Meeting of the Cabinet to be held at 10 Downing Street, S.W.1, on WEDNESDAY, 19th July, 1933, at 11.30 a.m.

AGENDA.

1. MONETARY AND ECONOMIC CONFERENCE. - (if required).
   (Reference Cabinet 45(33), Conclusion 1).

2. (Question to be raised by the Chancellor of the Exchequer).

3. WEST INDIES: REPORT OF CLOSER UNION COMMISSION.
   Memorandum by the Secretary of State for the Colonies.
   (C.P. 171(33) - already circulated).

4. JUDGES' SALARIES.
   (Reference Cabinet 23(33), Conclusion 1).
   Memorandum by the Lord Chancellor.
   (C.P. 180(33) - already circulated).

5. FINAL REPORT OF THE ROYAL COMMISSION ON BETTING AND LOTTERIES.
   (Reference Cabinet 6 (33), Conclusion 6).
   Memorandum by the Home Secretary.
   (C.P. 179(33) - already circulated).

6. PENALTIES FOR ILLEGAL TRAWLING.
   (Reference Cabinet 18(33), Conclusion 7).
   Memorandum by the Secretary of State for Scotland.
   (C.P. 183(33) - already circulated).
7. RUBBER INDUSTRY BILL. —

(Reference Cabinet 20(33), Conclusion 4).
Memorandum by the President of the Board of Trade.
(C.P. 182(33) — circulated herewith).

(Signed) M.P.A. HANKEY,
Secretary to the Cabinet.

2 Whitehall Gardens, S.W.1.
17th July, 1933.
PRESENT:

The Right Hon. J. Ramsay MacDonald, M.P.,
Prime Minister.

The Right Hon.
Stanley Baldwin, M.P.,
Lord President of the Council.

The Right Hon.
Sir John Gilmour, Bt., D.S.O.,
M.P., Secretary of State for Home Affairs.

The Right Hon.
The Viscount Hailsham,
Secretary of State for War.

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 Edward Hilton Young,
G.B.E., D.S.O., D.S.C., M.P.,
Minister of Health.

The Right Hon.
Sir Bolton Eyres-Monsell,

Major The Right Hon.
Walter Elliot, M.C., M.P.,
Minister of Agriculture and Fisheries.

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

The Right Hon.
The Viscount Sankey, G.B.E.,
Lord Chancellor.

The Right Hon.
Sir Samuel Hoare, Bt., G.B.E.,
C.M.G., M.P., Secretary of State for India.

The Right Hon.
Sir Philip Cunliffe-Lister,
G.B.E., M.C., M.P., Secretary of State for the Colonies.

The Right Hon.
Sir Godfrey Collins, K.B.E.,
C.M.G., M.P., Secretary of State for Scotland.

The Right Hon.
Walter Runciman, M.P.,
President of the Board of Trade.

The Right Hon.
Lord Irwin, K.G., G.C.S.I.,
G.C.I.E., President of the Board of Education.

The Right Hon.
Sir Henry Betterton, Bt.,
C.B.E., M.P., Minister of Labour.

Major The Right Hon.
W. Ormsby-Gore, M.P., First Commissioner of Works.

THE FOLLOWING WERE ALSO PRESENT:

Captain The Right Hon.
H.D. Margesson, M.C., M.P.,
Parliamentary Secretary to the Treasury and Chief Whip.
(For part of Conclusions 1 and 4).

1. The Prime Minister raised the question of who should speak on behalf of the Government in the Debate asked for by the Opposition next Tuesday. The Opposition desired to raise two points, namely, the question of why the Conference was to be adjourned, and the recent statement at a Committee of the Conference by the President of the Board of Trade on the subject of Public Works.

The discussion showed that there were a number of difficulties involved in this proposal. The question of the adjournment of the Conference would have to be taken on the Foreign Office Vote, while the question of public works would most conveniently be taken on the Ministry of Health Vote. The two questions, however, were felt to be inextricably connected one with the other. To take them on separate Votes would be inconvenient. Moreover, it was virtually impossible for the appropriate Ministers to be present at the Debate on Tuesday. There was to be a very important meeting of the Bureau of the Conference on Tuesday afternoon at 5.30, at which both the Prime Minister and the Chancellor of the Exchequer would have to be present. The date of the Bureau meeting could not be changed as it had been fixed at the latest possible moment in order to meet the convenience of M. Hymans, the Belgian Foreign Minister, and S. Jung, the Italian Finance Minister, who would be arriving in London that day. The President of the Board of Trade would be in attendance on the King at Southampton that day and could not take part in the Debate.

(At this point the Prime Minister sent for the Parliamentary Secretary to the Treasury, and during this interval items 2 and 3 were discussed.)

The Prime Minister explained the situation to the Parliamentary Secretary to the Treasury and asked him
to take the matter up with the Opposition Whips, emphasising in doing so the difficulty of altering the time of the meeting of the Bureau. He was asked to try and arrange that the Debate should take place on Wednesday, July 26th, instead of Tuesday the 25th.
8. The Cabinet had before them a Memorandum by the President of the Board of Trade (C.P.-182 (33)) recalling that at the Meeting mentioned in the margin his colleagues had agreed to the introduction of the Rubber Industry Bill in the House of Lords as a Government measure. The Bill, which provided for the imposition of a levy on all raw rubber used in manufacture in the United Kingdom in order to afford funds for the Research Association of British Rubber Manufacturers, had passed through that House without serious opposition, but differences of opinion had since arisen among the rubber manufacturers who formerly supported the Bill, with the result that many of the larger manufacturers had become opponents of the proposal for a compulsory levy. The present supporters of the Bill (the smaller manufacturers) had recently passed a Resolution urging the Government to bring the Bill before the House of Commons, possibly in the hope that the Bill might be considered and submitted to the free vote of the House, when the position of the smaller manufacturers could be ventilated. They had also discussed the possibility of making some arrangement for the support of the Research Association by voluntary contributions from manufacturers, and had promised to increase their individual subscriptions. In these circumstances the Department of Scientific and Industrial Research were considering whether further State assistance could be recommended on special terms, subject to Treasury approval, to secure the continuance of the Research Association during the next five years. In these conditions the President thought that the only course would be to announce that the Government did not intend to proceed with the Bill in the House of Commons. He proposed to do
this in answer to a Parliamentary Question, explaining the reasons and adding that efforts were being made to continue the work of the Research Association by means of voluntary subscriptions.

The Cabinet agreed —

That the President of the Board of Trade should be authorised to announce that the Government did not intend to proceed in the House of Commons with the Rubber Industry Bill.
3. The Cabinet had before them a Memorandum by the Secretary of State for the Colonies (C.P.-1/71 (33)) covering the Report of the Closer Union Commission on their visit to the Leeward Islands, the Windward Islands and Trinidad. After the Commission had spent some time in the West Indies it became clear that public opinion in Trinidad was so opposed to any form of closer political union with the northern Islands that it would be useless to try to devise any form of Federation which should include Trinidad as well as the Leeward and Windward Islands. They had accordingly set themselves to consider whether there was any system which they could recommend for the latter two groups, and they had evolved a series of proposals for this purpose. These proposals, however (a summary of which was attached as an Appendix to the Memorandum), the Commissioners themselves regarded as nothing more than a first step — and that a tentative one — towards a real Federation, not only of the Islands with which they were dealing, but of other units in the West Indies which might eventually be found willing to join.

The most important proposal of the Commission was a change in the present method by which the Governor of the Colony is invested with the power of ensuring the passage of essential legislation. At present this is effected by means of an Official majority enabling the Governor to use his casting vote in order to carry or veto any measure on which the votes are evenly divided. The Commission proposed that when the Governor takes the view that it is necessary in the public interest to carry a measure decided upon by him and the particular Executive Council but opposed by the Unofficial members of the Legislative Council, he should be empowered to make a declaration to this
effect and the measure should then have the force of law, subject to its being approved by the Secretary of State. The Official majority would be abolished.

The Cabinet agreed —

(a) To approve the proposal of the Secretary of State for the Colonies in C.P.-171 (35), including the change in the method by which the Governor of the Colony will be invested with the power of ensuring the passage of essential legislation. This change was recognised to be applicable to West Indies, though not to African Colonies:

(b) To invite the Secretary of State for the Colonies to circulate to them a map of the West Indian Islands which would serve to illustrate the Report.
4. The Minister of Agriculture and Fisheries called the attention of the Cabinet to a discussion of the Adelphi Estate Bill on the previous day before the Select Committee of the House of Commons on Unopposed Bills, at which, *inter alia*, a decision was reported in the Press to have been taken that the designs of the new buildings should be submitted for the approval of the Crown Lands Advisory Committee instead of the Fine Arts Commission, which would raise certain difficulties.

The question was left for decision by the Minister of Agriculture and Fisheries in consultation with the Prime Minister and the First Commissioner of Works.
5. The Secretary of State for the Colonies raised as a matter of urgency in connection with Item 1 of these Conclusions the position of the Tariff Truce on the adjournment of the Monetary and Economic Conference. So far as the Colonies were concerned, the difficulty arose with the Japanese Government, who were asking whether the measures taken to protect British trade in certain Colonies against acute Japanese competition were consistent with the Tariff Truce. The Secretary of State reported that he had never adhered to the Tariff Truce on behalf of any of the Colonies, and, judging from the precedent of an ordinary Commercial Treaty, the Colonies would not be committed unless he had so adhered.

The President of the Board of Trade also raised the question of the position of the Tariff Truce from the point of view of the United Kingdom. In present conditions he could not undertake to adhere to it indefinitely. The most satisfactory solution would be if the adjournment of the Conference were to be deemed as suspending the Tariff Truce.

The Cabinet were informed that other nations might not raise this question, as many of them had protected themselves by very wide reservations to the original Truce. Our own position was also fairly comprehensively protected in this respect.

The Prime Minister recalled that at the time when the Tariff Truce was entered into the conditions were different from those prevailing today. It was then assumed that the Conference was to be completed at a single session and that there would be no adjournment. Moreover, there appeared to be considerable doubts as to whether certain nations,
including the United States of America and France, had in practice observed the Tariff Truce. He thought it might be necessary for him to raise the question at the next meeting of the Bureau.

The Cabinet agreed —

(a) That the Secretary of State for the Colonies could justify the action taken in particular Colonies in respect to Japanese competition by stating that he had not adhered to the Tariff Truce on behalf of the Colonies. He should, however, in consultation with the President of the Board of Trade, assure himself that this position was covered by satisfactory precedents from previous Commercial Treaties. He should be authorised to make the statement publicly if pressed on the point:

(b) That the Prime Minister and the President of the Board of Trade should see the Head of the United States Delegation the same afternoon and discuss with him the question of the Tariff Truce and whether it had been observed by the United States of America:

(c) That the Prime Minister, if he deemed desirable, should raise the question of the Tariff Truce, or arrange for it to be raised, at the appropriate body of the Monetary and Economic Conference (either the Bureau or the Economic Commission).
6. The Cabinet continued the discussion begun on Monday, July 17th, of the Loan raised in America in January, 1917, and the arrangements proposed in consequence of the United States legislation abrogating the gold clause in contracts.

The Chancellor of the Exchequer amplified his proposals by explaining that the exchange would be made on the basis that for every $1,000 of 5\% Gold Bonds the holder would receive £275 of Sterling Bonds. The Sterling Bonds would be repayable in London on February 1, 1937, and would bear interest at the rate of 2\% per annum, payable half-yearly in London on August 1st and February 1st, the first payment being made on February 1, 1934. In August the payment would be made in paper dollars, but this would be taken into account in framing the scheme. That meant that £133:6:8 would be given for every £100. About £10 of the £33 represented the difference in interest, and the remainder would be compensation to holders for their inability to receive payment in Gold Dollars. The amount of the Twenty Year Bonds outstanding on March 31, 1933, was $136,333,500 (£88,013,723 at par). If all these Bonds were converted to Sterling Bonds the amount of the latter to be issued would be £37,491,712. At par the interest payment on the Twenty Year Bonds is equivalent to £1,540,753 yearly, while the charge for interest on the Sterling Bonds would be £937,292 (at 2\%). It was anticipated that this offer would be generally accepted, but persons who were unwilling to take advantage of it would get paid in paper dollars. In reply to questions, the Chancellor of the Exchequer admitted that the amount of the Sterling Bonds to be offered in exchange for
the original Bonds was very difficult to determine. The Governor of the Bank of England had been consulted and the figure now contemplated was below that which he at first advised, and satisfied the Officials of the Treasury.

In the course of the discussion it was suggested that the proposal would be criticised as involving payment by the British taxpayer of a bonus in compensation for American legislation of doubtful propriety. As soon as an announcement of our intention was issued there was likely to be a large rise in the value of these Bonds. That rise would accrue to a certain extent to speculators.

It was suggested that in the House of Commons it would be said that if the Directors of a Company acted in the manner now proposed by the Chancellor of the Exchequer the stockholders could bring an action for an Injunction against them.

The various criticisms mentioned at the previous Meeting of the Cabinet were raised, including the possible objection of the Dominions.

The Chancellor of the Exchequer replied to all these points. There was no question of legal liability to the Bondholders. It was not even a question of financial morality, but merely one of whether, on the wider view, his proposal was not to our advantage. In taking the very difficult decision involved it was necessary always to bear in mind that we were essentially a great creditor country. In that respect our position was different from that of most nations of the world, including the Dominions. This was a unique transaction never likely to recur. There was no real comparison with Canada, who frequently borrowed in the American market. Our action ought not to cause any serious
embarrassment to that Dominion. These considera-
tions were imponderable, but were nevertheless of
the greatest importance.

The question was raised as to whether, by taking
the high line in this matter, we should not raise
difficulties for ourselves later on in discussing a
settlement of War Debts.

The Chancellor of the Exchequer said that that
depended almost entirely on the form in which the
announcement appeared. He had prepared a White Paper,
from which he read the following extract:

"Since the legislation of the country
to whose laws the contract is subject has
abrogated the gold clause in the contract,
payment of interest and repayment of
principal under the existing Bonds can
only be made in coin or currency which
is at the date of payment legal tender
in the United States for the discharge
of debts, that is in paper dollars and
not in gold dollars. In the very special
circumstances which surround this
particular case, however, His Majesty's
Government propose to make an offer to
the holders of the Bonds to surrender
their existing Bonds after encashment
of the interest coupon due on the 1st
August, 1933, and receive in exchange
new Sterling Bonds which would be issued
subject to the following terms and
conditions". (Here the Chancellor
referred to the conditions already
mentioned above.)

The Chancellor of the Exchequer added that he had
avoided the imputation that British finance was
being assimilated to that of the Gold Countries by
fixing the offer on a purely arbitrary basis.

The President of the Board of Trade reminded
the Cabinet that the abrogation of the gold clause
had hit very hard many people in this country to
whom payments were due from America. This was a
matter which would have to be raised when the
question of War Debt payments was discussed.
In the meanwhile it was not a good thing for us to
do something that we condemned America for doing,
or to take advantage of their action. He pointed out that, whatever action the Government took in this matter, they would be exposed to criticism. In his view the Chancellor of the Exchequer's proposals were the best and cheapest way out of the difficulty from the point of view of the interests of this country as a whole.

The Cabinet agreed —

(a) To accept the proposals of the Chancellor of the Exchequer, but the opinion was expressed that the offer should, if possible, be on less generous lines than those at present contemplated. There was general agreement, however, that this technical question must be left to the Chancellor of the Exchequer to decide:

(b) That the Chancellor of the Exchequer should discuss with the Parliamentary Secretary to the Treasury the arrangements for the announcement of the above policy, and should have discretion as to the form it should take, including, if he thought advisable, the issue of a White Paper.
7. The Cabinet had before them a Memorandum by the Lord Chancellor (C.P.-180 (33)) on the subject of the validity of the cut in Judges' Salaries. The Memorandum stated that the Lord Chancellor and the Secretary of State for War, in accordance with the decision of the Cabinet mentioned in the margin, had on several occasions seen Justices Macnaghten, Clauson and Luxmoore, who now said that they were willing to make a voluntary surrender of their salaries equal in amount to the cut, but that their real grievance was that the action of the Government was not only unconstitutional but had lowered their prestige, dignity and independence. The two Ministers had made every possible suggestion to the three Judges as to means whereby any supposed lowering of their prestige, dignity and independence could be put right, but they had not been able to satisfy them. Attached to the Lord Chancellor's Memorandum were a Memorandum by the three Judges and a draft Bill which they wished to see passed (C.P.-180 (33), Appendices "B" and "C").

After setting forth the very difficult considerations involved, the Lord Chancellor asked the decision of the Cabinet on the following question, namely, whether —

(1) The three Judges should be informed that the Government were unable to take any further step in the matter:

or

(2) The Judges should be invited to obtain the signatures of all their colleagues, being informed at the same time that if they did so the Government would proceed with legislation relieving the Judges from the compulsion imposed by the Act and Order in Council, and at the same time containing such recitals as would make it clear that the independence of the Judges was unimpaired by what had been done in the past and remained in the future as it was before the passing of the Economy Act.

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The Cabinet approved the second of the above alternatives, and authorised the Lord Chancellor to take action thereon in concert with the Secretary of State for War.
8. The Cabinet had before them a Memorandum by the Home Secretary (C.P.-179 (33)) on the subject of the Final Report of the Royal Commission on Lotteries and Betting, suggesting that, as the House of Commons would expect to receive in the autumn some statement of the Government’s intentions, a representative Cabinet Committee should be set up charged with the duty of studying the Report with a view to submitting recommendations to the Cabinet in the autumn. The appointment of a Committee now would prevent Parliament and the country from thinking that the Royal Commission’s Report had been pigeon-holed, while the Ministers appointed as members of the Committee might find time to give some preliminary study to it during the Summer Recess. Meanwhile the Report was being carefully studied in the Home Office, and steps were being taken to ascertain the views of Chief Officers of Police on certain practical questions affecting Police administration which were suggested by the detailed recommendations of the Royal Commission. Attached to the Memorandum was an analysis of the reception accorded to the Report by the Press.

The Cabinet agreed —

That a Cabinet Committee, composed as follows:—

The Home Secretary (In the Chair)
The Secretary of State for Dominion Affairs,
The Secretary of State for Air,
The Secretary of State for Scotland,
The First Lord of the Admiralty,
The Minister of Transport,
The Attorney-General,
The Financial Secretary to the Treasury —

should study the Final Report of the Royal Commission on Lotteries and Betting and submit recommendations to the Cabinet in the autumn.
9. The Cabinet postponed the consideration of a Memorandum by the Secretary of State for Scotland (C.P.-165 (33)) on the subject of Illegal Trawling by British vessels off the coasts of Scotland.

2, Whitehall Gardens, S.W.1.

July 19, 1933.