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CABINET.**REORGANISATION IN THE COTTON INDUSTRY.***Memorandum by the President of the Board of Trade.*

MY colleagues will be aware of the general position of the cotton industry. Mainly because of the loss of the Indian market, a loss which the industry attributes to Government action, Lancashire has engaged the special attention of successive Governments during the last ten years. Some proposals for Government assistance have lately been made by certain sections of the cotton industry on which I feel it necessary to consult my colleagues.

Application has been made by a Committee of the cotton and artificial silk piece-goods dyeing trade and by the Federation of Calico Printers for legislation to enforce schemes of reorganisation which have been prepared by those bodies. The main features of both schemes are the same and include :—

- (1) a rationing of production of existing firms by a quota arrangement based on past output;
- (2) a prevention of the entry of new firms into the industry, except by a licence issued by an independent statutory board;
- (3) a compulsory levy for the purchase of the quota belonging to firms willing to go out of business.

These schemes were examined by my predecessor, who informed their promoters that he was unable to recommend them to Parliament. Subsequently, a strong deputation from Lancashire urged that more consideration should be given to the cotton industry by the Government in a number of ways, one of which was by assistance through legislation in the improvement of its organisation. The spokesman of the deputation had in mind the schemes mentioned above (though it is doubtful if all the members of the deputation were aware of the details of the schemes, which have never been published) and my predecessor promised to consult his colleagues regarding this request.

I have now considered these proposals, and have come to the conclusion that I cannot recommend to my colleagues that they should be made the subject of proposals for legislation. The major objection to them, in my mind, is that they would inevitably tend to discourage enterprise and the development of new ideas in these industries. The progressive man would be able to expand his share of the production in excess of his quota only by the payment of a heavy fine, and the man with new ideas could start business only by permission of the Board. Such a Board would, in the nature of things, tend to favour the man in possession rather than the newcomer; new ideas are never accepted until they have been proved, and if they cannot be tested they cannot be proved. Moreover, it would in practice be impossible for the Government to free itself from responsibility for the schemes of a Board of this kind obtaining its authority from Parliament. It has been suggested that the members of the Board should be independent of the trade, but it is certain that its decisions on a matter of such importance as the granting or withholding of a licence to engage in this business would be very controversial,

and that the aggrieved parties would press the Government for a reversal of the Board's decision or the abolition of the Board. Nor would Parliament grant powers to such a Board unless a Minister remained responsible to Parliament for the actions of the Board.

It is clear also that legislation of this kind would be strongly opposed. Both the Associations claim to have wide support for their schemes in their own industries. The Calico Printers' scheme is said to be approved by over 90 per cent. of the trade measured by output, and the piece dyers' claim support of 80 per cent. of the trade measured by output, and 50 per cent. measured by the number of firms. Other sections of the cotton trade have approved the schemes subject to reservations which have not been precisely formulated. But strong objection to the principles of the schemes have been expressed to me both from within the cotton industry itself and from the woollen and artificial silk industries, which are both liable to be affected to some extent by the proposals. My colleagues will also remember that strong objection was immediately raised in Parliament to a proposal, which was subsequently dropped, in the Cotton Spinning Industry Bill prohibiting the installation of new spindles for so short a period as three years; the present proposals involve a similar restriction on dyeing and printing plant for fifteen years, and I already have indications that some among Lancashire members would raise strong opposition.

I feel it essential, however, that it should be impressed on Lancashire that the Government are still fully alive to the necessity for reorganisation in the cotton industry, and are ready to give all possible Governmental help to useful measures towards this end. The necessity for reorganisation of some kind has, of course, been recognised for some years. In 1930, a Committee of the Economic Advisory Council, presided over by Mr. Clynes, advocated the formation by amalgamation of larger units. Some progress on these lines had already been made (notably by the formation of the Lancashire Cotton Corporation), but in more recent years efforts towards co-operation have taken other directions, mainly because of the increasing realisation in the industry that one of its difficulties arises from a surplus of capacity. In the spinning section, a remedy for surplus capacity has been found in part in the Cotton Spinning Industry Act, 1936, which authorised a levy on the industry for the purchase of redundant plant, and in part by voluntary price-fixing schemes. It is said that similar remedies are not applicable in the finishing section of the trade, such as calico printing or dyeing. The calico printers, for example, say that there is little redundant plant when allowance is made for variations in fashion and demand, involving, as many of them do, the use of plant of different types; and voluntary price fixing would, in the view of the leaders of the trade, fail under the strain of a contracting market. In the coarse end of the spinning trade, voluntary price fixing under schemes believed to be legally enforceable is working satisfactorily, but I doubt whether the schemes will work when the market turns downward again.

A suggestion has also been made that minimum-price schemes should be given statutory support. This may be a dangerous expedient in an industry which is dependent so largely as cotton is on its export trade, and one that may lead to great embarrassment to the Government. It might, for example, be found that large export orders could be obtained if the price could be reduced below the minimum price, and that traders here were willing to accept the reduced price; the demand for the abandonment of a statutory minimum price in such circumstances would be almost irresistible. I should myself, however, be prepared to consider in consultation with the various sections of the trade whether a practicable scheme of control could be devised.

Another suggestion which has been put forward is that a fund contributed to by the industry and by the Exchequer should be established for the assistance of the export trade. How far the trade itself would support such a proposal is not clear, and, in any event, if it gave any opportunity to other countries to charge us with subsidising our export trade, it would obviously be open to grave objection. The proposal seems to me, however, to be one which in general we might be able to accept and so make some direct contribution to Lancashire's difficulties. Our contribution would probably have to be directed only to such objects as market research and intelligence. I intend to consider this further (in consultation with the Treasury) and may be able to submit further proposals later.

The directions in which further reorganisation of the cotton trade could proceed require, therefore, further exploration. I should propose, if my colleagues

agree, to see the representatives of the industry again and to inform them that the Government are unable to adopt the proposals of the calico printers and the piece dyers, or any other proposals which, by the statutory enforcement of a "ring fence," would involve the disadvantages set out on page 1 of this memorandum, but that they are anxious that every effort should be continued in the search for a solution of the problems of the cotton industry. I should also discuss with them the proposals referred to above without in any way committing myself, and inform them that, in the Government's view, any proposals for reorganisation should be directed in the first place to an improvement of the export trade; that schemes having this object in view could be assured of the most careful and sympathetic consideration by the Government; and that the Government would, if necessary, be prepared to contemplate making proposals for legislation in support of a reorganisation scheme of a kind that is likely to command the approval of Parliament.

O. F. G. S.

Board of Trade, July 7, 1937.
