

*The Historical Journal*, 43, 1 (2000), pp. 189–215. Printed in the United Kingdom  
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## THE LABOUR PARTY'S EXTERNAL ECONOMIC POLICY IN THE 1940s\*

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**ABSTRACT.** *This article challenges the view that, in accepting the 1945 American loan and its attendant commitments to international economic liberalization, the Labour party easily fell in behind the Atlanticist approach to post-war trade and payments. It is suggested instead that Labour's sometimes seemingly paradoxical behaviour in office was driven, not only by the very tough economic conditions it faced, but also by a fundamental contradiction inherent in its desire to 'plan' at both domestic and international levels. This contradiction – the 'planning paradox' – is explored with reference to pre-war and war-time developments, including Labour's reactions to the Keynes and White plans of 1943, and to the Bretton Woods conference of 1944. The decision to accept the US loan, and with it the Bretton Woods agreements, is then examined within this context. Finally, an assessment is made of whether, in this key area of policy, Labour's pre-1945 deliberations were effective in preparing the party for the challenges it would face in government.*

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### I

In the 1930s the Labour party domestic programme was based upon the creation of a planned economy in Britain. The corollary of this policy at a world level was 'international planning', a concept which, though ill-defined, was seen as an essential prerequisite of the international socialist commonwealth to which the party aspired. During the war period, Anglo-American discussions of international economic reconstruction were briefly seen by some Labour thinkers as a building block towards the realization of such aspirations. These hopes were not fulfilled: the International Monetary Fund (IMF) and the World Bank, to which the discussions gave rise, were hardly socialist organizations. Nevertheless, Labour ministers, with the notable exception of Ernest Bevin, were amongst the strongest supporters within the British government of the agenda which helped create those institutions. Moreover, in 1945 the new Labour government accepted an American loan on terms which one cabinet minister, Emanuel Shinwell, declared would make socialist planning in Britain impossible. Indeed, Alan Booth has spoken of a Labour 'volte face on foreign economic policy' in the 1940s: 'Despite the rhetoric of the 1930s on the death of free trade and the need for planning in this area, [Hugh]

\* I am grateful to Peter Clarke, John Toye and two anonymous referees for comments on earlier drafts of this article. The usual disclaimer applies.

Dalton, [Hugh] Gaitskell and others easily fell in behind the Atlanticist approach to the liberalization of postwar trade and payments.<sup>1</sup>

In fact there was no such volte face. Rather, Labour's behaviour in office was driven by a paradox long implicit in its ideology. The party's aspiration towards international forms of planning – which suggested some surrender of national sovereignty – was clearly at odds with its desire to extend state control over Britain's own national economy. As the American ambassador noted in 1950 after a conversation with Clement Attlee, there appeared to be a 'real inconsistency between socialism as a part of an international order, except as it may be wholly and completely socialist, and the socialist state as an instrument for internal planning of the economic life of the nation'.<sup>2</sup>

Fundamental as this contradiction was, however, Labour's behaviour in government cannot be explained purely in terms of ideology. The party's attitudes were to a great extent conditioned by, and had implications for, Britain's precarious economic circumstances, in the war years and after. Moreover, not only did Labour ministers play an important part during the war years in determining Britain's attitude to the proposed new world arrangements; but, in power in their own right after the war, questions of international economic co-operation presented them with profound practical dilemmas. In and after 1945, the Labour government would be faced with the question of whether political alliance with the United States could be reconciled with the pursuit of economic policies that America, Britain's most powerful creditor, in fact found objectionable. There was a risk that, if the Atlanticist agenda on trade and payments was implemented in the short term, the British economy, already in a parlous state, would be crippled – and yet Labour ministers still needed to maintain the rhetoric of liberalization in order to secure much-needed US assistance. Labour was in this way caught between its prior aspirations towards 'international planning', and the consequences of the compromises such planning turned out to involve.

A deeper perspective on these dilemmas can be gained by examining the Labour party's own, often ambiguous, attitudes to international economic co-operation in the years before 1945. Such questions have received little previous attention from historians. Richard N. Gardner made certain observations on the party's war-time attitudes in his book *Sterling-dollar diplomacy*, but only on the basis of published sources.<sup>3</sup> The principal studies of the Labour party during the war leave the issue to one side (albeit in the case of Stephen Brooke's *Labour war: the Labour party's economic ideas in the 1930s* consciously so).<sup>4</sup>

<sup>1</sup> Alan Booth, 'How long are light years in British politics?', *Twentieth Century British History*, 7 (1996) pp. 1–27. See also Alan Booth, *British economic policy, 1931–1949: was there a Keynesian revolution?* (London, 1989), pp. 135–7.

<sup>2</sup> Foreign Relations of the United States (FRUS) 1950, vol. III, pp. 1648–54.

<sup>3</sup> Richard N. Gardner, *Sterling-dollar diplomacy in current perspective: the origins and prospects of our international economic order* (New York, 1980).

<sup>4</sup> Paul Addison *The road to 1945* (London, 1975); Kevin Jefferys, *The Churchill coalition and war-time politics, 1940–1945* (Manchester, 1991); Stephen Brooke, *Labour's war: the Labour party and the Second World War* (Oxford, 1992), p. 247.

Discussions by Alec Cairncross and Jim Tomlinson concentrate on the 1945–51 period, as do Booth's brief remarks.<sup>5</sup> The socialist historians Teddy Brett, Steve Gilliatt, and Andrew Pople, who seek explicitly to demonstrate the desirability of bilateralist trade in the modern world by reference to the experience of the 1940s, use the same restricted time-frame.<sup>6</sup> There is, however, a considerable quantity of published and unpublished material which makes a detailed consideration of the pre-1945 issues possible. This consists partly of the Labour party's public programme and of its internal papers and policy documents, partly of official sources, and partly of the writings and private papers of Labour leaders and advisers.

The purpose of this article is to throw light on the Attlee government's dilemmas over international economic co-operation with reference to the Labour party's prior views, and to assess whether, in this key area of policy, these pre-1945 deliberations were effective in preparing the party for the challenges it would face in office. These dilemmas principally revolved around proposals for economic liberalization, a term which encompassed several issues: greater freedom of payments through multilateral settlements; the elimination of discrimination in foreign trade; tariff reductions; and reductions in non-tariff barriers (e.g. quantitative import restrictions). The aim is to establish whether or not, by the end of the war, the Labour party had clear and coherent policies on what action to take on these questions in the post-war period. It will be argued that the course taken by the Attlee government was a product both of contradictions in Labour's own previous thinking, and of the need to comply, albeit reluctantly and partially, and in the face of awesomely difficult circumstances, with the wishes of a powerful ally.

First, it will be necessary to remark briefly on the party's pre-war thought on foreign trade and international planning. Next, early war-time socialist thought on these issues will be considered. The party's reaction to the respective international post-war finance plans of John Maynard Keynes and Harry Dexter White will then be looked at, followed by a consideration of its approach to the Anglo-American negotiations which culminated in the Bretton Woods agreement of 1944. The Attlee government's approach to the post-war American loan will be examined in the context of these earlier attitudes. Finally, some brief suggestions will be made as to the extent to which that government's approach to international economic co-operation in the longer term reflected, or departed from, war-time developments.

<sup>5</sup> Alec Cairncross, *Years of recovery: British economic policy, 1945–1951* (London, 1985), pp. 61–272; Jim Tomlinson, *Democratic socialism and economic policy: the Attlee years, 1945–1951* (Cambridge, 1997), pp. 1–47.

<sup>6</sup> Teddy Brett, Steve Gilliatt, and Andrew Pople, 'Planned trade, Labour party policy and U.S. intervention: the successes and failures of post-war reconstruction', *History Workshop*, 13 (1982), pp. 130–42.

## II

After its catastrophic election defeat in 1931, the Labour party adopted policies of economic planning based on nationalization of industry and physical controls. Furthermore, as was argued in the party's 1934 programme, 'Planning and control in international life both postulate and follow from national planning and socialised control of our national life'. This 'inevitable corollary' had foreign policy implications in terms of support for collective security in the form of the League of Nations, which in turn arose from beliefs about the reasons for international conflict: 'the chaotic conditions arising out of unbridled competition give rise to social injustice that imperils peace, and the scramble for markets and fields for investment which are a direct cause of war'. Therefore, just as in home policy the Labour party

would insist upon decisive control over the whole economic life of the country, so in international policy it would press for international planning in economic and financial questions... It would attack the disastrous economic nationalism of the present age by working for an all-round lowering of tariffs, and their substitution by a system of planned international exchange.<sup>7</sup>

These twin objectives, whilst ostensibly aimed at the same thing – the achievement of order in economic life – were in fact in opposition to one another. It is contradictory to seek to strengthen control of *all* aspects of one's own national economy whilst at the same time working to abolish 'economic nationalism' in the world at large. International planning, if it is to be meaningful, implies a surrender of national sovereignty. (One might suggest a parallel at the national level: individual enterprises within the domestic economy cannot at the same time have increased power to plan their own affairs, *and* be subject to greater control by the state.) This 'planning paradox' remained an important and problematic feature of Labour's thought in the years to come.

But what of Labour's more detailed policies? In his 1935 book *Practical socialism for Britain*, Hugh Dalton, chairman of the party's finance and trade sub-committee, argued for the reduction or abolition of extant import duties, although, 'in taking such action, we should seek reciprocity'. Multilateral agreements to achieve this would be worthwhile, but it was unlikely they would be forthcoming. Therefore Britain should seek bilateral or perhaps group agreements. And, like Attlee, the party's leader after 1935, Dalton favoured import and export boards.<sup>8</sup> But although Labour was committed to establishing such bodies, and in spite of the frequent sideswipes made against 'economic nationalism', the party's approach to international trade was far from resolved.<sup>9</sup> The National government's adoption of tariffs and the

<sup>7</sup> Labour party, *For socialism and peace* (London, 1934), pp. 8–9, 11.

<sup>8</sup> Hugh Dalton, *Practical socialism for Britain* (London, 1935), pp. 299–308. Clement Attlee, *The will and the way to socialism* (London, 1935), pp. 233–6.

<sup>9</sup> See Elizabeth Durbin, *New Jerusalem: the Labour party and the economics of democratic socialism* (London, 1985), pp. 251–6.

extension of the system of imperial preference meant that an incoming Labour administration would be presented with a protectionist *fait accompli*. As the Labour MP John Parker noted at a Fabian conference in 1936, 'the Party was increasingly being driven to recognise the *fact* of economic nationalism and that certain benefits had accrued from our protective system'. But on the other hand, he went on to point out, the co-operative movement (a major retail interest and a constituent part of the labour movement) was in favour of unilateral free trade, and continued to put up a strong opposition to the organization of foreign trade by import boards or similar bodies. Yet equally, some trades unions were strong supporters of protection.<sup>10</sup>

These differing sectional interests aside, there was also disagreement amongst the party's intellectuals. Almost everyone could agree with Dalton that 'Free Trade, in the old sense, is a denial of planning; tariffs, in the old sense, are a caricature of planning'.<sup>11</sup> But what was the alternative solution? Parker himself argued that by means of trade agreements a Labour government should try to build up a low tariff group; Hugh Gaitskell, a Dalton protégé and a future chancellor, responded that 'the idea of a low tariff group was nonsense if your internal policy demanded, or if you already had, import boards. You must in that case have a policy of trade agreements.'<sup>12</sup> Therefore, by 1939, the party was committed to a third course between free trade and protection, but with no clear and detailed official proposals which could resolve the intellectual and practical dilemmas this involved (and which, given the 'planning paradox', were perhaps in any case insuperable). In the monetary sphere, the aim of stabilizing exchange rates remained simply an aspiration. It was therefore by no means obvious how planned international co-operation was to be achieved.

### III

There was, however, a shared Labour rhetoric on the benefits of international economic action, upon which the coming of war brought a renewed emphasis. International planning was seen not merely as the logical extension of socialist planning at home, but as a means of eliminating the rivalries between capitalist nations which, it was believed, had destroyed peace in the first place. In 1939 Attlee condemned 'the cult of economic self-sufficiency' and called for 'Bold economic planning on a world scale' to meet the post-war situation.<sup>13</sup> However, in 1940, Aneurin Bevan MP, a firm advocate of world planning, did none the less hint that such lofty aspirations might be accompanied by pitfalls: 'it will not be possible for Britain to frame intelligent proposals for other countries unless she is prepared to so adjust her own industries that they can be fitted into the international pattern'.<sup>14</sup> Indeed, after 1945, the Labour government came

<sup>10</sup> 'Report of Conference on International Commercial Policy, 24-25 October 1936', Fabian Society papers J15/10.

<sup>11</sup> Dalton, *Practical socialism*, p. 304.

<sup>12</sup> 'Report of Conference on International Commercial Policy, 24-25 October 1936', Fabian Society papers J15/10.

<sup>13</sup> Clement Attlee et al., *Labour's aims in war and peace* (London, 1940), p. 108.

<sup>14</sup> *Tribune*, 11 Oct. 1940.

to see that such self-imposed disbenefits might be a high price to pay for the creation of a regulated world economic order.

Socialists did not dwell on such potential problems, although, from the very beginning of the war, they discussed international (as well as domestic) post-war reconstruction extensively. Within days of taking up his post as minister of labour in Churchill's government in May 1940, Ernest Bevin was being criticized, presumably by Tories, 'for being a little too much interested in the world after the war is won'.<sup>15</sup> And in June 1941, Arthur Greenwood, the Labour minister in charge of reconstruction questions, was pressing for Anglo-American discussions on post-war policy.<sup>16</sup> Nevertheless, Labour's internal considerations of such issues remained unsystematic until July of that year, when the party's central committee on problems of post-war reconstruction met for the first time. This committee divided its work between 'internal' policy and 'international trade', suggesting that similar importance was attributed to both areas.<sup>17</sup> Naturally, consideration of the latter sphere deserved to be influenced by ongoing world events; and indeed, two Anglo-US agreements were soon signed with major repercussions for Labour's international economic policy.

On 14 August 1941, the British and American governments issued the Atlantic Charter, a communiqué of aims in which the two allies stated their 'desire to bring about the fullest collaboration between all nations in the economic field with the object of assuring, for all, improved labour standards, economic development and social security'.<sup>18</sup> And on 23 February 1942, Britain committed herself to article VII of the mutual aid agreement, whereby as 'consideration' for American lend-lease aid, she agreed 'to the elimination of all forms of discriminatory treatment in international commerce, and the reduction of tariffs and other trade barriers'.<sup>19</sup> In the short term, the Atlantic Charter further stimulated Labour's own exploration of international reconstruction issues; and in the long term, article VII would create problems and embarrassments for Churchill's coalition government, and, after 1945, for Attlee's Labour government too.

The likelihood of this was not recognized at the time, however, as relief at the prospect of immediate US aid erased possible concerns about the longer-run consequences of its acceptance. Yet amongst socialists there was, nevertheless, increasing recognition of the difficulties involved in international co-operation. The international relationships sub-committee of Labour's central committee on reconstruction, discussing the objective, contained in the Atlantic Charter, 'to free all the men in all the lands from fear and want', acknowledged this would not be easy. 'Constructive economic international planning can only

<sup>15</sup> Thomas Jones, *A diary with letters, 1931-1950* (London, 1954), p. 467.

<sup>16</sup> L. S. Pressnell, *External economic policy since the war, 1: The post-war financial settlement* (London, 1986), p. 33.

<sup>17</sup> Brooke, *Labour's war*, p. 105.

<sup>18</sup> The Labour party was sufficiently enamoured of the Atlantic Charter to reproduce its text in full in the policy document *The old world and the new society* (London, 1942).

<sup>19</sup> Cited in D. E. Moggridge, *Maynard Keynes: an economist's biography* (London, 1992), p. 668.

succeed if peace is assured', the committee argued, 'political stability is the foundation of economic prosperity'. However, the political difficulties were minimized and the economic ones emphasized. The experience of the League of Nations had taught lessons about how (or indeed how not) to achieve political stability, 'But with regard to international economic problems, we stand now almost where we stood with regard to political problems in 1919...we are still largely in the dark about the technical difficulties to be overcome'.<sup>20</sup>

In an accompanying note, Dalton sketched out some 'rather random thoughts' of his own. He noted that the Soviet Union had not, in pre-war days, had a significant impact on the rest of the world's economy. 'If, however, Russia chooses to expand her foreign trade [post-war] there will be certain advantages', he argued. 'Some international trade at least will be planned from the start and this will be useful in countering capitalistic instabilities... Nevertheless, since there is so much in doubt about Russia's future economic policy, the first aim must be to secure Anglo-American co-operation.' Such co-operation should aim at creating a common monetary and investment policy, in order to secure and maintain full employment of resources; if possible, Russia should be involved too. This policy, he claimed, if successful, would make the problems of international trade much easier to handle; but this would still be a knotty problem:

Clearly the days of individualist Free Trade are past; so, for that matter, are the days of individualist protection. It is certain that, in some degrees, trade between countries will be regulated by Agreements between Governments...The easiest type of Agreement to negotiate is obviously a simple bilateral Agreement...But bilateral agreements are certainly less conducive to International Economic well-being than multilateral agreements in which a number of countries are involved, and no attempt is made to equalise the balance of trade between any two countries alone.

Therefore, only through multilateral agreements 'is it conceivable that the most sensible forms of International Economic specialisation be adopted'. As in the thirties, Dalton recognized that such agreements were difficult to negotiate. But this did not quell his aspirations: 'the *ultimate* goal must, I think, be a kind of supreme International Economic Planning Body, which would attempt to co-ordinate the various Agreements between Governments and producers, and would all the time be suggesting ways of improving agreements so as to secure a more sensible distribution of resources'.<sup>21</sup>

These views were in line with those Dalton had previously held (although he was now somewhat more convinced of the practicalities of multilateral trade). At the same time, it is clear that he was indeed moving towards a more

<sup>20</sup> International relationships sub-committee, 'Note and preliminary questions on post-war international economic policy', Oct. 1941 RDR 4, Labour Party Archive, National Museum of Labour History, Manchester (LPA).

<sup>21</sup> Hugh Dalton, 'Notes on international economic policy in the post-war world', Oct. 1941 RDR 4, LPA.

Atlanticist approach. This was not a question of renegeing on previous principles. Rather, his emphasis on Anglo-American co-operation was clearly based on a *realpolitik* assessment of the likely relative post-war economic power of Britain's main allies; Britain's dependence, for the rest of the war, on American aid, would only make the point more clearly. It is not clear exactly how drastic the powers of Dalton's proposed international planning organization were to be. But other Labour thinkers, particularly on the left, had far-reaching ambitions in this sphere. The Hungarian-born economist Thomas Balogh wrote that 'The production of the main foodstuffs and raw materials must be planned internationally.'<sup>22</sup> And in 1942, another internal party memorandum argued – in another apparent example of the 'planning paradox' – that 'The state must nationally maintain and extend its war-time powers of determining what is to be produced and at what price it is to be distributed; internationally it must yield some of its attributes of economic sovereignty to an international authority which must have the power to plan and control production and distribution.'<sup>23</sup> This emphasis on the physical control of production and consumption by a body with supra-national powers was far removed from the American free-enterprise viewpoint – and yet, as the logic of Dalton's argument suggested, American collaboration was a prerequisite to the success of any international scheme. In due course, the processes of Anglo-American negotiation opened a division between the advocates of compromise in order to gain agreement, and the die-hard socialist planners. (Similarly, in 1945 Labour politicians argued over whether or not the benefits of American aid were outweighed by the conditions attached to it.) For the time being, however, a level of apparent consensus persisted. Labour's reaction to the respective international post-war finance plans of Keynes and Harry Dexter White gave strong evidence of this.

#### IV

Keynes had first proposed an international currency union in September 1941, but, before finally emerging as the government white paper *Proposals for an international clearing union* in April 1943, his plan went through many drafts.<sup>24</sup> The plan's purpose was to create a balance of payments equilibrium between all nations, without poorer countries having to undertake internal deflationary policies in order to achieve this. Adopted by the Treasury as the basis for its proposals for post-war monetary arrangements, the plan would eventually be offered to the Americans as the 'consideration' to which they were entitled under article VII.<sup>25</sup> As the scheme went through successive versions, the major

<sup>22</sup> Thomas Balogh, 'A statement on international economic reconstruction', Oct. 1941 RDR 6, LPA.

<sup>23</sup> International relationships sub-committee (economic section), 'A long-term international economic policy', Aug. 1942 RDR 121, LPA.

<sup>24</sup> Cmnd. 6437, 7 Apr. 1943.

<sup>25</sup> Moggridge, *Maynard Keynes*, p. 676.



input from the Labour side of the coalition came from Ernest Bevin, who would prove to be persistently sceptical of the merits of the various proposals for international monetary co-operation. When put before the war cabinet's reconstruction problems committee on 31 March 1942, Bevin made up his mind that Keynes's ideas 'really took us back to the automatic gold standard with just a little more rope before the poor unfortunate debtor was hanged'.<sup>26</sup> Keynes met Bevin to discuss his objections, and reported to colleagues:

He is afraid that the new scheme, though giving a certain amount of leeway, might result in the last resort, in a return to the evils of the old automatic gold standard, and he remembers that that, in the last analysis, was what drove him, against his natural inclinations, to fight the General Strike. I told him that I thought few or no responsible persons contemplated the use of the old weapons, deflation enforced by dear money, resulting in unemployment, as a means of restoring international equilibrium, and that, if the new scheme was to break down, this would not be the remedy which anyone would seek to adopt. He replied that, if this was made perfectly clear, he would feel very much happier about it all.<sup>27</sup>

Accordingly, it was made clear that the measures which a country might be asked to undertake if it had a substantial debit balance 'do *not* include a deflationary policy, enforced by dear money and similar measures, having the effect of causing unemployment'.<sup>28</sup>

## V

The Keynes plan, after yet further revisions, was finally published a year later, on 7 April 1943. On the same day the official American proposals were also published, which had been prepared by Harry Dexter White, assistant secretary to the US Treasury. The White plan proposed the creation of two separate institutions: a stabilization fund and a bank for reconstruction and development. The fund, on which discussion for the time being focused, would have resources of \$5 billion, which would be subscribed by member countries in gold, local currency, and securities in accordance with quotas determined by a complex formula. These resources would be available to countries in temporary balance of payments difficulties; in return, member nations' rights to maintain exchange controls and to vary exchange rates would be limited. Moreover, domestic policy would be subject to fund supervision (based on a four-fifths majority decision).<sup>29</sup>

On a visit to Britain in 1935, White had met both Dalton and the then Labour party leader George Lansbury (and had also met Keynes for the first time). The two men had told him then that Labour was against a return to the

<sup>26</sup> *Ibid.*, p. 678; Ernest Bevin to Anthony Eden 24 Apr. 1942, Bevin papers 3/2, Churchill College, Cambridge.

<sup>27</sup> Donald Moggridge, ed., *The collected writings of John Maynard Keynes*, xxv: *Activities, 1940-1944: shaping the post-war world: the clearing union* (London, 1980) (henceforward JMK xxv), p. 142.

<sup>28</sup> *Ibid.*, p. 143.

<sup>29</sup> *Ibid.*; Moggridge, *Maynard Keynes*, pp. 685-7.

gold standard.<sup>30</sup> Eight years later, socialists and others feared that the White plan amounted to exactly this. F. W. Pethick-Lawrence, who had been financial secretary to the Treasury from 1929 to 1931, and who was now an important Labour spokesman outside the government, told the Commons that ‘the American plan proposes in fact a full return to the gold standard... I certainly could never support such proposals’.<sup>31</sup> His criticism was misleading. Under the scheme, only the dollar would be pegged to gold, and other currencies would in turn be pegged to the dollar, subject to adjustment in specified circumstances, thus avoiding the anarchy of competitive devaluation. As Keynes put it later,

I have never heard [White] express the opinion... that exchange rates should be fixed, subject to the rarest and most difficult exceptions, just as they once used to be, in terms of gold. The chief matter at issue has been a quite different one, namely whether countries should surrender to an international body the right to decide whether the circumstances are such as to justify a change, or whether they should retain at least some measure of discretion in their own hands.<sup>32</sup>

But concerns about excessive exchange rate rigidity, and the possibility that debtor nations might be compelled to take deflationary measures if they wished to devalue, were immediately linked to the psychologically significant fact that the White plan involved a gold subscription: it became difficult for some politicians, Conservative as well as Labour, to rid themselves of the idea that the plan involved a ‘return to gold’.

Thus, although Labour politicians and thinkers did not give the Keynes plan unqualified acceptance, they unanimously praised it at the expense of the White plan.<sup>33</sup> (There was also perhaps an element of patriotic support for the home-grown initiative.) An internal party memorandum noted the contrasts between the schemes. The Keynes plan was based on trade levels and there was no preponderant power of veto; whereas in White’s scheme gold played an important part, and the US, given the size of its proposed national quota, ‘is given in effect a veto, i.e. no 4/5ths majority decision can be taken without it’. The British plan placed responsibility for adjustment on creditors as well as debtors; the American plan placed it only on debtors. The British plan allowed currency blocs, and, unlike its counterpart, aimed specifically at reducing tariffs. Moreover, ‘Although the Keynes Scheme is not related to any post war trade plan, it makes it quite clear the dependence of the scheme on world collaboration in trade’; whereas, the ‘main fault’ of the White plan ‘appears to be that, whilst no evidence appears of a clear understanding on the part of

<sup>30</sup> David Rees, *Harry Dexter White: a study in paradox* (London and Basingstoke, 1974), pp. 59–60.

<sup>31</sup> Parliamentary Debates 5th series House of Commons vol. 389 12 May 1943 col. 666.

<sup>32</sup> Donald Moggridge, ed., *The collected writings of John Maynard Keynes*, xxvi: *Activities, 1944–1946: shaping the post-war world: Bretton Woods and reparations* (London, 1980) (henceforward JMK xxvi), p. 34.

<sup>33</sup> See *Tribune*, 9 Apr. 1943 and 16 Apr. 1943; *New Statesman and Nation*, 10 Apr. 1943; Thomas Balogh, ‘The currency plans and international economic relations’, *Political Quarterly*, 41 (1943), pp. 343–56.

the U.S. that their Tariff policy must go, they expect everyone to return to the gold standard, i.e. the stage is set for a repetition of the errors of the past'.<sup>34</sup>

## VI

The charge that the US plan took no account of trade policy was perhaps, like the 'gold standard' one, unfair.<sup>35</sup> However, no American proposals on this subject were yet forthcoming. An important British initiative on this, though, was already in the pipeline; it was written by James Meade, of the economic section of the cabinet secretariat. Meade had advised the Labour party on economic questions in pre-war days, although he saw himself as a 'Lib/Lab' and not as a 'real' socialist.<sup>36</sup> He had, moreover, taken a long-standing interest in international economic co-operation, and in July 1942 proposed an international commercial union in order to complement Keynes's clearing union scheme. Meade argued that Britain, whose trade in the past had been largely of a multilateral character, would benefit from a general reduction of barriers and restrictions in international markets, and from the removal of those discriminations and rigidly bilateral bargains that removed the opportunities for multilateral trading. Multilateralism and the removal of trade restrictions 'do not, however, imply *laissez-faire*, and are in no way incompatible with a system of state trading'. Membership of the proposed union would bring the obligation not to extend preferences or other price advantages to any other member country without extending it to all countries. Discrimination of any kind would be allowed against nations which had not joined the union, and were therefore themselves not pledged not to discriminate in turn. Also, 'discrimination of a defined and moderate degree in favour of a recognised political or geographical grouping of states' would be permitted, which 'would thus permit the continuation of a moderate degree of Imperial Preference'.<sup>37</sup>

Having completed his paper, Meade sought help from his pre-war Fabian colleague Hugh Gaitskell. Gaitskell was now personal assistant to Dalton, who had recently been appointed president of the board of trade. Gaitskell redrafted the commercial union proposal and passed it on to his boss. Dalton noted: 'This is a good paper. I agree generally with the policy proposed, though many points of detail are of first class importance – and first class controversial value.'<sup>38</sup> Clearly, Meade's ideas appealed to him as representing a 'middle

<sup>34</sup> Post-war finance sub-committee, 'Some contrasts in the "Keynes" and "White" schemes', May 1943 RDR 211, LPA.

<sup>35</sup> See Rees, *Harry Dexter White*, p. 139.

<sup>36</sup> Durbin, *New Jerusalem*, p. 197.

<sup>37</sup> Susan Howson, ed., *The collected papers of James Meade*, III: *International economics* (London, 1988), pp. 27–35.

<sup>38</sup> James Meade and Hugh Gaitskell, 'Post-war commercial policy: a proposal for an international commercial union', 24 Aug. 1942, Dalton papers II(B)7/4, British Library of Political and Economic Science, London (BLPES); Ben Pimlott, *Hugh Dalton* (London, 1985), pp. 399–400.

way' between pure free trade and the excesses of protectionism and bilateralism; his pre-war views had not changed, but he now had a practical scheme to put forward which embodied them. At his instigation, an interdepartmental committee was established to examine the questions at hand. The committee's report, which favoured multilateral negotiation of a multilateral trading convention, proved controversial.<sup>39</sup> Accordingly, in consultation with Attlee, Dalton prepared a memorandum which was put to the war cabinet in April 1943, summarizing three policy alternatives. 'View A' argued that a general clearance of trade barriers was particularly in Britain's interest, and could best be secured by a multilateral commercial convention of the kind suggested by Meade. 'View B' similarly favoured multilateralism, but argued that Britain should not bind itself to limitations on quantitative import restrictions which might be essential to maintain its balance of payments, or, in the immediate future, give an international body the right to pass judgement on its commercial policy. According to 'View C', import restrictions, the balance of payments question aside, were a sound and permanent instrument of national planning.<sup>40</sup> The Labour ministers at this time favoured view A; but their own government's actions after the war would be far more in line with view B, with actual progress towards multilateral trade being made slowly and with reluctance.

In the meantime, however, Attlee and Dalton were in the multilateralist vanguard. They were, however, unable to prevent the cabinet's discussion of views A, B, and C (on 8 April) descending into mild chaos. Churchill gave a rambling monologue – either because he did not understand the issues at hand, or, as Thomas Johnston, the Labour secretary of state for Scotland, suggested, out of cunning, hoping to mislead and entrap the opponents of view A. At one point, after a discussion on buffer stocks had been proceeding for some minutes, the prime minister said, 'I thought you said Butter Scotch... I am getting very hard of hearing.' Nevertheless, the meeting in the end determined to accept an amended version of view A. A cabinet committee was established (on which Dalton was to sit) to produce a solution in line with this. Dalton noted that 'All this looks like a remarkable success.' But the policy would subsequently become mired in ministerial controversy – which in time, it seems, served to weaken the Labour ministers' commitment to multilateral trade.<sup>41</sup>

## VII

Both Attlee and Sir Stafford Cripps (at this time an independent MP, and the minister for aircraft production) had been insistent that the countries of the empire should be consulted before an approach was made to the United States;

<sup>39</sup> Pressnell, *External economic policy*, 1, pp. 101–6.

<sup>40</sup> London, Public Record Office (PRO) CAB 66/35 WP(43)136.

<sup>41</sup> John Barnes and David Nicholson, eds., *The empire at bay: the Leo Amery diaries, 1929–1945* (London, 1988), pp. 880–1; Ben Pimlott, ed., *The Second World War diary of Hugh Dalton, 1940–1945* (London, 1986), pp. 577–9; PRO CAB 65/34 WM50(43).

and when the cabinet committee reported back, on 22 April, this was agreed to.<sup>42</sup> By the end of July, the cabinet was ready to open discussions with the US on all subjects covered by article VII, including commercial policy, in order to arrive at an agenda for further talks.<sup>43</sup> There were further cabinet discussions about the line the delegation to the US would take. Bevin and Dalton argued that the proposed stabilization fund should not buy or sell gold or currencies. Dalton said 'he hoped our representatives would do their best to ensure that the scheme was based on gold to the minimum possible extent'<sup>44</sup> – although he privately recorded that he thought the rate of exchange more important than either the amount of gold to be subscribed, or the currencies in which the fund could deal.<sup>45</sup> According to Leo Amery, the Conservative secretary of state for India, moreover, 'Bevin...voiced a very sensible fear lest any fixed Exchange should interfere with social policy. He added that it would not do to have 19th century America preventing the 20th century in this country. On this I sent him a little note of congratulation.'<sup>46</sup>

The Labour ministers found general support for their views, although, despite reservations, it was decided that Britain would if necessary agree to a 12.5 per cent gold subscription in order to reach accord with the United States. Attlee had been told by William Piercy, one of his advisers as deputy prime minister, that 'the general line of making every possible concession to the Americans, both in substance and in form, is wise'.<sup>47</sup> The cabinet clearly felt similarly, as further significant efforts to meet US opinion were also made. These included the acceptance both of a smaller fund than had originally been envisaged in the clearing union proposals (with the American commitment limited to \$2.3 billion), and of the idea that voting arrangements should bear some relation to national quotas.<sup>48</sup> The British delegates, with the foreign office minister Richard Law at their head, were instructed accordingly.

These developments led, in some Labour quarters, to profound optimism. Evan Durbin, another of Attlee's advisers, told him

I am enormously impressed by the really remarkable success in the field of *International Economic Cooperation*. I had always assumed that this would be one of our most obstinate problems but we seem to be moving faster here than anywhere else... I do not suggest that all is well – there is still a lively and, in my view, dangerous distrust of the United States over these matters – but, taking the subject as a whole, the record is startlingly encouraging.<sup>49</sup>

The progress of the Law mission to some extent bore this buoyant view out. On commercial policy, the British proposals provided the framework for discussion, and were used as the basis of the unpublished joint Anglo-American report of

<sup>42</sup> PRO CAB 65/34 WM(43)58.

<sup>43</sup> *Ibid.*, 65/35 WM(43)106.

<sup>44</sup> *Ibid.*, 65/35 WM121(43).

<sup>45</sup> Pimlott, ed., *Dalton war diary*, p. 629.

<sup>46</sup> Barnes and Nicholson, eds., *Leo Amery diaries*, p. 937.

<sup>47</sup> 'Monetary clearing union', memo by William Piercy to Attlee, 1 Sept. 1943, Piercy papers 8/9, BLPES.

<sup>48</sup> Moggridge, *Maynard Keynes*, p. 723.

<sup>49</sup> 'Review of "reconstruction"', memo by Durbin to Attlee, 21 Oct. 1943, Piercy papers 8/9.

the discussions – although it appeared that the US would only reduce her own tariffs substantially in exchange for the virtual abolition of imperial and other preferences.<sup>50</sup> Progress was also made on the stabilization fund, the British accepting that it would take the form proposed in the White plan (notably, it was felt within the UK delegation that Attlee and Dalton would support this, but that Bevin would not).<sup>51</sup> However, by way of concession to the British, greater exchange elasticity was ensured, and the right of withdrawal from the fund was recognized. Further outstanding differences were resolved over the coming months.<sup>52</sup>

But despite the progress of the experts towards agreement, Law's favourable report on the negotiations led to disagreement amongst ministers. This document, which L. S. Pressnell has dubbed the Washington principles, was circulated to the cabinet on 17 December.<sup>53</sup> Amongst Conservatives, devotees of imperial preference like Leo Amery naturally opposed it; and Lord Beaverbrook in particular argued that the monetary proposals meant a return to the gold standard. But some of the strongest backing for the results of the Anglo-American discussions came from Labour ministers. In the first of two cabinets on the issue in February, Attlee recorded his support for Law's views, before having to leave the meeting early. Dalton 'thought the proposals would help clear the road for our exports in the transitional period, and regarded them as representing the most hopeful line of progress. He was prepared to support them on the currency side, since he regarded them as the opposite of any reversion to the gold standard.' Herbert Morrison, the Labour home secretary, expressed his general agreement with the Washington principles: 'On sentimental grounds we should all of us favour Empire Trade. But this country could not live solely on it, nor could the Dominions live on trade merely with the United Kingdom and the other Dominions.' (Fondness for the empire does not, therefore, seem to have affected Morrison's practical judgement on this issue; nor that of other Labour ministers.) Bevin, always difficult on the gold standard point, had, accordingly, to Dalton 'been warned that if he makes a row today he will be isolated along with Beaverbrook and the Bank of England... This warning has had its effect.' He thus did not venture a firm opinion, although he did suggest that it might be possible to impose import restrictions against members of the fund who did not enforce the minimum working conditions laid down by the International Labour Organization. Churchill summed up the discussion in favour of 'proceeding with a policy generally on the lines discussed at Washington'. A committee on external economic policy was set up, to determine the line to be taken by

<sup>50</sup> Pressnell, *External economic policy*, I, pp. 118–19, 129.

<sup>51</sup> Susan Howson and Donald Moggridge, eds., *The wartime diaries of Lionel Robbins and James Meade, 1943–1945* (Basingstoke, 1990), p. 124.

<sup>52</sup> Roy Harrod, *The life of John Maynard Keynes* (London, 1951), p. 570; Gardner, *Sterling-dollar diplomacy*, pp. 111–21; Moggridge, *Maynard Keynes*, pp. 725–8; Pressnell, *External economic policy*, I, pp. 116–26.

<sup>53</sup> PRO CAB 66/44 WP(43)559 (revise); Pressnell, *External economic policy*, I, p. 125.

officials in discussions with the Dominions and India, on which Dalton amongst others was to sit.<sup>54</sup>

The majority of this committee, in spite of Beaverbrook's 'great skill in obstruction', produced a favourable majority report.<sup>55</sup> This was presented to the cabinet on 23 February. Attlee, Dalton, and Morrison again supported the Washington principles, Attlee arguing, 'it would be impossible to maintain the sterling area in the form which it had existed before the war... to ignore the attitude of the U.S. in this matter, would lead to disaster'.<sup>56</sup> But, as Dalton recorded, the proceedings turned into something of a nightmare:

Clearly many ministers, including the P.M., have not even read our short report... the Beaver begins to shout headlines, 'It is a gold fund'... 'We are giving up our economic empire'... The whole thing develops into the worst pandemonium I have ever seen in Cabinet. Towards the end, four or five ministers are often shouting at once.<sup>57</sup>

The meeting ended inconclusively.

At a further cabinet on 14 April it was agreed, under US pressure, that an Anglo-American joint statement on the principles of an international monetary fund should be issued at an early date; but this was subject to the proviso that 'while His Majesty's Government regarded the scheme as a valuable contribution to our objectives in the field of international trade, His Majesty's Government were in no way committed to it'. (Bevin, for one, 'still had an uneasy fear that in some way the scheme would anchor us to gold'.) The publication on 22 April 1944 of the Anglo-American *Joint statement by experts on the establishment of an international monetary fund* none the less contributed to the rapid progress on the monetary side which culminated in the successful conclusion of the Bretton Woods conference in July.<sup>58</sup>

The commercial plan was not to be published, however. Dalton argued that the time was not yet ripe: the scheme was not in such an advanced state of preparation as the monetary one, further consultation with the dominions was desirable, and, furthermore, the Americans were not pressing for publication.<sup>59</sup> This was plausible reasoning, although Amery suggested that in fact Dalton 'was frightened by the course of the discussion', and was perhaps influenced to a degree by the arguments of the critics.<sup>60</sup> (Indeed, a few days later Dalton remarked in the Commons that 'Imperial Preference has been of quite definite value both to us and the Dominions', a judgement apparently based on practical grounds rather than on any imperial sentiment.)<sup>61</sup> At any rate, progress on commercial policy was stymied, with Anglo-US talks not resuming until November 1944.

<sup>54</sup> PRO CAB 65/41 WM(44)18 (and confidential annex in CAB 65/45); Pimlott, ed., *Dalton war diary*, pp. 704-6. <sup>55</sup> Pimlott, ed., *Dalton war diary*, pp. 706-8.

<sup>56</sup> PRO CAB 65/41 WM(44)24 (and confidential annex in CAB 64/45).

<sup>57</sup> Pimlott, ed., *Dalton war diary*, pp. 710-12. <sup>58</sup> Cmnd. 6519, 22 Apr. 1944.

<sup>59</sup> PRO CAB 65/42 WM(44)49 (and confidential annex in CAB 65/46); Pimlott, ed., *Dalton war diary*, pp. 735-6. <sup>60</sup> Barnes and Nicholson, eds., *Leo Amery diaries*, p. 978.

<sup>61</sup> Parliamentary Debates 5th series House of Commons vol. 399 20 Apr. 1944 col. 481.

## VIII

In parallel with developments in Whitehall, Dalton was making the Labour party's own official policy on future international arrangements. The vehicle for this was the document *Full employment and financial policy*, published in April 1944 in anticipation of the government's own employment white paper. It was drafted mainly by Dalton himself, with some assistance from Gaitskell and Durbin. The document saw schemes of international co-operation as the complement of demand management and economic planning at home:

we feel sure that we can and should enter into an agreement with the dominions, the United States, Russia and other Governments, to control and raise the purchasing power of the world, to keep it constantly at a level that will give full employment everywhere, and to guarantee the stability of the principal rates of exchange without any fear that it will limit our freedom to maintain full employment at home.

Moreover, Dalton's faith in a liberal commercial policy was expressed again. The document argued for 'the progressive and mutual reduction in tariffs and other impediments, such as import quotas'. Nevertheless, the limits to this commitment were clear:

This emphatically does not mean that there should be any return to *laissez-faire* or 'free trade' in the capitalist sense. Socialists believe in the planning of imports and exports and the present apparatus of control – foreign exchange control, import programmes, allocation of scarce materials for the export trade – should remain in existence. War time arrangements for bulk purchase, through State agencies, of food-stuffs and raw materials, should continue. State trading, as the war has proved, brings great benefits to the peoples. We must not let this Socialist advance be halted or turned back.<sup>62</sup>

But was this really in the spirit of article VII? Certainly, the Washington principles accepted 'that conditions created by the war will tend to result in State trading on a more extensive scale than theretofore', and that therefore 'methods and arrangements between private-enterprise countries and State-trading countries... should be such as to take account of this situation in order that the interests of both may be harmonised'.<sup>63</sup> Yet it would surely be difficult – although perhaps not impossible – to achieve this in a way that guaranteed non-discrimination. Thus, given that Labour's state-trading ideas were the corollary of its desire to create a planned economy at home, it is clear that the party's commitment to commercial liberalization abroad would complicate the realization of its domestic aspirations. For, as 'Otto' Clarke, a Treasury civil servant, would note two years later, when faced with trying to put such a policy into practice, to attempt to combine a liberal international economic policy with an internal economy based on planning meant venturing into a 'theological maze'.<sup>64</sup>

<sup>62</sup> Labour party, *Full employment and financial policy* (London, 1944), pp. 6–7.

<sup>63</sup> PRO CAB 66/44 WP(43)559 (revise).

<sup>64</sup> R. W. B. Clarke diary, 6 Mar. 1946, R. W. B. Clarke papers 25, Churchill College, Cambridge.



## IX

Those who saw themselves as the guardians of socialist theology were, indeed, eager to denounce the proposed new international arrangements, which Dalton supported, as incompatible with the main tenets of their beliefs. Balogh was the intellectual chief of this group; he argued for a financial plan that would 'permit single countries to maintain full employment irrespective of the consequences of this policy on the balance of their international payments', and, seeing that the monetary plan did not provide for this, he and his followers sought a bloc of planned economies which would pursue bilateral agreements with one another.<sup>65</sup> During the Commons debate in May 1944 on the Anglo-American joint statement, Emanuel Shinwell, at this time a maverick backbencher, followed these arguments closely. He claimed that trade expansion and full employment depended on planning – and having a plan meant 'that this country...should be able at any time, irrespective of any international consideration, financial or otherwise, to enter into reciprocal agreements with any country'. The Labour party 'believe in planned trade, orderly trade, bulk purchase'; but 'If you accept the principle of non-discrimination in relation to international exchange, it is bound to affect the position when you come to make reciprocal trading agreements which are, essentially and fundamentally, based on discrimination'.<sup>66</sup>

Was this argument, which was later central to Shinwell's opposition to the US loan, correct? John Anderson, the chancellor, claimed that 'there is nothing in the [monetary] plan which will prevent us from entering into reciprocal trade agreements with other countries or groups of countries';<sup>67</sup> Keynes pointed out too that 'the monetary proposals...involve no commitments about commercial arrangements'.<sup>68</sup> But, as Gardner has written, 'Where, in all this discussion, was the recognition of Britain's solemn obligations under Article Seven?'<sup>69</sup> The answer, it seems, is that, owing to 'the tergiversations of the Cabinet' on commercial policy, both Keynes and the chancellor had to keep their own counsel on this point. But surely, as Keynes argued privately, even if, as he himself believed, commercial bilateralism and monetary multilateralism could be reconciled in a technical sense, that did not mean that the adoption of the former by Britain would 'not cause trouble and misunderstanding with the Americans'. Indeed, 'I am sure it will'.<sup>70</sup> For, as Durbin and Piercy advised Attlee, this would amount to 'declaring a trade war on the United States'.<sup>71</sup> This was a consideration that Shinwell did not address

<sup>65</sup> Thomas Balogh et al., *The economics of full employment: six studies in applied economics* (Oxford, 1944), p. 159, cited in Gardner, *Sterling-dollar diplomacy*, p. 122.

<sup>66</sup> Parliamentary Debates 5th series House of Commons vol. 399 10 May 1944 col. 1981.

<sup>67</sup> *Ibid.*, col. 2045.

<sup>68</sup> JMK xxvi, p. 8.

<sup>69</sup> Gardner, *Sterling-dollar diplomacy*, p. 128.

<sup>70</sup> JMK xxvi, p. 26.

<sup>71</sup> 'The International Monetary Fund – future criticisms', n.d. [1944], attached to 'Bretton Woods Conference', Piercy and Durbin to Attlee, 25/1/45, Piercy papers 8/9.

directly – but his subsequent stance on the post-war loan suggests that he was prepared to see Britain pay an extremely painful price if so doing was necessary in order to resist the Atlanticist economic agenda.

The other contributions to the Commons debate gave Keynes little more comfort than Shinwell's did. The economist recorded that he 'spent seven hours in the cursed Gallery, lacerated in mind and body' listening to the speeches, blaming an 'unreasoning wave of isolationism and Anti-Americanism' for their generally critical tone.<sup>72</sup> The bilateralist argument gained support even from the Tory benches, notably in the arguments of Bob Boothby; and the 'gold standard' criticism was also in evidence. On the Labour side, the left-winger G. R. Strauss warned that in its present form the monetary fund would be

disastrous to world trade, to the prosperity of this country and to [the] Anglo-American relationship. It is highly desirable that we should have the utmost co-operation in economic affairs with the United States. It is quite a different thing to bind ourselves to the United States with chains that are likely to become burdensome and possibly intolerable.<sup>73</sup>

Therefore, apart from the speech of the chancellor himself, almost the only crumb of comfort that Keynes could extract from the debate was Pethick-Lawrence's contribution, upon which he sent the old veteran a note of congratulation.<sup>74</sup> But Pethick-Lawrence's endorsement of the scheme was hardly a model of enthusiasm. Declaring that the greatest risk in non-cooperation would be a return to bilateral trade, which he opposed, he argued:

there are grave risks in any scheme, and there are certain grave risks unresolved in the present scheme... [the chancellor] should prosecute his enquiries and should make it quite clear that it would be disastrous if we got tied up to gold; [and] that it would be disastrous if a board of management, either incompetent or unwise or one-sided, were to rule this Fund.<sup>75</sup>

The Commons passed the motion at hand, which merely supported further international consultation on the scheme, without enthusiasm. Keynes predicted: 'The thing will grind along. We shall produce a further version and when at a later date the House is eventually faced with the alternative of turning their back on this sort of thing and begin to appreciate what that means, I have not the slightest doubt that they will change their minds.'<sup>76</sup> As a prediction of the Labour government's final attitude in 1945, this proved extremely prescient.

<sup>72</sup> JMK xxvi, p. 3.

<sup>73</sup> Parliamentary Debates 5th series House of Commons vol. 399, 10 May 1944, col. 2008.

<sup>74</sup> JMK xxvi, pp. 3–4.

<sup>75</sup> Parliamentary Debates 5th series House of Commons vol. 399, 10 May 1944, cols. 2029–34.

<sup>76</sup> JMK xxvi, p. 4.

## X

The conclusion of the Bretton Woods conference, at which the forty-four nations represented agreed on the creation of an international monetary fund and an international bank, clearly provided a huge fillip for the cause of international co-operation; it was, as Attlee noted, 'a striking success which owed much to Keynes'.<sup>77</sup> But the agreement was subject to ratification by the individual countries. Much delay was occasioned in Britain by internal Treasury controversy over the precise nature of the convertibility obligations which had been agreed at Bretton Woods. On the Labour side, Bevin, in cabinet, continued to express scepticism about the entire scheme, thus earning himself further congratulations from Amery.<sup>78</sup> The cabinet as a whole was sufficiently nervous of a negative reaction to the agreement that it allowed no further parliamentary debate. Commercial policy, too, made slow progress. This was largely because of long, drawn-out attempts to accommodate the views of the ministry of agriculture; but equally, there is no evidence of the Labour ministers, who perhaps were sensitive to party opinion on the point, pursuing the multilateralist case with their previous vigour. By September, Dalton himself seemed unsure whether or not bulk purchase could be reconciled with the commitment to non-discrimination; and Thomas Johnston argued for (discriminatory) quantitative import restrictions. Moreover, pressures from within Congress now led to a partial American retreat from multilateralism. At Anglo-American talks in the winter of 1944-5, US officials produced a draft charter for an international trade organization (ITO); but under it, Britain would be expected to cut tariffs and preferences and abandon import controls, against 'a mere halving' of American tariffs.<sup>79</sup>

American determination to retain a high level of tariffs would subsequently fuel growing British doubts about the ITO. Nevertheless, there were at this time some Labour devotees of the proposed international settlement. But as two of them, William Piercy and Evan Durbin, told Attlee in January 1945,

the controversy over this subject is being conducted in a very curious fashion. The proposal to set up an International Monetary Fund is being attacked by the odd Parliamentary combination of Shinwell and Boothby, inspired by a number of Hungarian refugee economists (particularly Balogh), and supported by the extreme individualists among the financial journalists! Nevertheless, this paradoxical hotch-potch is exercising a considerable influence on Parliamentary opinion, particularly in the Labour Party, because of our deep and reasonable fear of 'returning to the Gold Standard'.

They also suggested that Attlee send a refutation of such criticisms to Bevin

<sup>77</sup> Attlee to Tom Attlee 15 Aug. 1944, Attlee papers MSS Eng. c. 4793, Bodleian Library, Oxford.

<sup>78</sup> PRO CAB 65/51 WM(45)9 (confidential annex); Alan Bullock, *The life and times of Ernest Bevin*, II: *Minister of labour, 1940-1945* (London, 1967), pp. 350-1.

<sup>79</sup> Pressnell, *External economic policy*, I, pp. 194, 197, 201.

‘who is, as you know, greatly influenced by this line of thought’.<sup>80</sup> The chancellor in the same month launched an ‘educational campaign’, meeting both Pethick-Lawrence and a (separate) group of Labour M.P.s to explain the proposals.<sup>81</sup> James Meade, moreover, in an undated (and perhaps uncirculated) memorandum, offered a broader philosophical counterblast to the point of view which argued for unrestricted freedom to pursue bilateralist arrangements: ‘Only a madman could argue that there is no loss of general welfare or prosperity as a result of unlimited national sovereignty in economic affairs. But...it may be argued by certain socialists that it is pointless to attempt to regulate the behaviour of capitalisms and that the only solution is a world socialist revolution.’ Yet, it might in fact be possible to work out a satisfactory set of rules, supervised by appropriate international organizations, to deal with questions such as exchange rates, tariffs, and the like, and to establish machinery through which governments could consult over matters such as employment policy, social security, and labour standards. If so, ‘Would it be reasonable to argue that this country could do better for itself by preserving its complete liberty of action, or that such [international] action would be foredoomed to failure in a world in which important capitalist economies remained?’<sup>82</sup>

But the general mood within the party was one of scepticism. Bevin, who confidently, but wrongly, expected to be chancellor in a future Labour government, was still not convinced of the merits of Bretton Woods. He told the Commons in June 1945, after the break up of the coalition

I will join with anyone in finding a rational basis for an international price level, properly organised, provided it does not reflect itself in depressing the standard of life on the home market. As yet, neither the Chancellor nor Lord Keynes has ever been able to persuade me that there are sufficient safeguards in the Bretton Woods proposals to achieve that object.<sup>83</sup>

But the new Labour government, which took office in July, by the end of the year ratified Bretton Woods. As Keynes had predicted, the majority of sceptics, Bevin included, acquiesced when faced with the alternative – trying to survive the post-war transition without United States aid.

## XI

Dalton later recalled that, during the last months of 1945, as negotiations for American financial help proceeded,

we retreated, slowly and with a bad grace and with increasing irritation, from a free gift to an interest-free loan, and from this again to a loan bearing interest; from a larger to

<sup>80</sup> ‘Bretton Woods conference’, Piercy and Durbin to Attlee, 25 Jan 1945, Piercy papers 8/9.

<sup>81</sup> JMK xxvi, p. 187.

<sup>82</sup> Meade, ‘The need for international economic organisation’, n.d., Meade papers 3/4, BLPES.

<sup>83</sup> Parliamentary Debates 5th series House of Commons vol. 411 4 June 1945 col. 582.

a smaller total of aid; and from the prospect of loose strings, some of which would be only general declarations of intention, to the most unwilling acceptance of strings so tight that they might strangle our trade and indeed, our whole economic life.<sup>84</sup>

Almost the only bargaining counter that Britain had in her transactions with the US was the threat that, if no loan was forthcoming, she would not ratify Bretton Woods; and if Britain did not do so by 31 December 1945, the fund and the bank would not be able to begin operations.<sup>85</sup> But the USA in turn was able to exploit Britain's predicament to tie her to further multilateral objectives. On commercial policy, these were broadly statements of intent: the Anglo-American financial agreement, finally signed on 6 December, asserted that one of the purposes of the loan was 'to assist the Government of the United Kingdom to assume the obligations of multilateral trade', and parliament was in due course asked to welcome the initiative of the US government in putting forward the ITO proposals.<sup>86</sup> But also, amongst the specific provisions, Britain would by 31 December 1946 have to ensure that her use of quantitative trade controls did not discriminate against the US. And, on the monetary side, sterling would have to be made generally convertible for current transactions within one year of the effective date of the agreement (i.e. by 15 July 1947, as it turned out). The Labour cabinet, and parliament, accepted these obligations; but can it be argued that, by so doing, they easily fell in behind the Atlanticist approach to trade and payments?

Booth believes so. He claims that the acceptance of the loan, compounded by Bevin's 1947 decision to press for the maximum possible amount of Marshall aid for Britain, helped reconcile Labour opinion to the Atlanticist economic agenda. However, he also argues that the 'Atlanticist base ... shaped Labour's foreign *economic* policy, but it did so because the majority of ministers could find no real alternative'. This seems to contradict his own later claim that they were easily converted to the American viewpoint. For, as Booth himself notes, 'the Cabinet was extremely unenthusiastic' about the terms of the US loan.<sup>87</sup> This was certainly true in the case of Dalton, who, in the final analysis, was driven by political considerations to accept it complete with strings. The alternative, as he saw it, was 'Less food ... [and] practically no smokes, since eighty per cent of our tobacco cost dollars ... leading towards sure defeat at the next election'.<sup>88</sup> According to 'Otto' Clarke, Dalton's opinions 'all boiled down to the view that we should get the money quickly, whether the deal was good or bad'.<sup>89</sup> Coming as it did from a vociferous opponent of the loan, Clarke's view was perhaps biased; but it certainly encapsulated Dalton's conviction, verging on desperation, that American help was essential at almost any cost.

The prime minister shared this opinion. 'We had to have the loan', Attlee

<sup>84</sup> Dalton, *High tide and after: memoirs, 1945-1960* (London, 1962), pp. 74-5.

<sup>85</sup> See Gardner, *Sterling-dollar diplomacy*, p. 224.

<sup>86</sup> Cmnd. 6708, 6 Dec. 1945; Parliamentary Debates 5th series House of Commons vol. 417 12 Dec. 1945 col. 422.

<sup>87</sup> Booth, *British economic policy*, p. 136.

<sup>88</sup> Dalton, *High tide and after*, p. 85.

<sup>89</sup> Clarke diary 26 Feb. 1946, Clarke papers 25.

told Kenneth Harris in retirement. ‘We knew how much we risked when we accepted convertibility, but Keynes urged us to take the risk – you see, he believed profoundly in Free Trade.’<sup>90</sup> The implication of this, of course, was that Attlee shared no such belief; but he had a reputation for deferring to the experts in such matters, and in this case did so.<sup>91</sup> Bevin, by contrast, has been described by Booth as ‘the likeliest supporter of Anglo–American economic co-operation’ in 1945.<sup>92</sup> Given Bevin’s prior attitude to Bretton Woods, it may be seen that this is almost the reverse of the truth. Indeed, Booth himself acknowledges that the foreign secretary could find little fervour for the loan. As Douglas Jay, Attlee’s new personal assistant, later recalled

Bevin, like many of us, started the negotiations with a strong distaste for accepting any help from the Americans or any conditions imposed by them. He used to march down the corridor to the Cabinet Room at No. 10 each evening remarking loudly with a broad grin: ‘Any danger of a settlement tonight?’ But the stark realities of the situation steadily impinged on his mind, and in the end the very fact that he had started from this viewpoint gave him greater conviction and authority in his defence of the inevitable loan.<sup>93</sup>

In the Commons he completely reversed his position on Bretton Woods, declaring himself satisfied that under the rules which had been laid down, the problems of the gold standard years need never recur: ‘I feel that this is not the gold standard.’<sup>94</sup> Thus, if anyone now performed a volte face on external economic policy, it was Bevin.

His about-turn meant the end of heavy-weight Labour opposition to the new international settlement, but left-wing critics remained vocal. Shinwell, now minister of fuel and power, told the cabinet that the loan was ‘incompatible with the successful operation of a planned economy in this country’; Aneurin Bevan, minister of health, supported him.<sup>95</sup> In the Commons, Jennie Lee, Bevan’s wife, described the Anglo-American financial agreement as ‘a niggardly, barbaric and antediluvian settlement’.<sup>96</sup> Labour backbencher Richard Stokes said that the Americans were ‘extremely ignorant’, and did ‘not understand the international trade problem’.<sup>97</sup> Amazingly, Morrison, in his role as leader of the House of Commons, had previously told a meeting of the parliamentary Labour party of the government’s decision that ‘should any member who held strong views on this matter find it necessary to vote against the Government’s proposals... disciplinary action would be inapplicable on this occasion’.<sup>98</sup> The rationale for this, presumably, was the same as that given

<sup>90</sup> Kenneth Harris, *Attlee* (London, 1995), p. 275.

<sup>91</sup> For Attlee’s reputation, see Howson and Moggridge, eds., *The wartime diaries of Lionel Robbins and James Meade*, p. 124.

<sup>92</sup> Booth, *British economic policy*, p. 136.

<sup>93</sup> Douglas Jay, *Change and fortune: a political record* (London, 1980), p. 137.

<sup>94</sup> Parliamentary Debates 5th series House of Commons vol. 417 13 Dec. 1945 col. 733.

<sup>95</sup> PRO CAB 128/4 CM(45)57 (confidential annex).

<sup>96</sup> Parliamentary Debates 5th series House of Commons vol. 417, 13 Dec. 1945 col. 669.

<sup>97</sup> *Ibid.*, col. 709.

<sup>98</sup> Minutes of a meeting of the parliamentary Labour party, 12 Dec. 1945, LPA.

by the chancellor to James Callaghan MP when the latter expressed his doubts about the loan settlement: 'Hugh Dalton gave one of his portentous winks. He did not mind, he said, if some of us voted against the loan and the Agreement. It would show the Americans that the Labour Government was not a pushover, and had its own domestic problems.'<sup>99</sup> In the end, the measure was passed by 347 to 100, with most Tories abstaining and only twenty-three Labour MPs (including Callaghan) voting against. Kenneth Harris has written: 'For better or worse [Britain] had tied her economic future to that of the Americans.'<sup>100</sup>

## XII

Although Harris's statement contains an obvious measure of truth, Britain was not, as a result, corralled into unqualified acceptance of the American agenda on trade and payments. But, in 1945 and after, the Attlee government was nevertheless faced with a dilemma. Francis Williams, the prime minister's former public relations adviser, in 1948 characterized this as 'the dilemma of the dual necessity – the need to plan an economy which will fit into a world pattern if that should still be possible but which will be capable of surviving if no such pattern is restored'.<sup>101</sup> This was a version of the 'planning paradox', sharpened by circumstances. For Britain could only ensure her economic survival by using American dollar aid to ease her dire foreign exchange problem; but such aid would only be forthcoming on the basis of promises to fit in with the Atlanticist 'world pattern'. Yet these promises, if enacted, could only weaken the country's foreign exchange position once more.

There was, therefore, a strong temptation to the British to make commitments, in particular, to the extension of multilateral trade, in line with the aspirations that several Labour ministers had voiced during the war years. Yet equally, there was every incentive to avoid putting such commitments into practice in the short term. The behaviour this situation encouraged led to the American accusation that the Labour government was not serious about liberalization – or, to be more specific, about the forms of liberalization that the Americans themselves favoured. The accusation was in some ways unfair. But the fact that it was made tends to suggest that there was no warm embrace of the Atlanticist position by Labour in the late 1940s; rather, the party's actions in government were a product of tensions between competing practical and ideological objectives. In attempting to ensure her own economic survival, while keeping the path of future international co-operation open, Britain, in Williams's words, had 'to ride two horses at the same time'.<sup>102</sup>

There were, of course, strong US pressures to adopt the Atlanticist view more wholeheartedly. These, especially over the question of international payments, posed a potential danger to Labour's domestic programme. Dalton

<sup>99</sup> James Callaghan, *Time and chance* (London, 1987), pp. 73–4.

<sup>100</sup> Harris, *Attlee*, p. 275.

<sup>101</sup> Francis Williams, *The triple challenge: the future of socialist Britain* (London, 1948), p. 170.

<sup>102</sup> *Ibid.*

feared that to ask for sterling convertibility to be delayed would be to invite American attempts to force Britain to abandon policies of nationalization and improved social services.<sup>103</sup> But although thus sticking to the commitment to make the pound freely convertible led directly to the crisis of July and August 1947, the paradoxical consequence of that episode, once convertibility had been suspended again, was that the aim of sterling convertibility was put to one side for the indefinite future – and meanwhile Labour stuck to its socialism at home. At the same time, Britain received official US sanction, for the time being, to discriminate against American goods in favour of non-dollar suppliers.<sup>104</sup> The episode highlights the difficulties Labour faced in fulfilling its international and domestic promises at once; but the end result was no simple caving in to the American view.

Equally, Roy Harrod, Keynes's biographer, noting the government's preoccupations with domestic matters, recalled in 1959 that 'distinguished American officials' had told him that 'once the war was over, the British... seemed to show little interest in the development of the [Anglo-American] war-time planning or in the international institutions that had been set up'.<sup>105</sup> This was doubtless true in part because those institutions showed no signs of living up to the high hopes that Keynes, and indeed Labour thinkers like Durbin and Piercy, had had for them.<sup>106</sup> But at the same time, the once-held fear of Bevin and others, that the creation of the IMF and the World Bank meant a return to the gold standard, and the subjection of domestic policies to outside interference, was never fulfilled; in 1949 Britain was able to enact a substantial devaluation of sterling, with no threat of direct outside intervention to enforce deflationary policies.

Moreover, although Labour did not construct a planned economy at home, this was not the result of the commitments over trade and payments on which the US loan was conditional. Rather, Labour lacked the political will and the economic apparatus to enact its (extremely vague) conception of socialist planning. Indeed, ironically enough, given Shinwell's criticism of the loan agreement, the only attempt at long-range economic forecasting that the Attlee government made was undertaken partly in order to please the Americans. This, *The long-term programme of the United Kingdom*, was presented in 1948 as part of Britain's bid to secure Marshall aid. But in spite of the warm feelings towards America generated by Marshall aid, there was no concomitant revolution in Labour's economic thought. This was especially true on commercial policy, where the Americans continued to press for further multilateralism, but were for the most part frustrated. As Tomlinson has argued, Britain responded to US pressure on the basis of an overriding commitment to the Atlantic alliance, but never gave more than was deemed politically inescapable to maintain that alliance.<sup>107</sup> That is to say, the government continued to ride two horses at once.

<sup>103</sup> Dalton, *High tide and after*, p. 255.      <sup>104</sup> Gardner, *Sterling-dollar diplomacy*, p. 336.

<sup>105</sup> Harrod, *The prof: a personal memoir of Lord Cherwell* (London, 1959), p. 249.

<sup>106</sup> See Booth, *British economic policy*, p. 151.      <sup>107</sup> Tomlinson, *Democratic socialism*, p. 35.



This was in part the consequence of a continuing dichotomy in Labour thought. Dalton and Attlee's war-time support for commercial multilateralism had been conditional on it being made compatible with continued state trading. This attitude was sustained after 1945 by Stafford Cripps, who had taken Dalton's old posting as president of the board of trade. Early in 1946, 'Otto' Clarke noted that 'Cripps (main advocate of the ITO policy) has now come out for bulk purchase of cotton – which is quite illogical.'<sup>108</sup> Whether so or not, the apparent contradiction was certainly in line with the policy that Dalton had bequeathed from war-time days. Moreover, as chancellor after 1947, Cripps resisted moves towards non-discrimination firmly, even whilst espousing it as an ideal to be pursued in the longer run. There is no reason to think that his pronouncements that non-discriminatory multilateral trade would be beneficial for Britain – when eventually put into practice at a much later point – were made cynically.<sup>109</sup> But his approach risked coming across as hypocrisy, a case of 'Give me chastity, oh Lord, but not yet.' This, of course, infuriated the Americans, who became convinced that 'the present Government of the U.K., while giving lip service to the principles of multilateral trade, really believes that Britain can never face free competition and must seek sheltered markets through preferential arrangements, discriminatory bilateral contracts, and barter deals. For that reason it has never wanted ... the ITO to be set up.'<sup>110</sup>

In fact, owing to Congressional opposition, the ITO was still-born before the question could be tested (the preliminary General Agreement on Tariffs and Trade, signed in Geneva in 1947, survived). But it is certainly true that Britain had serious doubts about signing up to the ITO. This is not to say, however, that the American criticism was entirely reasonable; for these doubts were partly, and increasingly, a consequence of the US's reluctance to match British concessions by substantially lowering her own tariffs. Given this reluctance, Labour ministers, in the tough economic conditions that they faced, were more than willing to depart from multilateral trade policies. This was because the adoption of multilateral trade would weaken Britain's ability to control its foreign exchange position, thus leading towards devaluation. And, although senior Labour politicians had argued during war-time that under the new international system there should be the *right* to substantial devaluation, they did not want to exercise that right, not least because this would unfairly diminish the value of the huge sterling balances accumulated during the war by countries such as India. This in turn might trigger demands for immediate repayment. Thus Dalton remarked during the 1949 sterling crisis, shortly before the government was forced to bow to the devaluation that was in fact inevitable, that in the absence of 'big' financial assistance from the

<sup>108</sup> Clarke diary 6 Mar. 1946, Clarke papers 25.

<sup>109</sup> Tomlinson, *Democratic socialism*, p. 35. See also Marguerite Dupree, ed., *Lancashire and Whitehall: the diary of Sir Raymond Streat*, II: 1939–1957 (Manchester, 1987), p. 316.

<sup>110</sup> FRUS 1948, vol. 1, p. 878.

US, ‘we *must* fight our way through without [the Americans]...making bilateral deals with whoever we can’.<sup>111</sup>

Such considerations help explain why, by 1950, over half of all British imports were still subject to government control. Nevertheless, over 95 per cent of imports had been controlled at the end of the war; so there had also been significant degree of liberalization in this area. The progress towards the 1950 level was in large part attributable to the previous year’s agreement between the Organization for European Economic Co-operation (OEEC) countries to work to cut away quota restrictions between them – which agreement was itself the result of a British initiative.<sup>112</sup> This was consistent with the line laid out in *Full employment and financial policy* in 1944. It was also consistent with the ‘dual necessity’ outlined by Williams – for it was an attempt to build up closely integrated trade with a small group of non-dollar nations as a basis for limited prosperity in case the hoped-for ‘world pattern’ did not emerge. In other words, this form of liberalization developed as an *alternative* to Atlanticism. Moreover, many Labour ministers were concerned, even on this basis, to see that liberalization did not go too far. In January 1950, Gaitskell, Shinwell’s replacement as minister of fuel and power, won support from Dalton, Bevan, John Strachey, and Harold Wilson, as well as some agreement from Cripps, when he argued that ‘Exchange control and import controls will be necessary, *permanently*, as vital instruments of policy’ (although Gaitskell’s position afterwards altered).<sup>113</sup>

It is therefore clear that Labour had not straightforwardly fallen in with the Atlanticist view as interpreted by the Americans. Dalton and others did not perform a *volte face* in the 1940s; rather, they achieved consistency in ambiguity. High enthusiasm for monetary and commercial multilateralism (the latter of which was for a time Dalton’s pet project) in 1943–4 was matched by the simultaneous advocacy of exchange controls, import controls and state trading. The acceptance of the Atlanticist provisions of Bretton Woods in 1945 was twinned with the pursuit of a domestic programme of dedicated socialist intent. And subsequently, the credibility of the continued, and undoubtedly genuine, Labour aspiration to international economic co-operation was called into question, in US eyes at least, by the party’s dogged defence of Britain’s discriminatory privileges. Bevin, in some ways, was an exception from this general rule of ambiguity, in that he went from downright opposition to Bretton Woods, to expedient support of the loan and its conditions, to early and

<sup>111</sup> Cited in Brett, Gilliatt, and Pople, ‘Planned trade, Labour party policy and US intervention’, *History Workshop*, 13 (1982), pp. 130–42.

<sup>112</sup> J. C. R. Dow, *The management of the British economy, 1945–1960* (Cambridge, 1964), pp. 154–50.

<sup>113</sup> PRO CAB 134/225 EPC (50) 9; Neil Rollings, ‘“The Reichstag method of governing”? The Attlee governments and permanent economic controls’, in Helen Mercer, Neil Rollings, and Jim Tomlinson, eds., *The Labour governments and private industry: the experience of 1945–1951* (Edinburgh, 1992), pp. 15–36; Philip M. Williams, *Hugh Gaitskell: a political biography* (London, 1979), pp. 218–25.

outright enthusiasm for most aspects of the Atlantic alliance. Yet even he continued occasionally to voice 'carpet-slipper' thoughts on international economic questions – suggesting, for example, that America should open Fort Knox and distribute its 'useless' gold to the world – in a way guaranteed to infuriate US opinion.<sup>114</sup>

Labour policy, therefore, retained vital contradictions. The example of 'international planning' may thus be taken as evidence in favour of the argument made by Booth that, in spite of the alleged sophistication of Labour's post-1931 programme, such preparation proved of dubious value once the party was actually in government after 1945.<sup>115</sup> During the war, international economic issues had been discussed within the party to an unprecedented degree; Labour ministers had been privy to cabinet discussions on these questions, and had had increased access to expert advice. Yet by the time that Labour took power, the party's desire for international economic co-operation was still in conflict with key aspects of its wider socialist aspiration: the 'planning paradox' had not been resolved. As Attlee himself put it in November 1946: 'In certain specific points of world economic planning, we find the United States in agreement with us, but, generally speaking, they hold a capitalist philosophy which we do not accept.'<sup>116</sup> For this reason alone, the post-war Labour government's full acceptance of the Atlanticist international economic agenda was never likely.

<sup>114</sup> Williams, *The triple challenge*, p. 170.

<sup>115</sup> Booth, 'How long are light years in British politics?', *Twentieth Century British History*, 7 (1996), pp. 1–27.

<sup>116</sup> Parliamentary Debates 5th series House of Commons vol. 430 18 Nov. 1946 col. 580.