CABINET 55 (49)

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Saturday, 17th September, 1949, at 6.45 p.m.

Present:

The Right Hon. C. R. ATTLEE, M.P., Prime Minister (in the Chair).

The Right Hon. Sir StaffOrd CRIPPS, K.C., M.P., Chancellor of the Exchequer.

The Right Hon. HUGH DALTON, M.P., Chancellor of the Duchy of Lancaster.

The Right Hon. J. CHUTER EDE, M.P., Secretary of State for the Home Department.

The Right Hon. G. A. ISAACS, M.P., Minister of Labour and National Service.

The Right Hon. T. WILLIAMS, M.P., Minister of Agriculture and Fisheries.

The Right Hon. J. H. WILSON, M.P., President of the Board of Trade.

The following were also present:

The Right Hon. E. SHINWELL, M.P., Secretary of State for War.

The Right Hon. JAMES GRIFFITHS, M.P., Minister of National Insurance.

Mr. DOUGLAS JAY, M.P., Economic Secretary, Treasury.

The Right Hon. A. V. ALEXANDER, M.P., Minister of Defence.

The Right Hon. VISCOUNT ADDISON, Lord Privy Seal.

The Right Hon. A. WOODBURN, M.P., Secretary of State for Scotland.

The Right Hon. ANEURIN BEVAN, M.P., Minister of Health.

The Right Hon. GEORGE TOMLINSON, M.P., Minister of Education.

Secretariat.

Mr. A. JOHNSTON.

Mr. S. E. V. LUKE.

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The Chancellor of the Exchequer read to the Cabinet the terms of a broadcast talk (Annex) which he proposed to give on Sunday, 18th September, announcing the decision to reduce the dollar exchange value of the pound sterling.

The Chancellor said that in his broadcast he did not propose to enter into any discussion about the details of the negotiations in Washington. The talk would be concerned with decisions which the United Kingdom Government had taken and with the justification of those decisions.

In discussion the following suggestions were made:—

(a) In the third and fourth paragraphs of the draft broadcast there was an implication that proposals had emanated from the meeting with representatives of the United States and Canada in July which had then been further examined in the course of the Washington talks. It was perhaps desirable to make at the outset a point, which appeared later, that the United Kingdom Government had examined the subject very thoroughly on their own account between the July meeting and the recent Washington conference.

(b) It might be useful to indicate more fully why the decision to devalue which the Government had taken in August was not being announced until the present time. A mere statement that the Government had already taken this decision before the Washington talks would not entirely dissipate the impression that the alteration in the rate of exchange was the result of American pressure. It could be explained that it was necessary to discuss the rate with the United States, and with the other members of the Commonwealth and the International Monetary Fund. Furthermore, there had to be an interval between the decision and its execution, to enable the necessary administrative arrangements to be made.

(c) There was some discussion whether devaluation should be represented as only one of several decisions which had been taken and would be revealed later. The general feeling was, however, that it was undesirable to appear in this way to write down the importance of the financial step which the Government were now taking.

(d) The broadcast was somewhat defensive in tone and gave the impression that a special series of calamities had fallen on this country. It would be useful in this connection to make some reference to the difficulties experienced by the sterling area countries as a whole. The point might be met by saying that this country was not unique in the difficulties which it had experienced: the same difficulties had been experienced by other countries in the sterling area, but this country as the banker for the area as a whole had borne the brunt.

(e) It might be useful, in mentioning the extent of devaluation, to explain that it amounted to 30 per cent.

(f) The man-in-the-street did not understand what was meant by the sterling area and it would be useful if the area could be defined. The Chancellor of the Exchequer explained, however, that it would be very difficult to give a clear definition, particularly in a short talk.

(g) The reference (paragraph 22) to the need to change the exchange rate because of speculation should be either toned down or shortened or placed after the passage explaining how devaluation would enable this country to earn more dollars. The Government might seem to admit that speculators had managed to force them to devalue the pound and some people might argue that, if speculators had been successful under present conditions, they might repeat the performance at some future date and give the impression that the pound was still over-valued. The Chancellor of the Exchequer said that he believed the argument based on the need to create more confidence in the pound was more valid than the argument that devaluation would enable this country to earn more dollars. It was not at all clear that the effect of devaluation, while it might increase the volume of this country's exports to the dollar
area, would be sufficiently great (in view of the smaller number of dollars which would be earned) to help to close the gap. It would be quite impracticable to give any indication to what extent devaluation would assist exports, and any guess could soon be checked against published trade figures.

(a) The reference (paragraph 27) to “the first Labour Government with a clear majority” should be deleted since it introduced a party note which would give the Opposition an excuse for demanding the right to broadcast in reply. The Chancellor’s broadcast could either be couched in the terms of Party polemics or it could avoid an open Party note while at the same time taking pride in what the Government had done. As the broadcast avoided a polemical note in general, the reference to the first Labour Government should be deleted and the sentence should run “It’s our proud boast that we have prevented the heavy unemployment . . .” or more simply “Since the war we have prevented the heavy unemployment . . .”

(b) There was some discussion whether too great emphasis was placed on United States as against Canadian markets. While some reference might be made to the fact that many of the statements made about the United States applied to Canada, it remained true that the much larger size of the United States market justified the emphasis placed upon it.

(j) The Chancellor of the Exchequer said that he proposed a penny increase in the price of bread, to be imposed as soon as was practicable. This would cover the increased cost on certain assumptions about Canadian devaluation. It was agreed that the first sentence of paragraph 38 of the draft should be amended to read “The 4½d. loaf will therefore go up to 5½d., and flour correspondingly,” so as to make it clear that the price of flour would go up as well.

(k) It would be desirable in the broadcast, or later, to explain at greater length why the price of bread had to go up almost at once. The public would understand that there were stocks of wheat in this country and would wish to know why these should not be worked off at the old price. In reply it was explained that the stocks were not very great and that if the increase in the price of bread were postponed it would be more in amount than if it were imposed immediately.

(l) The addition of a penny to the price of the 1½-lb. loaf would constitute a considerable burden for the poorer sections of the community, and it might be helpful to include comparative figures of the pre-war price of bread and of the price at which it would now stand in the absence of a subsidy. It was, however, pointed out that it was not easy to make effective comparisons with the pre-war position when the standard loaf was 2 lb. and the rate of extraction considerably lower. Moreover, the Chancellor of the Exchequer felt that it would not be advisable to obscure the point that the increase in price was a sacrifice which had to be accepted by everybody. It was agreed, however, that it would be important to avoid any implication that the increase in the price of bread would represent an equal sacrifice between the various sections of the population: in fact, the proportionate quantity of bread eaten by the poorer sections of the community was substantially larger, and they would therefore feel the increase much more seriously.

(m) In general, it was suggested that the case for increasing the price of bread might be defended by a sharper antithesis, viz., the alternative to this small increase would be large-scale unemployment. (a) The wording of paragraph 38 of the draft was criticised on the ground that it appeared to assume that the proposed increase in the price of bread would inevitably be followed by a rise in the cost of living index figure; in fact, there might be reductions in the prices of other commodities which would offset the higher price of bread. The Chancellor of the Exchequer said that he feared that the prices of other food-stuffs might show an upward tendency. Moreover, he did not feel that it would be advisable to omit any
reference to the effect of the increase in the price of bread on the cost of living index, since there would be a general wish to know what this effect would be. It was important that the general public should not be led to believe that an adjustment of exchange rates could be undertaken light-heartedly and without some sacrifices. He was, however, prepared to say that the rise in the cost of bread would only affect the cost of living index by half a point.

(o) Attention was drawn to the fact that a considerable number of wage agreements were directly linked to the cost of living index, and it was suggested that the point should be made more explicitly that the Government were virtually asking for a standstill on all wage claims for a time. This point was not, however, pursued.

(p) It was agreed that in paragraph 40 of the draft the words "prices in the shop" or "retail prices" should be substituted for "any prices."

(q) It was agreed that in paragraph 50 of the draft the words "attacks on" should be substituted for "the drastic cutting down of" the social services. Otherwise the impression might be created that the Government contemplated some reduction in current social service benefits, when in fact the most that would occur would be a slowing down of the growth of these services through reductions in the investment programme.

(r) The Chancellor of the Exchequer agreed that the Minister of Fuel and Power should impress on the oil companies the importance of avoiding immediate increases in the price of petrol and oils.

The Cabinet—Invited the Chancellor of the Exchequer to take into account, in preparing the final text of his broadcast, the suggestions made in the course of their discussion.

Cabinet Office, S.W.1,
17th September, 1949.
Good evening. As you will know, I've just got back—last night—from the United States, where I have been for the last fortnight with the Foreign Secretary, to try and work out with our Canadian and American friends some solution to the very serious problem which faces us. I am sure you've read and heard a good deal in the last few months about the difficulty we, and most other European nations, have in earning enough dollars to buy what we need in the way of food and raw materials especially from America and Canada.

2. It's referred to as "the dollar shortage," or "the sterling-dollar problem"—and in many other ways—and it has been with us more or less ever since before the first world war—but it has become much more intense since the last war and, indeed, in the last few months our dollar difficulty has become very very serious indeed.

3. You'll remember perhaps that, at the beginning of July last, I spoke about it in the House of Commons—and then there was a meeting in London with Mr. Snyder, the United States Secretary of the Treasury and Mr. Abbott, the Finance Minister of Canada—my opposite numbers—at which we discussed what we could all do to help solve this difficulty.

4. These Washington talks we've just finished were a continuation of those London talks, and we were able to follow up the suggestions that were then made, because all of us had given a great deal of thought to, and put in a lot of work on, these matters in the weeks between the London and Washington talks.

5. During those weeks between July and our leaving for Washington our Government reviewed the whole situation and we came to some very important decisions indeed.

6. Those decisions Mr. Bevin and I took to Washington and the first thing we did when we arrived there was to tell them, in confidence, to our United States and Canadian colleagues—so that they might know that part of our contribution to the joint solution of the problem.

7. But before I tell you exactly what these decisions were, I want to give you some explanation of what is meant by the rate of exchange.

8. Normally before the two wars and at times between them there were international arrangements by which most of the principal forms of money used in the world like the pound sterling, the American dollar, the French franc, and so on—had a fixed relationship to one another. Soon after the end of the last war we came back to this arrangement. It is a very useful one, because it allows traders to know how much they can get, in their own money, if they sell their goods abroad, and what they will have to pay in their own money for the goods they import from other countries. They know where they are in their business, although they are dealing in foreign currencies.

9. For instance, if you had $4 you could now get nearly $1 sterling for it, and similarly for 5s. sterling, if you were, allowed to buy dollars, you could get $1. That is the rate of exchange of the £ sterling in dollars.

10. So the rate of exchange is one of the things that affects the amount of goods which we can buy and sell.

11. Let me given you a simple example of what I mean. An English motor car is exported to the United States; its price is £300 sterling. The American buyer will pay $1,200 if the rate of exchange is $4 to the £. But suppose the rate was $5 to the £—many years ago it was nearly that—the buyer would have to pay $1,500; if the rate was only $3 to the £—and after the first world war it was at one time very near that—he'd only pay $900. It's not very difficult to see two things from that. First, we should be able to buy less in America for the $900 than for the $1,200 and $1,500 and second, that more Americans would buy that type of car at $900 than would at $1,500.

12. That is why the rate of exchange for various currencies is so important to us and particularly to all our traders. It doesn't affect the internal value of our £ sterling but it does affect what we can buy and sell abroad.
13. If the dollar rate of exchange is high we earn more dollars for each thing than we sell in the dollar countries; and what we can afford to buy for dollars is cheaper in terms of £ sterling. But if it’s low we get fewer dollars for each thing we sell and dollar goods are more expensive in terms of sterling.

14. We have to remember, however, that with low prices we can sell more things, and so we can actually earn more in total. High exchange rates are of no use if they prevent us selling our goods in other countries. What we want is to earn as much as possible, so that we can import as much as possible.

15. So you see the degree of our competition in dollar markets and thus our power to earn dollars must depend, to a very large extent, upon the dollar rate of exchange of the £ sterling. This is a problem which cannot be settled for us by others. Though we have agreed in certain cases to consult the International Monetary Fund, the final decision is with His Majesty’s Government and with it alone.

16. This was a matter that we studied especially and very completely once again before going to Washington because the circumstances are always changing and it was as to that that we arrived at a very important decision.

17. The Cabinet decided—and we told our American and Canadian colleagues of our decision before any business was done on the first day of our arrival—to reduce the dollar exchange value of the £ sterling. Now I have to tell you of that decision: it is that, in place of the present rate, which was fixed in 1946, of 402 to the £, the rate is to be $1 to the £ instead.

18. That new rate will come into force at in order to enable the necessary business adjustments to be made the Banks will remain closed tomorrow, though all other business, including the Post Office Savings Banks and the Trustee Savings Banks will carry on in the usual way.

19. I must now tell you why we have done this—why we have changed our opinion since I stated on behalf of His Majesty’s Government in July last that we did not intend to change the rate and also you will want to know what sort of effect, if any, this change will have upon your income and how you spend it.

20. I must also tell you of some other precautionary steps that we must take so as to get the full benefit of this change and so as to prevent any ill-effects flowing from it.

21. I am sure I needn’t tell you what great progress we have made in this country since the end of the war. We are producing at record levels and exporting half as much again as we were before the war. Our industry and commerce is upon a sound basis of production. Taken as a whole our exports of goods and the services we provide have brought in enough to pay for our imports. But despite this, two world wars have so dislocated trade that we have been quite unable to earn enough dollars. That’s why we have had to depend since the war on loans and credits and gifts of dollars from the United States and Canada. These countries produce a great many things that we can’t buy enough of from the rest of the world so that we must buy a great many dollar goods unless we are to sacrifice our standard of living altogether. During 1948 we were making good progress towards balancing our dollar accounts, but in the second quarter of this year our dollar receipts fell off and so did those of other parts of the sterling area, although we were still getting a great deal of help under the Marshall Plan. Our gold reserves began to run away at much too fast a rate. If we couldn’t stop that drain these reserves, which belong to the sterling area as well as to us, would disappear.

22. Of course when people saw that our reserves were falling rapidly they began to wonder if their confidence in sterling was well placed. Talk had started last spring about our exchange rates in a way which led to the questioning of those rates, and people all over the world wondered whether they would be lowered. Once people suspect a lowering may take place, the speculators start in to try and make profits by turning pounds into gold and dollars by all sorts of devices. That’s a very difficult thing to stop and there has been some of it going on latterly. With low reserves we can’t afford the losses which this kind of speculation brings about. It’s necessary to take some steps to stop it before the reserves are all gone.

23. That was the first reason which convinced me of the need to act which led us to lower the rate and to devise a new rate which would stop this drain on our reserves.
24. It is essential to fix a new rate which we can hold. After all, we can always let the rate go up if events prove that we have gone down a bit too low.

25. The second reason I've already mentioned; we wanted to increase our power to earn dollars.

26. As I explained we must either earn more dollars or spend less—to get a balance. Merely to cut down our spending and do nothing to increase our earnings is a policy of desperation and not one that we could adopt. It would deprive us of essential food and raw materials and so reduce our standards of living.

27. No, we must devise a better way than that. We must sell more goods and services for dollars. This is especially important now before the Marshall Plan, with its dollar aid, comes to an end—as it does in 1952. By then we must stand on our own feet in this matter of dollars, and we must earn enough of them, for unless we do, it will mean lower standards and widespread unemployment. It's a proud boast of this, the first Labour Government in our history with a clear majority, that we have prevented the heavy unemployment that threw a deep shadow over so many of our homes in the years before 1939. I wonder how many of you realise what a hard and difficult struggle it has been to maintain that achievement. We mustn't risk any repetition of that unemployment. So we must try and create conditions in which we are not prevented from earning all the dollars we need. This change in rate is one of those conditions and a most important one.

28. We have tried a number of ways of direct encouragement, we have given our exporters who sell to dollar countries help with Export Credits, special representatives in America, special treatment with raw materials and so on. We have done our utmost to increase our productivity, so that we could get down our costs. We had some success, and all through 1948 the gap between our dollar earnings and our payments was closing.

29. Recently, however, there have been complaints that our prices in the dollar markets were too high, and that those markets were not profitable enough to encourage our manufacturers and exporters to expand their business there. It seemed pretty clear in the light of the experience of the last few months that without a marked reduction in the dollar price of our exports we were running a most serious risk that our dollar earnings would not expand fast enough to maintain the flow of essential imports so as to keep up our standard of production and of living.

30. In the old days, this reduction in price would have been forced by creating unemployment. The unemployed wouldn't have needed any imported raw materials, for they had no work; nor would they have been able to buy much food, for they had no wages. That would have reduced overseas expenditure. And when enough people were unemployed, fear and misery would have made it possible to cut down the general wage level, and bankruptcy would have forced a cutting down of other industrial costs. In that way our goods would have been cheaper, and so our sales larger.

31. Faced with such a choice the Government did not hesitate. Our deepest conviction is that the productive powers of the whole people must be used to the full and that poverty in the midst of plenty—no jobs, no wages, no goods for those who ask only for jobs to produce the goods—must never return if anything that we can do will prevent it.

32. I have said over and over again that a rapid increase in productivity was the best way to reduce our costs. We have improved here, but not quickly enough. But time is now so short and our reserves have got so low that a change in the dollar rate of exchange is the only way in which we can get our costs down quickly enough. We had hoped that the growth of our productivity and other improvements would have made this unnecessary, but events have moved too fast for us.

33. Now I must turn to deal with how this change is going to affect you and me.

34. It won't alter what we know as the internal value of the £. Your savings, your wages and salaries will buy you just as much as they did before of all the things that we produce ourselves, or that we buy from other countries who may follow our lead in making this change. Those prices should remain unaltered.
35. Where it will make some difference is where we have to pay more £s sterling for the same quantity of dollar goods. Those will cost us more.

36. The principal and most important of the food-stuffs, which count for most in the cost of living, are the wheat and flour that we import from North America and from which a great part of our bread is made.

37. You'll remember that I told you at the time of the Budget we couldn't afford to provide any more than the nearly £500 million that we are already paying annually by way of subsidies on our food. Well, that still holds good; so we can't cancel out this increase in the price of wheat by more subsidy.

38. The 4½d. loaf will therefore go up to......... This increase in the price of bread will put up the cost of living index figure by under 1 point. So it won't give any reason at all for an increase in wages or salaries.

39. Apart from this increase in the price of bread there should not be any noticeable increase in other prices at any rate for some time. Over the next few months there may be some justifiable reason for an increase in the price of a few articles which are made mainly from imported dollar raw materials—if dollar prices don't fall. But we hope they will be very few and we can wait and see what happens.

40. The important fact that I want to bring home to you all is that there is no reason whatsoever for any immediate increase in any prices—except bread—and we shall not tolerate anyone taking advantage of the situation for their own profiteering. So it follows that the change gives no reason for any increase in personal incomes whether from wages, salaries, profits or any other source.

41. The only parts of the world which will be immediately affected by our decision are the Colonies, and we are satisfied that any adverse effect on them will be even less than on ourselves.

42. This is where I come to my next and last point. I've told you why we are making this change and what we hope to get out of it by way of increased dollar earnings and a more stable £ sterling.

43. It is essential—and I really mean essential—that none of us should do anything that will diminish in any way the effectiveness of this step that we are taking.

44. You see, if any of us were to take steps that tended to increase the cost of production and so the prices of our manufactures, we should be acting contrary to the very purpose for which we are making this change. Our aim is to hold our costs of production steady while we decrease the rate of exchange. And then, whatever the effects, we all share and share alike—everyone in the country—and we do not pick upon special individuals and special industries to bear the whole burden through large-scale unemployment as happened after the first world war. But if some of us were to try and give ourselves special protection against possible price increases, or were to take advantage of this event to try and improve our relative position compared to our fellow citizens, then the result could only be to make the whole weight of any increases in price fall upon others.

45. Our whole idea is to spread whatever burden there is fairly over everyone.

46. We must, at all costs, avoid anything that increases costs of production. Indeed, we must continue with as much or even more vigour than ever, the drive for greater efficiency and lower costs of production. This change is not instead of all the policies we have already been following to earn more dollars, but in addition to them, because they of themselves have not been enough.

47. I do appeal most earnestly and with all my strength to our manufacturers to redouble their efforts to sell their goods in the dollar markets. There is not the slightest doubt that great opportunities now exist in the dollar markets but only for the right goods and they must be sold in the right way. Don't let us lose the advantages of this change because we don't go all out to get the business. This is a step that we cannot and shall not repeat. It provides a great and immediate opportunity—let us seize it eagerly and with both hands.

48. One other caution. The increase in our exports that we must win following this step—especially our exports to the dollar area—will tend to create a condition of inflation, which would be most dangerous both for our own standard of living and for our prospects of increasing our dollar earnings. That we must
avoid. We mustn’t try and do too much all at the same time. More exports to the dollar area are essential, and we want to maintain our social services and our personal incomes. The exceptional help from the United States and Canada is tailing off and we must become self-supporting at whatever standard we can afford by our own efforts. That means that we shall have to moderate the rate of our investment in capital goods and economise wherever we can in Government expenditure, if we are not to overspend ourselves and so bring about inflation.

49. The Government has taken one of the most serious steps it could possibly take and we are taking it because our present sterling-dollar difficulties are very great indeed. They demand immediate and drastic treatment if we are to preserve the stability of sterling and to increase our dollar earning power—two absolutely essential requirements for our future prosperity.

50. We have decided upon these steps because we are determined not to try and solve our problem at the cost of heavy unemployment, or by the drastic cutting down of the social services that have been expanded over the last few years, such as health, housing and education.

51. We can make this change a great success, but only if we all play the game and if we don’t try to take advantage of one another. If we take fair shares of our difficulties as well as of our benefits.

52. These steps that we are taking will be supplemented by those agreed in Washington in the most frank and co-operative talks in which I have ever taken part. Our American and Canadian friends, who have already given us such great temporary help, have expressed themselves as ready to work with us for the permanent strengthening and stabilisation of sterling, which they recognise as a most important international trading currency. They are willing too to make their contribution towards the increase in our dollar earnings which is the essential basis for a high-level equilibrium in the balance of payments between the sterling and dollar areas.

53. This is a great encouragement both to us and to all the free democracies of the world. It gives us a convincing hope that with our own efforts, thus made effective, we shall finally emerge out of our post-war difficulties.

54. We thus start upon another stage in the magnificent struggle of our people to overcome the crushing difficulties imposed upon them by their sacrifices in the world war. We have so far splendidly succeeded. If we falter, we shall be in a position of great danger. But the occasion is a challenge which we willingly accept, and accept in the conviction that these new steps we are taking will bring us still nearer to our goal of happiness and prosperity for our people.