CONCLUSIONS of a Meeting of the Cabinet held at 10, Downing Street, S.W.1., on SATURDAY, August 22nd, 1931, at 9.30 a.m.

PRESENT:-

The Right Hon. J. Ramsay MacDonald, M.P., Prime Minister. (In the Chair).

The Right Hon. Philip Snowden, M.P., Chancellor of the Exchequer.

The Right Hon. J.H. Thomas, M.P., Secretary of State for Dominion Affairs.


The Right Hon. J.R. Clynes, M.P., Secretary of State for Home Affairs.

The Right Hon. Tom Shaw, C.B.E., M.P., Secretary of State for War.


The Right Hon. Christopher Addison, M.P., Minister of Agriculture and Fisheries.

The Right Hon. W. Graham, M.P., President of the Board of Trade.

The Right Hon. William Adamson, M.P., Secretary of State for Scotland.

The Right Hon. Herbert Morrison, M.P., Minister of Transport.


The Right Hon. Lord Passfield, Secretary of State for the Colonies.


The Right Hon. W. Wedgwood Benn, D.S.O., D.F.C., M.P., Secretary of State for India.

The Right Hon. Lord Amulree, G.B.E., K.C., Secretary of State for Air.

The Right Hon. Margaret Bondfield, M.P., Minister of Labour.

The Right Hon. H.E. Lees-Smith, M.P., President of the Board of Education.


The Right Hon. George Lansbury, M.P., First Commissioner of Works.


Mr. R.B. Howorth, C.B., C.M.G., Deputy Secretary.
With reference to the Conclusion referred to in the margin, the Prime Minister reported to the Cabinet that the financial situation had undergone further deterioration and on the previous day. The Chancellor of the Exchequer himself had met the Representatives of the Bank of England and the Leaders of the Opposition Parties on the previous afternoon, and had found that it was absolutely impossible to reach any agreement on the proposals which the Cabinet had authorised him to lay before those persons.

With regard to the Representatives of the Bank of England, the position was that it was essential that assistance of a substantial character must be obtained both from New York and Paris. In connection with the former, the Federal Reserve Bank had, on their own initiative, issued a very reassuring statement as to the Government's intentions, while the Bank of France had also been responsible for a very favourable notice in the Paris Press. He assured the Cabinet in the most emphatic terms that there was no ground whatever for the suggestion that the present crisis was in any respect due to a conspiracy on the part of the Banks, all of which were most anxious to render assistance to the Government.
With regard to the proposals as determined on the previous day by the Cabinet, the Representatives of the Bank of England had made it quite clear that, if the economies suggested represented the Government's final word, the scheme would be of no value. They pointed out that an analysis of the figures showed that against the total deficit, real savings in expenditure only amounted to about £48 millions. The other so-called economies were merely additional burdens which, while they would ease the Exchequer position, really involved further taxation of the employer and the workman. It could not be too clearly recognised that foreign lenders regarded the heavy financial burdens on industry of the Unemployment Insurance scheme as impairing the security for their loans. In the considered opinion of the Bankers, the proposals would not only not produce the required effect, but would probably worsen the position by further diminishing confidence.

At the subsequent meeting with the Representatives of the Leaders of the two Parties, all those Leaders had made it quite clear that the proposals were wholly unsatisfactory, and that none of them would give them any support. They had suggested that in the circumstances Parliament should be summoned with the least possible delay, and had made it clear that directly the House of Commons met, the two Parties would combine to defeat the Government. In the meantime the
crisis would have happened, as the present financial resources would be exhausted within the next few days. The Party Leaders had made it clear that if the crisis occurred, the sole responsibility must rest with the Government, and in the most correct possible fashion they had suggested that His Majesty should be consulted. Later in the evening the Prime Minister had again seen the Party Leaders, who in the meantime had consulted with prominent members of their own Parties, all of whom had completely associated themselves with the views expressed by the Party Leaders earlier in the day. In particular, at a separate meeting with the Liberals, the Prime Minister had been assured that it was impossible for the Liberal Party to support the Government in this matter.

All the Party Leaders looked for economies which in the aggregate would be substantially greater than the figure of £56 millions proposed. They urged, however, that the real weakness of the proposals was the failure to secure adequate economies on Unemployment Insurance.

In conclusion the Prime Minister stated that he had informed the Party Leaders that a further meeting of the Cabinet was to be called, and that they would receive the final decision of the Government at midday to-day.

In reply to a question relative to the Sinking Fund proposal, the CHANCELLOR OF THE EXCHEQUER informed the Cabinet that the Leaders
of the Conservative Party, and also the Representatives of the Bankers, had stated that any attempt of this kind to camouflage the true position would be at once detected, and that it was of paramount importance that the Budget should be balanced in an honest fashion, and not by recourse to borrowing.

The Cabinet took note of the Report summarised above of the Meetings held on the previous afternoon.
2. Arising out of the Report made to the Cabinet summarised in the previous Conclusion, the Cabinet discussed at considerable length the procedure to be adopted in the immediate future in the event of certain contingencies arising.

3. In the course of discussion the Chancellor of the Exchequer reminded the Cabinet of the very difficult position in which the Members of the Government would be placed in the House of Commons if a new Government took Office and introduced economy legislation based on the existing proposals with the addition of further substantial cuts in Unemployment Insurance.

At the opening discussions with the Leaders of the political parties, economies of the order of nearly £84 millions had been envisaged but these economies had now been greatly reduced by decisions with which he personally was not in agreement. In his, the Chancellor of the Exchequer's, view the first question for decision was whether the Cabinet would now review their findings of the previous day and add a further £25 - 30 millions of economies to the present figure of £56 millions gross. It was a delusion to imagine that any large economy could be secured from "derating" and, in any event, this was merely a transfer
from taxes to rates and did not touch the root of the problem, which from the international financial point of view could only be rectified by drastic treatment of the Unemployment Insurance figures.

There could be no possible question that, of the reasons for the present crisis, much the most serious was the huge and rapidly growing expenditure on Unemployment Insurance which must inevitably be dealt with by either the present or some future Government. When it was announced that after taking account of economies of the order suggested by the Leaders of the Opposition Parties there would still be a deficit of some £90 millions to be covered by new taxation, the shock to public confidence would be very acute.

The Chancellor of the Exchequer informed the Cabinet of the nature of the consequences which would follow from a departure from the gold standard. So far as he was concerned, he had no doubt whatever, if he was compelled to choose between retaining the Labour Movement in its present form and reducing the standard of living of the workmen by 50%, which would be the effect of departing from the gold standard, where his duty would lie; and he felt confident that his views would be shared by every responsible Leader of the Party. After explaining the present currency position the Chancellor
outlined the appalling consequences to trade and industry and to all engaged therein of a collapse of sterling. The position could only be rectified by resolute facing of this Unemployment Insurance question. After some further discussion the Prime Minister invited the Cabinet to say whether they were prepared to authorise him to inform the Leaders of the Opposition Parties that the Government were prepared to add a further £20 millions gross to their list of economies, to be made up as to £12½ millions by a 10 per cent. reduction in Unemployment Insurance benefit, and as to £7½ millions in other ways. The Cabinet were not prepared to authorise the Prime Minister to make this offer.

The Chancellor of the Exchequer and the Secretary of State for Dominion Affairs asked that their dissent from this conclusion should be recorded.

After further discussion, in the course of which the Prime Minister referred to the great difficulties which would arise if the Cabinet declined to make any advance at all on the economies as determined on the previous day, the Cabinet agreed -

To authorise the Prime Minister and the Chancellor of the Exchequer to ascertain from the Leaders of the Opposition Parties whether they would regard as satisfactory the addition of a further £20 millions gross to the list of economies, to be made up as to £12½ millions by a 10 per cent. reduction in Unemployment Insurance benefit, and as to £7½ millions in other ways; it being distinctly understood, however, that, in making this inquiry, they were merely seeking information, and that the Government were in no way committed to the proposal.
After some further discussion of possible courses of procedure which might be followed in the next few days, the Cabinet agreed -

(1) To adjourn so as to enable the Prime Minister and the Chancellor of the Exchequer to confer with the Leaders of the Opposition Parties and to re-assemble on the same day at 2.30 p.m. to receive a report of this conference.

(2) To take note that it was expected that His Majesty would be returning to London immediately.

(3) That members of the Cabinet should arrange to be available for the weekend in the event of emergency meetings of the Cabinet being called.

(4) That, pending the publication of an authorised statement regarding the proposals, Ministers should carefully abstain from making any references to the subject.

The Cabinet adjourned at 12.10 p.m.

2, Whitehall Gardens, S.W.1.
22nd August, 1931.