CABINET 60 (31)

Meeting of the Cabinet to be held at
10 Downing Street, S.W.1., on
MONDAY, September 21st, 1931,
at 11.30 a.m.

AGENDA.

1. The Financial Situation.
   (Reference Cabinet 59 (31)).
   Continuation of Discussion.

2. Education Economies.
   (Question to be raised by the
   President of the Board of Education.)

(Signed) M.P.A. HANKEY,
Secretary, Cabinet.

2, Whitehall Gardens, S.W.1.,
18th September, 1931.
CABINET 60 (3).

CONCLUSIONS of a Meeting of the Cabinet held at 10, Downing Street, S.W.1., on SUNDAY, September 20th, 1931 at 4.30 p.m.

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. H. Thomas, M.P., Secretary of State for Dominion Affairs and Secretary of State for the Colonies.

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

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


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

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

1. The Prime Minister, who had been detained by an official engagement at Chequers and who arrived somewhat late, informed the Cabinet in the course of the meeting that on the evening of Friday, September 18th, he had had to return to London from Chequers shortly after his arrival there, in order to meet representatives of the Bank of England, who had reported a very serious situation owing to the continued heavy withdrawals from London. On the following day the Bank of England had made formal application to be relieved of their obligation to sell gold under the provisions of the Gold Standard Act, 1925. It had been necessary for him to take action expeditiously and with the utmost secrecy, and there had not been time to summon a Meeting of the full Cabinet.

The Cabinet recognised the circumstances in which the Prime Minister had had to act on their behalf.

2. While awaiting the arrival of the Prime Minister his colleagues discussed informally a draft Press Notice which was circulated to them under instructions from the Chancellor of the Exchequer (Appendix I). Their suggestions were endorsed by the Prime Minister, and after his arrival other alterations were made.

The Cabinet agreed —

(a) That the following modifications should be made in the original draft (Appendix I):—

Page 2, Line 8: For the words "Parliament is considering the necessary legislation" put "Parliament is passing the necessary legislation".

Page 3: For the first three lines, "His Majesty's Government are well aware that the present step is bound to have serious consequences both at home and abroad" put "His Majesty's Government have arrived at their decision with the greatest reluctance".

NOTE: This suggestion, which at once
commended itself to the Cabinet, was received during the Meeting from the Treasury, who had been in communication with the Deputy Governor of the Bank of England.)

Page 3, Lines 5 and 6: For the words "seem bent on liquidating their foreign assets in a spirit of panic" put "have been liquidating their sterling assets regardless of their intrinsic worth".

Page 3, Line 7: For "the economy of this country" put "the financial position of this country".

Page 3, Lines 9 and 10: For the words "His Majesty's Government have secured, at the cost of painful sacrifices, a balanced Budget", put "His Majesty's Government are securing a balanced Budget".

(b) To approve the draft Press Notice, subject to the above amendments.

(A copy of the Press Notice as actually issued is attached in Appendix II.)

(c) That copies of the Press Notice should be distributed to representatives of the Press, who were to be seen by the Prime Minister, with whom were associated the Lord President of the Council, the Chancellor of the Exchequer and the Home Secretary, immediately after the Meeting of the Cabinet, and that a copy should be sent to India.

3. The Cabinet had before them a draft of the Gold Standard Bill, 1931, the object of which was to suspend the operation of Sub-section (2) of Section One of the Gold Standard Act, 1925, and for purposes connected therewith.

The Bill was examined by members of the Cabinet before the arrival of the Prime Minister.

The Prime Minister informed his colleagues that all the necessary action had been taken to alter the Order of Business of the House of Commons on the following day in order to permit the passing of this urgent Bill through all its stages. Arrangements had also been made for summoning the House of Lords
for the same purpose. Pending the passing of the Bill the Bank of England was covered by a letter from the Treasury dated September 19, 1931.

The Cabinet agreed —

(a) To approve the draft of the Gold Standard Bill, 1931, for submission to Parliament on the following day:

(b) (Adopted later in the Meeting) That the following names should be placed on the back of the Bill:

The Prime Minister,
The Lord President of the Council,
The Chancellor of the Exchequer,
The Home Secretary,
The Financial Secretary to the Treasury.

4. The Chancellor of the Exchequer informed the Cabinet that a telegram had been prepared for immediate despatch to British diplomatic representatives abroad and to the Prime Ministers of the Dominions.

5. The Prime Minister informed his colleagues that he had had under consideration the question of broadcasting by wireless a statement of a steadying character explaining the situation. He took the view that, on the whole, it would be advisable to secure publicity by means of the Press statement, which the Cabinet had already approved, in Monday's newspapers, and to reserve the broadcast until Monday evening.

He himself had undertaken on Monday evening to take the Chair at a meeting at the Queen's Hall commemorative of Faraday, and his speech would be broadcast.

The question arose, therefore, as to who should broadcast the statement on the financial situation.

The Cabinet agreed —

(a) That the broadcast statement on the financial situation should be made on the evening of Monday, September 21:
(b) That it would be advisable for the Prime Minister to keep his engagement to broadcast at the meeting commemorative of Faraday shortly after 8 p.m.:

(c) That the Chancellor of the Exchequer should broadcast on the financial situation at 9.15 p.m. and that his intention to do so should be announced in the Press. The Chancellor of the Exchequer said he would require from a quarter of an hour to twenty minutes.

(NOTE: The Prime Minister gave instructions to his Private Secretary to put in hand the necessary arrangements at once.)

6. The Prime Minister pointed out that the events of the last 48 hours had created a new situation and it was necessary for the Cabinet to consider whether it involved any modification in the business of the House of Commons apart from the passage of the Gold Standard Bill, 1931.

The Cabinet were reminded that among the arguments justifying the Economy Bill, emphasis had been laid on the fact that prices were falling. It had also been suggested in many speeches that if the country went off the gold standard prices would rise. It might therefore be represented in Parliament that the justification for the Economy Bill had passed away, and the opposition to the various reductions in the pay of teachers, police, sailors, soldiers and airmen would be strengthened. The Cabinet were reminded, however, that the main object of the Economy Bill was to balance the Budget, and it was strongly urged that this position must be maintained. As mentioned in the Press Notice (Appendix II), there was a great difference between going off the gold standard with an unbalanced Budget accompanied by uncontrolled inflation, and taking this measure not
because of internal financial difficulties but because of excessive withdrawals of borrowed capital. Immediately there was no certainty that prices would rise and any rise in prices was likely to lag a good deal behind any fall there might be in sterling. It was urged that the Cabinet should not falter in their main policy. It was suggested also that if prices should rise seriously at some later date it would be possible to pass an Act to enable the Orders in Council to be varied.

The Cabinet agreed —

That the Government's programme of business should not be altered owing to the new situation.
7. The Cabinet were informed that, by agreement between the Committee of the Stock Exchange, the Bank of England and the Joint Stock Banks, the London Stock Exchange would be closed on Monday, September 21st.

A message was read to the Cabinet from Paris, dated September 20th, despatched 4.35 p.m., (by telephone), stating that a letter to the Chancellor of the Exchequer from the French Minister of Finance was on its way by aircraft and that the Minister offered to co-operate in any measures which His Majesty's Government may be contemplating. M. Flandin had stated that if the London Stock Exchange was to be closed, they would do the same in Paris, and in that case it would be desirable to secure the closing of other leading Stock Exchanges, e.g., Berlin, Amsterdam. M. Flandin did not want to close the Bourse, but would do so if desired. M. Flandin also thought that the closing of the market for forward transactions in pounds sterling should be undertaken at once and suggested that the Bank of England should confer with the Bank of France.

The Treasury had reported to the Chancellor of the Exchequer that the Deputy Governor of the Bank of England thought it a good plan to close the Stock Exchanges in Paris, Berlin and Amsterdam. They reported that the Bank of England would get into touch with the Bank of France about the closing of the market for forward transactions in pounds sterling.
The Cabinet agreed --

That appropriate action should be taken for securing the closing of the Stock Exchanges in Paris, Berlin and Amsterdam and that New York should be informed.
8. The Cabinet discussed in a preliminary manner the effect of falling off the gold standard on their future policy, and, while no decisions were taken, the following sub-ects were mentioned:

(i) The importance of arriving in the near future at a decision as to the policy to be adopted towards the value of the pound sterling;

(ii) A proposal put forward by the Prime Minister for consideration as to the desirability of setting up a Committee, including representatives of, for example, the Bank of England, the Joint Stock Banks, Lord Macmillan, some leading economists, and labour representatives, to watch the situation from day to day and suggest appropriate action for steadying public opinion by combating fears, stimulating confidence, and explaining the situation;

(iii) What action should be taken to deal with the international gold situation. In this connection the Cabinet were informed that the Bank of England had long desired a conference of central banks on the subject but had not been able to bring it about owing to opposition on details mainly from New York and Paris. It was suggested that the present opportunity might be a favourable one to bring about a conference.

The Chancellor of the Exchequer informed the Cabinet that he was considering a cautious reference to the matter in his speech in the House of Commons.

Another suggestion was that if the co-operation of the Bank of France and the Federal Reserve Bank could not be secured it was for consideration whether it would not be worth while to arrange a conference of other central banks.
(iv) The mobilisation of international securities, which was likely to be raised in the House of Commons. The Chancellor of the Exchequer said he had a very complete answer on this question;

(v) The desirability of close contact between the Bank of England, the Joint Stock Banks and industry in settling credit policy;

(vi) Whether the purpose of the Government was affected by the new situation. The general opinion was that the Government were bound to remain in office to secure the pound.
9. The Prime Minister informed his colleagues that he had invited Ministers outside the Cabinet to attend the meeting on the following day, at 11.30 a.m., in order that they might be apprised of the rapid developments of the last 48 hours.

2, Whitehall Gardens, S.W.1.

20th September, 1931.
10. The Prime Minister informed the Cabinet that the Banks hoped to carry on business as usual. It had been thought advisable, however, in case any panic should occur, that powers should be made available for proclaiming a bank holiday at the shortest notice. It had accordingly been arranged that a Meeting of the Privy Council should be held at Balmoral the same afternoon, and that the necessary Proclamations should be signed to enable a bank holiday to be declared if this was deemed necessary. The Proclamations, however, would not be used except in emergency. The Meeting of the Privy Council would, he understood, not be announced in the Court Circular before Tuesday morning, and, in accordance with the normal practice, the business of the Council would not be announced. He emphasised the importance of secrecy in this matter.

...
APPENDIX I.

PRESS NOTICE.

His Majesty's Government have decided after consultation with the Bank of England that it has become necessary to suspend for the time being the operation of Subsection (2) of Section 1 of the Gold Standard Act of 1925 which requires the Bank to sell gold at a fixed price. A Bill for this purpose will be introduced immediately and it is the intention of His Majesty's Government to ask Parliament to pass it through all its stages on Monday, 21st September. In the meantime the Bank of England have been authorised to proceed accordingly in anticipation of the action of Parliament.

The reasons which have led to this decision are as follows. Since the middle of July funds amounting to more than £200 millions have been withdrawn from the London market. The withdrawals have been met partly from gold and foreign currency held by the Bank of England, partly from the proceeds of a credit of £50 millions which shortly matures secured by the Bank of England from New York and Paris and partly from the proceeds of the French and American credits amounting to £80 millions recently obtained by the Government. During the last few days the withdrawals of foreign balances have accelerated so sharply that His Majesty's Government have felt bound to take the decision mentioned above.

This decision will of course not affect obligations of His Majesty's Government or the Bank of England which are payable in foreign currencies.

The gold holding of the Bank of England amounts to some £130 millions and having regard to the contingencies which may have to be met it is inadvisable to allow this reserve to be further reduced.
There will be no interruption of ordinary banking business. The banks will be open as usual for the convenience of their customers; and there is no reason why sterling transactions should be affected in any way.

It has been arranged that the Stock Exchange shall not be opened on Monday, the day on which Parliament is considering the necessary legislation. This will not however interfere with the business of the current settlement on the Stock Exchanges which will be carried through as usual.

His Majesty's Government have no reason to believe that the present difficulties are due to any substantial extent to the export of capital by British nationals. Undoubtedly the bulk of the withdrawals have been for foreign account. They desire however to repeat emphatically the warning given by the Chancellor of the Exchequer that any British citizen who increases the strain on the exchanges by purchasing foreign securities himself or assisting others to do so is deliberately adding to the country's difficulties. The banks have undertaken to co-operate in restricting purchases by British citizens of foreign exchange, except those required for the actual needs of trade or for meeting existing contracts, and should further measures prove to be advisable, His Majesty's Government will not hesitate to take them.

His Majesty's Government are well aware that the present step is bound to have serious consequences both at home and abroad. But during the last few days the International financial markets have become demoralised
and seem bent on liquidating their foreign assets in a spirit of panic. In the circumstances there was no alternative but to protect the economy of this country by the only means at our disposal.

His Majesty's Government have secured at the cost of painful sacrifice a balanced budget and the internal position of the country is sound. This position must be maintained. It is one thing to go off the gold standard with an unbalanced budget and uncontrolled inflation; it is quite another thing to take this measure, not because of internal financial difficulties, but because of excessive withdrawals of borrowed capital. The ultimate resources of this country are enormous, and there is no doubt that the present exchange difficulties will prove only temporary.

TREASURY CHAMBERS,

WHITEHALL,

S.W.1.

20th September, 1931.
His Majesty's Government have decided after consultation with the Bank of England that it has become necessary to suspend for the time being the operation of Subsection (2) of Section 1 of the Gold Standard Act of 1925 which requires the Bank to sell gold at a fixed price. A Bill for this purpose will be introduced immediately and it is the intention of His Majesty's Government to ask Parliament to pass it through all its stages on Monday, 21st September. In the meantime the Bank of England have been authorised to proceed accordingly in anticipation of the action of Parliament.

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His Majesty's Government have arrived at their decision with the greatest reluctance. But during the last few days the International financial markets have
become demoralised and have been liquidating their sterling assets regardless of their intrinsic worth. In the circumstances there was no alternative but to protect the financial position of this country by the only means at our disposal.

His Majesty's Government are securing a balanced budget and the internal position of the country is sound. This position must be maintained. It is one thing to go off the gold standard with an unbalanced budget and uncontrolled inflation; it is quite another thing to take this measure, not because of internal financial difficulties, but because of excessive withdrawals of borrowed capital. The ultimate resources of this country are enormous, and there is no doubt that the present exchange difficulties will prove only temporary.

TREASURY CHAMBERS,

WHITEHALL,

S.W.1.

20th September, 1931.
Gentlemen,

I am directed to state that the credits for £125,000,000 and Fcs. 3,100,000,000, arranged by the Bank of England in New York and Paris respectively, are exhausted, and that the credit for £200,000,000 arranged in New York by His Majesty’s Government, together with credits for a total of Fcs. 5 milliards negotiated in Paris, are practically exhausted also. The heavy demands for exchange on New York and Paris still continue. In addition the Bank are being subjected to a drain of gold for Holland.

Under these circumstances, the Bank consider that, having regard to the above commitments and to contingencies that may arise, it would be impossible for them to meet the demands for gold with which they would be faced on withdrawal of support from the New York and Paris exchanges. The Bank therefore feel it their duty to represent that, in their opinion, it is expedient in the national interest that they should be relieved of their obligation to sell gold under the provisions of Section 1 sub-section 2 of the Gold Standard Act, 1925.

I am,

Gentlemen,

Your obedient Servant,

(Sgd.) E.M. HARVEY,
Deputy Governor.

The Rt. Hon. J. Ramsay MacDonald, M.P.,
and
The Rt. Hon. Philip Snowden, M.P.
Gentlemen,

His Majesty's Government have given the most serious consideration to your letter of the 19th instant in which you inform them of the grave difficulties with which you are faced in meeting the obligation placed on the Bank of England by the Gold Standard Act of 1925 to sell gold in the form of bars to any person making a demand in accordance with the Act and of the dangers which you apprehend if that obligation is maintained.

His Majesty's Government are of opinion that the Bank of England should place such restrictions on the supply of gold as the Bank may deem requisite in the national interest. They will be prepared to propose to Parliament forthwith a Bill giving indemnity for any such action taken by the Bank.

We have the honour to be,

Gentlemen,

Your obedient Servants,

(Sgd.) J. RAMSAY MACDONALD.

(Sgd.) N.F. WARREN FISHER.

(For Chancellor of the Exchequer.)