CONCLUSIONS of a Meeting of the Cabinet held at 10, Downing Street, S.W.1., on SUNDAY, 23rd August, 1951, at 7.0 p.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. 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.B. Lees-Smith, M.P., President of the Board of Education.


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


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

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.


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In pursuance of the Conclusion referred to in the margin, the Cabinet met to receive a report from the Prime Minister in regard to the reply of the Bankers. After reminding the Cabinet that the Chancellor of the Exchequer and himself had seen the representatives of the Bank of England on the previous afternoon, and had ascertained from them that after getting in touch with Mr. Harrison they would communicate with him again, the Prime Minister informed the Cabinet that he had received at 10.0 p.m. on the previous evening a telephone message from Sir E. Harvey, to the effect that Mr. Harrison had expressed his own personal opinion that, if a further £20 millions gross was added to the list of economies, made up as to £12½ millions by a 10% reduction in Unemployment Insurance benefit and as to £7½ millions in other ways, the proposals as a whole would be satisfactory from the point of view of the proposed loan, but that he must first confer with the financial interests responsible for raising the money in New York. Meetings for this purpose had been held that day (August 23rd) in New York and London, and although no answer had yet been received from New York it was confidently expected that a reply would come in a little later in the evening. The Prime Minister added that he had not again seen the Leaders of the Opposition Parties, but he reminded the Cabinet that those Leaders had undertaken to support the proposals if the latter were satisfactory to the financial interests.

The Prime Minister then informed the Cabinet that he had seen His Majesty and had advised him to
acquaint himself with the views of the Leaders of the Conservative and Liberal Parties on the situation. The question before the Cabinet was whether, in the event of the reply from New York being satisfactory, they were now prepared to add the 10% reduction in Unemployment Insurance benefit, and the other additional economies, making in all £20 millions gross, to the programme which had already been approved.

Some discussion took place as to the precise position regarding the Parliamentary situation, and on this point the Prime Minister reminded the Cabinet that when he and the Chancellor of the Exchequer met the Leaders of the Opposition Parties he had been assured in effect that they would be ready, by means of a Parliamentary agreement, to accept and support the proposals, provided that the financial interests were satisfied as to their sufficiency to meet the emergency. He, the Prime Minister, had made it clear that he interpreted the expression "Parliamentary agreement" to mean that both Oppositions would facilitate the passage of the Government's proposals, but that, if, for example, the Oppositions carried a motion to increase the reduction in Unemployment Insurance benefit from 10% to 20%, the Government would then be at liberty to regard the vote as one of "no confidence". He did not, however, consider that the Parliamentary situation presented any real difficulty.

At 7.45 p.m. the Cabinet adjourned to await the message from New York, and resumed at 9.10 p.m., when the Prime Minister
read to the Cabinet a message which had been
addressed personally to him by Mr. Harrison. For
a copy of this message see APPENDIX. The Prime Minister
informed the Cabinet that he had ascertained from
the Deputy Governor of the Bank of England that they
had sounded in strict confidence certain important
and influential financial interests in the City
of London, all of which were prepared to support the
scheme. The Bank of England was also satisfied
as to the technical aspects of the financial
proposals for the short term credit mentioned in
the message and thought that the amount suggested
would suffice, provided that Parliament passed the
legislation necessary to secure budgetary equilibrium
within a strictly limited time.

With regard to the concluding paragraph of
the message, the Prime Minister pointed out that,
as the Opposition Parties had undertaken to support
the Government's proposals, the conditions laid
down in that paragraph might be regarded as
fulfilled.

He most sincerely hoped that the Cabinet
would now accept the proposals as a whole. If, however,
the Cabinet were unable to accept them, then it was
clear that the loan which was essential to avert the
crisis, would not be forthcoming and it was unthinkable
that the Government could remain in Office and prevent
some other Administration being given the opportunity
to decide that money should be found.
The Chancellor of the Exchequer expressed himself as generally satisfied from the technical point of view with the proposals of the American financial interests as set out in Mr. Harrison's message, and the Prime Minister again stressed his hope that, provided there was no Treasury objection to the 'Harrison terms', the Cabinet would accept the full proposals, including the 10 per cent. cut in Unemployment Insurance benefit. It was not anticipated that there would be any difficulty in securing the co-operation of French financial interests in the financial proposals.

The Prime Minister informed the Cabinet that a situation had now to be faced of a peculiarly difficult character because, if the Labour Party was not prepared to join with the Conservative and Liberal Parties in accepting the proposals as a whole, the condition mentioned in Mr. Harrison's message, regarding a national agreement, would not be fulfilled.

So far as he was concerned, he was strongly in favour of such acceptance while at the same time making clear that the scheme represented the extreme limit to which he was prepared to go.

The country was suffering from lack of confidence abroad. There was, as yet, no panic at home, but the Prime Minister warned the Cabinet of the calamitous nature of the consequences which would immediately and inevitably follow from a financial panic and a flight from the pound. No one could be blind to the very great political difficulties in which the giving effect to the proposals as a whole would involve the Government. But, when the immediate crisis was over
and before Parliament met, it would be possible to give the Labour Party that full explanation of the circumstances which had rendered it necessary for the Government to formulate such a drastic scheme, which could not be given at the moment. The only alternative was a reduction not of 10 per cent., but of at least 20 per cent., and he could not believe that the Labour Party would reject the proposals when they knew the true facts of the position. He was confident, indeed, that a majority of that Party would accept them. A scheme which inflicted reductions and burdens in almost every other direction, but made no appreciable cut in Unemployment Insurance benefit, would alienate much support and lose the Party their moral prestige, which was one of their greatest assets. In conclusion, the Prime Minister said that it must be admitted that the proposals as a whole represented the negation of everything that the Labour Party stood for, and yet he was absolutely satisfied that it was necessary in the national interests to implement them if the country was to be secured. He then pointed out that, if on this question there were any important resignations, the Government as a whole must resign.

Each member of the Cabinet then expressed his views on the question of the inclusion, or otherwise, in the proposals, of the 10 per cent. reduction in Unemployment Insurance benefit.
In the course of these expressions of view, indications were given that, while a majority of the Cabinet favoured the inclusion in the economy proposals of the 10 per cent. reduction in unemployment insurance benefit, the adoption of this as part and parcel of the scheme would involve the resignation of certain Ministers from the Government.

In these circumstances the Prime Minister informed the Cabinet that he proposed to acquaint His Majesty at once with the situation which had arisen, and to advise him to hold a conference with Mr. Baldwin, Sir H. Samuel and himself on the following morning. The Cabinet agreed to this proposal, and also authorised the Prime Minister to inform His Majesty that all Cabinet Ministers had placed their resignation in the Prime Minister's hands. The Prime Minister left the meeting of the Cabinet at 10.10 p.m.

The Prime Minister returned from Buckingham Palace at about 10.40 p.m. and stated to the Cabinet that he had informed His Majesty of the situation, namely that, while the Government had agreed that the Budget should be balanced, they had been unable to reach agreement on proposals to deal effectively with the existing financial emergency, and accordingly that it was impossible for them to continue in office as a united Cabinet. He had then advised His Majesty that he should accord an Audience to Mr. Baldwin, Sir Herbert Samuel and himself on the following morning, and His Majesty had been pleased to fix 10 a.m. as the time for this Audience.
The Cabinet agreed --

(i) That no announcement should be issued to the Press;

(ii) That the Prime Minister should inform the Leaders of the Opposition Parties forthwith of the nature of the message which he had received from Mr. Harrison;

(iii) To leave the question of the summoning of Parliament in the hands of the Prime Minister;

(iv) That a further meeting of the Cabinet should be held on Monday next, August 24th, 1931, at No. 10, Downing Street, at 12 noon, but that no formal notice of this meeting should be issued.
2. In the course of the discussion referred to in the previous conclusion the Prime Minister reminded the Cabinet that it was the constitutional practice that, after resignation, each Minister continued to perform the purely formal functions of his office until the appointment of his successor, but abstained from questions of policy. Ministers concerned would receive notice as to the arrangements for the surrender of the Seals of Office.

The Cabinet took note of the Prime Minister's statement.

2, Whitehall Gardens, S.W.1.

24th August, 1931.
APPENDIX.

MESSAGE FROM MR. HARRISON.

We are considering very carefully the tentative suggestion made by the Deputy Governor of the Bank as to the bare possibility of the British Government desiring to arrange some form of a joint French and American credit, but it is quite impossible to give any assurance to-day. Please tell your friends in the event that they should desire financial co-operation we shall as always do our utmost to meet their wishes. If the suggestion were to take the shape of a public loan offering we are confident that until Parliament convenes and acts and until we have had an opportunity to feel out our community could render no favourable opinion whatsoever. If the suggestion, however, were to take the form of a short-term Treasury operation that would be less difficult and if the British Government should desire us to canvass amongst ourselves and our immediate friends such a suggestion, we would take up the matter vigorously tomorrow morning and be able to give you an answer by our closing tomorrow afternoon.

Kindly let us know subsequent to the result of the Cabinet Meeting which you say will be held this evening whether the Government wishes us to explore promptly this possibility. The furthest we have gone to-day has been to discuss merely amongst ourselves the possibility of a short credit in this market of £100,000,000 to £150,000,000 and we have as before indicated assumed that as a condition the French market will do an equivalent amount. When we state a short-term we have roughly in mind 90 days Treasury Bills subject to renewal for an inclusive period of one year.

In the foregoing we have as always given you the precise trend of our thoughts. Let us know promptly as
above indicated what the Government's desires are and within 24 hours we shall be able to give you our final judgment.

Are we right in assuming that the programme under consideration will have the sincere approval and support of the Bank of England and the City generally and thus go a long way towards restoring internal confidence in Great Britain.

Of course our ability to do anything depends on the response of public opinion particularly in Great Britain to the Government's announcement of the programme.