CABINET 28 (38)

Meeting of the Cabinet to be held at No.10 Downing Street, S.W.1., on WEDNESDAY, 15th JUNE, 1938, at 11.0 a.m.

AGENDA.

1. FOREIGN AFFAIRS.

2. MALTA.
   (Reference Cabinet 28 (36) Conclusion 15)
   Memorandum by the Secretary of State for the Colonies.
   C.P. 137 (38) - already circulated.

3. WEST INDIES: PROPOSED ROYAL COMMISSION TO ENQUIRE INTO THE SITUATION. - (If ready)
   (Reference Cabinet 26 (38) Conclusion 3)
   Memorandum by the Secretary of State for the Colonies.
   C.P. 138 (38) - to be circulated.

4. BUILDING SOCIETIES.
   Memorandum by the Chancellor of the Exchequer.
   C.P. 141 (38) - already circulated.

5. WORKMEN'S COMPENSATION.
   (Reference Cabinet 46 (37) Conclusion 14)
   Memorandum by the Home Secretary.
   C.P. 140 (38) - already circulated.
6. **DIVORCE AND NULLITY OF MARRIAGE (SCOTLAND) BILL.**

(Reference Cabinet 49 (37) Conclusion 4)

Memorandum by the Secretary of State for Scotland.
C.P. 136 (38) - already circulated.

7. **THE MILK ACTS, 1934-37: EXTENSION OF.**

(Reference Cabinet 32 (37) Conclusion 10)

Joint Memorandum by the Minister of Agriculture and Fisheries and the Secretary of State for Scotland.
C.P. 139 (38) - already circulated.

8. **CONCLUSIONS OF HOME AFFAIRS COMMITTEE.**

10th Conclusions (38) of Committee of Home Affairs - to be circulated.

(i) **Supreme Court of Judicature (Amendment) Bill.**

(Reference Cabinet 17 (38) Conclusion 9)

Memorandum by the Lord Chancellor covering draft Bill.
H.A. 19 (38) - already circulated.

(ii) **Anglo-Turkish (Armaments Credit) Agreement Bill.**

(Reference Cabinet 23 (38) Conclusion 4)

Memorandum by the Secretary of State for Foreign Affairs covering draft Bill.
H.A. 20 (38) - already circulated.

(Signed) M.P.A. HANKEY

Secretary to the Cabinet.

2, Whitehall Gardens, S.W.1.

11th June, 1938.
SECRET.

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1., on WEDNESDAY, the 15th June, 1938, at 11.0 a.m.

PRESENT:

The Right Hon. Neville Chamberlain, M.P., Prime Minister.

(In the Chair).


The Right Hon. Lord Maugham, Lord Chancellor.


The Right Hon. Lord Stanley, M.C., M.P., Secretary of State for Dominion Affairs.

Malcolm MacDonald, M.P., Secretary of State for the Colonies.


Sir Kingsley Wood, M.P., Secretary of State for Air.

Oliver Stanley, M.C., M.P., President of the Board of Trade.

The Earl Stanhope, K.G., D.S.O., M.C., President of the Board of Education.

E. L. Burgin, M.P., Minister of Transport.

1. The Secretary of State for Foreign Affairs recalled that at the Meeting referred to in the margin the Cabinet had had before them a Memorandum by himself suggesting the desirability of action on the part of His Majesty's Government to counteract the efforts of the German Government to extend their political, economic and commercial influence in Central and South-Eastern Europe. The Cabinet had decided to refer the question to the Cabinet Committee on Foreign Policy. That Committee had met and had decided to set up an Inter-Departmental Committee under the Chairmanship of Sir Frederick Leith-Ross, who had accepted the position. The Secretary of State added that on the previous day he had seen Sir Percy Loraine, His Majesty's Ambassador at Angora, who had reported that the effect of the recent decision to foster trade with Turkey had been electric in that country. The reaction in Greece had been electric — by anticipation.
CENTRAL EUROPE

Czechoslovakia

Previous Reference: Cabinet 27 (38), Conclusion 2.

F.R.29/38/7

2. The Secretary of State for Foreign Affairs said that the Cabinet had been kept fully informed of the Czechoslovak situation in the telegrams that had been circulated. The Czechoslovak Government had accepted Herr Henlein's Carlsbad programme as a basis of discussion. Business negotiations had begun on the previous day. Dr. Hodza had informed the British Minister at Prague that he intended to get through these discussions in the present week and to submit the agreement to Parliament next week. The Czechoslovak Minister had returned to London from Prague in an optimistic frame of mind. In the meanwhile we had to prepare ourselves against the risk of incidents by making available Observers whose presence might either avert trouble or have the effect of abating it. They consisted of a Military Officer and the British Consul at Innsbruck. Meantime the German Press, wireless and Statesmen, such as Dr. Goebbels and Dr. Hess, had been doing their worst. He was making representations through His Majesty's Ambassador in Berlin. Connected with that matter was a difference of opinion that had arisen between His Majesty's Ambassador in Berlin and the British Minister in Prague on the question of further military precautions contemplated by the Czechoslovak Government, and more particularly the raising of the period of military service from two to three years. The Minister at Prague thought this measure desirable from the point of view of security and the maintenance of order. The Ambassador in Berlin thought it provocative and calculated to precipitate action by Germany. He himself considered the balance of advantage. At first he had examined the desirability of telling Germany that we could not
press the Czechoslovaks to drop the proposal at the present moment, but that if the German Government would moderate its views we could do so. He had rejected this idea first because he had no reason to suppose that the Germans would keep their bargain, and second because he did not think the Czechs would be willing to take our advice. On the whole he thought that the balance of right lay with the Czechs. He proposed, therefore, to tell His Majesty’s Ambassador in Berlin to inform Herr Ribbentrop that we could not put pressure on the Czechs to abandon the plan. The Ambassador would be told to say that we had put pressure on them some weeks ago and had hoped therefrom to obtain a reduction of the tension between the two countries, but, so far as Germany was concerned, there had been no result. Consequently we could not take the responsibility now of advising the Czechs to take action which they thought necessary for their security. He would point out that the Czechoslovak intentions involved no risk to Germany.

The Secretary of State then recalled that the British Minister at Prague had told Mr. Strang, of the Foreign Office, that even if the Sudeten–Deutsch question was settled, the foreign policy issue was likely to be raised by Germany. He himself had prepared a short Paper on the subject which he proposed should be considered first by the Cabinet Committee on Foreign Policy. The Paper contained suggestions as to the means by which we should endeavour to meet the feeling of resentment in Germany against Czechoslovak policy. The first move in this direction would merely consist of an approach to the French Government as to how the policy of the two nations towards Czechoslovakia should be re-modelled.
SPAIN.

Indiscriminate Bombing.

Cabinet 27 only effective remedy in this matter was to bring the war to an end. No-one under-estimated the difficulties, but he thought all his colleagues agreed that the possibilities of giving an impetus in favour of a settlement ought to be explored. Consequently he had instructed Sir Eric Phipps to approach the French Government with a view to their helping us in trying to obtain an armistice. "The idea was that we should try and obtain the co-operation of the Italian Government. It was anticipated that they would ask what the position was to be on the French frontier. Nothing more than an interim reply of a favourable character had been received. We had asked for a full answer, but it had not yet arrived, and if it was not received within twenty-four hours he proposed to send a strong reminder.

ITALY.

Relations with.

Meanwhile Signor Mussolini was pressing us to bring the Anglo-Italian Agreement into force, and the French were asking us to hold it up until they themselves had reached agreement with Italy. On the first point we could not bring the Anglo-Italian Agreement into force until there was a "settlement of the Spanish question."

On the second point he had had to inform the French Government that we could not agree to hold up the Anglo-Italian Agreement, for the reason that it was impossible now to impose any new pre-conditions. He was seeking a solution of both questions on the line of getting the French to promise to close their frontier during an armistice, and on the strength of this promise (if we got it) persuading Signor Mussolini (if he really wanted
an Agreement) to press General Franco to agree to an armistice. Once the French frontier was closed, the Franco-Italian Conversations might re-commence, but this all depended on good will and decent relations.

Reverting to the question of bombing, the Secretary of State for Foreign Affairs said that progress had been made with the Commission for investigating bombing incidents. The Norwegian and Swedish Governments had agreed to appoint representatives. No answer had been received from the United States of America, but it was anticipated that they would refuse and that we should have to take their place.

In the Far East he had done what he could to protest against the bombing of Canton. If the proposed Commission on Spain was appointed, it was possible that the Chinese might ask for a corresponding Commission in China. He himself saw no objection.
SPAIN.

Non-Intervention Committee.

(Previous Reference: Cabinet 27 (38), Conclusion 3.)

F.27(38)5.

4. In reply to a question, the Secretary of State for Foreign Affairs said that the Earl of Plymouth was seeking a compromise between the Russian Soviet proposal that there should be Observers on land in all ports used by foreign shipping and the French proposal that there should be Observers in some ports only.
5. The Chancellor of the Exchequer, who was requested by the Prime Minister to report on the position of the Austrian Loan, recalled that at the conclusion of the last Meeting of the Cabinet information had been received which indicated an inclination on the part of Germany to climb down from the position she had taken. The situation now was that it had been agreed that we should not announce our intention to give notice to terminate payments under the Payments Agreement of 1934, as the Germans had given us the right to terminate if we so desired. On the previous day, however, he had made clear in the House of Commons that His Majesty's Government were free to terminate the present Agreement on the 30th June without notice. The Germans were now adopting a stiffer attitude. A Note had been received on the previous day stating that they did not recognise any obligation to pay the interest on the Austrian debt, but that as the British Government had been called on to make good their guarantee they would reimburse them. This offer, however, was conditional only on a drastic reduction of the interest on the whole of the Dawes and Young Loans. A reply was being sent today that this position was not satisfactory. The situation was a somewhat anxious one. If we were to set up a Clearing Agreement the results would be very serious to Germany, who would lose all trade with this country. But it would also be very inconvenient to us. All his experts, however, were agreed that a stiff front ought to be maintained.

The Prime Minister agreed that there was no alterna-
tive to maintaining a firm front. It was necessary to bear in mind the attitude the German Government had taken up towards their own people about the Austrian
adventure, namely, that the whole country had been intensely desirous of the "Anschluss" and were only held down by their former enemies, whose loans had been made for political purposes.

The Chancellor of the Exchequer, in reply to a question, said that at present the matter was being dealt with by correspondence between Sir Frederick Leith-Ross and the corresponding official in Germany. It was rather interesting to note, he added, that some of the most important German financial authorities, including Dr. Schacht, were keeping clear of this controversy.
6. The Chancellor of the Exchequer informed the Cabinet, in strict confidence, that the Defence Loan had had a good Press and had been well received. The terms of the Loan were very favourable to the public, the issue being at 98 with 3 per cent. interest. These figures had been adopted on very strong expert advice. The lists would not close until 3.30 p.m., in accordance with the prospectus, but the applications which had been received up to 11.30 were quite satisfactory.
7. The Cabinet had before them a Memorandum by the Secretary of State for the Colonies (C.P.-137 (38)) informing his colleagues of the constitutional position that might arise in Malta as a result of an action recently brought in the Malta Courts by Lord Strickland, in which the Court of Appeal in Malta had held that the Malta Letters Patent of the 12th August, 1936, issued in pursuance of the Malta (Letters Patent) Act, 1936, were issued ultra vires, and that in consequence all Ordinances passed under them were invalid. The hearing of the Malta Government's appeal by the Judicial Committee of the Privy Council was fixed for the 20th June. The Secretary of State also informed his colleagues that his predecessor and himself had been considering, in consultation with the Governor, proposals for a revised Constitution for Malta including provision for some measure of popular representation. In summing up his proposals on these two matters the Secretary of State sought Cabinet authority —

(a) in the event of the dismissal of the Malta Government's appeal now pending before the Privy Council to make an immediate announcement that His Majesty's Government will ask Parliament to validate retrospectively the Letters Patent of the 12th August, 1936, which govern the present Malta constitution and the Ordinances enacted thereunder;

(b) to proceed with consideration of a revised and more liberal constitution for Malta;

(c) to make an announcement of His Majesty's Government's intention to introduce a new constitution either —

(i) in the event of the Privy Council upholding the Malta Government's appeal, immediately following that decision, or

(ii) in the event of the dismissal of the appeal, at the time of the introduction in Parliament of the legislation necessary to safeguard the position in Malta.
After hearing a statement by the Secretary of State for the Colonies, supplemented by the Lord Chancellor -

The Cabinet approved the proposals of the Secretary of State for the Colonies as set forth in C.P.-137 (78) and quoted above.
8. The Secretary of State for the Colonies said that after careful consideration he had reached the decision that a Royal Commission ought to be appointed to examine the whole situation in the West Indies. He had been preparing a Memorandum for the Cabinet setting forth the reasons for and against a Royal Commission and asking for permission to announce it within a week or two. Action had been precipitated, however, by an announcement that the question was to be raised in Parliament. Consequently, after discussion with the Prime Minister and the Chancellor of the Exchequer, he had found it necessary on the previous day to announce the intention of the Government to recommend a Royal Commission. He thought it necessary, however, to warn the Cabinet that the Government would have to be ready to spend more money on the West Indies than at present. The Royal Commission was likely to report that the present position was rather discreditable, and its recommendations were almost certain to involve more expenditure. Some of this might perhaps be obtained from the West Indies themselves, as in some of the Islands taxation was very low. But part would have to be found from the Mother Country. It would be disastrous to send a Royal Commission and then reject its proposals purely on financial grounds. The Chancellor of the Exchequer had agreed that, notwithstanding this latter consideration, a Royal Commission was the proper course. The announcement had been well received in the House of Commons. In reply to a question, he said that a recent statement made by Mr Lloyd George that the only telephone service in the Island was owned by an American Banana Company had been true a year ago but he thought it was probably not true today.
The Chancellor of the Exchequer agreed that, notwithstanding the probability that a Royal Commission would result in proposals involving increased expenditure, the course proposed by the Colonial Secretary was the right one. He hoped that the Royal Commission would ascertain why it was that Cuba could produce sugar profitably without any subsidy, whereas the British West Indian Islands were struggling in spite of a heavy preference. He would like to put on record that it would not be sufficient for the Royal Commission to recommend a larger subsidy for the Islands without full explanation.

The Lord President of the Council said that the United States of America provided an unlimited market for Cuban sugar, to which a large preference was granted.

The Secretary of State for the Colonies added that the best Sugar Companies in the West Indies were able to show a profit. Perhaps the Royal Commission would be able to show how that profit could be extended to other Companies.

The Chancellor of the Exchequer hoped that the Royal Commission would discover how efficiency could be achieved and the precise action that ought to be taken. It was not much use transmitting general recommendations to relatively inefficient administrations.

The Prime Minister recalled that the Royal Commission would be concerned not with Jamaica alone but with the whole West Indies. He had been into the question and it seemed to him that there was no short cut to the rehabilitation of the Islands. There were only a limited number of industries in the West Indies,
and all were of an agricultural nature. The market for their products was limited, and, so far as sugar was concerned, was decreasing. It might be possible to make the sugar industry more efficient, but the probable consequence would be to increase unemployment, for example, by the adoption of labour-saving machinery. It might be necessary to take steps to enable the natives to obtain subsistence from the land without exporting the product of their labour. For that, more finance would be necessary, and he did not think that further expenditure could be avoided.

The Cabinet agreed —

To approve the announcement made by the Secretary of State for the Colonies on the previous day in Parliament that a Royal Commission on the West Indies was to be appointed.
9. The Cabinet had before them a Memorandum by the Chancellor of the Exchequer (C.P.-141 (38)) drawing attention to the serious financial and political reactions of the probable decision in an action now being heard in the Chancery Court, relating to the conditions under which Building Societies advanced money on the security of freehold or leasehold property. The common arrangement in roughly 70 per cent. of the current business of the Societies was that the Society advanced 75 per cent. of the value of the house, with an additional 15 per cent. on security furnished by the builder. In the present action the borrower claimed that the Building Society was acting ultra vires in taking collateral security, and the Societies feared that the decision would go against them. Such a decision would mean that an immense number of operations by all the big Societies would be declared invalid. They had therefore insisted on the passage of a Bill relieving them retrospectively from the results of an adverse decision of principle. In this event it seemed to the Chancellor of the Exchequer that legislation was inescapable. He therefore proposed to tell the representatives of the Building Societies immediately that it was impossible to legislate before the result of the Chancery Court case was announced, but that the Government Bill, besides containing provisions defining "collateral", must include other safeguards described in his Memorandum. If time afforded no opportunity to submit a draft Bill to the Committee of Home Affairs the Chancellor asked authority for a small body consisting of the Prime Minister, the Home Secretary, the Minister of Health, the Secretary of State for Scotland and himself, to decide on the course to be adopted.
After a statement of the position by the Chancellor of the Exchequer on the lines of his memorandum, a discussion took place in the course of which the Lord Chancellor reported that this was a matter which had come before him on more than one occasion. One feature was that the builders employed the Building Societies to do their financing. First they would obtain an advance of 75 per cent. or sometimes more. The builder advanced the balance possibly on an inflated value. If an unfortunate purchaser could not continue to pay his instalments, for example, owing to unemployment, the Societies would foreclose, obtain possession of the property and sell the house. They claimed that the purchaser did not appear in the transaction. This was the case because the purchaser was out of work and all his instalments had been confiscated. The position was similar to what had arisen over Hire Purchase and ought to be dealt with on similar lines.

The Chancellor of the Duchy of Lancaster reported that in the Southern Counties the position had almost reached one of a public scandal.

The Secretary of State for Scotland said that the Scottish law was somewhat different and the Advocate-General wanted time to consider the matter and discuss it with the Department concerned.

The Home Secretary suggested that the Chancellor of the Exchequer should take charge of this matter.

The Chancellor of the Exchequer consented.

The Lord President of the Council suggested that advantage should be taken of the short delay before the case was dealt with in the Courts of Justice to investigate the facts. If they were as stated by the Lord Chancellor
it appeared doubtful as to whether the Government ought to validate the past actions of the Societies.

The Secretary of State for Scotland suggested that it might be advantageous to wait for an appeal in the event of a judgment adverse to the Societies.

The Minister of Health said that from the point of view of housing, it was risky to delay action on the lines proposed by the Chancellor of the Exchequer until after an appeal. An adverse judgment, even in the event of an appeal, might easily have a very serious effect on the building of houses, which was already tending to fall off. This involved a danger of increased unemployment.

The Secretary of State for Air reminded the Cabinet that the Building Societies held a very important place in the life of the country so far as building was concerned.

The President of the Board of Trade drew attention to the danger of using the occasion for an emergency Bill to lay down a new code for the Building Societies without adequate prior enquiry.

The Prime Minister pointed out that in the course of the judgment, some harsh observations might be made which might compel the Government to do more than was contemplated by the Chancellor of the Exchequer. In these circumstances, he thought an immediate enquiry into the facts would be useful.

The Cabinet agreed:

That a Cabinet Committee composed as follows:-

- The Lord Chancellor (In the Chair)
- The Chancellor of the Exchequer
- The Secretary of State for Scotland
- The Minister of Health
- The Chancellor of the Duchy of Lancaster
- The Attorney-General

should be appointed to examine the question raised in C.P. 141 (38), and more particularly to enquire into the facts on which the policy of the Government would have to be based.
10. The Cabinet had before them a Memorandum by the Home Secretary (C.P.-140 (38)) on the subject of Workmen's Compensation. He was constantly being pressed in the House of Commons and elsewhere to introduce amending legislation, and there was no doubt that many features of the Workmen's Compensation Acts called for careful re-examination in the light of modern ideas and developments. He had come to the conclusion that the questions at issue were of such magnitude and complexity that it would be practically impossible to frame any satisfactory legislation without the basis of some comprehensive inquiry. He therefore suggested that the best course would be to appoint a Royal Commission on the subject, which should be given very wide terms of reference enabling it to review the whole working of the present system and to consider proposals such as had been made by the Labour Party for the substitution of a State system and generally to overhaul the working of the Act, together with the question of the modification of the employer's liability at common law in relation to any developments proposed in workmen's compensation. Pending the results of this inquiry, further legislation would be postponed. The Home Secretary wished, however, to reserve the right to raise the question of a small Bill next Session to give effect to the recommendations of the Stewart Committee on the special problem of compensation for cases of miner's nystagmus, which were agreed to by the representatives of the colli-owners and the miners on the Committee.
After a statement of the position by the Home Secretary on the lines of his memorandum, a discussion took place in the course of which the Minister for Co-ordination of Defence recalled the difficulties that had arisen through the Government not taking action on the Report of the Holman Gregory Committee. To appoint a Royal Commission to go into the whole matter when a number of the recommendations of the previous Committee had not been acted on might be considered awkward. He suggested that some of these recommendations might be carried out without awaiting the result of the Royal Commission. Private Bills were frequently introduced on details of workmen's compensation and perhaps it might be arranged that some of them should give effect to recommendations of the Holman Gregory Committee that were acceptable to the Government.

The Home Secretary agreed that this possibility should be considered, but insisted that he would be in a better position to deal with the question if there were a comprehensive enquiry. In reply to a question by the Chancellor of the Exchequer, he said that he did not propose to include expressly in the Terms of Reference to the Royal Commission the question of whether a State system should be substituted for the present system, but the Reference would be so framed that the point would not be excluded.

The Cabinet agreed:

(a) To approve the proposal of the Home Secretary in C.P. 140 (38) for the appointment of a Royal Commission on the subject of workmen's compensation with very wide Terms of Reference enabling it to review the working of the present system, and to consider proposals such as had been made by the Labour Party for the substitution of a State system, and, generally, to overhaul the working of the Act, together with the question of the
modification of the employer's liability of common law in relation to any developments proposed in workmen's compensation:

(b) That the possibility of legislation without waiting for the Report of the Royal Commission on narrower points connected with workmen's compensation which could be isolated, should not be excluded.
II. The Cabinet had under consideration a Memorandum by the Secretary of State for Scotland (C.P. 136 (38)) repeating the request of his predecessor for authority to facilitate the remaining stages of the Divorce and Nullity of Marriage (Scotland) Bill by the grant of a small amount of Government time if this should prove necessary. The Bill had now passed through all its stages in the House of Lords, had received an unopposed Second Reading in the House of Commons, and had been dealt with by the Scottish Grand Committee. It incorporated the best features of the English Matrimonial Causes Act, and certain features of the Scottish Bill of last Session which seemed to present difficulty had been discarded. In its present form the Secretary of State believed the Bill to be acceptable to all sections of moderate opinion, and the Church of Scotland offered no opposition to it.

After a short discussion, the Cabinet agreed:

That subject to the agreement of the Parliamentary Secretary to the Treasury the Secretary of State for Scotland should have authority to facilitate the remaining stages of the Divorce and Nullity of Marriage (Scotland) Bill by the grant of a small amount of Government time if this should prove necessary.
12. The Cabinet had before them a Joint Memorandum by the Minister of Agriculture and Fisheries and the Secretary of State for Scotland (C.P.-139 (38)) relating to an extension of the Milk Acts, 1934-37, in which they pointed out that there will not now be time this Session for the passage of the necessary legislation to give effect to the proposals of the White Paper on Milk Policy of July, 1937 (Cmd.5533) and recommended that the introduction of the Bill should be deferred until the autumn; sought authority for the preparation of a Bill, for passage into law before the Summer Recess, to extend for a further year those provisions of the Acts which would otherwise expire on the 30th September next; and proposed that the opportunity should be taken to implement the promise made in the White Paper that the Milk Marketing Boards (and the Government of Northern Ireland) should be released from any liability accruing after the 30th September, 1937, for the repayment of advances under the Milk Acts; and that during the year by which the period for Exchequer grants for schemes for increasing the demand for milk is to be extended -

(i) the sum of £750,000 should be provided for the purpose of Exchequer grants on approved schemes;

(ii) the schemes to be approved should be confined to those for the sale of milk at reduced prices for consumption by school children, and by nursing and expectant mothers, and children under school age.
After a statement by the Minister of Agriculture and Fisheries on the lines of the above memorandum, a discussion took place mainly on the question of whether a definite sum such as the £750,000 proposed in the memorandum or, alternatively, £800,000 as proposed by the President of the Board of Education should be provided or not.

The President of the Board of Education pointed out that the provision of milk was a Social Service and that in order to carry out the policy of the Government whatever milk was required for the schools had to be found. He was advised that the sum of £750,000 was likely to prove inadequate. The consumption of milk in schools had increased as a result of the National Health Campaign initiated by the late Minister of Health and himself, and the increasing tendency for children to take two bottles a day must be taken into consideration. It was also necessary to provide for an increased distribution allowance in rural areas where the cost of distribution exceeded the amount allowed under the present scheme. If this were not provided not only would they be unable to get milk supplied in rural areas where this was at present not being done, but they would fail to hold the position which they had won. It must be remembered that the increased figure of £750,000 would have to cover not only the Milk in Schools Scheme in England and Wales but also the similar scheme in Scotland and the whole of the expenditure on the Ministry of Health scheme for cheap milk for mothers and pre-school children.

The Minister of Health thought it would be a mistake to include a fixed sum in the Bill, though it might be mentioned in the financial resolution. A difficult situation would arise if the campaign in favour of milk consumption went well and then the Government had to impose a restriction for financial reasons. He thought it would be administratively possible to keep down the cost somewhere near to the present limits, but it might be very inconvenient to be bound by a fixed sum.
The Chancellor of the Exchequer urged that the Cabinet should accept the proposal of the Minister of Agriculture and Fisheries and the Secretary of State for Scotland. He pointed out that this was a temporary Bill. The present position was that £500,000 was provided for this Service. As it was not possible to produce a permanent measure before the Summer Recess, it was necessary to prolong the present position for a time. He was prepared to agree to raising the £500,000 to £750,000. He did not think that the Government would be exposed to political attack if they proposed that sum in substitution. Even if the Departments had a free hand, he thought it would be difficult for them to spend more than this, more especially as the permanent scheme would probably be in operation in less than 12 months. It was important to have a proper arrangement with the Milk Boards in regard to the scheme. He had one observation to make on paragraph 9 of C.P. 139 (38). That paragraph correctly stated that existing legislation authorised payment from public funds of up to half of the expense incurred by Milk Marketing Boards in giving effect to approved schemes for increasing the demand for milk. The principal illustration was, of course, the milk in schools scheme which began in 1934 and under which children get milk to drink at the exceptionally low price of 1/- a gallon — one-third of a pint for 1/4d. The formula under which the expense incurred by the Milk Marketing Boards in supplying this milk at this cheap price was calculated assumed that if it was not so supplied the milk would nearly all be sold at the full price as liquid milk. There was every reason to believe that this assumption was not at all justified but the point had only recently come to the clear notice of the Treasury. The truth was that a large
part of this milk amounting to some 23,000,000 gallons would otherwise have to be sold as milk for manufacture at a much lower price and the effect was that the taxpayer instead of bearing half the expense was bearing nearly all of it. This did not affect the contents of the proposed temporary Bill which would preserve the 50 per cent. formula; but he would ask the particular attention of the Minister of Agriculture to the point as he was charged with negotiations with the Milk Marketing Boards in the future.

The Minister of Agriculture and Fisheries said he had received the comments of the Chancellor of the Exchequer in writing and he was not in entire agreement with them. To ascertain the effect of the scheme on the Milk Boards was a very complicated matter. His own belief was that the Milk Boards lost on the transaction. He would, however, prefer to discuss this question with the Treasury at a later stage. The real question was as to whether the sum of £750,000 should be included in the Bill or not.

The Prime Minister pointed out that this was only temporary legislation. He did not think that that was the right moment to make a change involving an alteration of principle. There might be a case for such a change in permanent legislation but a temporary Bill was not the right occasion for including it.

The Minister of Health accepted the Prime Minister's proposal on the understanding that the details would be swept up in the Bill providing for a permanent policy.

The President of the Board of Education made an appeal to raise the £750,000 limit to £800,000.

The Chancellor of the Exchequer urged the Cabinet to adhere to the figure which he had already agreed to.
The Cabinet agreed:

(a) To approve the proposals of the Minister of Agriculture and Fisheries and the Secretary of State for Scotland as set forth in C.P. 139 (38) and summarised at the head of this conclusion including the recommendation that during the year by which the period for Exchequer grants for schemes for increasing the demand for milk was to be extended the sum of £750,000 should be provided for the purpose of Exchequer Grants on approved schemes.

(b) That the various questions of important detail raised during the meeting should be dealt with in connection with the permanent legislation to be introduced later.
13. The Cabinet had under consideration a Memorandum by the Lord Chancellor (H.A.-19 (38)) covering the draft Supreme Court of Judicature (Amendment) Bill, in which provision was made relating to the number of Judges of the Court of Appeal, the performance by such Judges of the functions of Judges of the High Court, and the filling of vacancies among Judges of the Chancery Division; together with the following recommendation thereon by the Committee on Home Affairs (H.A.C. 10th Conclusions (38) Minute 1):-

"To authorise the introduction in the House of Commons of the Supreme Court of Judicature (Amendment) Bill in the form of the draft annexed to H.A.-19 (38), subject to the amendment mentioned above, and to any other drafting or other minor alterations that may be found necessary or desirable."

(i.e., deletion of the words "or more" in line 28 of page 2 of the Bill.)

The Lord Chancellor said that the last report he had had from the Parliamentary Secretary to the Treasury was that he thought it might be possible to find parliamentary time for this Bill.

The Cabinet agreed:-

To approve the recommendation of the Committee on Home Affairs as set forth above.
ANGLO-TURKISH (ARMAMENTS CRedit) AGREEMENT BILL. (Previous Reference: Cabinet 23 (38), Conclusion 4.)

14. The Cabinet had under consideration a Memorandum by the Secretary of State for Foreign Affairs (H.A.-20 (38)) covering the draft Anglo-Turkish (Armaments Credit) Agreement Bill, designed to confirm and give effect to the Agreement in the Schedule, in which His Majesty's Government undertook to advance by way of loan to the Government of the Turkish Republic sums not exceeding £6,000,000 for the purchase of armaments in the United Kingdom. The Conclusions of the Committee of Home Affairs thereon 'H.A.C. 10th Conclusions (38), Minute 2) were as follows:

"(1) To reserve for determination by the Cabinet the question of the Minister by whom the Bill will be introduced:

(2) To recommend the Cabinet to authorise the introduction forthwith in the House of Commons of the Anglo-Turkish (Armaments Credit) Agreement Bill in the form of the draft annexed to H.A.-20 (38), subject to any drafting or other minor alterations that may be found necessary or desirable."

A short discussion took place on the question of which Minister should be responsible for the Bill.

The Prime Minister said that it was clear that the Bill must be intended either as a commercial or a political arrangement - in fact, it was mainly political. What was more doubtful was whether it was desirable to emphasise this. That was a question for the Secretary of State for Foreign Affairs. In any event, he thought that a member of the Cabinet ought to be responsible for the Bill in the House of Commons. Consequently it would lie between the President of the Board of Trade and someone representing the Foreign Office.
The Secretary of State for Foreign Affairs said that in that event the choice appeared to lie between the President of the Board of Trade and the Prime Minister as representing the Foreign Office. If the Prime Minister were to take it up, the Bill would be considered by the House to involve a matter of very high policy. He did not want that, especially as he was hopeful that similar legislation might be introduced later. He suggested that it might be treated as a matter for the Treasury.

The President of the Board of Trade pointed out that neither in the Bill nor in its schedules was there any suggestion that it was intended to further the interests of normal trade. It would be seen that the Bill required the Treasury to make advances. It provided that sums certified by the Treasury should be paid by way of such advances out of the Consolidated Fund of the United Kingdom. Frequent references were made to the responsibilities to be placed upon the Treasury both in the Bill and in the schedules. He had no objection to taking the Bill, but he apprehended that Parliament itself might insist that it had little relation to the Board of Trade and might demand explanations from the Treasury.

The Secretary of State for Foreign Affairs said that the Minister for Co-ordination of Defence had questioned the desirability of including the words in brackets "(Armaments Credit)" in the title of the Bill. He undertook to look into the question.

After some further discussion, the Cabinet agreed:

(a) To leave to the decision of the Prime Minister the determination of the question of the Minister by whom the Bill should be introduced.
(b) To authorise the introduction forthwith in the House of Commons of the Anglo-Turkish (Armaments Credit) Agreement Bill in the form of the draft annexed to H.A. 20(33) subject to any drafting or other minor alterations that may be found necessary or desirable.

(c) That the Secretary of State for Foreign Affairs should look into the question of the title of the Bill, and more particularly the inclusion therein of the words "(Armaments Credit)".
The Minister of Transport said that the following question had been put down for him to answer in the House of Commons the same afternoon:

"To ask the Minister of Transport when representatives of the Trade Unions concerned are to be invited to become members, as was the case during the war, of the Port and Transit Committee."

Some time ago a similar question had been raised, and the Man Power Committee had recommended that Labour should not be included in the Port and Transit Committee. The Minister for Co-ordination of Defence had thought this advice unfortunate, and he agreed. The Minister of Labour also agreed with that. Consequently he would like to give a reply to the effect that he was taking steps to secure the representation of Labour on the Committee.

The Minister for Co-ordination of Defence said that the reason for the recommendation of the Man Power Committee had been that a good many enquiries of one kind and another were on foot, and they had thought that if Labour was included in one, they would insist on being included in all. He had not agreed with the Man Power Committee, as he wanted to establish this link with Labour.

The Prime Minister agreed with his colleagues. He thought a little attention to the Trade Unionists in this matter might prove very useful.

The Cabinet agreed:

To approve the proposal of the Minister of Transport that he should reply to the question on the following lines:

"The Port and Transit Advisory Committee has so far dealt with very general aspects of the questions before them, but I am now taking steps to secure representation of Labour on this Committee."
16. The President of the Board of Education recalled the decision of the Cabinet at the meeting referred to in the margin to refer to a Cabinet Committee under his Chairmanship the question of whether the Electricity Distribution Bill should be proceeded with in the forthcoming Session of Parliament. The Committee had agreed unanimously (subject to the absence in Geneva of the Minister of Labour who was a member) that the Bill was not a suitable one for introduction in the year before a General Election, but would be more suitably introduced in the first year of a new Parliament. They thought that this decision should be kept secret for the present in view of the Prime Minister's announcement that the Bill might possibly be possible to take the Bill early next Session be suitable for introduction in the next Session.

2, Whitehall Gardens, S.W.1.

15th June, 1938.