



(c) crown copyright

*Printed for the Cabinet. August 1947*SECRET

Copy No. 46

C.M. (47)

73rd Conclusions

**CABINET 73 (47)***CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Wednesday, 20th August, 1947, at 12.15 p.m.***Present :**The Right Hon. HERBERT MORRISON, M.P., Lord President of the Council (*in the Chair*)The Right Hon. HUGH DALTON, M.P.,  
Chancellor of the Exchequer.The Right Hon. Sir STAFFORD CRIPPS,  
K.C., M.P., President of the Board of  
Trade.The Right Hon. A. V. ALEXANDER,  
M.P., Minister of Defence.The Right Hon. E. SHINWELL, M.P.,  
Minister of Fuel and Power.The Right Hon. T. WILLIAMS,  
M.P., Minister of Agriculture and  
Fisheries.**Also present :**

Sir EDWARD BRIDGES, Permanent Secretary, Treasury.

*Secretariat :*

Sir NORMAN BROOK.

Mr. S. E. V. LUKE.

**CONTENTS**

<i>Subject</i>	<i>Page</i>
Balance of Payments	234

Balance of  
Payments.  
(Previous  
Reference:  
C.M. (47) 72nd  
Conclusions,  
Minute 1.)

The Cabinet had before them telegrams from Sir Wilfrid Eady (Washington telegrams Nos. 4566-4569 of 20th August) reporting the outcome of his further discussions on 19th 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. They also had before them telegram No. 4570 of 20th August from His Majesty's Ambassador in Washington commenting on the latest developments.

Sir Wilfrid Eady had reported that, after further discussion, drafts had been prepared for an exchange of letters (telegrams Nos. 4568 and 4569) on lines which were considered to be acceptable by the British Mission. The Mission had been informed, however that the exchange of letters must be accompanied by a secret understanding that His Majesty's Government would not draw on the United States Credit for some unspecified period beyond the drawings already notified, the intention being that His Majesty's Government might at a later stage, which might be comparatively soon, ask the United States Government for permission to resume drawings whereupon the United States Government "would have to make up its mind." The British Mission had protested strongly against this proposed condition, but it had subsequently been confirmed by the National Advisory Council, who had stipulated that there must either be a secret understanding to this effect or an open assurance in the proposed exchange of letters that His Majesty's Government would refrain from drawings for an unspecified period. In spite of further protests by the Mission, the National Advisory Council had adhered to their attitude that, in view of their fiduciary responsibility to Congress for the management of the Loan, they must ask for such an agreement for the suspension of drawings. In these circumstances Sir Wilfrid Eady had suggested that there were four possible courses of action:—

- (i) The United States proposal for an agreement on the suspension of drawings might be accepted in one of the alternative forms suggested.
- (ii) His Majesty's Government might undertake, in the exchange of letters, to refrain from drawing on the Credit for a period of two months, if the United States Government would include in their reply an undertaking that at the end of that period His Majesty's Government could resume drawings on the Credit at any time unless the United States Government gave notice that they had ground for complaint that British procedure and policy had not been in accordance with the assurances given in their letter and were in breach of their obligations under the Agreement.
- (iii) Ministers might proceed to Washington for discussions.
- (iv) His Majesty's Government might take their proposed action unilaterally: this would no doubt involve the immediate suspension of drawings on the Credit including those already notified but not yet drawn.

*The Chancellor of the Exchequer* said that he had no objection to the proposed texts of the exchange of letters contained in Washington telegrams Nos. 4568 and 4569. As regards the possible courses of action suggested by Sir Wilfrid Eady, he could not recommend acceptance of the second. This would mean that our actions would be under the constant surveillance of the United States Administration during the next two months; and it seemed inevitable that during that time we should be forced to act in a manner which the United States Government might claim as giving them justification for complaint. He also thought that for the reasons given by Sir Wilfrid Eady the United States proposal for a secret agreement regarding the suspension of drawings was wholly unacceptable. He recommended that the Cabinet should hold to their previous decision to take action at 9 p.m. on 20th August to limit the convertibility of sterling, but that a paragraph should be added to the proposed exchange of letters saying that His Majesty's



Government were ready to make no further drawings on the Credit, beyond those already notified, pending further consultations. As he had informed the Cabinet on 19th August, \$150 million had been drawn on 11th August and notification had been given for further drawings of \$150 million on 21st August and \$150 million on 25th August. In addition, the Treasury representative in Washington had been informed on the previous day that the Government wished to draw a further \$150 million on 1st September, but in view of the delicacy of the present position it had been left to his discretion whether such notification should be made at the present stage. If drawings were made, as proposed, up to 25th August, the balance of the Credit remaining would be \$550 million.

*The President of the Board of Trade* thought that the time had come for discussions at a Ministerial level. Provision was made in Article 8 (ii) (b) of the Financial Agreement for consultation prior to agreement to continue to invoke the provisions of Article XIV, Section 2, of the Articles of Agreement of the International Monetary Fund. He suggested that the Government should state that they would not propose to notify any further withdrawals until such consultation had taken place. There should be no suggestion at this stage of a formal approach on the lines contemplated in Article 12 of the Agreement, since this implied that any modifications agreed upon would have to be presented to the legislatures of the two countries.

*The Lord President* said that any statement regarding suspension of drawings on the Credit should be so worded as to indicate that His Majesty's Government had had no alternative but to adopt the course proposed in view of the attitude of the United States Government. Public opinion in this country should not be left with the impression that the Government had taken the initiative in suggesting suspension of drawings.

*The Minister of Fuel and Power* supported the view that further discussions with the United States Government ought now to be conducted by Ministers. It was important to remember that for some time to come we should be greatly dependent on United States help, and our objective should therefore be to reach a satisfactory long-term settlement with them. For that reason it was important that we should avoid any action at this stage which would needlessly antagonise the United States Administration.

The Cabinet—

- (1) Invited the Chancellor of the Exchequer to authorise the British Mission to Washington to agree that letters should be exchanged in the terms of the drafts set out in Washington telegrams Nos. 4568 and 4569, subject to the addition, in the letter from His Majesty's Government, of a paragraph in the following terms: "As we appreciate that, in such circumstances as have arisen, provision is made in the Financial Agreement for consultation prior to agreement to continue to invoke the provisions of Article XIV, Section 2, of the Articles of Agreement of the International Monetary Fund, we would not propose to notify any further withdrawals, beyond those already notified, from the line of credit, until such consultation has taken place";
- (2) Asked the Chancellor of the Exchequer to verify\* that the United States Government accepted the proposed exchange of letters, with the modification set out in Conclusion (1) above, before announcing that evening the Cabinet's decision to limit the convertibility of sterling by the means approved at their meeting on 17th August.

Cabinet Office, S.W. 1,  
20th August, 1947.

\* Later in the day a message was received notifying the concurrence of the United States Government in the course proposed in the above conclusions.

G. R.



131