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Notes of a Conference held at 10, Downing Street, S.W., on Monday, February 17, 1919, at 12 noon, on Unemployment and the State of Trade.

Present:

The Prime Minister (in the Chair).

The Right Hon. A. Bonar Law, M.P.
The Right Hon. A. Chamberlain, M.P., Chancellor of the Exchequer.
The Right Hon. E. S. Montagu, M.P., Secretary of State for India.
The Right Hon. R. Munro, K.C., M.P., Secretary for Scotland.
The Right Hon. J. I. MacPherson, M.P., Chief Secretary for Ireland.
Mr. W. C. Bridgeman, M.P., Parliamentary Secretary to the Board of Trade.
Mr. A. T. C. Beck, M.P., Parliamentary Secretary to the Ministry of National Service and Reconstruction.

Mr. Thomas Jones (Acting Secretary, War Cabinet).
Mr. Pembroke Wicks (Assistant Secretary, War Cabinet).
Lieutenant-Colonel L. Store, C.B. (Assistant Secretary, War Cabinet).

The Prime Minister said that trade in the country was more or less at a standstill. It was only possible to pay unemployment benefit up to a certain point, after which it became a premium on idleness. He would like to know what was being done by the Board of Trade in regard to the rehabilitation of industry.

Mr. Bridgeman said that it had been suggested by the Board of Trade that the questions relating to restrictions on imports and exports should be put under one department of the Board of Trade, but that, owing to the existence of the Ministry of Blockade, that was not possible at present. The Board of Trade had lately relaxed restrictions on imports very rapidly, but there was still considerable interference with trade, owing to the cable censorship. A memorandum had been submitted to the War Cabinet pointing out that manufacturers were alarmed at restrictions on imports being removed too suddenly, because it did not give them an opportunity of rehabilitating their business. The priority system had been abandoned, the limitation of building licences to 500l. had been removed, building permits were no longer required, and there
was no control of prices. With regard to timber, control for hard wood would come to an end on the 1st March, and soft wood on the 21st March, but pit wood was still under control. The selling prices of hard and soft woods would be reduced. Cotton control had been abolished. The paper ration had been increased, and a further increase would shortly take place. In reply to a question by the Prime Minister as to why paper was not allowed to be imported, Mr. Bridgeman stated that it was in the interest of the manufacturers of paper in this country. Sweden were trying to make papier themselves and sell it to us, instead of sending pulp, and were lowering the price of paper in order to try and get the trade. In Canada and America also paper was cheaper than in this country. Sir George Birdwood had recently brought a deputation to the Board of Trade, asking that the restrictions should be taken off. On the other hand there seemed to be a special objection in Scotland against the removal of import restrictions on paper. It was possible that the newspaper people in Scotland were interested in the manufacture of paper. Controlled paper was much cheaper than uncontrolled paper.

DR. ADDISON stated that the cardboard box industry was at a complete standstill owing to lack of millboards. It was a most important industry, and could not be properly restarted unless a supply of cardboard was obtainable. He suggested that in one way or another there were a very large number of people who were dependent on paper for manufactures of one kind or another.

MR. CHAMBERLAIN said that he was aware that the Board of Trade were very anxious lest this country should be flooded with goods from America and Japan before our manufacturers had got on their feet again.

MR. BRIDGEMAN said, in reply to the Prime Minister, that the Board of Trade had an Advisory Committee on Trade, which met about once a week. There were two or three other committees, one under Lord Emmott.

SIR A. STEEL-MAITLAND said that the old Advisory Committee met only once a quarter. It had never been a very active committee, but there were three or four people with really good knowledge of trade conditions who met once a week with the President of the Board. They had recently been discussing mainly the restrictions on imports and the Excess Profits Duty.

MR. MONTAGU stated his opinion that British trade would never be restored so long as the present uncertainty continued. It was not of so much consequence whether control was removed or not, so long as the trading community knew what was going to be done. It was the uncertainty as to whether, and, if so, when, they would be flooded with foreign goods that was killing the industry. He hoped it would be possible to let the trading interests know the intentions of the Government.

SIR AUCKLAND GEDDES stated that men were being demobilised from the army at a very rapid rate, and they were not being absorbed at all. There was already an accumulation running into over one million, if the women discharged from the factories were included. In addition to this, there was a large number of men on twenty-eight days' furlough. He entirely agreed with the point made by Mr. Montagu on the question of uncertainty. Nobody knew what was going to happen. He gave as an example the case of railway material for export. A general permission to export had been given. When that permission had been published a fortnight, there was a change in the policy of the Board of Trade and general export was stopped, at the request of the Railway Executive Committee, permission to export being given only in the case of second-hand material; that is to say, the policy announced by the Government was reversed in less than a month, and the result was chaos. He was of opinion that we should get nothing done unless there was a definite clear line of policy, which, when once it had been announced, must be adhered to, even at some cost. So far as concerned the Board of Trade, there was no public knowledge as to what their intentions were, and no certainty as to whether the decisions made would be adhered to.

MR. BRIDGEMAN pointed out that the Board of Trade were often tied in the matter by the policy of the Ministry of Blockade. There was a committee, under the chairmanship of Lord Emmott, which was supposed to deal with import and export restriction, but the difficulty was to get agreement between the two Departments.

MR. CHAMBERLAIN said that the Treasury regarded the relaxation of the blockade as good, especially if it were relaxed towards neutral countries which could
afford to pay for what they bought from us, but he viewed with some dismay the general relaxation of import restrictions on account of the exchange position. If we spent much money in buying things that were not necessary, we should have grave difficulty in getting things that were absolutely necessary for the rehabilitation of industry owing to the extraordinary difficulties of exchange that had been created by the war.

The importation of raw materials was good: the importation of fully-manufactured goods should be avoided so far as possible.

Mr. Montagu drew attention to the fact that there was an export tax of £1 on railway material, owing to the difference in the controlled price for home consumption and the controlled price for export. In consequence, the Indian Government would be able to buy their railway material from America at a lower rate. They had asked for the removal of the export tax before placing their orders.

Mr. Chamberlain remarked that the so-called export tax was merely a repayment of the subsidy which we had to give for steel.

Sir Auckland Geddes observed that at the moment orders were being placed by the Crown Colonies in the United States for things which could be manufactured in this country.

The Prime Minister said that he was informed that the export of locomotives had been forbidden because the Railway Executive wanted all the locomotives that could be manufactured for this country. He asked Mr. Bridgeman to enquire whether this was correct.

Sir Eric Geddes said that he entirely agreed with the view expressed by Mr. Montagu and Sir Auckland Geddes. It was of less importance what the Government did, so long as they announced what they were going to do and adhered to it. Almost every industry was being hampered by uncertainty of one kind or another, some of which could be removed.

The Prime Minister said that he would like a careful statement prepared for the War Cabinet, and he would like the Departments concerned to state seriatim the points on which they required a decision.

Mr. Chamberlain said, in regard to Excess Profits Duty, that he had hoped to have a conference with the President of the Board of Trade and the Minister of Labour, which had unfortunately been prevented by the illness of the former; but so soon as he had been able to find out whether they agreed with the proposals he was going to make he would come to the Cabinet for a decision.

The Prime Minister said that he had received a number of letters from persons of substance living in industrial districts, which indicated that profiteering during the war was having more influence on the minds of the working classes than anything else. He suggested that an attempt should be made to ascertain what fortunes had been made by individuals between 1914 and 1919. It was quite clear that a great deal of the money so accumulated had escaped the Excess Profits Tax.

Sir Eric Geddes hoped that too much attention would not be paid to the agitation for relief on account of depreciation of machinery, which he believed was very largely a subject of exaggeration.

Sir A. Steel-Maitland said that his Department found that the uncertainty which had been complained of arose in three ways: (1) Uncertainty as to Government action; (2) Uncertainty as to prices and materials; (3) Uncertainty as to labour. With reference to the first of these, the uncertainty arose in regard to (1) Export restrictions; (2) Finance; (3) Blockade; (4) Foreign passports and censorship. He suggested that the Committee on Economic Defence and Development, which had been in existence up to the time of the General Election, should be revived, and should work up questions of economic policy into a form that could be placed before the Cabinet for definite decisions.

Mr. Chamberlain suggested that the India Office and the Crown Agents should be asked not to place orders in America till they had first approached the Board of Trade.

Mr. Montagu said this was the first he had heard of any orders being placed in America by the Indian Government since the armistice, and on enquiry he found...
that the facts were not as had been suggested. Five thousand wagons for India had been ordered in America before the armistice, by order of the Ministry of Munitions. Since the armistice no orders had been placed in America, and orders for 10,000,000 had been placed in this country.

MR. MONTAGU said, in reply to the Prime Minister, that demobilisation was proceeding in India. The normal strength of the British garrison in India being 75,000, after considerable negotiations a temporary reduction to 60,000 had been agreed upon. The loss of 15,000 men was a serious thing, especially having regard to the enormous size of the Indian Army up to the time of demobilisation.

MR. CHAMBERLAIN suggested that before the war the Indian Government had not made sufficient use of mechanical aids, and that their war experience in the use of tanks, aeroplanes, armoured cars, and machine-guns, would enable them to reduce the number of their army.

MR. MONTAGU said that the use of mechanical aids was the only reason which had justified them in making the reduction which had been agreed upon.

THE PRIME MINISTER asked what steps were being taken to secure trade from India.

MR. MONTAGU said that his information on the matter was incomplete, but an Industrial Commission had just reported, and an Industrial Adviser had been appointed to the Viceroy, with a view to developing the industrial policy, and with a view to making India more self-supporting than she had been.

THE PRIME MINISTER pointed out that he was thinking more of securing orders for this country.

MR. MONTAGU said whatever orders there were would certainly come to this country.

THE PRIME MINISTER said he was referring rather to general purchases, and not merely to Government orders.

SIR ERIC GEDDES remarked that it was important to get trade pushed. India was threatening to buy in America. Manufacturers in this country were refusing to manufacture because they could not get orders. It was important that steps should be taken to bring buyer and seller together.

PROFESSOR CHAPMAN said at the present time there was great stagnation of trade. People generally felt that there was at present no firm basis to go upon. In his view, the policy of the Government should be to remove as far as possible the obstacles which stood in the way of the attaining of a new natural level of prices. If this could be obtained, trade would reassert itself. A further difficulty in the way of resumption of trade was the control regulations and restrictions placed upon trade and industries.

MR. ILLINGWORTH said that it was anticipated that the cost of steel, copper, and material generally, rather than labour, would fall. On account of the prices he was holding back orders for electrical equipment.

LORD INVERFORTH confirmed the Postmaster-General's statement that all non-ferrous metals were falling in price. In particular it was expected that there would be a rapid fall in the price of copper.

PROFESSOR CHAPMAN, resuming, said that certain restrictions could not be removed at present. In order to relieve unemployment he considered that certain risks should be taken. The biggest factor affecting prices was the cost of freight. Other factors were:

(a) The present taxation in its incidence on profits;
(b) The fear of a flood of imports in case the present restrictions were removed;
(c) Labour unrest.

SIR A. STEEL-MAITLAND said that the prices of material were a very important cause of the present delay in the resumption of trade. It was also true that owing to fear of labour trouble manufacturers were unwilling to book orders from abroad. One reason for the delay in removing the present restrictions was that there was no proper departmental machinery for doing this. There was no doubt that there
would be a great demand for British goods at once, especially in India. As already said manufacturers were held up by the price of materials, by the possibility of labour trouble, by the restrictions in the way of export, which people generally did not understand.

MR. CHAMBERLAIN said that the people who would want British goods most would be the countries which had been most ravaged. These countries had at present no credit and so could not afford to pay. To enable them to pay he had to borrow money for them and to give credit. This had been done in the case of France, with the result that the French debt to us had been increased.

THE PRIME MINISTER suggested that we should open a credit with the French on a special basis, and that we should get the first cut out of the German indemnity.

MR. CHAMBERLAIN said that France had already suggested they should pay their debt to us by handing over Germany's obligations to her. He did not, however, wish to put us in the position of being Germany's sole creditor.

SIR A. STEEL-MAITLAND said that there was also the case of other allied countries to consider besides France and Belgium. Poland and Serbia, for instance, could never raise credits as Belgium could.

MR. CHAMBERLAIN said he would rather supply neutral countries, and let them, if they like, accept bills on Germany. What was necessary was a lump sum down paid by Germany in order to feed the starving populations in the devastated countries, and to restart industry. If we could get cash from Germany for this purpose, well and good, but if we had to borrow here for this purpose and carry the additional debt involved, it would be a very heavy burden.

MR. ILLINGWORTH said that the difficulty was at present to get goods out of this country. For instance, he wished to export 30,000 worth of machinery to France for reconstruction purposes, but so far he had been unable to obtain a permit.

THE PRIME MINISTER said that it was clear from what had been stated at the Conference that morning that there was a great deal which required searching investigation. Belgium and France were both solvent countries, and were placing orders abroad. Italy would also be placing huge contracts, but her financial position was perhaps unsatisfactory. Then Poland would be placing orders. Unless something could be done at once to restart our industries, these orders would be snapped up by the United States.

MR. CHAMBERLAIN suggested that it might be as well to remove every export licence, except in the case of foodstuffs and raw material going to the enemy.

THE PRIME MINISTER thought that there should be some individual Minister in charge of all questions affecting the reconstitution of British trade with power to remove restrictions. The whole question was one coming mainly within the province of the President of the Board of Trade, and he felt that the Conference were labouring under certain difficulties in discussing the question in the latter's absence. It was most important to make some one responsible to get the wheels of trade to start again.

MR. ILLINGWORTH said it was highly important to bring the Departments together for discussion.

DR. ADDISON said it was quite impossible for any single department to act alone in this matter, as the Foreign Office, Board of Trade, Treasury, &c., were all closely concerned.

SIR ERIC GEDDES pointed out that the Department principally concerned was the Board of Trade, and the President had lately suggested to him that it was his province to settle these questions, but that if he were not able to solve them satisfactorily, he should refer them to the Home Affairs Committee.

MR. CHAMBERLAIN thought that the appropriate committee would be the Economic Defence and Development Committee of the Cabinet, over which he had presided. If, however, it was decided to reassemble this Committee, he would ask to be relieved of the duties of Chairman, as he could no longer undertake them.
MR. MONTAGU agreed that interdepartmental discussion was essential, and this could be best conducted through the medium of a committee.

THE PRIME MINISTER said it was proposed that the Economic Committee should be re-assembled. In that case, as the Chancellor was unable to continue to act as Chairman, the Minister of Reconstruction should be invited to preside over it, and the Cabinet should give him full powers of decision. He thought that Sir Auckland Geddes should take the matter in hand at once, and he should only report to the Cabinet when necessary. If this proposal were adopted, it would, of course, be open to any department concerned to appeal to the War Cabinet against any decision of the Chairman.

SIR ERIC GEDDES did not think that this proposal would carry them much further forward. The President of the Board of Trade had complained that he was not allowed to settle anything, as every question was taken to a committee. When he was in charge of questions of policy arising out of demobilisation, the Cabinet had agreed that the Board of Trade should be its mouthpiece so far as the trade of the country was concerned, working by means of inter-departmental conferences; and that when matters could not be satisfactorily settled otherwise, they should be brought to him (Sir Eric Geddes) or carried, if necessary, to the War Cabinet. The present proposal practically amounted to making the new Minister of Reconstruction President of the Board of Trade.

THE PRIME MINISTER said that this was not his intention. The business of the Minister of Reconstruction would be to co-ordinate the work of the various Departments in order to get the trade of the nation restarted. In his view, whoever took this work must be prepared to look three or four years ahead, and to consider the enormous demand for goods which would be made, not only from within this country, but also from the continent and elsewhere.

MR. FISHER said that he had recently spoken to a large employer from the North, who had told him that one of his difficulties was that he could not at present quote a price, because he was uncertain what his labour would cost him, while his employees were uncertain whether or not they would be called out on strike, and they were uncertain as to what the price of food was likely to be; if the price of food fell, he would know where he stood as regards the cost of labour. This employer had further said that another great difficulty was the question of housing, which was as important as most of these difficulties. He had been told that the working classes were very much afraid of unemployment, and he suggested that the Government should induce the newspapers to be more optimistic in tone in regard to this question. Much good might be done by careful propaganda, stating that the Government were fully determined to get rid of unemployment.

THE PRIME MINISTER proposed that, in the first instance, the Minister of Reconstruction, with the full authority of the War Cabinet, should examine the whole situation, and report to him in the course of the next few days as to the best way in his opinion to remove the various difficulties and obstacles, and restart the machinery of trade. Pending the further decision of the War Cabinet, Sir Auckland Geddes would have power to give decisions. In the meantime, the Board of Trade should actively continue their present policy of relaxing control where feasible.

The Conference agreed to adopt the above proposals.