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S E C R E T.

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C A B I N E T 59 (31).

CONCLUSIONS of a Meeting of the Cabinet held in
the Prime Minister's Room, House of Commons,
on THURSDAY, September 17th, 1931,
at 8.30 p.m.

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PRESENT:-

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

The Right Hon.
Stanley Baldwin, M.P.,
Lord President of the
Council.

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

The Right Hon.
Sir Herbert Samuel, G.C.B.,
G.B.E., M.P., Secretary of
State for Home Affairs.

The Right Hon.
Lord Sankey, G.B.E.,
Lord Chancellor.

The Most Hon.
The Marquess of Reading,
G.C.B., G.C.S.I., G.C.I.E.,
G.C.V.O., Secretary of State
for Foreign Affairs.

The Right Hon.
Sir Samuel Hoare, Bt.,
G.B.E., C.M.G., M.P.,
Secretary of State for
India.

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

The Right Hon.
Neville Chamberlain, M.P.
Minister of Health.

The Right Hon.
Sir Philip Cunliffe-Lister,
G.B.E., M.C., M.P., President
of the Board of Trade.

Colonel Sir M.P.A. Hankey, G.C.B., G.C.M.G., Secretary.

Previous
Reference:
Cabinet 58
(51), Con-
clusion 4.)

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The Prime Minister informed the Cabinet that, as he had mentioned at the Meeting of the Cabinet referred to in the margin, he had, in conjunction with the Committee on the Financial Situation, met Sir Ernest Harvey (the Deputy Governor of the Bank of England) and Mr Peacock that afternoon. The bankers had reported a deterioration in the financial situation due to an increase in the withdrawals from London during the last few days. While the causes for the withdrawals were difficult to establish with certainty, the bankers attributed them in the main to the following reasons:-

(1) Lack of confidence of foreign nationals in their own financial position. In this connection there were rumours that night of the failure of banks abroad and of serious financial difficulties in Amsterdam.

(2) The adverse balance of trade. On this point, however, it had not been possible to establish an assured figure. Estimates varied from ^{rates of} £250 millions to £100 millions a year, but there was great uncertainty. For deposits and sterling bills held in London on foreign account the bankers gave a preliminary estimate of £350 millions as compared with the estimate of £407.1 millions contained in the Macmillan Report (Cmd. 3897, page 42). Neither of these figures, however, included foreign banks, and the Bank of England had not as yet been able to ascertain the extent of their holdings.

(3) The recent Naval unrest in the Atlantic Fleet.

(4) An internal flight from the £. There was not much visible flight; that is to say, very little

was being done through the Joint Stock Banks. There might, however, be a certain amount invisible, conducted through foreign banks. One foreign financial institution had reported that it was doing business of this kind.

(5) The risk of a General Election. The bankers said that the financial world had been a good deal upset when a statement had been made that the National Government was only to be short-lived.

The representatives of the Bank of England had been firmly of opinion that the efforts to maintain the £ sterling must be continued. This raised the question of the steps to be taken if the withdrawals should continue at a high rate and exhaustion of the existing Credits were threatened. It was realised to be of great importance, if a General Election should take place, that the £ sterling should be secure while it was being held. . This opened up the question whether further Credits should be sought.

The representatives of the Bank had pointed out that the United States of America and France both had great interest in maintaining the £ sterling. The position in the United States, however, was not very strong. A good deal of effort had been required in order to raise the American share of the recent £80 millions Credit. The French were known to have large sums deposited in London, and these were reported recently to have been increased. They were held partly by the Bank of France and partly by the French Government. The French, therefore, who had already showed much good will, had every possible interest to maintain sterling. The bankers had also emphasised the world-wide reactions which would follow if we went off the Gold Standard, and had quoted in particular the commitments of the Irish Free State and Egypt.

They had explained that if further Credits were to be sought in order to make sure of the period of a General Election, it would be necessary to explain the whole position frankly to the Americans and the French not only in its financial but also in its political aspects. This had opened up the question of the conditions in which an Election, if held at all, should be held.

While disclaiming any right to an opinion on political events, the representatives of the Bank, when pressed as to their view of what the American and French banking interests would be likely to consider would provide sufficient security for further Credits, had indicated that a General Election in which the three Parties were acting independently would not be regarded as providing sufficient certainty for the establishment of a stable Government as the result. An appeal to the electorate by a National Government on a national policy devised to rectify the financial situation was more likely to be regarded favourably abroad. Mr Peacock had expressed the view that, as a policy of perfection, it would be preferable for the National Government to remain in office to deal with the balance of trade, and that an announcement of this intention would, in his view, do much to restore confidence. The risk had been pointed out to him, however, that by remaining long in office the Government might become unpopular, and doubts as to its stability and as to its ultimate success at the polls might again upset confidence.

Notwithstanding their proved good will, and in spite of the strong interest that the United States and France had in maintaining the £ sterling, the

representatives of the Bank of England had said that to obtain fresh Credits was not an easy matter, and had urged that if such Credits were desired the initiative should be taken by the Government through the appropriate channels. In any event, in view of the assistance which the United States and France had given, and of the commitments they had in London, it was, they considered, essential to give them warning of the present trend of events.

As there is a possibility of a further Credit being required if withdrawals continue at their present rate, and particularly if a General Election should be considered necessary, the Cabinet proceeded to discuss the subject. It was arranged that the question should be further explored on the following morning by the Prime Minister, the Lord President of the Council and the Home Secretary.

At the end of the Meeting the Chancellor of the Exchequer received a message from Sir Ernest Harvey referring to reports of a serious financial crisis in Holland and asking that no communication should be made to the American and French Governments on the subject of further Credits, etc., until the morning, when the effects of these fresh events could be weighed.

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2, Whitehall Gardens, S.W.1,

September 17, 1931.