CABINET 10 (32).

Meeting of the Cabinet to be held at No. 10, Downing Street, S.W.1 on FRIDAY, JANUARY 29th, 1932, at 10.30 a.m.

AGENDA.

1. THE BALANCE OF TRADE.

   (Reference Cabinet 7 (32) Conclusion 3).

   Note by the Chancellor of the Exchequer, covering draft Import Duties Bill.
   (C.P. 49 (32) - circulated herewith).

   Memorandum by the Minister of Labour.
   (C.P. 48 (32) - circulated herewith).

2. DISCRIMINATION AGAINST UNITED KINGDOM EXPORTS.

   (Reference Cabinet 1 (32) Conclusion 8).

   Memorandum by the President of the Board of Trade.
   (C.P. 50 (32) - circulated herewith).

   (Signed) M.C. HANKEY.

   Secretary, Cabinet.

2, Whitehall Gardens, S.W.1.

28th January, 1932.
CONCLUSIONS of a Meeting of the Cabinet held at 10, Downing Street, S.W.1., on FRIDAY, January 29th, 1932, at 10.30 a.m.

PRESENT:

The Right Hon. Stanley Baldwin, M.P., Lord President of the Council.
(In the Chair).

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


The Right Hon. J.H. Thomas, M.P., Secretary of State for Dominion Affairs.

The Most Hon. The Marquess of Londonderry, K.G., M.V.O., Secretary of State for Air.


The Right Hon. Sir John Gilmour, Bt., D.S.O., M.P., Minister of Agriculture and Fisheries.


1. The Lord Chancellor informed the Cabinet that the question of Judges' Salaries was now settled and that all the Judges were in agreement.

The Chancellor of the Exchequer warned the Lord Chancellor that serious difficulties had arisen in connection with the income-tax provisions of the settlement.
2. The Cabinet had before them the following Papers relating to the Balance of Trade:

A Most Secret Note by the Chancellor of the Exchequer (C.P.-49 (32)), covering the draft of an Import Duties Bill based on the Report of the Cabinet Committee on the Balance of Trade, which had been prepared in consultation with the Departments concerned:

A Memorandum by the Minister of Labour (C.P.-48 (32)) circulating in accordance with Cabinet 7 (32) Conclusion 3, a Memorandum prepared jointly by the Treasury and the Board of Trade showing the separate and collective effects on the cost of living of the following reports before the Cabinet:

(i) The Report on the Balance of Trade (C.P.-25 (32)), not overlooking the 10 per cent increase in the cost of imports assumed at the end of paragraph 18 of the Report:

(ii) A Report by the Minister of Agriculture and Fisheries on the Wheat Quota (C.P.-22 (32)):

(iii) A Report of the Agricultural Policy Committee (C.P.-21 (32)).

A Memorandum by the President of the Board of Trade (C.P.-50 (32)) recommending the addition of a Clause giving power to the Board of Trade to issue Orders imposing Customs restrictions on the goods of any foreign country which exercised discrimination against our goods, whether by way of the imposition of Duties or by the prohibition or restriction of importation, or otherwise.

The Cabinet examined the draft Bill Clause by Clause, and the Chancellor of the Exchequer gave explanations on each item. The main points which arose in the course of these explanations, and the discussion thereon, were as follows.

THE TITLE would require alteration on the introduction of the Discrimination Clause proposed by the President of the Board of Trade.
Clause 2 (b) was inserted in order to avoid touching existing Duties, such as those imposed by the Abnormal Importations (Customs Duties) Act, the Horticultural Products Act, the Budget Duties, the McKenna Duties, the Safeguarding Duties, etc.

Clause 2, dealing with the constitution of the Advisory Committee, provided in section (1) for not more than five members instead of three, as contemplated by the Cabinet Committee. It was only proposed to appoint three in the first instance, but, owing to the amount of business to be transacted by the Committee and the possibility of complaints of delay, it had been thought advisable to provide for a larger number, rendering possible the formation of Sub-Committees.

The period of three years in Clause 2 (2) had been adopted in order to render possible the periodic changes of personnel in cases where, for example, a man was past his work, while avoiding any implication of arbitrary changes by the Treasury. It was explained that the Committee would include no Officials, but ex-Officials would not be barred, and their experience might be valuable. The members of the Committee would not be definitely associated either with employers or employed, nor partisan in any respect. The members would have to give their whole time to the work and would have to receive a substantial remuneration.

The Chancellor of the Exchequer was not prepared at the moment to discuss the question of remuneration, but informed the Cabinet that he would bring up a proposal later.
The Chancellor of the Exchequer undertook to look carefully into Clause 2 (6) which provides for power to the Committee to make rules for regulating its procedure, in order to make sure that the wording was sufficiently wide to enable it to set up Sub-Committees.

Clause 2 (7). It was admitted that the power of demanding production of documents would be unpopular. It was pointed out that those who wished to derive benefit from the imposition of Duties must submit to this absolutely essential provision.

Clause 3 (1). The Chancellor of the Exchequer asked the Cabinet to make a drafting alteration in their copies by the omission of the words in lines 2 and 3 -

"to be constituted for the purposes of this Act".

He pointed out that the Treasury could lower the Duty recommended by the Committee, but could not increase it.

Clause 3 (2) enabled the Committee to make a recommendation in regard to luxury articles, as well as articles being produced or likely within a reasonable time to be produced in the United Kingdom. No definition of a "luxury article" had been deemed necessary. The Committee in the first instance would form its own view as to whether an article was one of luxury or not. The Treasury, in considering the rate recommended, could reduce it if it considered the article was not one of luxury. Finally, the House of Commons could exercise its mind on the question of whether the article was one of luxury when the Order came before it. There was no limitation as to the rate of Duty on luxury articles.
The Chancellor of the Exchequer expressly consulted the Cabinet as to the provision in the second paragraph of Clause 3 (2) that articles produced or likely to be produced in the United Kingdom should be subject to a Duty not exceeding 25 per cent. of the value of the goods, and considerable discussion took place.

In favour of some lower figure it was represented that this would range the United Kingdom on the side of low tariff countries. Demands were already being received from certain industries, e.g. the heavy steel industry, insisting on the need of a high tariff. The insertion of a low figure would check this movement. It was pointed out also that the policy embodied in the Bill was a new departure, and it would be a great mistake for this country to jump right into the list of high tariff countries which had done us much harm.

In favour of the higher figure of 25 per cent. it was pointed out that the figure was intended as a maximum which need not necessarily be recommended by the Committee. A lower figure would be rather far removed from the 33 1/3 per cent. Duties already imposed as part of the McKenna Duties. It might be that negotiations with Dominions and foreign countries would result in a three-decker system of tariffs, with a low rate for the Dominions, a medium rate for low tariff countries, and a high rate for high tariff countries. A figure of less than 25 per cent. would tend to telescope the range within which such a tariff could be constructed.
Strong arguments were adduced in favour of not inserting any figure in the Bill and leaving the Committee a free hand as to the rate recommended, bearing in mind that the Treasury could always reduce the rate. In favour of this course it was pointed out that if any figure was inserted, whether 25 per cent. or less, it would immediately invite attention in Parliament to the discrepancy between that figure and the rates imposed in connection with the McKenna Duties and Safeguarding Duties. If a particular figure, like 25 per cent., was inserted, the industries concerned would feel they had a grievance if they were only allowed a lower rate of Duty. From the point of view of negotiations with foreign countries, also, it was thought that there would be advantages in not having a fixed maximum. The figure of 25 per cent. was certainly not likely to be exceeded in normal practice, but there might be exceptional cases, connected possibly with arrangements concerning some large dumping operation, in which a high rate was temporarily desirable. It was strongly urged also that the Clause would be easier to deal with in Parliament if no figure was inserted. The experience with the Horticultural Products Act, where in some cases temporary Duties much higher than 25 per cent. had to be imposed, was quoted in favour of not inserting a maximum rate, more particularly as under Clause 3 (5) such articles might come within the scope of the Import Duties Act eventually. The President of the Board of Trade, who had felt some doubts as to inserting so high a figure as 25 per cent., after hearing the discussion
said that if the choice lay between 85 per cent. and omission of a maximum figure he would prefer the latter course.

There was general agreement that our policy should be to range ourselves with low-tariff rather than with high-tariff countries, but on the whole it was thought better not to fetter the independence of the strong Import Duties Advisory Committee to be set up under the Act. From a Parliamentary point of view, also, the Cabinet were unanimous that there were advantages in not inserting a figure. There was general agreement, however, that the Chancellor of the Exchequer should explain that, while no limit to the Duties had been inserted, the policy of the Government did not aim at putting on high Duties, and that any interest demanding high Duties would not be supporting its case with the Government.

Clause 3 (3). The Chancellor of the Exchequer asked members to make drafting alterations so that lines 35 to 39 should read as follows:

"In deciding what recommendation, if any, to make for the purposes of this section in respect of any article, the Committee shall have regard to the advisability in the national interest of restricting imports", etc.

The Chancellor of the Exchequer explained that this Clause had been inserted in order to give the Committee general guidance as to the grounds on which it should act. At the request of a member of the Cabinet he undertook to consider whether it would be desirable or not to include the necessity for restoring the balance of trade among the reasons.

Clause 3 (4). line 16. The Cabinet were asked to alter the words "appropriate Department" to "Treasury".

Clause 4 (1). Dominion Preference. The Chancellor of the Exchequer informed the Cabinet that he wished to give further consideration as to whether the words "on the recommendation of"
the Secretary of State" were adequate, since the
Secretaries of State for the Dominions, for India
and for the Colonies were all concerned.

The attention of the Cabinet was drawn to a
provision in the Finance Act, 1926, Section 7,
providing for the continuance of certain Preferences
to the Dominions, India and the Colonies, of 10
per cent. on certain classes of goods, and it was
suggested that this raised a difficulty affecting
this Clause.

The Chancellor of the Exchequer
undertook to look into this point.

The Chancellor of the Exchequer
also undertook to look into the
phrase "consigned from" a Dominion,
to see if it covered goods consigned
through a foreign port, such as
Beira: he added that he was also
looking into the precise significance
of the phrase "manufactured in".

Clause 4 (2). For "Northern Rhodesia"
put "Southern Rhodesia".

The Chancellor of the Exchequer said
he was also making further enquiry
into the following words in square
brackets: "and any territory in
respect of which a mandate of the
League of Nations is being exercised
by the Government of any Dominion".

Clause 5 (1). Colonial Preference. The
Chancellor of the Exchequer was asked, in his
statement, to emphasise the importance of this
Clause.

In the discussion it was pointed out that the
Colonies and Mandated Territories would be receiv­
ing considerable advantages without necessarily
giving anything in return, but the importance of
Colonial development was emphasised.

As regards Mandated Territories, the Secretary
of State for the Colonies said he would not
exclude the possibility of a Preference being

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Further Information required from Traders.

[Image: It was decided to denounce the St. Germain-ès-Laye Treaty]

given in the East African Colonies, though Tanganyika, being a Mandated Territory, would have to be excluded. Similar considerations applied in West Africa.

Attention was called to the difficult position of Togoland, which is a Mandated Territory but is without a port of its own and is administered as an integral part of the Gold Coast Colony.

The suggestion was made that it might be found, in the case of some Colony, that it was desirable to include it within the fiscal régime of some adjacent Dominion, and that perhaps the Clause was too rigid.

On the whole, however, it was not considered necessary to alter the Clause.

The Cabinet were reminded that in many Colonies there was in practice a very high Preference to British goods. It was also pointed out that the effect of this Clause was that large quantities of important raw materials, such as rubber, oils and nuts, would come in free.

The remaining Clauses, which deal with the machinery of the Bill and are mainly of a technical order, were discussed in less detail.

The President of the Board of Trade informed the Cabinet that it would be very important that the Bill should give power to obtain from trade and industry information similar to that provided under the Census of Production. This, he was informed, was not covered by Clause 2 of the Bill.

The President of the Board of Trade undertook to send particulars to the Chancellor of the Exchequer, and the decision was left to the two Ministers.

Clause 9. "Drawbacks". The Chancellor of the Exchequer informed the Cabinet that this Clause required some modification. It was
necessary to be very careful as to these "Drawbacks", as, according to experience, they were difficult to work and might be costly.

The drafting of the Clause was remitted to the Chancellor of the Exchequer and the President of the Board of Trade, with authority to decide the question unless they wished further to consult the Cabinet.

Clause 13. Orders of Board of Trade.

The Cabinet were reminded that unless a number of Orders could be included in a single Resolution of Parliament the procedure of this Clause would involve a great deal of Parliamentary time. It was suggested that the Orders would be made in succession as they were received from the Committee, which would rather aggravate this aspect.

The Chancellor of the Exchequer was under the impression that there was nothing to prevent several Orders being dealt with in one Resolution, and that this could be arranged. He undertook to look into the question.


The Cabinet agreed that Clause 14 should be re-drafted to show that the Secretary of State for the Home Department was only involved so far as concerns Northern Ireland, the Channel Islands, and any other territories in which the Home Office is especially concerned.

The Schedule. The Chancellor of the Exchequer explained that the Schedule had not yet been drafted and was only a hasty and incomplete list. Meat and tea, for example, had unaccountably been omitted, and cotton and wool required further definition.
The Cabinet agreed —

(i) To leave the Chancellor of the Exchequer and the President of the Board of Trade to complete the Schedule and add anything that had been accidentally omitted:

(ii) That malting barley should not be included.

The main reasons for the proposed Discrimination Clause are contained in the President of the Board of Trade's Memorandum C.P.–50 (32).

Attention was drawn to a recent telegram from the British Ambassador in Paris (No.27) indicating that the prospects of getting the 15 per cent. surtax on British coal removed were receding; and to information in the newspapers that morning to the effect that the British quota, which had been reduced from 80 per cent. to 72 per cent., was now being further reduced to 54 per cent., and that our competitors were being allowed to exceed the quotas allotted to them. The question was raised, therefore, as to whether powers should not be taken to impose quotas on the amount of the goods which foreign countries could send to this country.

Attention was also drawn to the importance attached by the French to the adverse effect of recent legislation, such as the Abnormal Importations Act and to the risk of a competition between the two countries in measures of retaliation.

The suggestion was also made that it might be desirable, before taking any action of this kind, first to settle what was to be the policy towards the most-favoured-nation agreements.
but the Cabinet were informed that it was
difficult to settle such a policy without knowing
the views of other nations. The desirability of
special arrangements with the Argentine were also
referred to.

The Chancellor of the Exchequer expressed
the view that if some arrangement with the
Argentine could be effected after the Ottawa
Conference it might be better to provide for it
by special legislation, if this could not be
done under Clause 3 (2) of the Imports Duties
Bill.

The Cabinet felt that the question
should be discussed in the presence
of the Prime Minister, and the President
of the Board of Trade was invited to
draft his Clause in consultation with
the Chancellor of the Exchequer and to
circulate it to the Cabinet before the
next Meeting.

The Cabinet agreed —

That the Imports Duties Bill should
be approved for introduction in the
House of Commons, subject to the
following:—

(a) A suitable amendment of the
title of the Bill in case
of the introduction
of a Discrimination Clause:

(b) Further consideration by the
Chancellor of the Exchequer
of the question of the
remuneration of members of
the Import Duties Advisory
Committee, on which he undertook to
bring a proposal before the Cabinet:

(c) The probable issue of a White
Paper to Parliament explaining
the cost of the Bill, including
the remuneration of members of
the Committee referred to in
(b):

(d) Examination by the Chancellor
of the Exchequer of Clause 2 (6)
in order to ensure that its
terms were wide enough to
enable the Committee to set
up Sub-Committees:

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(c) **Clause 2 (e).**
No maximum rate of Duty to be inserted on articles of a kind which are produced, or are likely within a reasonable time to be produced, in the United Kingdom in quantities which are substantial in relation to United Kingdom consumption: the Chancellor of the Exchequer, in introducing the Bill, should explain the reasons for this, and state that the policy of the Government did not aim at high Duties (For further details see indented Conclusion on p.7);

(f) Further consideration by the Chancellor of the Exchequer of the desirability of including in Clause 3 (3) some reference to the balance of trade among the factors to be taken into account by the Committee;

(g) Further consideration by the Chancellor of the Exchequer of the words "Secretary of State" in Clause 4 (1) (p.4, line 22, of the Bill);

(h) Further consideration by the Chancellor of the Exchequer as to whether Clause 4 (1) was affected by the Finance Act, 1926, Section 7;

(i) Further consideration by the Chancellor of the Exchequer of the phrase "consigned from and grown, produced or manufactured in", in Clause 4 (1) (Page 4, lines 24 and 25, of the Bill);

(j) Consideration by the Chancellor of the Exchequer of the words in square brackets at the end of Clause 4 (2) of the Bill:

(k) The addition of a new Clause conferring powers to obtain from trade and industry information of the kind included in the Census of Production: the matter to be settled between the Chancellor of the Exchequer and the President of the Board of Trade;

(l) A re-draft of Clause 9, which was left to the Chancellor of the Exchequer, in consultation with the President of the Board of Trade;

(m) Examination by the Chancellor of the Exchequer of Clause 13 of the Bill with the object of limiting
as much as possible the amount of Parliamentary time that would have
to be devoted to the approval of Orders made under the Act:

(n) Clause 14 to be re-drafted so as to show that the Home Secretary
is only involved so far as concerns Northern Ireland, the Channel
Islands and any other territories in which the Home Office is
especially concerned:

(o) The re-drafting of the Schedule by the Chancellor of the Exchequer,
in consultation with the President of the Board of Trade; malting barley
not to be included therein:

(p) The preparation by the President of the Board of Trade, in consult­
ation with the Chancellor of the Exchequer, of a Discrimination
Clause or Clauses, which should be submitted to the Cabinet at
their next Meeting, when it was
hoped that the Prime Minister
would be present,

The Home Secretary, the President of the
Board of Education and the Secretary of
State for Scotland asked that their dissent
from the decision to introduce the Imports
Duties Bill should be recorded.

The Secretary was asked to ascertain
whether the Lord Privy Seal, who was
unable to be present, would desire to
associate himself with this note of
dissent.

The Lord Privy Seal intimated that he wished to
associate himself with the note of dissent.
3. The Lord President of the Council said that he had been asked by the Secretary to raise the question of whether Cabinet Minutes and Memoranda were to be sent to Ministers who would be leaving very shortly for the Disarmament Conference at Geneva, where they would remain for more or less prolonged periods. It was realised that it would be extremely difficult for Ministers to keep in touch with events at home unless they received these documents. On the other hand there was a certain element of risk in sending them to Geneva, more especially as Cabinet keys would be left at home.

Ministers who formed part of the Delegation at the Disarmament Conference felt that it would be essential for them to receive these documents.

The Cabinet left it to each Minister to make appropriate arrangements for ensuring the safety of Cabinet documents at Geneva, and for their return as soon as they were no longer required.
The Lord President of the Council read to the Cabinet a note from the Secretary of State for Foreign Affairs, who was unfortunately unable to attend owing to indisposition. Recent events at Shanghai were dealt with as follows:

"Shanghai. A representative of the Japanese Embassy called late yesterday afternoon to say 'some drastic action' might be necessary, in view of the anti-Japanese boycott and attacks on the Japanese. I enquired what action was contemplated? Reply - possible suppression of headquarters of anti-Japanese organisation in the International Settlement. I represented strongly that any action inside the Settlement should be taken if necessary by all Powers jointly and that we could not approve its invasion without consultation. I also referred to the use of the League of Nations. I sent instructions to Tokio to make strong representations in a similar sense to the Japanese Government there, and to inform representatives of other Powers we were doing so. I also told Lindsay in Washington what we were doing so that Mr. Stimson might know we were co-operating.

The action of the Japanese reported in today's papers does not involve the International Settlement; but it is serious enough, anyhow.

The Cabinet may be surprised to read in "The Times" of alleged 'delay' in communicating
with America. The explanation is that Lindsay took upon himself not to deliver my earlier message, (it is among the telegrams), thinking that the situation had so developed as to require a more absolute promise of co-operation with the United States of America. That is a pity; but we have put it right now. We have to remember (what America is less concerned with) that Japan is the strongest Power in the Far East. And America always leaves us to do the difficult work vis-a-vis Japan. But we cannot afford to upset the United States of America over this, and I do not mean to do so."

The First Lord of the Admiralty raised the question as to whether naval reinforcements should be sent to Shanghai. At present there was only one large cruiser there. There were three more at Hong-Kong, which could reach Shanghai within about 48 hours of sailing.

The Secretary of State for War reported that there were two battalions at Shanghai. A relief battalion was just leaving. The transport normally took a week to turn round at Shanghai, and consequently there would be three battalions in any event for the next week, and the battalion to be relieved could if necessary remain there for a time.

The Lord President of the Council said that the Cabinet could not take a decision in the matter of reinforcements in the absence of the Secretary of State for Foreign Affairs, and suggested that the Admiralty and the War Office should keep in touch with the Foreign Office on the subject.
5. The Chancellor of the Exchequer informed the Cabinet that the Speaker had technical objections to the introduction of the financial resolution in connection with the Import Duties Bill on Tuesday next. Consequently the Town and Country Planning Bill would be taken as originally contemplated on Tuesday, February 2nd. On Wednesday, February 3rd, would be taken the Motion to take the time of Private Members; and if time permitted the Motion approving the Board of Trade Import Order No. 3.

Notice had been received of the intention of the Opposition to introduce a Vote of Censure on the principle of Collective Responsibility of the Cabinet. The Parliamentary Secretary to the Treasury was trying to arrange that this should take place on Friday, February 5th.

The Chancellor of the Exchequer added that he thought that in the Time-Table too much time had been allowed for the Committee Stage of the resolutions and too little for the Committee Stage of the Import Duties Bill.
6. The First Lord of the Admiralty informed the Cabinet with deep regret that there was now no hope of rescuing the crew of Submarine M.2., and that The King had sent a message of sympathy to all concerned.

The Cabinet expressed the most profound regret.
7. The Lord President of the Council informed the Cabinet that the next meeting would be held on WEDNESDAY next, FEBRUARY 3rd, at 11.0 a.m.; unless the Prime Minister should summon a meeting at an earlier date.

2, Whitehall Gardens, S.W.1.

30th January, 1932.