CABINET 72 (47)

CONCLUSIONS of a Meeting of the Cabinet held at 10, Downing Street, S.W. 1, on Tuesday, 19th August, 1947, at 12 noon

Present:

The Right Hon. C. R. ATTLEE, M.P., Prime Minister (in the Chair).
The Right Hon. HERBERT MORRISON, M.P., Lord President of the Council.
The Right Hon. HUGH DALTON, M.P., Chancellor of the Exchequer.
The Right Hon. VISCOUNT JOWITT, Lord Chancellor.
The Right Hon. A. V. ALEXANDER, M.P., Minister of Defence.
The Right Hon. ERNEST BEVIN, M.P., Secretary of State for Foreign Affairs.
The Right Hon. ANEURIN BEVAN, M.P., Minister of Health.
The Right Hon. T. WILLIAMS, M.P., Minister of Agriculture and Fisheries.

The following were also present:

Mr. HAROLD WILSON, M.P., Secretary for Overseas Trade.
Sir EDWARD BRIDGES, Permanent Secretary, Treasury.

Secretariat:

SIR NORMAN BROOK.
Mr. S. E. V. LUKE.

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1. The Cabinet considered a telegram from Sir Wilfrid Eady (Washington telegram No. 4542 of 19th August) reporting the course of his discussions on 18th August with representatives of the United States Government regarding the decision of His Majesty's Government to take immediate steps to limit the convertibility of sterling.

After a preliminary meeting with Sir Wilfrid Eady, the United States Secretary of the Treasury had instructed his officials to draft an official statement accepting friendly recognition of the inevitability of His Majesty's Government's action; and he had asked that an attempt should be made to find an interpretation of the Anglo-American Financial Agreement which would justify his Government's attitude without raising the question of formal approval by Congress. On the latter point it might be argued that our action was in accordance with Article 8 (ii) (b) of the Agreement; alternatively, the United States Government might recognize that, while it was not within the text of the Agreement, it was essential to ensure that the dollars remaining were used for the purposes envisaged in Article 3 of the Agreement and in the Articles of the International Monetary Fund. At a later meeting, however, the United States representatives had proposed an exchange of letters, in which the British Delegation would notify the decision of His Majesty's Government and urge that the measures to be taken were within the purpose and intention of the Agreement; and the reply would state that the United States Government had taken sympathetic note of the drain on the dollar resources of the United Kingdom and that they would consult with the British Delegation on the understanding that meanwhile no further drawings on the Credit would be sought beyond those already notified. Sir Wilfrid Eady had protested strongly against this proposal. The United States representatives however, replied that no more helpful attitude could be expected from them at such short notice. The British Delegation strongly urged that, in view of the great importance of securing at least the acquiescence of the United States Government, the announcement of the measures proposed for limiting the convertibility of sterling should be deferred for twenty-four hours.

The Chancellor of the Exchequer thought it would be advisable in the circumstances to postpone action for twenty-four hours, on the understanding that there could be no question of any further postponement and that Sir Wilfrid Eady should make every effort in the meantime to secure the most favourable declaration he could from the United States authorities. The Chancellor said that there had been no further acceleration in the rate of dollar drawings since he circulated his memorandum C.P. (47) 233 on 16th August. Drawings had totalled $60 million on 16th and 17th August, and $16 million on 18th August; and the Bank of England estimated that drawings might amount to $30 million on 19th August, and $15–$30 million on 20th August. Postponement for twenty-four hours might, therefore, result in the loss of $30 million but, against that, there was the risk that precipitate action on our part might jeopardise our ability to draw the balance of the Credit, which, apart from the drawings already notified, amounted to $500 million. Apart from this purely financial consideration, there were strong political arguments in favour of waiting another day if we could thereby secure the acquiescence of the United States Government in the action we were proposing to take.

The Foreign Secretary agreed that it would be advisable to accept a postponement of twenty-four hours. He thought it would be inexpedient to agree to an exchange of letters involving an immediate prohibition of further drawings on the Credit; for this would put the United States Government in a very strong bargaining position in the subsequent discussions.

There was general agreement with the views expressed by the Chancellor of the Exchequer and the Foreign Secretary.
The Chancellor of the Exchequer recalled that, at the Cabinet’s previous discussion on 17th August, it had been suggested that there was a serious risk of leakage of our dollar resources if, as suggested in C.P. (47) 233, the sterling area countries were treated differently from the non-sterling area countries. He had since ascertained, however, that in the past six weeks the dollar expenditure in respect of the sterling area (apart from the United Kingdom) had in fact been only a small proportion of the whole, and he was satisfied that there was no need to apply the same controls to the sterling area countries as to the others. Those countries would, however, be asked to exercise the utmost restraint in their dollar expenditure, and he had no doubt they would do so.

The Cabinet—

Agreed that the leader of the British Mission in Washington should be authorised to inform the United States Government that His Majesty’s Government were prepared to postpone for twenty-four hours, i.e., until 9 p.m. on Wednesday, 20th August, the action outlined in Annex II to C.P. (47) 233 for limiting the convertibility of sterling, but that there could be no question of any further postponement.

2. In the course of a general discussion on the balance of payments the Cabinet were informed that the Australian Government might shortly be raising the question of a long-term contract for the purchase of Australian wheat by the United Kingdom.

It was recalled that, in earlier discussions on world supplies of cereals both in the Cabinet and the Food Supplies Committee, Ministers had agreed that it should be one of our long-term objectives to resume the import of Australian wheat into the United Kingdom. They had contemplated that the diversion to India of the whole of Australia’s exportable surplus of wheat should be a temporary measure; and the amount of our annual purchases under the long-term wheat contract with Canada had been deliberately fixed at a level which left ample margin for imports from Australia and elsewhere. In these circumstances overtures for a long-term contract for the supply of Australian wheat to the United Kingdom should be welcomed. It would, however, be desirable that, before such a contract was concluded, we should obtain satisfactory assurances of a continuing market in Australia for exports of manufactured goods from the United Kingdom.

3. In the discussion recorded in the preceding Minute, it was suggested that it would be advantageous if a somewhat larger proportion of the food supplies of the United Kingdom could be bought through the normal channels of trade. So long as a substantial part of our total requirements of a particular commodity was assured by Government bulk purchase, under long-term contracts or otherwise, there might be advantages in giving scope for commercial buying over the remainder of the field. While so much of our total needs were covered by Government bulk purchase, there were risks of political pressure from foreign Governments, which was specially dangerous in time of economic crisis. It was worth considering whether there would be long-term advantages, to this country and to the British Commonwealth as a whole, in encouraging the re-opening of the futures markets in certain commodities by seeking to obtain a proportion, say 30 to 40 per cent., of our requirements of those commodities through commercial buying.

The Prime Minister undertook to ascertain the views of the President of the Board of Trade and the Minister of Food on the points raised in this discussion.
Trade Negotiations at Geneva.

(Previous Reference: C.M. (47) 70th Conclusions, Minute 4.)

4. The Secretary for Overseas Trade recalled that, as stated in C.P. (47) 230, the British Delegation at Geneva had been instructed that the non-discrimination provisions of the draft Charter for an International Trade Organisation should be accepted only on the understanding that the provisions requiring the prior approval of the Organisation for discriminatory practices would not become effective before 1952. The United States Delegation had now accepted our view on this matter. They had also indicated to the French Delegation that they were prepared to agree that there should be complete freedom to discriminate up to the end of 1948. Thereafter, until March 1952, there would be a right of subsequent challenge by the Organisation or by any Member, but there was little risk of successful challenge in view of the fact that during this period the majority of Members would themselves be likely to wish to have recourse to discriminatory practices. We should always have the final safeguard of a right to resign our membership of the Organisation at sixty days' notice. He proposed to circulate a paper to the Cabinet on the present position of the Geneva discussions.

The Cabinet—

Took note of the statement by the Secretary for Overseas Trade.

Cabinet Office, S.W. 1,
16th August, 1947.