CONCLUSIONS of a Meeting of the Cabinet held in the
Prime Minister's Room, House of Commons, on
WEDNESDAY, 4th NOVEMBER, 1936, at
5.0 p.m.

PRESENT:
The Right Hon. Stanley Baldwin, M.P.,
Prime Minister. (In the Chair).

The Right Hon. J. Ramsay MacDonald, M.P.,
Lord President of the Council.

The Right Hon. Anthony Eden, M.C., M.P.,
Secretary of State for Foreign Affairs.

The Right Hon. Malcolm MacDonald, M.P.,
Secretary of State for Dominion Affairs.

The Right Hon. A. Duff Cooper, D.S.O., M.P.,
Secretary of State for War.

The Right Hon. The Viscount Swinton, G.B.E., M.C.,
Secretary of State for Air.

The Right Hon. Sir Samuel Hoare, Bt., G.C.S.I., G.B.E., M.P.,
First Lord of the Admiralty.

The Right Hon. W.S. Morrison, M.C., K.C., M.P.,
Minister of Agriculture and Fisheries.

The Right Hon. Sir Kingsley Wood, M.P.,
Minister of Health.

The Right Hon. The Earl Stanhope, K.G., D.S.O., M.C.,
First Commissioner of Works.

1. The Prime Minister raised the question of the payment of wages on the occasion of the King's Coronation, a matter on which Questions were already being addressed to him in Parliament.

The Cabinet were reminded that on the occasion of the Silver Jubilee the day had been observed as a paid holiday to employees in Government establishments, including industrial grades, but that the attitude of the Government had been that it was not a matter in which they could issue any directions to private employers, though they had no doubt that they could be relied upon to show full consideration to their workpeople so far as circumstances permitted (reply in Parliament on February 4, 1935).

The Prime Minister said that he would look into the precedents, and if he could not ascertain in time he would ask for a postponement of the Question for a week.
The Cabinet resumed the discussion, began that

The Minister for Co-ordination of Defence said
that he would have to speak in the Debate on Tuesday
and must have some decision on the question of a
Ministry of Supply. He had set out the pros and cons
of the question in his Paper. Since then the matter
had been complicated by the issue of the Report of the
Royal Commission on the Private Manufacture of and
Trading in Arms, Chapter VIII of which had contained
some rather vague references bearing on the establish­
ment of a Ministry of Supply.

Turning to paragraph 128 of the Report, he pointed
out that three reasons had been given for control by
the Government in peace-time of all arms manufacture
and arms manufacturing capacity in the country. The
third of these reasons, viz.:—

"To prevent the possibility of profiteering
in time of war or national emergency and
thereby to eliminate the incentive to
those grave objections to which the system
of private manufacture is open",

was well within the Terms of Reference to the Royal
Commission: but the other two reasons, namely:—

"(i) To ensure rapidity of expansion in
emergency periods, and
(ii) To check prices and establish a planning
system in peace-time conditions"

were not. The Royal Commission made no constructive
proposals but merely referred to evidence by several witnesses.

The question of a Ministry of Supply, he continued, was not a new one. The war-time Ministry of Munitions had been abolished after the war, largely, he understood, owing to the attitude of Mr Winston Churchill. In 1925 the matter had been considered by Lord Weir's Committee on the Amalgamation of Services common to the Navy and Army and Air Force. Their Terms of Reference had been specific, namely—

"To make definite proposals for amalgamating as far as possible the common services.... such as Intelligence, Supply.... etc.

That Committee had come to the conclusion, in the then existing circumstances, that—

"The amalgamation of the common services of the three Departments is not advisable; and we doubt if any substantial economies would thereby be effected."

Their conclusions had been accepted by the Cabinet. Subsequently there had been set up the Principal Supply Officers Committee to co-ordinate these activities, and to this was attached the Supply Board, the Board of Trade Supply Organisation, and other bodies. Thus a co-ordinating body had been created which now had a permanent Chairman for the Supply Board and a permanent Chairman (himself) for the Principal Supply Officers Committee.

The question of a Ministry of Supply in time of war had been investigated by the Principal Supply Officers Committee, and he hoped in the very near future to present a cut-and-dried scheme to the Committee of Imperial Defence. There had been an argument as to whether the Admiralty and the Air Ministry could contract out of any scheme, and he intended to make his own recommendations.
That was the position as regards the war organisation, but at the moment the Cabinet were considering peacetime organisation. He had always thought that the priority organisation should be improved. During the war there had been a Priorities Organisation over which General Smuts had presided, and the establishment of a corresponding body was provided for in our war arrangements. As the result of a recent discussion with the Machine Tools Association it was proposed to apply the same machinery in time of peace not only to machine tools but over the whole range of priorities between the Services. He was advised that the organisation should not be too elaborate at the outset. That was one means of achieving priority without a Ministry of Supply.

As the Weir Committee had pointed out, the setting up of a Ministry of Supply would involve the transfer to it from the Service Departments of design and inspection and other matters. It would also necessitate the conferring of powers on the minister of Supply for settling questions between Government demand and civilian demand: that is to say, the minister would have to have powers to take from civil industry everything that he required, just as in wartime. It almost amounted to a declaration of martial law in time of peace.

If he were told that he was to work for readiness for war in June, 1937, powers of this kind would be required. He felt bound to warn the Cabinet, however, that the establishment of a Ministry of Supply did involve not only legislation but putting the country practically on a war basis.

He himself had to admit that he felt the increasing pressure of work at the present time. He had not the leisure he would like for consideration of large
questions. If he were to admit this in Parliament it would be said that this was part of the ease for a Ministry of Supply. To him, however, it seemed that it was rather a possible argument for someone to deal with Supply questions who might perhaps be subordinate to the minister for Co-ordination of Defence.

The Secretary of State for Air said that he had been trying to think out this problem because he thought that the forthcoming Debates in both Houses of Parliament would turn largely on a Ministry of Supply. The proposal made by the Royal Commission that there should be a body and a minister without executive responsibility who would lay down the conditions under which the Service Ministers and their Supply Departments should make their contracts, was wholly impracticable. It was quite possible to have a Ministry of Supply which would take over the Supply functions of the Services and place the orders for munitions. It was equally practicable to have the three Services placing their own contracts. What was quite impossible, in his view, was to make the Services responsible for all negotiations for contracts, while another minister, without executive responsibility, would lay down how those contracts should be placed.

The case for a Ministry of Supply was put broadly on the following grounds:

(a) It would avoid overlapping and resolve conflicts of priority;
(b) It would ensure the supply of raw material to Service needs;
(c) It would quicken production deliveries and use all available firms to the best advantage, and divert both firms and labour to munitions production.

He would like dispassionately to consider these arguments in turn.
He did not think that there had yet arisen any serious overlapping or conflict of priority. The work already done by the Committee of Imperial Defence and the Minister for Co-ordination had defined fairly clearly for the Services both their regular contractors and the fields in which they could respectively expand in bringing in non-munition firms. Under present conditions it appeared to him that any difficulties of overlapping or priority which might arise could be rapidly resolved by the Committee on Defence Policy and Requirements or the Minister for Co-ordination.

So far as raw material was concerned, his information in regard to aircraft was that no serious difficulties had as yet arisen. Firms producing aluminium alloys were expanding their plants, and steps were being taken, on the authority of the Committee on Defence Policy and Requirements, to accumulate reserve supplies of special commodities where a shortage might be feared.

If difficulties with regard to shortage of raw material and priority of delivery should occur, they were much more likely to take the form of a conflict between munitions and civil industry than a conflict between the Services. If such a situation arose it would mean not co-ordination between the Services, but some system of control, agreed or imposed, by which the Services obtained the necessary priority.

He would also mention machine tools. It was probably impossible today for machine tool makers to meet concurrently all Service and civil demands: but here, again, the Minister for Co-ordination, and Sir Arthur Robinson, had given great help in getting the machine tool makers to adopt a voluntary priority.
As regards the other reasons, it appeared to him idle to consider the establishment of a Minister of Supply unless we were quite clear what powers he should exercise. In order to consider this we had to see what were the difficulties which control could meet.

The first and most obvious difficulty was the shortage of skilled labour. It existed now. It would become more acute in spite of all efforts to de-skill jobs. If we could divert labour from non-munition to munition work we could certainly accelerate production. But it was very important to realise that this was a problem of diverting labour and not a problem of diverting firms. Diversion of firms from civil to munition work would not yield early results; indeed, the results would very likely not materialise until the peak production had been reached in the expansion of professional firms and the full functioning of the shadow factories.

Explaining what he meant by diversion of labour and what its effect would be, the Secretary of State for Air said that if we could "pick the eyes out of", say, Singer's sewing machine works and certain other engineering firms and put that labour into munition firms we should in a comparatively short time get improved production, but we must consider the inevitable results of such a process. The diversion of labour which would help was not a diversion of all the labour in a factory: it was the diversion of its skilled labour — what he had called "picking the eyes out of" the factory. The immediate result would be to throw out of employment in such a factory a number of the residue of the workers who would not be diverted. But the results would go further than that. The skilled labour that would be useful was in the...
engineering industry. A large part of that industry was not making direct consumer's goods, but machinery which served other producing industries. We should therefore get a quick reaction upon the production in these industries: on their workers; on their customers; on the whole volume of trade.

If something on those lines had to be done, he was inclined to think that the least damaging plan would be some plan rationing the production and/or the amount of labour employed by engineering firms. But any plan of that kind would be a very difficult and long business in peace. In war it was simple. All industry and labour and material would in fact be controlled, and the industry and labour of the country would work on a national plan.

There was a second difficulty which might be met by giving a Minister of Supply compulsory powers over all munition firms. That would enable the minister to make these firms do exactly what the Supply Programme required and not what they wanted to do. For example, as long as everyone was free to accept orders or not, firms, particularly the smaller firms who were not producing under direct contract what was needed, were always trying to make the Government order what it suited them to produce and not what the Government wanted. There were also difficulties sometimes in getting a main contractor to use a particular firm. It would, he believed, simplify and accelerate production if there were power to order Firm A to work for Firm B, and order Firm B to accept the work from Firm A. Nor was this limited form of control unreasonable, because all the firms who would be affected in that way were anxious to get Government orders; and it was reasonable that
the Government, which was giving them the bulk of
their work, should get out of them exactly what it
wanted.

Assuming always that labour was available, the
firms, professional and shadow, which were now
engaged in a great expansion of their works, would
probably reach their high peak by the middle or end
of 1938, some earlier. We should, therefore, by that
date have very large facilities ready, and these
facilities would in all probability be ready sooner
than could facilities provided by firms compulsorily
turned over to munition production. For example, even
the shadow factories, let alone the new shops and
plant of professional firms, should be at their peak
before newly diverted firms could be in peak produc­
tion. Our acute problem, therefore, was not so much
turning over more firms to munitions, but getting
the existing plans implemented and accelerated.

The Secretary of State said that he had come to
the conclusion that a control of selected firms, which
were or desired to be largely munition firms, would
help. At a later stage some arrangement or control
which would prevent non-munition firms absorbing labour
would undoubtedly help, if that were practicable.
They might, indeed, come to some agreement in order
to avoid further control.

The First Lord of the Admiralty considered that
there could be no finality in this matter. It was
impossible to say what we might have to do in two or
three months' time. So far as the Navy was concerned,
no additional powers were required at the moment.
A Minister of Supply without D.O.R.A. powers would
virtually be useless. In two or three weeks' time
it would be shown to be humbug without such powers.
Messrs Vickers had warned him that they did not want
any big move of the kind now and that it would only
give a set-back. Labour was going on well, and, with
the tacit co-operation of local labour, dilution and
other arrangements to stimulate production were being
carried out. If some large measure, such as that
involved in a Ministry of Supply, were adopted, it
might cause great commotion. So his advice would be
not to prejudge the future, and to give a clear
explanation to the House of Commons showing that the
proposal for a Ministry of Supply involved D.O.R.A.
powers and the possibility of an immense upheaval.

The Minister of Labour agreed that if a Ministry of
Supply were appointed it would be necessary, to take
the powers referred to, but it was not sufficient to
consider only the demands of the Services, but also
those of the civil industries. His information was
that it would cause immense difficulties until the
Government knew exactly what they wanted made, and
where.

The Secretary of State for War agreed with the
other Ministers. There was no finality in this matter.
The Royal Commission had undoubtedly stimulated the
demand for a Ministry of Supply. In his view we should
certainly need it in a major war. He was not satisfied
that we needed it today, nor that it was likely to
come in time of peace. If we had a Ministry of
Supply we should have to go to all lengths, and if
D.O.R.A. were put in force there was no knowing what
the reaction against it might be. When the new
Director-General of Munitions Supply was appointed
he had been told that the object was to create a
miniature Ministry of Munitions. The idea had been
the creation of a nucleus which could be expanded in
case of necessity. He thought the Minister for
Co-ordination of Defence might say something of the
kind in the Debate. He himself had felt some
doubt about the appointment of a Minister of Defence, but he agreed that the system today was working admirably. He was rather alarmed, however, at the idea of another Defence Minister. His advisers held that no new Ministry was required, and that its establishment would be fraught with danger.

The Chancellor of the Exchequer said that Mr Churchill and his friends would represent the recommendation of the Royal Commission as an endorsement of their demand for a Ministry of Supply. He hoped that the Minister for Co-ordination of Defence would indicate the difference between the two things. He could explain the formidable difficulties in the proposals of the Royal Commission, but it would be advisable for him not to reject them there and then, but to say that the Government were considering the matter and would announce their decision later.

Mr Churchill, he pointed out, had never stated clearly what attributions he would assign to a Minister of Munitions or Supply. He had suggested, in the course of the Deputation to the Prime Minister, that the minister would take an industry like, say, some bicycle manufactory and would inform the management that they must allocate 25 per cent. of their output to munitions. That would not help in the least. 25 per cent. would dislocate the whole business, but to dissipate our orders among thousands of firms doing part-time would be perfectly useless. He hoped that the Minister for Co-ordination of Defence would indicate that in war we should probably have to set up something of the kind, but that he would point out the great difficulties in time of peace, and that compulsory powers would be required enabling the Government to compel one firm to work for another firm and — if the Royal Commission was to be followed — practically without profits.
He thought consideration would have to be given to the sort of assistance required for the Minister for Co-ordination of Defence. He realised that the pressure on the Minister was steadily increasing. New proposals were coming forward every day for stocks of raw materials, foodstuffs, and any number of other suggestions. He could quite believe that the number of vital problems was so large that the Minister required further assistance. He hoped, however, that the assistance would not take the form of the establishment of a new and equal Minister, but rather of some increase of his own staff.

The Minister for Co-ordination of Defence pointed out that his staff consisted only of a Principal Assistant Secretary, a Private Secretary, and a Lady Typist.

The Secretary of State for Foreign Affairs said that what troubled him was the date to which our programmes were working. We had passed through the present year without any major European crisis, but next year he thought that some challenge was possible any time from Spring onwards, and that the position ought to be examined in the light of that possibility. He thought that the Cabinet ought to have before them a clear picture of our strength next May with reference to that of other nations.

The Secretary of State for War said that in the Spring the Army would still be utterly unprepared for war, and that by no possible means could matters be got right by that time.

The Secretary of State for Air said he had worked out how we would stand from April to June 1937, 1938 and 1939, both as regards the numbers of squadrons, the output, and, in the later period, the possibility of taking some forces from reserve.
He hoped to send his appreciation to the minister for Co-ordination of Defence.

The Prime Minister thought it was important to envisage that subject, with a view to later decisions by the Cabinet. He thought that the line taken by the Minister for Co-ordination of Defence was about right for the Debate on Tuesday, but further information would be required for later consideration by the Cabinet.

The Cabinet agreed —

(a) To approve generally the line which the Minister for Co-ordination of Defence proposed to take, as set forth in his Memorandum (C.P.-297 (36)) as developed in his remarks at the meeting summarised above:

(b) That the Minister for Co-ordination of Defence should consider what further information should be prepared for the Cabinet when they came to consider further Foreign Policy and Defence.

(The record of the discussion is continued in Conclusion 3 below.)
3. The discussion at this point passed to broader aspects of Imperial Defence policy.

The First Lord of the Admiralty observed that it would be necessary to assume for a long time that we should be unprepared. This meant that our foreign policy would have to proceed very quietly. The first point was to get Italy out of the list of countries with whom we had to reckon.

The Prime Minister said that, in addition, we must go on steadily with our defensive Programme.

The Secretary of State for Foreign Affairs did not dissent, but he pointed out that the attitude suggested by the First Lord might be mistaken for flabbiness.

The Minister for Co-Ordination of Defence agreed that that was the dilemma. Was he to indicate that we were weak or strong?

The Secretary of State for the Colonies said that the issue always came back to one of foreign policy. There was a feeling in the country that we were tied up too much with France and that that prevented us getting on terms with the dictator Powers.

The Minister for Co-Ordination of Defence said that was why he wanted to wipe out the past and get once more on good terms with Italy. That would solve at a stroke a number of problems of intense difficulty. The first thing to be done was to get rid of the Abyssinian question. It was true that most people had been shocked at the Italian action, but it would be folly to let Italy think that
we were nursing a grievance.

The Secretary of State for Foreign Affairs agreed in principle, but said that it was a very difficult gesture to make. The Italian attitude was due to Italian psychology. In suspecting us of designs in the Mediterranean, they were treating us as though we were Italians and thinking of what they would do in our place. He agreed that we must somehow disillusion the Italians of their suspicions but, in doing so, we must not break with the League of Nations.

In reply to the Prime Minister, he said that the question of recognition of Abyssinia would probably come up at the League early next year. He was very doubtful if the Member States would be prepared to recognise Italy. In reply to a suggestion that he might withdraw our Minister from Addis Ababa, he explained that Italy would regard it as a form of recognition on the ground that we should have to ask for an exequatur for a Consul or Consul-General. We should, of course, say very stoutly/that it was not a form of recognition.

The Lord Privy Seal was anxious that we should not say anything that would tie our hands for recognition in the future.

The Chancellor of the Exchequer thought it probable that when Sir Austen Chamberlain returned from France he would urge that we should take some action in regard to Abyssinia to avoid the difficulty that had arisen over Manchukuo, where even now we did not recognise the Japanese occupation.
The Secretary of State for Dominion Affairs suggested that there would be a movement towards a more realistic attitude at Geneva.

The Minister of Labour thought that public opinion here wanted an agreement between France, Germany, Belgium, Italy and the United Kingdom.

The Lord President of the Council said we must work towards a position where we could shake hands with Italy: that should be our objective, otherwise we might reach a situation of great difficulty. He suggested that the Foreign Office should make a survey of the whole situation with a view to constructing a European policy: then we should get the Ambassadors to understand where we stood. So far as Tuesday's debate was concerned, he thought, after listening to the discussion, that they should confirm generally the views of the Minister for Co-Ordination of Defence who would, of course, take into account what had been said by others at the Cabinet. He was not sure that the recommendation of the Royal Commission would prove so formidable an obstacle.

The Secretary of State for Foreign Affairs agreed that we should work towards better relations with Italy, but he did not want to discuss with the Italian Government the naval position in the Mediterranean - at any rate until we were a good deal stronger.

The First Lord of the Admiralty was also averse to detailed discussions until we were stronger.

The Cabinet agreed:

That the Secretary of State for Foreign Affairs should in the light of the discussion adopt a policy of improving relations with Italy.
4. The Chancellor of the Exchequer drew attention to the following passage on the first page of C.P. 297 (36):

"(1) While the necessity of appropriate measures of preparation for a major war is not forgotten, the immediately pressing problem, etc."

He asked the Minister for Co-Ordination of Defence to be careful lest his critics should infer from this that we were not taking seriously the preparations for a major war.

He then referred to the following:

"(3) That the task is to be carried out 'without impeding the course of normal trade'."

In this connection, he pointed out that we were already interfering to a considerable extent in trade so he thought the point should not be stressed.

The Minister for Co-Ordination of Defence said he proposed on the latter point to say that this was a counsel of perfection, but that, in fact, we had found it necessary to interfere in regard to the machine tool manufacturers and some other branches of industry.

The Chancellor of the Exchequer then quoted the following passage on page 2:

"The Government have also, as necessity has arisen, approved extensions, both large and costly, to the supplies estimated to be required under the original programme - the expanded scheme for Air Defence of Great Britain is a good instance of this."

He recalled that as laid down in the White Paper -

"It must once more be emphasised that the plans for the improvement of our defensive forces in all three Services must be regarded as flexible and subject to variation in details from time to time. The whole field of preparation will have to be kept
under constant review, and new conditions, whether arising from changes in the dispositions of other nations or from fresh developments in design and invention, must be met by corresponding variations in our own plans." (Cmd. 5107, paragraph 45.)

In addition, the White Paper had contained the following:

"From what has already been said as to the necessary flexibility of this programme, and in view of the uncertainty which must exist as to the rate of progress possible over so large a field, it will be realised that any attempt to estimate the total cost of the measures described would be premature at this stage." (Paragraph 62.)

He had, in consequence, always refused to give any estimate of the cost of the Programme and he asked the Minister for Co-Ordination of Defence to be careful in this matter.

The Chancellor added that he was getting concerned at the mounting cost of the Programme. It was difficult for him to take up a line in opposition in this matter of national safety, but he wanted the Cabinet to realise that the cost was mounting at a giddy rate. The original estimate of £400,000,000 was already far exceeded and programmes were constantly increasing. Before long, he thought people would be talking about an unbalanced Budget, and we might find that our credit was not so good as it was a few years ago. He said this because while recognising that national safety came first our resources were not unlimited and we were putting burdens on future generations; also because while assuming that what was essential when the existence of the nation was at stake, he
wanted Government Departments not to think that because a heavy expenditure was being incurred, this was a time to slip in developments of convenience which had been refused in the past. He was always watching the situation in case the opportunity should arise for saying something publicly, but for him to speak on these aspects of the question at the moment would, he thought, produce a bad effect.

2, Whitehall Gardens, S.W.1.
5th November, 1936.