What do you consider to be the earliest practical moment for the withdrawal in the Spring of the Persian force?

Send me time-table in general outline showing stage by stage how evacuation would work out from zero hour, and state shortest time in which you could complete the operation after the order is given. On this task you should employ a few responsible staff officers only, in order that secrecy may be observed.

Meanwhile no further money may be expended on railways, permanent establishments or similar matters.

87261 cipher. The Cabinet has approved my secret and personal telegram to you despatched on December 17th.
CONCLUSIONS of a Conference of Ministers held in the Prime Minister's Room, House of Commons, on Friday, 10th December, 1920, at 12.30 p.m.

PRESENT:

THE PRIME MINISTER (In the Chair).

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

The Right Hon. E.S. Montagu, M.P., Secretary of State for India.

The Right Hon. Viscount Milner, G.C.M.G., Secretary of State for the Colonies.


The Right Hon. Sir L. Worthington Evans, Bart., M.P.

THE FOLLOWING WERE ALSO PRESENT:


The Right Hon. The Earl of Crawford, Chairman, Wheat and Barley Commission.

Lieutenant Colonel Sir M.P.A. Hankey, G.C.B., Secretary, Cabinet.

R.B. Howorth, Assistant Secretary, Cabinet.
(1) The attention of the Conference was called to a tele­
gram from the Viceroy of India to the Secretary of State,
quoting the following telegram published by the "Bombay
Chronicle":

"France and Italy are urging revision of
Turkish Treaty and restoration of Thrace
and Smyrna to Turkey. Lord Curzon, who
represents British"nonconformist conscience," is opposing
frantically and is determined to destroy the Moslem
Empire and nation".

The Secretary of State for India reported that, as
requested by the Viceroy, he had, by arrangement with the
Secretary of State for Foreign Affairs, telegraphed a "dementi
of this malicious rumour.

(2) With reference to Cabinet 15 (20), Conclusion 1, the
Conference had under consideration the following documents
relative to the de-control of imported bacon:

- Memorandum by the Food Controller
  (Paper C.F.-2159),
- Memorandum by the Secretary of State
  for the Colonies (Paper C.F.-2250),
- Memorandum by the Food Controller
  (Paper C.F.-2270).

The Conference were informed that an immediate decision
on the question of the continuance of control was required to
deal with the situation which would arise in the next two or
three months, when large supplies of new bacon would be come
into the market and would compete with the stocks of bacon,
valued at about £7,500,000, held by the Ministry of Food,
which had been bought at prices higher than those which would
have to be paid for the coming supplies. Immediate de-control
would mean that the Ministry of Food would be left with
large stocks of stale bacon, which could only be disposed of
gradually and at an estimated loss of £750,000. On the
other hand, if control was continued, as proposed by the
Minister of Food in Paper C.F.-2270, until February 28th, it
would be possible to liquidate the old stocks by making an
arrangement with the distributing agents.
With regard to the question raised by the Secretary of State for the Colonies, the Minister of Food explained that the entire Canadian output had been acquired by the Ministry up to the end of December, 1920, and that as approximately two months must elapse for Canadian bacon to be cured and to reach this country, his proposal would mean that there would be a free market for Canadian bacon killed as from January 1, 1921.

Some discussion took place as to the financial effect of postponing de-control, and it transpired that, while the price of bacon would probably fall in any case during the Spring of 1921, it was almost certain that in the Summer of 1921 the price might rise by an additional 8d. per pound as a result of the removal of control.

It was urged that as the consumer had had the advantages of cheap bacon for a considerable time, the taxpayer should now be considered.

The Conference agreed —

That the Ministry of Food should forthwith approach the distributing agents with a view to making an arrangement with the agents on the basis of the earliest possible abolition of control, the cessation of Government buying, and the agents taking over the Ministry's stocks; failing a satisfactory arrangement being reached on these lines, the Ministry of Food to be at liberty to continue its control of the importation of bacon until February 28, 1921.
With reference to Cabinet 63 (20), Conclusion 8, the Conference had under consideration the Final Report of the Cabinet Committee (Paper C.P.-8316) appointed to enquire into the present position as to sugar and wheat.

It was agreed —

(a) To approve the recommendations contained in the Report in question, subject to steps being taken to secure that the contemplated reductions of the selling price of stacks in hand were made as slowly as possible, and that in this matter the Wheat and Sugar Commissions should lag as long as possible behind the market.

(b) That no immediate reduction should be made in the price of flour.

2, Whitehall Gardens, S...1,
December 10, 1920.