CONCLUSIONS of a Meeting of the Cabinet held in the Prime Minister’s Room, House of Commons, on WEDNESDAY, the 22nd DECEMBER, 1937 at 5.0 p.m.

PRESENT:

The Right Hon. Neville Chamberlain, M.P. 
Prime Minister. (In the Chair)

Chancellor of the Exchequer.

The Right Hon. Right Hon.
The Viscount Halifax, K.G., G.C.S.I., G.C.I.E.,
Lord President of the Council.

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Lord President of the Council.
The Cabinet resumed their discussion of an Interim Report by the Minister for Co-ordination of Defence (C.P.-316 (37)) on Defence Expenditure in Future Years, which had been begun at the Meeting of the Cabinet the same morning.

The First Lord of the Admiralty had two comments to make. Referring to paragraphs 55 and 57 of the Report, he pointed out that the only departures from the D.R.C. Fleet contained in the Admiralty's proposals for 1938-39 were to the extent of constructing one Destroyer Flotilla and three Submarines, which would probably not be laid down until the end of the financial year. In reply to the Prime Minister he explained that if it was eventually decided not to exceed the original D.R.C. Fleet, the construction of these ships need not necessarily amount to more than a speeding up of the D.R.C. programme.

This construction, however, would be necessary if it were decided to exceed the D.R.C. Fleet, and the adoption of this plan would enable the Cabinet to postpone their decision on the larger question.

The Secretary of State for War joined in the general congratulations on the Minister for Co-ordination of Defence. He thanked him especially for his sympathetic words that morning in regard to the difficulties of the Army Council. He did not differ in principle from the Minister for Co-ordination, and for some time had himself been coming to similar conclusions. He recalled that the Cabinet had never accepted the whole of the War Office programmes for developing a field force for service in Europe. It would be an advantage to the Army to have the new role clearly defined, and he had no doubt that it was right...
to put the Continental expedition last. The situation was very different from that which prevailed in 1914. Public opinion in this country did not favour the idea of sending an army to the Continent. In 1914 we had not had the Palestine commitment, and Japan was friendly. He himself had been finally converted on the occasion of his visit to the French manœuvres. He had been finally converted on the occasion of his visit to the French manœuvres. He had learned that the Maginot Line only required 100,000 men to hold it, which left a large reserve for the French Field Army. He thought that when the French realised that we could not send an expedition they would be the more inclined to accelerate the extension of the Maginot Line to the sea.

Turning to the Territorial Army, he welcomed the Minister for Co-ordination's interpretation of paragraph 79 (ii) of his Report. It would be a breach of faith to leave the Territorials under the impression that they were liable to be turned into a mere police force in war, after all their military training.

As to the Regular Army, he concurred with the statement in paragraph 71 that our Imperial commitments overseas would go far to absorb our military resources in war. This was the case even now, and the War Office were forced to all kinds of devices and shifts to find men for the purpose. Nearly all the reservists who had volunteered for service in certain Battalions had revoked when they had learned that they were going to Palestine. He hoped, therefore, that the Cabinet would support certain proposals that he was putting forward for popularising the Army. He asked the Cabinet to note that the Army was brought into all the rôles of defence mentioned by the Minister for Co-ordination in paragraphs 41 to 44. The Army Council, therefore, had a considerable responsibility. Now that the Minister...
for Co-ordination of Defence had laid down the rôle of the British Army it would be necessary for the War Office to review the whole scheme of the Army, including establishments, reserves, accommodation, factories and so forth, in order to ascertain how much might be cancelled. To this must be added the fact that there had been important changes in the General Staff. He hoped, therefore, that the Chancellor of the Exchequer would realise that he must not expect an Army on the new model to be devised in a week or two, although the War Office was tackling the job with good will and energy. He was confident that some millions could be saved, but he hoped that some of them would be devoted to the comfort of the soldier.

The Secretary of State for Air said that he would have to trouble the Cabinet at greater length than the other Service Ministers, since important strategical questions were raised in the Report of the Minister for Co-ordination of Defence. He thanked the Minister for the efforts he had made. He himself was not presenting a purely Departmental point of view. Just as the financial situation was of great importance to Imperial Defence, so there were other things which were vital to safety and which affected the nature of the insurance we had to try to provide. He called attention to his own Most Secret Paper (D.P.(P) 12) on the Strength of the Royal Air Force and Air Defence, circulated with the Report of the Minister for Co-ordination of Defence, which contained an exposition of the German situation. If the Germans did not reach their estimated strength it would be easy to curtail our own programme: but what was not possible, especially in the case of the Air Force,
was to improvise at short notice. This applied especially to recruiting, where difficulties were beginning to be encountered.

Turning to the position overseas, the proposals put forward by the Air Staff had been the minimum for security. The Minister for Co-ordination had proposed to accept the risk of limiting our overseas provision to the 12 squadrons in Scheme "P". That was a risk which he feared the Government would have to take, for, as the Prime Minister had often observed, the key to our own safety problem was Germany, and if risks had to be taken it must be overseas and not at home.

Turning to the Metropolitan Air Force, the Minister's proposals involved risks from the point of view of both policy and strategy. Both in order to satisfy the political commitment, but even more with a view to the creation of an effective deterrent to war, we could not afford to have a first-line strength inferior to that of Germany. The Air Staff, as appeared from his own Paper, had not based their proposals on a mere mathematical comparison. He thought that the ordinary man would interpret the Government's pledges as involving a strength equal to that of Germany, and probably an equal number of machines. The Air Staff had not done this. He had asked the Air Staff to base their calculations on the Chancellor of the Exchequer's interpretation in the House of Commons, which he read to the Cabinet as follows:—

"This policy has been plainly stated on several occasions. It is to create and maintain an Air Force which will form an effective deterrent and insurance of peace, and which, in the unhappy event of war, would be able to meet a potential enemy on equal terms."

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He had done this because he wanted the Air Staff to consider in that light the composition of the German Air Force. That Force consisted of long-range aircraft, fighters, coastal aircraft, Army Co-operation Squadrons, to which had recently been added some short-range bombers for co-operation in the field. The Air Staff, in making their calculations, had eliminated all aircraft except bombers that could be used against this country, and had asked for an equal number of first-line machines to these. The Minister for Coordination had suggested in his Paper that it was unnecessary, in order to provide an effective deterrent, that our Air Force should be able to drop the same number and type of bombs on the aggressor, day in and day out, as that country could drop on us (Paragraph 58). That was not the strategy conceived by the Air Staff. Their scheme provided for defence in two parts:

(1) Defensive aircraft;
(2) Counter offensive.

Referring to the latter, he informed the Cabinet that for two years the Air Staff had been engaged on a detailed examination of possible targets in certain countries. Their object, however, was not counter-attack, as the Minister's Report seemed to suggest (for there was no "London" in Germany), but to reduce the enemy's power of attack by bombing his aerodromes, factories, etc. Any other course would involve our being placed on a pure defensive, which, apart from other considerations, would be demoralising to the personnel. Moreover, that course would involve increasing the purely defensive forces up to at least the standard of the full ideal defence (an addition of 45 Squadrons) as well as the ground defences.
Consequently he did not think it possible to have an Air Force that did not provide an effective deterrent by its offensive power. It was, of course, always within the power of the Cabinet to give instructions to the Air Staff as to the size of the Royal Air Force. But what the Cabinet could not do was to tell the Air Staff that it was providing an adequate force when the Air Staff knew that this was not the case. The only way to put it would be that the policy had been changed.

Turning to the question of reserves, he agreed with the Minister that in the circumstances of today it was impossible to be 100% safe, and that we must have an effective war potential. Even this war potential, however, was not an alternative to the 225% war reserves, the object of which was to tide over until the factories were producing. When the 225% had been calculated, comparatively little had been known of the time-table of war production. Now a good deal more was known on the subject. Fortunately the "shadow" factories had been a great success, but even if a firm like Austins was fully equipped and jigged, it would take six months from the word being given before it could be in production; and that was apart from the risk of war damage. The only alternative to having both reserves and war potential was for the Air Force to go slow during the first six months of a war.

Nevertheless, unless we had reached the conclusion that war in the near future was a practical certainty, it was impossible to make every preparation; so he thought the right course was to reduce the reserves and to go in for increased war potential. Reserves involved great waste if there were no war, whereas war potential was an asset to the country. In addition, foreign countries had no means of estimating the extent
of our war reserves, whereas the existence of "shadow" factories was in itself a strong deterrent to war.

In the light of what must be anticipated as to the strength of the German Air Force, as well as of our announced commitments, he suggested that the Government could not accept less than Scheme "J" without a complete reversal of policy. They ought to build and, above all, to recruit the personnel, on which he laid the utmost stress, up to that basis, and to prepare plans for a real war potential.

He agreed with what the Minister had said in paragraphs 34 to 36 about the desirability of economy in production. It was probably not realised how much was already being done in that direction, of which he gave some particulars.

The Chancellor of the Exchequer said that, looking at the matter broadly, the effect of the Minister for Co-ordination of Defence's scheme appeared to be that the Admiralty would continue for next year on their present basis and that in twelve months' time a decision would be taken as to whether their programme was to be increased. The Air Force was to be increased by the adoption of part of Scheme "J"; but the largest changes were to be made in the rôle of the Army, which he hoped would save many millions. He pointed out that the authorised programme for the Air Force at present was Scheme "P" and not Scheme "J". Consequently what the Minister for Co-ordination of Defence was suggesting was an advance substantially from Scheme "P" in the direction of meeting the enemy over our own towns.

His own view was in favour of concentrating on increases in the Metropolitan Air Force as proposed in C.P.-314 (37) paragraph 96 (i), and on the provision of the full increase asked for in the Fighter Squadrons of the Metropolitan Force (Paragraph 98 (ii)).
As regards (iii) there was a considerable difference between the two proposals in (a) and (b). To put 225% of reserves in store against the risk of war was an intelligible proposition, but in five to seven years it might mean that we should possess a mass of obsolete machines, whereas if the money was put into war potential the factories would be able to produce up to date machines. He thought, therefore, there was great force in the argument that an increase in war potential was better than an exaggerated production of reserves.

Turning to the question of pledges, he said that many factors went to make up parity, which did not consist of a mere counting of machines; and on this basis it would be quite easy to reach a point where we could not compete any longer. He thought, however, that the Minister's proposals carried out the pledges.

The Prime Minister said that no pledge could last for ever. He was prepared to defend a departure from earlier pledges if the Cabinet thought it necessary.

The Chancellor of the Exchequer, continuing, said that in substance he was prepared to approve the Report, so that the Minister for Co-ordination could proceed, with the same assistance as before from Treasury and other Officials, to get the second part of the Report prepared as soon as possible. He pointed out the urgency of this from the point of view of the time-table. The date when the Service Estimates had to be published was either the end of February or the earliest days of March. In the ordinary way the Chancellor of the Exchequer would allow the publication of these Estimates, but he did not have to consider how they were to be financed until the end of March, since he knew that payment would be made only out of taxation. The situation now, however, was quite different, because
part of the payment would be made out of loan. In that case a document had to be presented with the Estimates stating how much of them would be paid for out of loan expenditure, and before they were published he himself would have to determine how much of each estimate was to be paid from borrowed money. He could not decide that until he had some idea of the defence expenditure during the next five years. If the total sum was to be larger than he had anticipated, he would have to consider whether it would not be better to increase taxation; but if the circumstances were more favourable he would take a different view as to how much to pay by taxation and how much by loan. His conclusion was, therefore, that as the Estimates must be published by the end of February, the five-year forecasts of the Defence Departments ought to reach the Minister for Co-ordination by, say, January 20th. The Minister for Co-ordination would then have to add them together and circulate to the Cabinet his further Report containing his recommendations by, say, February 10th. The Cabinet could then consider them at a Meeting on February 16th, in order that by the end of February the Treasury might determine the amount that was to be provided by loan. He emphasised that what he was asking for was not an elaborate "book" comparable to the Annual Army Estimates, which would take months to prepare. So far as the Army Estimates of 1938-39 were concerned, the only possibility was to use the Estimates already discussed between the Treasury and the War Office, adjusted so far as possible to the new situation. What he was asking for at the moment, however, was not new Estimates but a general forecast of expenditure over the next five years. His suggestion to all the Fighting Services was that they should submit their
Estimates for publication very much on the lines of the present scheme, but he wanted them, in addition, to send to the Minister for Co-ordination of Defence their forecasts over five years.

The Secretary of State for War pointed out that the proposals of the Minister for Co-ordination of Defence involved the creation of a new model Army. Every kind of detail had to be examined: for example, how many men there were to be in a station: how many guns in a battery. The examination of all this was a very protracted matter. It was so important that if done at all it ought to be done well. He was grateful for permission to prepare his Estimates on the old basis, but asked if the five-year programme was of equal urgency.

The Chancellor of the Exchequer emphasised that the five-year programme was required from each of the Services to enable him to judge how much of the Estimates for the next year was to be financed from loan.

The Prime Minister pointed out that the Treasury Estimate had to take into account Civil as well as Military expenditure. Any errors that might arise in the rough estimates of the War Office would not bulk very large in so vast a sum.

The Secretary of State for War said that this meant that the officials of the War Office would have to give up all idea of a Christmas holiday, and at best he could only produce a very rough approximation.

The Chancellor of the Exchequer drew attention to paragraph 47, in which the Minister for Co-ordination had pointed out that in order to complete the revised forecasts of cost of Defence Programmes the basis of the policy outlined in his Report must be approved.
He urged the Cabinet to give this approval, after which the Minister for Co-ordination of Defence would have the task of overhauling the forecasts on the same basis as before, that is to say, with the help of various officials of the Treasury and other Departments. Until that total was known we did not know whether the programmes would be within the financial capacity of the country to carry them out. From this point of view he attached great importance to paragraphs 6 to 14 of the Report, headed "The Defence Programmes and our available Resources".

The Home Secretary, who as former First Lord had been responsible for the recommendation in favour of a new standard of naval strength, considered that without an improvement in Anglo-German relations it would be necessary to complete at least 20 Capital Ships. He suggested, therefore, that the Minister for Co-ordination, in consultation with the First Lord, should ensure that in providing new naval training establishments some surplus space should be allowed to provide for training new personnel, if necessary, within the next few years.

So far as the Army was concerned, he agreed with the new rôle proposed, and that the Continental commitment should come last. This should make a tremendous change in the Army; for example, in the question of equipment. He thought the Territorials should have some training in air raid precautions work.

Coming to the Air Force, while he was impressed by the financial considerations, he found it difficult to agree to proposals which ran counter to the views
of the Air Staff. That was a very serious responsibility for the Cabinet. He recalled that, when he had been Secretary of State for Air, Lord Trenchard had always advocated the provision of three bombers to one fighter. He hoped, therefore, that the Cabinet would not come to any decision approving the proposals for fighters but limiting the bombers. In a future war the enemy's efforts were likely to be devoted towards a knock-out blow. That brought out the importance of first-line strength. He hoped that the question of reserves v. war potential would be considered further from that point of view.
The Secretary of State for Foreign Affairs said he would not discuss the proposals in paragraph 37 of the Report by the Minister for Co-Ordination of Defence bearing on Foreign Policy, as these aspects had formed the subject of recent discussion. He had some apprehensions as to our inability to assist our allies on land, but the arguments in the Report appeared to him irresistible and the position was quite different from 1934. In reading the Report, he had formed the opinion that we were concentrating too much on the defensive. The Army was to have an entirely defensive role and it was proposed to deprive the Air Force of part of its offensive power. He agreed with the Home Secretary that the Cabinet should not interfere with the Air Ministry as to the distribution of our resources between offensive and defensive. He had also been disturbed by the suggestion of the Secretary of State for War that the country was opposed to sending forces abroad. If the Channel ports fell into the hands of Germany, the country would not be safe. If war was to take place in Western Europe, an attack on France by Germany was the most probable operation to be envisaged. He did not under-rate the value of the Maginot Lines, but might we not be called on to help? It was true that M. Delbos had said that France only expected us to provide two mechanised Divisions and M. Daladier had said something of the same kind to the Secretary of State for War, but both statements had overlooked Belgium and had been made on the assumption that Belgium could look after herself. If, however, there was an invasion of Belgium or Holland, the Chiefs of Staff had shown again and again that the object would be to break through into France. He would not ask to change the order of
priority, but he thought it essential that when a decision had been taken, the French Government should be told so that the two countries might consider together how their countries were to be defended. He had been impressed by the Secretary of State for Air’s paper. From an International point of view, the strength of the Air Force was of the first importance as illustrated by the impression made on the Milch Mission. From this point of view, he would very much like to see Scheme J adopted. At any rate so far as the Metropolitan part was concerned, including bombers as well as fighters, he would like to know also whether the Secretary of State for War contemplated being in a position to provide the two mechanised Divisions desired by the French. If, however, there should be any margin, he hoped that priority would be given to the Air Ministry’s Scheme J and that there would be no revision or watering-down of our pledges.

The Secretary of State for War said that if our resources were larger, he could provide a bigger Army but, in view of our contribution by means of sea, air and finance, he did not think that the French ought to expect we could furnish an Army as well. He agreed that the French ought to be told of our decision. So far our conversations with the French had been confined to Belgium. He thought they ought to extend over the whole world. France would then be brought to realise that if the United Kingdom were subjected to air attack, it would be wrong for them to count on an Expeditionary Force from this country. The only way he could supply two mechanised Divisions was by dividing the existing Division into two, but it was conceived on lines rather
larger than in some countries.

The Secretary of State for Air said he understood that the intention of the Minister for Co-Ordination of Defence was to leave Scheme F in tact and to increase the fighters of the Metropolitan Air Force up to the scale of Scheme J. In addition there was to be some increase in the first-line strength of bombers to meet the German 50 per cent. increase. Further, the merits of reserves of war potential were to be again considered.

The Minister for Co-Ordination of Defence agreed that that was the case broadly, though he did not want to tie himself up to figures.

The Home Secretary pointed out that on that basis the question of parity was avoided for the moment, as in the case of the Navy.

The Lord Chancellor was impressed by the advantages of war potential as compared with large material reserves which were extravagant in peace, since they must sooner or later become obsolete and might even have become obsolete by the time war broke out.

The Prime Minister pointed out that factories had to be kept up to date just as much as reserves. Without new jigs they would not be able to produce new types of machines.

The Secretary of State for Air agreed with the Prime Minister. He emphasised that without strong reserves, it was impossible to make good the losses incurred during the early months of a war. Even if the machines in reserve were not of the very latest type, they would be better than none. The estimate of 235 per cent, had been worked out on a most careful computation of the rate of casualties. The rate varied for different types of machines.
The Lord President of the Council shared the views of the Secretary of State for Air and the Home Secretary on the air side of the question. As to the role of the Army, he hoped that the Cabinet would not overlook the warning given by the Minister for Co-Ordination of Defence in paragraph 75:

"If France were again to be in danger of being over-run by land armies, a situation might arise when, as in the last war, we had to improvise an army to assist her. Should this happen, the Government of the day would most certainly be criticised for having neglected to provide against so obvious a contingency."

His general impression of the Report and of the discussion was that the Minister had been right to emphasise the importance of the relation of diplomacy to re-armament. At the same time, the Report led him to the conclusion that we must work to an expenditure of about £1,500 million over the next five years, although he also deduced that this sum was inadequate. That brought out clearly how the limitations imposed on defence by finance threw a heavy burden on to diplomacy. In spite of all the efforts of the Foreign Secretary, the Prime Minister and others, we had arrived at a position which above all we had wished to avoid and in which we were faced with the possibility of three enemies at once. The conclusion which he drew - and he had no doubt that it would be shared by the Foreign Secretary - was that this threw an immensely heavy burden on diplomacy and that we ought to make every possible effort to get on good terms with Germany. He realised the great pressure on the Foreign Secretary but, after this discussion, he felt it was of great importance to make further progress in improving relations with Germany.
The Foreign Secretary recalled that the first task was for the French Government and for ourselves to decide what could be done in the colonial sphere.

The Prime Minister agreed that no further move could be made with Germany until after further explorations. The point that impressed him was that whatever we could do in the colonial sphere must be counter-balanced by some move by Germany. Public opinion would not tolerate an arrangement on any other lines. He recalled that at the preliminary consideration which had been given to the subject, it had been thought that the German contribution to a settlement might take the form of some measure of disarmament. Herr Hitler had made a statement to the Lord President which opened the possibility of some advance on these lines. He had accordingly taken on himself to ask the Minister for Co-Ordination of Defence to go into the technical aspects of the question of limitation or bomber aeroplanes as well as of other forms of qualitative disarmament. So far as the general question was concerned, he hoped to address himself to the matter during the Recess with a view to a meeting of the Committee on Foreign Policy in the New Year.

In reply to the Secretary of State for the Colonies, the Prime Minister said he did not require any special researches to be undertaken at the present moment on the colonial issue.

A short discussion took place on these matters in which the difficulties of air limitation were recalled.

The Secretary of State for the Colonies drew attention to the fact that overseas defence appeared
only in the third category of priority. If the Air Force could not concentrate at places overseas, he thought it very important that in overseas possessions particularly vulnerable to attack, like Malta, the anti-aircraft defences should be put in a higher category of expenditure so that these places should not be entirely defenceless and some deterrent should be offered to attack.

The Prime Minister summed up the discussion. He attached great importance to paragraphs 6-14 of the Minister's Report in which he had set forth the importance of the maintenance of our economic stability as an essential element in our defensive strength. This had often been spoken of, but he did not recall seeing it put forward as a vital consideration on defence. In his view, this was a matter of first importance. It might be that in the next war our enemy would aim at a "knock-out" blow, but the evidence before him did not show that that was likely. In that event, the factor of our staying power must be present in the minds of other Governments as well as of ourselves. They must be asking themselves what are our chances in a long war. He hoped, therefore, that the Cabinet would take a very special note of this aspect of the Minister's paper. Turning to the summary of issues arising on the Report, as set forth in paragraph 101, he presumed that the aggregate sum mentioned to in item 1 referred to the £1,500 millions mentioned in paragraph 31.

The Minister for Co-Ordination of Defence agreed, but asked that £1,500 millions should not be taken as a rigid figure. For example, it might be
necessary in order to meet particular needs (he instanced Malta) to incur some relatively small additional expenditure.

The Prime Minister agreed. The Minister's point was covered by the phrase he had used in paragraph 31:

"Every effort must be made to bring the total Defence Expenditure over the five years 1937-41 within the total of £1,500 millions."

The Prime Minister continuing said that item 2 "Principles of Priority" was, he thought, acceptable to the Cabinet, but this did not mean, of course, that no item must be begun until the previous item in the priority list had been completed. There must be a good deal of elasticity in the application of the principles. Items 3 "Navy", 4 "A.D.G.B." and 5 "Regular Army" were acceptable. Turning to item 6 "Territorial Army", in view of what the Secretary of State for War had said, he thought it might be laid down that the Territorial Army would be used in the same way as the Regular Army. While some part of both may be used for internal security duties, no part of the Territorial Army should be specially allocated for this task. On the subject of item 7 "Air", he suggested that the Minister for Co-Ordination of Defence should proceed for the present on the lines suggested in paragraph 98 (iii) (a) of C.P. 316 (37) which would allow him a good deal of elasticity, and that he should discuss the matter with the Secretary of State for Air, but all this should be on the understanding that no final decision had been reached. If it should prove that there was any margin out of the £1,500 millions, the possibility of doing more for the Air Force could be considered.
The Secretary of State for Air accepted this on the understanding that there was no final decision.

The Cabinet agreed:

(a) To approve the Report of the Minister for Co-Ordination of Defence (C.P. 316 (37)) subject to the following:

(b) To take note, with approval, of the propositions in paragraphs 6-14 of the Report which state the relation between the factors of economic resources and stability on the one hand and the fulfilment of adequate Defence Programmes on the other.

(c) In response to the Minister's request in paragraph 101, to adopt the statement of policy on which our Defence Programmes should be based, as set forth in Part IV of the Report and as applied in Part V, subject to the following:

(i) That, as stated in paragraph 59, the Minister for Co-Ordination of Defence will deal, in his next Report, with any modified proposals involving a departure from the D.R.C. standard which the Admiralty may wish to suggest, but that the final decision as to an increased standard of Naval strength need not necessarily be taken until next year:

(ii) That the primary role of the Regular Army should be as stated in the Minister's Report; viz., that of Imperial commitments including anti-aircraft Defence at home. The role of the Territorial Army should be as set forth in paragraph 79 of C.P. 316 (37) omitting sub-paragraph (ii) for which the following should be substituted:

"(ii) The scale of air attack now envisaged on this country might well result in the dislocation of essential services, or in some loss of morale in crowded areas. There is also the problem of evacuation to be considered. Some part of both the Regular Army and the Territorial Army may
be used for internal security duties, but no part of the Territorial Army should be especially allocated for this task."

(iii) That as regards the policy for the expansion of the Air Force, no final decision was reached on paragraph 98 (iii) of the Report, but that the Minister for Co-Ordination of Defence should, in his future investigations, proceed on the basis of that paragraph, and in consultation with the Secretary of State for Air. In particular, further examination should be made of the linked questions of the provision of war reserves and war potential.

(d) To take note that the Estimates of the Defence Departments for the Financial Year 1938-39 should be completed on the basis of the drafts now under preparation.

(e) To take note that the above Estimates must include as appropriations-in-aid the total sum to be issued in the year under the Defence Loans Act. In order to enable the Chancellor of the Exchequer to reach a decision as to the total sums to be so issued, he will require a forecast of the anticipated expenditure on the Defence Programmes up to March, 1942. In order that this forecast may be available in time for the publication of the Defence Estimates at the beginning of March, the Departments concerned should submit revised forecasts of the cost of their Programmes over the next five years in accordance with the above decision to the Minister for Co-Ordination of Defence at the latest by Friday, January 21st, so that he may circulate his further Report to the Cabinet not later than Thursday, February 10th, with a view to consideration and decision by the Cabinet on Wednesday, February 16th.

(f) To take note that, inasmuch as the total of the revised forecasts is at present known, the conclusions reached as the result of the above steps must be subject to consideration at a later stage of the ability of the country to bear the total burden involved.

(g) To take note -

German Colonies.

(Previous Reference: Cabinet 43 (37) Most Secret Annex to Conclusion 3.)

(i) That the limitations which finance imposes on National Defence place a heavy burden on diplomacy which renders it desirable as soon as may be to follow up the conversations between the Lord President of the Council and Herr Hitler; and
Limitation of Armaments.

(ii) That, with this in view, the Prime Minister has instructed the Minister for Co-Ordination of Defence to take up with the Service Departments the possibility of some limitation of bomber aircraft as well as other forms of qualitative disarmament.
2. The Cabinet had before them a Joint Memorandum by the Chancellor of the Exchequer, the Secretary of State for Dominion Affairs and the President of the Board of Trade (C.P.-313 (37)) on the subject of British Liner Communication across the Pacific, in which it was stated that the Canadian-Australasian Line had applied to the various interested Governments of the British Commonwealth for financial assistance to enable it to build vessels capable of holding their own against those of the Matson Line, which received extensive financial assistance from the United States Government. The matter was first considered in its technical aspects by the Imperial Shipping Committee, and at the Imperial Conference, 1937, a Committee of Ministers representing the Governments of the United Kingdom, Canada, the Australian Commonwealth and New Zealand, the general outline of a scheme of assistance (the main features of which were summarised in an Appendix to the Memorandum) was adopted. It might be assumed that the Commonwealth and New Zealand Governments approved the scheme in principle, but the Canadian Government were unable to do so. The immediate question was whether any further steps should be taken by the United Kingdom Government at this stage with a view to finding a solution. The authors of the Memorandum thought that the next moves might safely be left to the other parties. If, however, the advice of the United Kingdom Government was sought by the Commonwealth or New Zealand Governments, the Ministers proposed to advise them to carry on the discussions direct with Canada, on the understanding that the United Kingdom Government, if their co-operation was desired, remained ready to co-operate, subject to fundamental conditions, of which the principal ones were:
(1) That the interest of the Dominion Governments is direct and primary.

(2) That the scheme must not involve the grant by the United Kingdom Government of a subsidy to the Line.

The President of the Board of Trade explained the whole case on the lines of his papers and stated that his memorandum had been circulated primarily for the information of the Cabinet.

The Lord President of the Council said that leaving the initiative to someone else was the line that was constantly criticised in debates in the House of Lords. He asked whether it would not be possible for us to take rather a more active line.

In the subsequent discussion it was pointed out that His Majesty's Government had a strong case in this matter. Although less concerned than some of the Dominions, they had, in fact, taken the leading part and been ready to lend their credit. At the present moment, however, the initiative clearly lay with the Governments of Australia and New Zealand.

The Secretary of State for Dominion Affairs said that the Canadian Minister of Defence had done his best in this matter, but had had to yield to other Members of the Canadian Cabinet. The Dominions Office had used all their influence to try and press this matter forward.

The Cabinet took note of the Memorandum by the President of the Board of Trade and approved the general line he proposed to take.
The Cabinet had before them a Memorandum by the President of the Board of Trade (C.P.-312 (37)) asking authority for the drafting of a Bill to give general effect to the recommendations contained in the Report (Cmd. 5539) of the Departmental Committee, under the Chairmanship of Sir Archibald Bodkin, appointed to consider the operations commonly known as "share-pushing" and "share-hawking" and similar activities, and to submit the Bill in due course to the Committee of Home Affairs with a view to its introduction as soon as possible after the Christmas Recess. The President explained in his Memorandum the broad lines of the proposed Bill, which dealt with a very complicated subject. For this reason he desired to reserve the right to suggest alterations in the present proposals if the actual drafting brought to light substantial difficulties.

The Cabinet approved the proposals of the President of the Board of Trade as set forth in C.P. 312 (37) and summarised above.
4. The Cabinet had before them a Memorandum by the Secretary of State for Scotland (C.P.-311 (37)) informing his colleagues that the Divorce and Nullity of Marriage (Scotland) Bill, a Private Member's Bill which had passed through all its stages in the House of Lords last Session, had been re-introduced in a slightly modified form and had received a Second Reading. The present Bill proposed to bring the law as to the grounds of divorce in Scotland into conformity with that now in operation in England. The Secretary of State suggested that in the event of the Bill being given a Second Reading in the House of Commons, the Government should co-operate in the proceedings in Committee by explaining its provisions and their consequences, and generally in securing that it remained in a form suitable for inclusion in the Statute Book: also that, following the Cabinet decision in the case of the English Bill of last Session, Government time should, if necessary, be made available for its remaining stages.

The Lord Chancellor hoped that the Cabinet would not agree to give Government time for the remaining stages of the Bill. That had not been promised in the case of the corresponding English Bill, until the

The Secretary of State for Scotland said he was prepared to leave that issue to the future, as it could not arise for some time to come.

The Cabinet agreed:

To approve the proposals of the Secretary of State for Scotland as set forth in C.P. 311 (37) and summarised above.
5. The Minister of Transport informed the Cabinet that he had hoped to introduce the Electricity Bill before the recess, but this had not proved possible. The delay had been due to the length of the debate on the time of the Parliamentary draftman of the Coal Bill. He hoped, however, to introduce the Bill early in the New Year. The Bill had been before the Committee of Home Affairs, good progress was being made and he hoped that the Committee would consider it again on January 31st.

The President of the Board of Trade pointed out that with the introduction of this Bill, the Government would have on their hands two amalgamation bills, one dealing with coal and the other with electricity, a different method being applied in each case.

The Minister of Transport pointed out that the Electricity Bill, which dealt with a public utility service, was on a different footing from the Coal Bill.
6. The Lord Chancellor said that the Home Secretary wished to introduce this Bill in the New Year, and if possible, in the first week in February. The Prime Minister said that the Parliamentary Secretary to the Treasury did not hold out much hope of being able to manage this. No decision should be taken at present as to the date of introduction.
7. The Cabinet had under consideration a Memorandum by the Secretary of State for Scotland (H.A.-54 (37)) covering the draft Criminal Procedure (Scotland) Bill, the object of which was to make certain amendments in the criminal law in Scotland that experience had suggested to be desirable: together with the following recommendation of the Committee of Home Affairs thereon (H.A.C. 16th Conclusions (37), Minute 2):

"To authorise the introduction forthwith in the House of Lords of the Criminal Procedure (Scotland) Bill in the form of the draft annexed to H.A.-54 (37), subject to any drafting or other minor alterations that may be found necessary or desirable."

The Cabinet agreed:

To approve the recommendation of the Committee of Home Affairs as set forth above.
8. The Cabinet had before them a Memorandum by the Secretary of State for Air (H.A.-56 (37)) covering the draft Air Navigation (Licensing of Public Transport) Order, 1938, the object of which was to put into effect a recommendation of the Maybury Committee on the development of civil aviation in the United Kingdom that a system of licensing should be introduced for all regular internal passenger services: together with the following recommendations by the Committee of Home Affairs thereon (H.A. 16th Conclusions (37), Minute 3):—

"(1) To approve the draft Air Navigation (Licensing of Public Transport) Order, 1938, in the form annexed to H.A.-56 (37), subject to the amendments mentioned in the course of the discussion and to any drafting or other minor alterations that may be found necessary or desirable:

(2) To take note that the question whether legislation should be introduced to authorise the payment of salaries or fees to the members of the licensing authority and to their officers was being further considered by the Chancellor of the Exchequer and the Secretary of State for Air."

The Cabinet agreed:

(a) To approve the recommendations of the Committee of Home Affairs as set forth above,

(b) That the Secretary of State for Air should have authority to settle points of detail with the Ministers concerned, without coming back to the Cabinet.
9. The Cabinet had under consideration a Memorandum by the Minister of Health (H.A.-55 (37)) covering the draft Housing (Financial Provisions) Bill, the object of which was to provide for the continuance of the Exchequer contributions for slum clearance and the abatement of overcrowding; together with the following recommendation of the Committee of Home Affairs thereon (H.A.C. 16th Conclusions (37), Minute 4):

"To authorise the introduction forthwith in the House of Commons of the Housing (Financial Provisions) Bill in the form of the draft annexed to H.A.-55 (37), subject to settlement of the points raised in the course of the discussion and to any drafting or other minor alterations that may be found necessary or desirable."

The Lord Chancellor said that the Secretary of State for Scotland had pointed out that this Bill was being presented on different principles to the corresponding Scottish Bill. He was therefore averse to the two Bills being proceeded with at the same time.

The Secretary of State for Scotland intimated that he would not press his objection provided that the two Bills were not introduced on the same day, as he understood had been suggested.

The Minister of Agriculture and Fisheries pointed out that there were one or two points still to be cleared up in this Bill, including the definition of "the agricultural population of the district" which, in his view, was too wide. He thought the matter could be set for inter-departmental discussion.

The Minister of Health said he was prepared to go into the matter, but he saw difficulties in altering a definition that had been adopted in the legislation of 1935 and 1936.

The Cabinet agreed:

(a) to approve the recommendation of the Committee of Home Affairs as set forth above,
(b) that the Minister of Agriculture and Fisheries and the Minister of Health should endeavour to settle outstanding questions of definition.
10. The Cabinet had before them a Memorandum by the Postmaster-General (H.A.-53 (37)) covering the draft Post Office (Sites) Bill, the object of which was to acquire compulsorily sites in the City of London, in Leeds and in Oxford: together with the following recommendation of the Committee of Home Affairs thereon (H.A.C. 15th Conclusions (37), Minute 5):

"To authorise the introduction forthwith in the House of Commons of the Post Office (Sites) Bill in the form of the draft annexed to H.A.-53 (37), subject to any drafting or other minor alterations that may be found necessary or desirable."

The Cabinet agreed:

To approve the recommendation of the Committee of Home Affairs as set forth above.
The Cabinet had under consideration the Nationalisation of Mines and Minerals Bill, introduced in the House of Commons by a Private Member and down for Second Reading on Friday, 4th February, 1938.

The Cabinet were informed that the Bill was not yet printed, but that it was certain to be similar to a corresponding Bill produced in a previous session and could be dealt with on the same lines. The discussion of the Bill was likely to last the whole day.
12. The Cabinet had under consideration the Public Act (1908) Amendment Bill, introduced in the House of Commons by a Private Member and down for Second Reading on Friday, 4th February, 1908.

As the debate on the Nationalisation of Mines and Minerals Bill was likely to last the whole day, the Cabinet did not discuss this Bill.
The Cabinet had under consideration the Works Councils Bill, introduced in the House of Commons by a Private Member and down for Second Reading on Friday, 4th February, 1938.

As the debate on the Nationalisation of Mines and Minerals Bill was likely to last the whole day, the Cabinet did not discuss this Bill.
The Prime Minister said that he did not propose to summon the Cabinet to meet sooner than was necessary. Apart from the possibility of a meeting to consider some question of emergency, he hoped that this would not be necessary until towards the end of January. At least one meeting would be required before the meeting of the House of Commons on February 1st.

2, Whitehall Gardens, S.W.1.

23rd December, 1937.