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CABINET.COTTON SPINNING REDUNDANCY SCHEME.Memorandum by the President of the Board of Trade.

1. Recent developments in the spinning section of the cotton industry have reached a stage at which it may become necessary to approach Parliament for certain statutory powers. This, therefore, seems a convenient moment to give my colleagues a summary of the events in Lancashire during the last eighteen months.

2. In the summer of last year a Committee of the trade, under the Chairmanship of Lord Colwyn, was given the task of preparing a scheme for the elimination of surplus productive capacity in the spinning section of the industry. The scheme they have prepared has been submitted to a ballot of the trade, and has received a considerable measure of support - the votes recorded representing about four-fifths of the productive capacity, and of these more than three-quarters are in favour of the scheme. The scheme provides for the establishment of a fund, to be used either for the purchase outright of redundant plant or for compensation in respect of plant withdrawn from operation for a time, and the proposal is that the fund should be raised upon the security of a statutory levy on spindles. It is provided, however, that the industry should not be finally committed to the scheme unless and until Lord Colwyn's Committee consider that the plant offered for disposal under the scheme will be sufficient in quantity to ensure an effective result. In order that this may be tested, an independent accountant has been

appointed and is engaged in collecting particulars from spinners willing to dispose of their plant. A scheme considered at the same time for the formation of an association to deal, inter alia, with prices and output recently had less support, and has been dropped.

3. As long ago as 1932, I gave an undertaking to the Joint Committee of Cotton Trade Organisations that, if a suitable scheme for the elimination of surplus productive capacity were prepared and secured a sufficient measure of support, I should be prepared to recommend my colleagues to authorise me to promote the necessary legislation for the collection of the levy. It is not yet possible to say whether the response will justify Lord Colwyn's Committee in taking further steps, which would include a formal request to the Government for the necessary legislation; but in order to clarify the situation, I have renewed the undertaking given in 1932. After consultation with the Chancellor of the Exchequer, I have also assured the Committee that if, notwithstanding statutory sanction for the levy, they are unable to borrow the necessary loan on the security thus provided and the success of the scheme is thereby endangered, the Government would find some way to assist them to borrow the money.

4. It is contemplated that the loan required for the purposes of the scheme should be arranged with financial interests in the ordinary way, but the period of repayment of the loan out of any levy which the industry could afford to pay may well be as long as 15 years. While we all hope that the cotton industry will gain, and not lose ground, it may be that the lenders will require some form of Government guarantee of the annual amount of the levy (which provides, of course, the only security for the loan)

against the possible effects of some further decline during so lengthy a period. Under the present proposal, the levy cannot exceed a fixed maximum annual amount per spindle (the unit of plant in the spinning section), and the lenders may fear that the number of spindles subject to the levy, and consequently the total amount of the levy, may at some future date be reduced to such an extent as to involve a partial default in the repayment of the loan.

5. At various times during the discussions with Lord Colwyn's Committee I have been asked if the Government would provide a grant of £1,000,000 or of £500,000 to the fund for the purchase of spindles, the amount collected by the levy to be supplementary to the grant. I have always made it clear that this was not a request to which the Government could agree, and that the limit of the Government's assistance must be a guarantee in order to assist in the raising of the money through the ordinary channels.

6. While it is, as yet, by no means clear that a position will be reached in which the Government will be required to introduce legislation to provide for collection of a levy and to guarantee a loan, I think my colleagues should know that this possibility exists. In general, I should have preferred to see the problems of redundant capacity dealt with by voluntary co-operation among the members of the industry in the manner that has been demonstrated by other industries, e.g., shipbuilding, flour milling and wool-combing. But the difficulty of obtaining and of maintaining agreement in the cotton industry is well known; and it is a considerable advance on their previous attitude that the spinners should have shown such a considerable measure of readiness to shoulder the burdens of a redundancy scheme. If it should turn out

that the industry are prepared to dispose of a sufficient amount of plant under the scheme, I think we should be obliged to propose the legislation required to put the scheme into operation. A united attempt to deal with the problem of redundant capacity would, in the opinion of competent authorities, go a long way towards restoring the internal situation in the cotton industry and so provide economic conditions of working.

W.R.

Board of Trade,

21st January, 1935.