Conclusions of a Meeting of the War Cabinet held at 10 Downing Street, S.W. 1, on Thursday, January 25, 1940, at 11.30 a.m.

Present:
The Right Hon. Neville Chamberlain, M.P., Prime Minister (in the Chair).
The Right Hon. Sir Samuel Hoare, Bt., M.P., Lord Privy Seal.
The Right Hon. Sir Kingsley Wood, M.P., Secretary of State for Air.
The Right Hon. H. R. S. Massy, Deputy Chief of the Imperial General Staff (Item 3).

The following were also present:
The Right Hon. Malcolm MacDonald, M.P., Secretary of State for the Colonies (Item 3).
The Right Hon. Sir Andrew Duncan, President of the Board of Trade (Items 1 and 2).
Sir Horace J. Wilson, Permanent Secretary to the Treasury.

Lieutenant-General H. R. S. Massy, Deputy Chief of the Imperial General Staff (Item 3).

Secretariat.
Sir Edward Bridges.
Captain A. D. Nicholl, R.N.
Mr. F. Hemming.
Mr. W. D. Wilkinson.
Mr. A. Bevir.
### WAR CABINET 23 (40).

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1. The War Cabinet had before them a Report by the Ministerial Committee on Economic Policy dealing with the possibility of stabilising the prices of staple commodities as part of the Government’s policy in relation to wages and prices (W.P. (G.) (40) 18).

The Chancellor of the Exchequer said that the question for decision was whether the Government should employ public funds, and, if so, to what extent, in order to keep down the retail prices of the most essential commodities entering into the cost of living. In reaching a decision regard must be paid to the following:

(i) The expenditure of public funds on keeping down the cost of living was bound to effect our financial position in view of the large sums involved. This might be very serious, since it would be difficult to cover by taxation and borrowing even the existing demands on the budget in the next financial year. Any gap which could not be covered would introduce an element of inflation.

(ii) The possibility of keeping down the cost of living was intimately connected with the demands made by labour for wages advances. At the present time labour, when asked to assist in preventing wages increases, were inclined to reply by saying that the Government should themselves take steps to keep down prices.

The Government had already incurred substantial expenditure (amounting approximately to £1,000,000 a week) on keeping down the cost of certain essential foodstuffs. Hitherto this had not been made public, but it could not, and indeed should not, be concealed much longer.

That figure was, however, in no sense a measure of the total cost to the Exchequer of continuing a policy of this character (paragraph 5 of the Committee’s Report). It would be very dangerous for the Government to make a public declaration of their intention of maintaining the cost of living at its present figure for an indefinite period. In so far as the Ministry of Food had made definite contracts for purchases for a substantial period ahead, it was possible to form some judgment of future trends. Arrangements of this kind had been made in regard to a number of essential foodstuffs, but not in the case of cereals, which constituted the main risk. Since last September the rise in the wholesale prices of cereals had been double that of other commodities. He (the Chancellor of the Exchequer) had been pressed by Mr. Crerar to make a definite bargain for Canadian wheat, but had refused to do so on the terms then suggested ($1 a bushel for two years).

The Minister of Food said that in the negotiations with Mr. Crerar we had offered 85 cents, and he in the end had come down as far as 93 cents, as compared with his original demand of 115 to 120 cents. Notwithstanding the failure of these negotiations, substantial purchases had recently been made on the market at 86 cents.

The Chancellor of the Exchequer drew attention to paragraph 9 of the Report, which set out the principal elements in the cost-of-living index. The basis of that index required revision, but it was sacrosanct in the eyes of Labour and could not be modified in time of war. The Committee had, however, arranged for the establishment of a parallel index giving the war cost of living, which would pay regard to changes both in quantity and quality resulting from the war. Rent, including rates, was already controlled (16 per cent.), and, if food (60 per cent.) were kept substantially at its present price level, we should have gone a long way towards keeping the cost-of-living index steady. This would be still further assured if clothing (12 per cent.) could also be prevented from rising in cost. This latter question, which raised the problem of standard clothing,
was at present being examined by the Interdepartmental Committee on Economic Policy. It would be seen, therefore, that, other things being equal, it would be possible for the Government, at the cost of the Exchequer, to secure for a time a fairly close approach to stabilisation of the cost of living as reflected in the cost-of-living index.

It had been pointed out in the discussions in the Committee that we were getting no advantage, in the form of a definite bargain with Labour, from the substantial expenditure now being incurred on subsidies, though no doubt indirect advantages were secured as a result of the situation created by a steady cost of living. He was advised—and he fully concurred—that it was not possible to enter into any definite bargain with Labour that wages should not go up if the cost of living were kept steady. Trade Union leaders were not in a position to bind their members on a question of this kind; moreover, there were other reasons, apart from the cost of living, why in war time some wages might rise, e.g., owing to scarcity of skilled labour in (for example) the munitions industries. The fact that no bargain with Labour was practicable was, however, no reason why the Government should not try to stabilise the cost of living. The Report of the Committee pointed out (paragraph 14) that there were three courses open to the Government:

(i) The Government might abandon the present policy and arrange for food prices to be raised by stages until the whole or the main part of the Exchequer loss was cancelled. The Committee were definitely opposed to adopting such a course, and he (the Chancellor of the Exchequer) was willing to continue the subsidies at their present rate for a further period. There was, he felt, a great advantage to the Government in so doing, since, in view of the very large part played by wages in determining the cost of the immense contracts of all kinds which the Government was placing in this country, e.g., if wages were allowed to rise too far, the cost of those contracts would be more than proportionately increased.

(ii) The Government might for a time at least continue their present policy and even extend it, e.g., into the field of clothing, but without attempting to secure any understanding from organised Labour in return. This was the course which he and the other members of the Committee were disposed to favour.

(iii) Finally, the Government might continue and extend their policy in return for a general understanding with organised Labour that they, as a movement, would discontinue or discourage any further pressure for wage increases beyond that point. This alternative offered certain attractions but, as he had already explained, he did not believe that any such understanding with Labour could be reached. If a proposal on these lines were put to Labour and rejected by them, the effect would be far worse than if the Government were to have made no attempt to secure such an agreement. It should be remembered also that, even if such an agreement were reached for a fixed period, the cost of buying supplies from abroad might, in the meanwhile, rise so seriously that the arrangement could not be continued. In that event, the jump in the cost of living might be so considerable, even if the full shock were removed by the continuance of subsidies at varying levels for a further period, as to furnish by itself a most potent cause for increased wage demands.
The general conclusion reached by the Committee was that a policy of subsidising the cost of living should be continued, and, if necessary, extended to clothing; and that the fact that these subsidies were being paid should be announced. It should be made plain, however, that the Government could not undertake to support any particular level of prices for necessities indefinitely, without regard to changes in costs abroad or wages at home. At the same time the Government, while avoiding any suggestion of a formal linking between wages and prices, should make it clear that they expected that, to the extent that the policy of price stabilisation in regard to the necessities of life was continued, claims for increased wages on account of the cost of living would not be justified.

The First Lord of the Admiralty said that, if a policy of price stabilisation, such as that suggested, were practicable, the Government would thereby deprive demands for wage increases of their moral support, at least in so far as they were based upon the cost of living. The Government would, therefore, be able to take a much stronger line to prevent wage increases. The Government could then say that they had decided themselves to bear the brunt of the increase in the cost of the necessities of life and could with confidence resist, as unpatriotic, demands for increases in wages. The Government should face the likelihood that at some stage there would be strikes even in the munitions industries. These could be far more readily overcome if the cost of living were kept steady. From this point of view it was desirable to include in the scheme as wide a range as possible of the commodities entering the cost of living index. The scheme was in his view sound.

The President of the Board of Trade thought that the Government would be well advised not to move too quickly in the direction of imposing a complete control on the upward movement of the cost of living. It was always easier for the Trade Union leaders to guide their members than to control them; and, if it were made impossible to justify any demand for wages increases based on the cost of living, demands would be put forward on other grounds which the Trade Union leaders would find it much more difficult to oppose. A small gradual increase in the cost of living would create a sense of contentment in the minds of the workers and would do no harm. It was surprising indeed how relatively small were the increases in wages since the war; these had been mostly settled with reference to the cost of living and had given satisfaction to the workers concerned. It was, in his opinion, easy to over-estimate both the extent to which earnings had been increased by overtime and the extent to which the earnings of working-class households had, as such, been increased. While he was in favour of stabilising the cost of foodstuffs, he was more doubtful regarding the application of that policy to clothing and fuel. As regards the latter, it would in any case be wiser to wait until more definite information was available as to the cost involved.

One great advantage of stabilising the cost of living was that it would give relief, not only to wage earners, but also to all those dependent on fixed incomes who, if the cost of living were to rise, would be unable to obtain relief through wage increases. Speaking personally, he would not himself be unduly alarmed at a prospect of linking wages to the cost of living for a limited period, and of restoring the Industrial Court as the organ for measuring the wage advances to be given.

The Prime Minister said that he would be opposed to a direct linking of this kind, although, of course, the cost of living did affect wages. If the Government were to subsidise the cost of living, they should make the fullest possible use in public of their decision.

Sir Thomas Phillips said that the Minister of Labour was in favour of what might be called an elastic stabilisation of the cost
of living. On the question of the best method to be adopted to secure for the Government the full advantage for this policy, it was important to recall that the local Trade Union Executives were being pressed by their membership to secure increases in wages, and that, if they took the opposite view, the result would be that authority would pass from them to the unconstitutional elements in the labour movement. It was for this reason that the constitutional leaders should not be pressed too far. It would not be possible to obtain from the Trades Union Congress a pledge on the subject of wages, and it would not in his view be desirable to seek such a pledge at the present time, even if it were possible to obtain one. If the cost of living was eliminated as a ground for demanding wage increases, demands would be put forward on other and more dangerous grounds. He favoured, therefore, an arrangement by which, on the one hand, the cost of living would be kept substantially stable, and, on the other hand, would be allowed to rise from time to time to a limited extent, thereby providing the local Trade Union Executives with an opportunity for securing small advantages for their members. The question of the text of the statement to be made and the method of making it would require careful consideration.

The Minister of Health said that he was in favour of an elastic adjustment rather than a rigid one. As regards the approach to Labour, the experience of the Old Age Pensions Scheme suggested that it was much better for the Government to take Labour into their confidence rather than to seek to commit them to the merits of any particular policy.

The Minister of Food said that, on the general question of policy to be adopted, he was in agreement with the views expressed by the President of the Board of Trade and by Sir Thomas Phillips on behalf of the Minister of Labour.

The Chancellor of the Exchequer said that, as regards the approach to Labour, it had been suggested that he might go to the meeting of the National Joint Advisory Council to be held on the 31st January. On the following day (the 1st February) a general Debate on economic organisation would take place in the House of Commons, and this would provide an admirable opportunity for a general statement of policy to be made on behalf of the Government.

The Prime Minister agreed that a statement should be made in the House of Commons on the 1st February. As regards the question whether, and, if so, how, a statement should be communicated previously to the Labour Movement, he suggested that the final arrangements should be left to the Chancellor of the Exchequer and the Minister of Labour.

The War Cabinet—

(1) Gave general approval to the recommendations of the Ministerial Committee on Economic Policy in regard to stabilising the price of certain staple foodstuffs which enter into the cost-of-living index (W.P. (G.) (40) 18), and in particular agreed—

(a) that the policy to be aimed at should be the general stabilisation, for a period of six months, at approximately the present figures, of the cost of certain staple foodstuffs, but that this stabilisation need not be rigid:

(b) that consideration should be given to the question of preventing rises in fuel costs; and of the institution of standard clothing, with a view to preventing rises in this item in the cost-of-living index figure.
(2) Agreed that it was desirable that the Government's policy in this matter should be made widely known, and that the Statement in which it was announced should be so drafted as to secure the widest measure of support for the principles involved.

(3) Agreed that this Statement of Policy should be announced in the Debate on Economic Organisation to be held in the House of Commons on the 1st February, 1940.

(4) Authorised the Chancellor of the Exchequer, in conjunction with the Minister of Labour, to decide whether, and if so, in what form, any previous communication on this subject should be made on behalf of the Government to the Labour Movement.

(5) Took note that arrangements had been made by the Minister of Labour, in conjunction with the Treasury and the Ministry of Food, and other Departments concerned, to prepare a scheme for the introduction of a war cost-of-living index, which would be maintained in addition to the existing cost-of-living index figure.

Norwegian Route.
Analysis of cargoes.
(Previous Reference: W.M. (40) 22nd Conclusions, Minute 2.)

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<th>Ships</th>
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<td>Pulp (31) and Paper (5½)</td>
<td>General cargo</td>
<td>36½</td>
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<td>Ballast</td>
<td></td>
<td>29</td>
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<tr>
<td>Ore</td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>Timber</td>
<td></td>
<td>6</td>
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These figures were very striking and suggested that the question deserved further examination, in order to ensure that the cargoes brought by ships from Scandinavia contributed fully to our war effort. In particular, a reduction should, if possible, be made in the number of ships arriving in ballast. The great bulk of the ships in question were under neutral flags.

In discussion, reference was made to the difficulty of compelling neutral ships, coming to this country for cargo, themselves to carry cargo instead of arriving in ballast; to the possibility that in the period under review the imports of pulp and paper might have been exceptionally high owing to seasonal or other causes; and to other factors bearing on the nature of the cargoes carried on the Norwegian route.

The War Cabinet agreed—

(a) To invite the President of the Board of Trade, in conjunction with the Minister of Supply, the Minister of Shipping and other Ministers concerned, to prepare a report—

(i) setting out the nature of the cargoes normally carried by neutral and British ships trading to this country from Norwegian ports;

(ii) making recommendations for improving the situation.

(Previous Reference: W.M. (39) 122nd Conclusions, Minute 2.)

(b) That the President of the Board of Trade should consult with the Lord Privy Seal with a view to the inclusion of the report referred to in (a) in the general report on shipping which the latter had been asked to undertake at the Meeting of the War Cabinet noted in the margin.
3. The War Cabinet had before them a Memorandum by the Secretary of State for the Colonies (W.P. (G.) (40) 15) on the Utilisation of the Man-Power Resources of the Colonial Empire.

The Secretary of State for the Colonies explained that the first call for Colonial man power should be for local defence (or use in the Middle East) and for the maintenance of their civil services and their essential industries. The next call should be for pioneer units, and it was the intention to employ these units, other than African, in France. He had consulted the Governors of the West Indian Colonies, as he had been in some doubt whether the proposal was desirable for climatic reasons. The view expressed by the Governors, on the advice of the local medical authorities, had been that, provided that there were a sufficient complement of doctors and adequate medical services, there would be no objection to the proposal. The chief trouble was likely to be lung disease. It was, however, recommended that these units should not be sent to France until the Spring was well advanced.

The Prime Minister said he was doubtful of the advantages of the proposal to recruit these pioneer units.

The Secretary of State for War said that he also was doubtful as to the utility of the proposals at the present time. At a later stage in the war they might be tried out. On the other hand, there would be advantages in trying to get labour from China, and he would like the authority of the War Cabinet to send to Hong Kong two officers who had been engaged in recruiting Chinese labour in the last war, with the object of trying to secure supplies of Chinese labour from Northern China for use in France.

The First Lord of the Admiralty expressed the view that this proposal was politically dangerous at a time when over a million people were unemployed in this country. Admittedly it had been done in 1918, but by that time we had then lost a million men in the war.

The Secretary of State for War said that, in order to obtain the labour required from this country, it would be necessary to use compulsory powers.

The Secretary of State for Foreign Affairs doubted whether the recruitment of Chinese labour would be found possible at this juncture. He thought the French might object, and the Japanese position in Northern China would make it extremely difficult.

The Prime Minister pointed out that capital might be made out of this measure in enemy propaganda.

In discussion, it was explained that it was intended that the two officers referred to should make confidential enquiries as to the position, so that plans might be ready for action if it was eventually found that the necessary labour could not be obtained from resources in this country. It was pointed out that it was hardly possible to make enquiries of this nature without incurring publicity, as publicity was the essence of a recruiting campaign. Publicity might have the most undesirable reactions and provoke foreign propaganda.

The First Lord of the Admiralty enquired whether it would be possible to proceed more rapidly with the extension of the Malay Regiment, which was referred to in paragraph 17 of the Memorandum (W.P. (G.) (40) 15), and whether it was possible to use them to help garrisoning Singapore, where they might relieve Europeans and would make a balance with the Indian element in the garrison.

The Secretary of State for the Colonies agreed that this source might be tapped with success at a later stage. The reasons against
pressing matters at this point were, first, that it had been decided on the grounds of security that it would be necessary to keep European troops in any case in Singapore, and secondly, that further Malay forces, if raised, could be equipped only at the expense of European troops.

The Secretary of State for Air informed the War Cabinet that all Colonial Governments abroad had been advised that the Royal Air Force were willing to accept fully qualified tradesmen. The Air Ministry did not contemplate any campaign for large-scale recruitment of Colonials of mixed or coloured blood, and he felt that these would be better employed in local pioneer units. The Royal Air Force, however, required a number of Cypriots or Palestinians for Royal Air Force ancillary services in the Middle East, and authorisation had already been given for enlistment in local services. He felt it inadvisable to disperse resources for flying training throughout the Colonial Empire, and that it was wiser to concentrate on schemes for training in the Dominions, Middle East, Southern Rhodesia and India. It would be premature to encourage applications from prospective candidates for flying duties until the Overseas Training Schemes were in a more advanced stage, when the Colonial Office would be informed of the necessary action to be taken.

The proposal to raise a battalion in Cyprus was then discussed. The War Cabinet were informed that the arrangements had been agreed between the War Office and the Colonial Office.

In reply to a question, the Secretary of State for the Colonies said that he thought that the desire to serve was for the present being met by the proposals at present in view, and he did not anticipate any difficulty if no further steps were authorised beyond those already taken to afford opportunity of service to personnel in the Colonies.

He also drew attention to the fact that paragraph 45 of his Memorandum should have included a reference to the addition of a second rifle battalion to the Northern Rhodesia Regiment, and should, allowing for this, have described the number of Africans serving with the local forces in East Africa as a whole as having increased from approximately 5,500 to 15,000.

The War Cabinet agreed—

(i) To approve generally the proposals set out in W.P. (G.) (40) 15, for the utilisation of the man-power resources of the Colonial Empire, in particular that the first call on the man-power should be for local defence and for the maintenance of civil services and essential industries.

(ii) That it was undesirable at the present time to proceed with the proposals summarised in paragraph 58 (b) for the recruitment of pioneer units.

(iii) That it was undesirable to proceed at the present juncture with the proposal for sending two officers to Hong Kong to investigate the possibilities of recruitment of labour, in particular in Northern China, for use in France.

The Secretary of State for Foreign Affairs referred to the discussion on this matter at the previous Meeting of the War Cabinet, and said that he proposed to send two telegrams to His Majesty's Ambassador at Tokyo. The first would consist of an exposition of our case in international law. The second would instruct Sir Robert Craigie to put before the Japanese Foreign Minister (a) certain proposals for dealing in the future with the transport of German personnel in Japanese ships, together with (b) certain suggestions with a view to reaching a settlement of the
present incident. These suggestions, placed in order of their acceptability to ourselves, were as follows:

(i) It might prove on investigation that some of the Germans taken from the Asama Maru did not fall within the category of those specially useful for the German war effort, and could perhaps be handed over to the Japanese Government, the rest continuing to be detained.

(ii) Alternatively, we might be willing, as a gesture, to hand over the whole party to the Japanese Government, if the latter would undertake to intern them for the duration of the war.

(iii) Or, again, we might be willing to hand them over on condition that they should give an undertaking, either to the Japanese Government or to ourselves, not to engage in any warlike service against the Allies during the war.

Sir Robert Craigie would not, of course, offer these suggestions in succession, or allow M. Arita an immediate choice between them.

In discussion it was agreed that the third solution should not be put forward for the present at any rate.

As regards the main issue, the view was expressed that it would be a great advantage if we could rid ourselves permanently of the annoyance of having to search Japanese vessels for Germans of military age seeking to return to Germany. The real question was whether it was possible to arrive at an agreed settlement for the future without loss of prestige to the Japanese Government. We also, however, had prestige to maintain. The first step, therefore, was to get the Japanese Government to accept the proposition that the passage of Germans of military value in their ships across the Pacific must be stopped. It might be useful, in this connection, to point out that, just as the United States mails had become the vehicle of an organised traffic in contraband, so there was a danger that Japanese shipping might become the vehicle for an organised traffic in German personnel.

The next stage would be to reach agreement as to how this traffic was to be stopped; and the final step would be to apply the agreement so reached to the Asama Maru incident. Provided the Japanese Government displayed a desire to obtain a solution of the general issue, His Majesty’s Government could afford to go a long way to meet the Japanese Government as regards this particular incident. But a settlement of the general issue was an indispensable condition to a compromise in this particular case.

It was pointed out that the Japanese might well adopt the attitude that a settlement for the future should take the form of a “gentleman’s agreement,” which would not be made public. This course would not meet our point of view. Further, any agreement on this matter was bound to obtain publicity.

In further discussion, the First Lord of the Admiralty said that the Navy had “failed to find” the further Japanese ships now en route, regarding which the Japanese Ambassador in London had spoken to the Foreign Secretary (Foreign Office telegram to Tokyo, No. 49, dated the 25th January).

The Foreign Secretary said that he had received no message of importance from Sir Robert Craigie since the latter’s telegram of the previous day, in which he had expressed the opinion that Japan had not a single leader who would dare to face such a storm as the present, and to tell the people the truth (Tokyo telegram No. 129).

The War Cabinet—

Invited the Secretary of State for Foreign Affairs to redraft the proposed despatch to His Majesty’s Ambassador at Tokyo, in consultation with the First Lord of the Admiralty, in the light of the discussion which had taken place.
5. In reply to a question, the Secretary of State for Air said that he proposed to see the Finnish Minister that afternoon regarding the decision which had been approved by the War Cabinet on the previous day to release 20 Skua and 13 Roc aircraft for Finland.

6. The Secretary of State for Air said that there had been little air activity in the previous 24 hours. One enemy aircraft had made a tip-and-run raid to the Shetlands, in the course of which four bombs had been dropped on waste land and unsuccessful attacks had been made on a motor vessel and a trawler in the neighbourhood of the Shetlands.

7. The First Lord of the Admiralty said that a report had been received that an unknown vessel had been sunk off the Tagus. Destroyers had obtained a very good contact not far from where H.M.S. Exmouth had been sunk, and very hopeful attacks had been carried out.

8. The Secretary of State for War said that there was nothing to report from the Western Front. In Finland, the Finns had captured 300 prisoners near Keitale, but there was no change in the general situation. The Finns appeared to be holding their own against the Russian attacks.

Richmond Terrace, S.W. 1.
January 25, 1940.